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NEWS RELEASE

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FOR RELEASE \_\_\_\_\_ October 30, 2014 \_\_\_\_\_

Auditor of State Mary Mosiman today released a report on a special investigation of the City of West Liberty for the period July 1, 2010 through January 31, 2014. The special investigation was requested by City officials as a result of concerns regarding certain financial transactions.

Mosiman reported it was not possible to determine if collections for utility billings, ambulance billings and other collections were unrecorded, were recorded at an incorrect amount, and/or were undeposited because sufficient records for certain utility accounts and other collections were not adequate or were not readily available. The City's former Administrative Secretary, Maribel ("Mari") Pearson, was responsible for collecting and recording utility, ambulance, fines, park and recreation fees, and other miscellaneous revenue. Ms. Pearson's employment with the City was terminated on November 8, 2013.

Mosiman also reported the City overbilled electric customers \$259,231.58 for electric service for the billing periods May 15, 2013 through January 15, 2014. The overbillings occurred because the former City Manager instructed the utility staff to use a base rate approved during the December 15, 1998 meeting instead of the adjusted rate approved on June 15, 2007.

The report includes recommendations to strengthen the City's internal controls and overall operations, such as improving segregation of duties, preparing utility reconciliations, and maintaining supporting documentation for ambulance billings and other collections.

Copies of the report have been filed with the Muscatine County Attorney's Office, the Attorney General's Office, and the Division of Criminal Investigation. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's website at <http://auditor.iowa.gov/specials/1320-0656-BE00.pdf>.

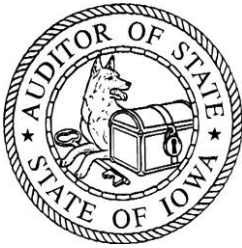
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**REPORT ON SPECIAL INVESTIGATION  
OF THE  
CITY OF WEST LIBERTY  
FOR THE PERIOD  
JULY 1, 2010 THROUGH JANUARY 31, 2014**

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## Auditor of State's Report

To the Honorable Mayor and  
Members of the City Council:

As a result of alleged improprieties regarding the handling of certain deposits and at your request, we conducted a special investigation of the City of West Liberty. We have applied certain tests and procedures to selected financial transactions of the City for the period July 1, 2010 through January 31, 2014. Based on a review of relevant information and discussions with City officials and staff, we performed the following procedures:

- (1) Evaluated internal controls and interviewed City personnel to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Examined receipt and deposit documentation prepared by City staff to determine if the composition of deposits agreed with the City's records.
- (3) Obtained bank images of deposit documents for certain deposits and compared them to the City's records and other available supporting documentation to determine if the information agreed.
- (4) Obtained and reviewed bank statements for personal bank accounts of Marivel ("Mari") Pearson, the former Administrative Secretary, to identify the source of certain deposits.
- (5) Obtained copies of ambulance billings and supporting documentation to determine if the collections recorded by the ambulance billing service hired by the City reconciled with the collections recorded in the City's accounting system.
- (6) Reviewed a listing of voided receipts to determine reasonableness.
- (7) Recalculated electric service billings for the period May 2013 through January 2014 to determine the amount the City overbilled customers as a result of using an incorrect rate.


We were unable to determine if collections for utility billings, ambulance billings, and other collections were unrecorded, were recorded at an incorrect amount and/or were undeposited because sufficient records for certain utility accounts, ambulance accounts and other collections were not adequate or were not readily available. In addition, electric customers were overbilled a total of \$259,231.58 as a result of the City using an incorrect billing rate. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U. S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the City of West Liberty, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Muscatine County Attorney's Office, the Division of Criminal Investigation, and the Attorney General's Office.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the City of West Liberty during the course of our investigation.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

June 2, 2014

Report on Special Investigation of the  
City of West Liberty  
Investigative Summary

**Background Information**

The City of West Liberty is located in Muscatine County and has a population of approximately 3,700. The City's primary revenue sources include utility billings, property tax, local option sales tax, and road use tax from the State of Iowa. In addition, the City receives miscellaneous collections, such as rental fees for the park shelter and summer day camps. The City also collects fees for ambulance services provided. Collections are to be deposited to the City's bank account.

Marivel ("Mari") Pearson became the Administrative Secretary on July 13, 1998. According to the City Clerk, Ms. Pearson was responsible for:

- 1) mailing utility billings,
- 2) collecting and recording utility, ambulance, and miscellaneous fees and
- 3) posting collections to customer utility accounts in the City's utility software and accounting records.

In addition, Ms. Pearson helped the City Clerk by opening the mail.

When Ms. Pearson was on vacation or away from the front counter, several other staff, including the Utility Billing Clerk, would collect and record payments in the accounting system.

According to the City Clerk, utility staff electronically read the water and electric meters for all households and businesses in the City at the beginning of the month. The meter readings are downloaded to the City's utility software. The utility software calculates the monthly utility bills by applying the established billing rates entered into the system. Utility bills are printed on perforated billing paper and mailed by the Utility Billing Clerk.

Payments are due on the 15<sup>th</sup> of each month. After the 16<sup>th</sup> of each month, the billing system automatically applies any penalties to outstanding bills.

According to City officials we spoke with, utility payments are primarily received through the mail. Customers may also deposit their payment in the drop box located at Casey's General Store or the drop box located at City Hall. Although residents are encouraged not to deposit cash in the drop boxes, some residents do deposit cash in the drop boxes. Residents may also come to City Hall to make a payment during normal business hours.

According to City staff we spoke with, many of the residents routinely pay their monthly utility bills in cash. Residents who pay in cash are encouraged to pay at City Hall.

All utility collections were to be recorded in the City's utility software system by Ms. Pearson or the Utility Billing Clerk when received. When a payment is entered into the utility system, the system generates a receipt for the customer. In rare cases, a manual receipt may be issued when staff are extremely busy in order to limit the wait time for residents. According to staff we spoke with, the manual receipt books used could not be located and may have been thrown out after the information was entered into the accounting system. According to staff we spoke with, there were no utility reconciliations prepared prior to the new Treasurer starting in April 2012.

During fiscal year 2010, the City switched its accounting system from CMS to Data Technologies. According to the City Clerk, Data Technologies' reports were easier to generate and understand. The City Clerk also stated Ms. Pearson strongly voiced her displeasure

regarding the change in software on a number of occasions and she was not receptive to training offered by a representative of Data Technologies.

All City disbursements are to be approved by the City Council at its bi-monthly meetings. In addition, all disbursements are to be made by checks signed by the City Clerk and the Mayor. According to the City Clerk, Ms. Pearson was not involved in preparing disbursements.

Monthly bank statements are picked up from the bank by the Utility Billing Clerk and/or the City Clerk; however, they are opened by the City Clerk. According to the City Clerk, she can access and review bank account activity using on-line banking. The City Clerk reconciles the monthly bank statements to the accounting system. However, she does not compare detailed deposit information to payments posted in the City's utility software. According to the City Clerk, the bank reconciliations were not reviewed by the former City Manager and are not reviewed by members of the City Council.

The City Manager, Lawrence McNaul, was previously the City's Police Chief. In October 2013, the former City Manager left employment and Mr. McNaul was appointed Interim City Manager and left his duties as the Police Chief. On March 18, 2014, Mr. McNaul was appointed City Manager.

As a result of a review of the Police Department's accounting records in August 2013, Mr. McNaul became concerned with the lack of cash deposits for finger printing fees recorded in the accounting system. The accounting records reflected no deposits for fiscal year 2013, which was not representative of the number of finger printing requests conducted.

In addition, after Mr. McNaul was appointed the Interim City Manager, he began hearing complaints about utility bills not being recorded properly and the utility accounts of several residents who normally paid in cash not having their accounts properly credited for payments. As a result, some of the residents felt they had no choice but to pay the bill again. According to City staff, residents who had complained to Ms. Pearson about their utility payments told them Ms. Pearson said it was their mistake because the system does not show a payment. Staff also stated Ms. Pearson treated certain residents in a somewhat hostile manner when they would question the processes or want to share their concerns with Ms. Pearson's supervisor.

As a result of the concerns regarding the undeposited fingerprint fees and possible undeposited utility collections, Mr. McNaul requested the City Council allow him to contact the Office of Auditor of State for assistance. Mr. McNaul subsequently requested the Office of Auditor of State perform an investigation of the City's financial transactions. As a result, we performed the procedures detailed in the Auditor of State's Report for the period July 1, 2010 through January 31, 2014.

### **Detailed Findings**

These procedures identified concerns regarding controls over utility billings, ambulance billings, and other miscellaneous fees collected by the City. We were unable to determine if utility payments, ambulance fees, and other miscellaneous charges collected by the City were properly recorded and deposited because:

- adequate records were not maintained for adjustments and write-offs recorded in the accounting system for utilities,
- adequate records were not maintained for ambulance fees billed and collected,
- adequate records were not maintained for miscellaneous fees collected, and
- reconciliations were not prepared for utility and ambulance billings.

Each area is discussed in the following sections of this report.

**Bank Reconciliations** – The City receives collections for utility billings, ambulance billings, parking fines, park and recreation fees, and other miscellaneous fees. The City does not



prepare a separate deposit for each type of collection, but deposits all collections in the same deposit. According to staff we spoke with, the former Treasurer performed bank reconciliations but no one completely understood how the reconciliation was prepared. However, City officials and staff relied on the bank reconciliation to determine if all collections were properly recorded in the accounting system and were deposited, even though they did not review the reconciliation.

The current Treasurer was hired on March 30, 2012 and trained with the outgoing Treasurer until the former Treasurer left on May 1, 2012. According to the current Treasurer, she began reconciling the City's bank balance to the accounting records and determined the prior reconciliations were incomplete and contained adjustments which could not be supported. These issues were also disclosed during the City's annual audits. The current Treasurer has reperfomed the reconciliations and made any necessary correcting entries to the accounting system. Bank reconciliations are now reviewed by the City Clerk and the City Manager.

We reperfomed selected bank reconciliations and were able to reconcile the bank balance to the balance recorded in the accounting system in total. Although we could reconcile in total, we could not reconcile the amounts recorded for each revenue source separately. As previously stated, all revenue is deposited in the same deposit and is not specifically identified in the deposit.

**Utilities** – The City provides water, sewer, garbage, and electric service to residents and businesses. The billing rates are entered into the utility system once approved by the City Council. Each month, staff electronically read the meters and transfer the readings to the utility system. The utility system calculates each individual bill and staff print and mail the bills. When a payment is received, it is entered into the utility system and the utility system generates a receipt. Receipts are to be given to any customer who pays their bill at City Hall.

According to staff we spoke with, several customers complained about being overcharged, while other customers stated they had paid their prior month's bill but were billed again for the prior month. When individuals were asked for a copy of a receipt showing their bill was paid, they were unable to present one or told City staff they were never provided one by Ms. Pearson.

Staff also stated Ms. Pearson would blame any problem on the customer when she was asked about a customer's prior month's bill and show them there was no payment recorded in the utility system for the month in question. If the bill was supposedly inflated, a City worker would go to the customer's property and read the meter again. Once the meter was re-read, a revised bill was prepared and mailed.

Also, staff we spoke with stated Ms. Pearson would occasionally open the drop box at City Hall and have the deposit ready to be counted before other staff arrived at City Hall in the morning. Staff also stated Ms. Pearson often had her cash drawer out of the vault prior to any other staff arriving at City Hall.

According to staff we spoke with, a monthly utility reconciliation was not prepared prior to the new Treasurer being hired on March 30, 2012. Staff relied on reports generated by the utility system to determine the amount collected and deposited for utilities. The current Treasurer and City Clerk now require utility reconciliations be performed monthly.

As previously stated, we were unable to reconcile the utility collections recorded in the accounting system to the amounts deposited to the City's bank account because all collections are included in one deposit. However, we were able to reconcile deposits made at the bank to the total deposit recorded in the accounting system.

We were unable to reconcile the amount recorded in the accounting system as utility revenue for the following reasons:

- Receipts recorded on a specific day were not always deposited with the day's business. According to staff, this sometimes was caused by the timing of the deposit.
- There are numerous adjustments to customer accounts which are not explained in the billing system. The adjustment code used to identify the reason for the adjustment or write-off of an account was not used consistently. The amounts adjusted varied in size from a few dollars to a complete write-off of a monthly bill or the entire account. Staff we spoke with were unable to explain the adjustments.
- The write-offs of utility accounts were not consistently approved by the City Council. When the City Council approved a large number of write-offs, it relied on the information presented by the staff and did not review the details supporting the write-offs to ensure the propriety of the amounts being written off.

At the end of the day, the cash drawer was balanced to the collections recorded in the accounting system. Staff we spoke with stated Ms. Pearson would take cash from the petty cash fund and the slush fund when the utility drawer was short. She also deposited any overages to the petty cash fund. **Table 1** shows the dates, description, department, and amount recorded in the petty cash fund for any overages or shortages.

<b>Date</b>	<b>Description per Accounting System</b>	<b>Department per Accounting System</b>	<b>(Overage) /Shortage</b>
05/21/10	Util Drawer - shortage	Electric	\$ 20.00
07/02/10	Util Drawer - shortage	Electric	20.00
09/30/10	Shortage	City hall	15.00
06/30/11	Cash overage	City hall	(6.69)
12/03/13	Drawer Long	NA	(10.00)
06/27/12	Util Drawer – Cash shortage	Electric/Water	24.91
07/31/12	Short in box	City hall	1.03
08/03/12	Util cash drawer - shortage	Electric/Water/Sewer	30.00
09/27/12	Util cash drawer -Shortage	Electric/Water/Sewer	14.00
10/24/12	Cash Drawer Shortage	Utilities	6.00
12/17/12	Util cash drawer - shortage	Electric/Water/Sewer	30.00
01/13/14	Drawer Long	NA	(3.11)
Total			<u>\$ 141.14</u>

NA – No department was listed in the accounting system.

The overages and shortages recorded in the petty cash fund and listed in the **Table** total \$19.80 and \$160.94, respectively. In total, there was a net shortage of \$141.14. Of the \$160.94 of shortages, \$144.91 was related to the utility department. City staff were unsure if the shortages were because incorrect change was made or if cash was taken from the drawer.

According to City staff, a slush fund was created many years ago and it was not included in the accounting system. The balance of the slush fund was deposited to the City's bank account when it was closed in November 2013. Staff also stated they could not remember why it was created, but records were not maintained for the slush fund. As a result, we were unable to determine how much of the slush fund, if any, was used to cover shortages in the utility drawer or was not deposited.

We were unable to determine if collections were unrecorded, were recorded at an incorrect amount and/or were undeposited, because sufficient records were not readily available, reconciliations were not performed, and adjustments and write-offs were not approved.

**Ambulance Service** – The City Fire Department provides ambulance service to the City and surrounding communities. The City bills for each call and uses TriTech Software Systems (TriTech) to help administer and provide initial billing services.

According to the EMS Administrator, each ambulance call responded to is assigned a call number by the system, and a dispatch report is prepared which includes the mileage, patient name, address, and services provided. If a patient refuses service, there is no charge, unless the ambulance service administers an IV, for which there is a \$50 charge.

The dispatch report and the amount to be billed are submitted to TriTech. TriTech sends a bill to the insurance company and/or Medicare/Medicaid. The insurance company, Medicaid and/or Medicare provides TriTech the amount they pay under their contract, the amount disallowed under the contract and the remaining amount which is the responsibility of the individual, if any. TriTech sends a bill to the individual for the amount not covered by insurance. TriTech sends out up to 3 bills to the individual before it transfers responsibility for billing to the City. After the 3rd bill is sent, the City is to initiate its own collection procedures. TriTech “writes off” the amount which is not paid by the insurance company, Medicaid, Medicare or the individual. According to the City Clerk, the City has not pursued any uncollected bills and plans to write them off. The City Clerk also stated the City will begin to pursue collection of unpaid bills and is in the process of determining the amount of outstanding bills the City will have to write-off as uncollectable.

Under its agreement with TriTech, all payments are to be sent to the City. If TriTech receives a payment, the payment is to be forwarded to the City. Once a payment is received, Ms. Pearson was to record the payment in the accounting system and notify TriTech a payment was received. According to TriTech officials, the City was to fax support showing the payment was received. Once notified, TriTech recorded the payment in its system.

The City usually receives payments from insurance companies as an electronic funds transfer (EFT). In some cases, the City receives a check from an insurance company. All Medicaid/Medicare payments are received by EFT. If an individual pays their share of the bill at City Hall, the amount was to be entered into the accounting system by Ms. Pearson and the system generated a receipt for the individual and a second receipt was generated to be included with the bill to be sent to TriTech showing the individual paid their bill.

When a payment is entered into the City’s accounting system, it is allocated between 3 separate ambulance accounts: supply costs, ambulance staff, and administrative costs. The allocation is based on a predetermined percentage entered into the system. **Table 2** shows the amounts collected for fiscal years 2011 through 2014.

**Table 2**

<b>Fiscal Year</b>	<b>Amount</b>
2011	\$ 132,751.19
2012	94,153.29
2013	133,357.48
2014	<u>137,620.10</u>
Total	<u>\$ 497,882.06</u>

The City does not reconcile or maintain any type of ledger showing the balances owed. The City has hired a part time staff person to help prepare and identify the reasons for the variances between the amount recorded in the City’s accounting system and amounts recorded and reported by TriTech. In addition, we identified the following concerning the City’s ambulance records and TriTech’s records:

- The City did not keep adequate documentation for transactions recorded. City staff was unable to locate all the information which was to have been sent/faxed and used by TriTech to post information to its system.
- According to City staff, TriTech officials called and informed them they had not posted all information to accounts due to issues at their Decorah office.
- The City did not maintain a subsidiary ledger for ambulance billings and did not reconcile the amounts recorded in the accounting system to the amounts reported by TriTech as being collected.
- A review of support located at City Hall found 3 receipts totaling \$180.00 had not been recorded in the accounting system. However, TriTech was notified a payment had been received and recorded the payment in its system.
- We were able to reconcile several individual payments/accounts to the amounts recorded in the City’s accounting system, but the amounts recorded by the City were less than the amounts reported to TriTech for these accounts. In total, the City recorded more collections than TriTech reported.

**Table 3** compares the amount recorded in the City’s accounting system for ambulance billings to the amount recorded by TriTech for fiscal years 2011 through 2013. Fiscal year 2014 is not included because information was not submitted to TriTech in a timely manner after Ms. Pearson was terminated.

<b>Fiscal Year</b>	<b>Ambulance Receipts per</b>		
	<b>City</b>	<b>TriTech</b>	<b>Variance</b>
2011	\$ 132,751.19	89,022.11	43,729.08
2012	94,153.29	95,200.59	(1,047.30)
2013	133,357.48	132,052.53	1,304.95
Total	\$ 360,261.96	316,275.23	43,986.73

The **Table** shows the amount recorded by TriTech is \$43,986.73 less than the amount recorded in the City’s accounting system for fiscal years 2011 through 2013. Reports provided by TriTech include an adjustment and write-off column. As previously stated, the City was informed by TriTech some of the information provided by the City was not properly entered and some information was misplaced. As a result, TriTech has requested the City provide copies of items previously sent by the City to ensure the activity was recorded to the proper individual account.

According to City staff we spoke with, the City Council has not approved the write-off of individual accounts and the City has not pursued the collection of unpaid fees. **Table 4** shows the remaining balance owed according to TriTech as of June 30, 2013. The remaining balance is net of any adjustments for insurance and Medicaid/Medicare.

**Table 4**

<b>Ambulance Billings During Fiscal Year</b>	<b>Remaining Unpaid Balance as of June 30</b>
2011	\$ 70,266.57
2012	46,453.33
2013	51,203.73
Total	<u>\$ 167,923.63</u>

The **Table** shows the City has uncollected ambulance billings of \$167,923.63 at June 30, 2013 according to TriTech’s records. The amounts shown for fiscal year 2011 include all ambulance billings through June 30, 2011 and the balance outstanding for those billings as of June 30, 2013. The remaining unpaid balance for fiscal years 2012 and 2013 are for billings which occurred during fiscal years 2012 and 2013.

As shown in **Table 3**, the City recorded more collections than TriTech reported during fiscal years 2011 through 2013. Because the City does not maintain a ledger showing the outstanding uncollected ambulance billings, it relies on the balance reported by TriTech.

Because sufficient records were not available, we were unable to determine if any collections were unrecorded, recorded at an incorrect amount and/or undeposited for ambulance billings.

**Parking Tickets** – According to Police Department staff we spoke with, the Police Department issues a large number of parking tickets every year, but collected about 10% of the related fines in previous years. Because of past collections, the Police Department expects to collect this amount each year. Payment is based on the honor system. People receiving the tickets are expected to pay them, but the Police Department does not follow up to see if the tickets were paid. Copies of all parking tickets are kept, but Police Department staff does not track the numerical sequence of the parking tickets. City staff we spoke with were not aware if officers kept or threw away tickets which had a mistake on them and were rewritten.

Prior to Ms. Pearson’s termination, the Police Department was not notified if tickets were paid. Because the Administrative Assistant at the Police Department did not have access to the City’s accounting system, individuals who attempted to pay at the Police Department were sent to the main office to pay the ticket. Once the individual paid the ticket at the main office in City Hall, Ms. Pearson was to issue a receipt from the City’s accounting system. There was no requirement the individual return to the Police Department to show the ticket had been paid. Ms. Pearson was to provide copies of the receipts to the Police Department. According to City staff we spoke with, this was not done on a consistent basis. On occasion, the Police Department Administrative Assistant would accept payments in the absence of Ms. Pearson and complete a manual receipt to track the money received.

Currently, the Deputy City Clerk collects all parking ticket payments and supplies the Police Department with a receipt for the collections, which is then stapled to the police copy of the parking ticket and filed away. The Police Department has begun to track all tickets issued. Completed tickets are filled out and filed by the staff in the Police Department.

According to City staff we spoke with, the City has never attempted to collect outstanding parking tickets. With the implementation of the receipt tracking process, the Police Department has begun sending out collection notices. They are also working on procedures to put a hold on individuals renewing their driver’s licenses until all parking tickets are paid.

Because the Police Department did not maintain copies of the tickets or a listing of tickets issued and collected, we are unable to compare the total number of tickets issued to the number and amounts collected and deposited prior to 2014. **Table 5** compares the revenue recorded in the accounting system for fiscal years 2011 through 2014.

<b>Fiscal Year</b>	<b>Parking Fines Collected</b>
2011	\$ 400.00
2012	260.00
2013	90.00
2014	1,220.00
Total	<u>\$ 1,970.00</u>

The **Table** shows revenue decreased in fiscal years 2012 and 2013. As shown in the **Table**, revenue increased by \$1,130.00, or 1,255%, during fiscal year June 2014. Police Department staff we spoke with stated there has been an increase in the number of parking tickets being collected in recent months.

During fiscal year 2014, parking fees recorded in the accounting system included:

- \$80.00 for the period July 2013 through November 2013,
- \$530.00 in December 2013, and
- \$610.00 from January through June 2014.

As previously stated, Ms. Pearson was terminated on November 8, 2013. As shown above, there was a significant increase in the parking fines recorded after Ms. Pearson was terminated. According to Police Department staff we spoke with, the number of tickets issued has not significantly increased during these months and there has not been an increase in collection efforts.

As previously stated, the Police Department did not account for the numerical sequence of tickets issued or attempt to collect unpaid tickets. Because records were not maintained for the entire period of our investigation, we were unable to determine if any collections were unrecorded and/or undeposited. In addition, we are unable to determine the amount of fines outstanding.

**Parks and Recreation** – The Parks and Recreation Department administers various events, rents the shelter house, provides day camps for youth, and administers various team sports, such as softball and volleyball. According to the Parks and Recreation Director, he does not maintain a listing of individuals who pay for the day camps or sports programs. He maintains team rosters until the end of a season for the sports programs, but the rosters are normally thrown away after the completion of the season.

According to the Parks and Recreation Director, individuals who signed up for a camp, team sport, or rent the shelter house were sent to City Hall to pay the required fee. He did not receive or request a listing of individuals who paid for the various activities from the City. Therefore, he was unable to determine how much the Parks and Recreation Department should have collected in fees.

Because the Parks and Recreation Department did not maintain adequate records, we are unable to determine the amount of revenue which should have been collected and deposited for the various camps, sports, or other events administered by the Parks and Recreation Department.

**Miscellaneous Revenues** – The City collects miscellaneous fees, such as pet licenses, bicycle licenses, and garbage bag sales. According to City staff we spoke with, the City does not track the number of bicycle licenses, pet licenses, or garbage bags sold.

The City requires all dogs and cats to be licensed by the City. Pet licensing is on the honor system. When an individual comes in to license their pet, a card with the owner's name and animal's information is prepared and kept in a shoe box. The license tag number is written on a card and a \$5 fee is collected. The amount collected is entered into the accounting system and a receipt is generated by the accounting system and given to the individual. If the license is being renewed, a note is made on the card. The individual does not receive a new license tag. According to City staff, the cards were not consistently updated for payments and the license numbers were not tracked.

The City allows individuals to purchase garbage bags from City Hall. The bags are purchased by the City from a local business and then are resold to individuals for \$0.50 per bag. The City does not track the number of bags sold or the number of bags purchased.

Because the City did not track bicycle and pet licenses issued or the number of garbage bags purchased and resold, we are unable to determine how much should have been collected, recorded, and deposited for these miscellaneous fees.

**Electric Rate** – As previously stated the City bills for electric service provided to residents and businesses. Each month, City staff electronically read the electric meters and transfer the information to the utility system. Based on the established rates, the utility system calculates the electric bill and records it on the customer's utility bill.

The City Council reviews and approves the per kilowatt hour (kwh) rate and any flat fees to be assessed to residential and commercial accounts. Currently residents are assessed a \$5.00 facility charge and commercial accounts are charged a facility charge of \$35.00. In addition, the commercial accounts are assessed an electric service charge of \$15.00. These charges are in addition to the charge for the actual electricity used.

The City Council has approved a summer and winter rate to be charged for the first 500 kwh and a summer and winter rate for each kwh over 500 kwh. In addition, the City Council has approved a fuel surcharge. The fuel surcharge is calculated as follows:

1. The City buys its power from Resale Power Group of Iowa (RPGI) and is billed for the total usage in the City. The City also adds costs to maintain generators, such as repairs and fuel, to the total cost to be allocated to the residents and businesses.
2. The City calculates a cost factor by taking the total costs to be recovered by the total kwh used.
3. The City has had several studies completed in the past by an engineering firm which specializes in delivering electricity. Based on the studies, the City established and approved a base rate of \$.031/kwh of usage on June 15, 2007. Prior to June 15, 2007, the approved base rate was \$.024/kwh used.
4. The base rate is subtracted from the cost factor to arrive at the current power charge. The power charge for the current month and the past 2 months are averaged together to arrive at the charge used to bill customers for the month. This is known as the fuel surcharge rate.
5. The fuel surcharge is added to all bills based on the total kwh used multiplied by the calculated fuel surcharge. The fuel surcharge is recalculated each month.

According to the current City Manager, the former City Manager determined in May 2013 there would be a shortage in the Electric Fund. The former City Manager determined the City had been using the wrong rate and had City staff change the rate from \$.031/kwh to \$.024/kwh. The change was based on a resolution he provided City staff. Changing to the lower rate increased the fuel surcharge rate. By using the higher fuel surcharge rate, customers were billed more based on the kwh used than if the correct rate had been used.

The ordinance used by the former City Manager was adopted on December 15, 1998. The City Council adopted a new ordinance changing the rate to \$.031/kwh on June 15, 2007. As a result of changing the rate to the old rate, the City overbilled all its customers. When the current City Manager became aware of the issue, he changed the rate to the correct rate of \$.031/kwh for the February 2014 billing period.

Using the correct rate, we recalculated the total charges which should have been billed from May 2013 until January 2014. **Table 6** compares the amount billed in total to the amount which should have been billed.

**Table 6**

<b>Billing Period</b>	<b>Actual Billing</b>	<b>Corrected Billing</b>	<b>Over Billing</b>
05/15/13 - 06/15/13	\$ 137,876.09	100,914.47	36,961.62
06/15/13 - 07/15/13	145,774.71	125,186.75	20,587.96
07/15/13 - 08/15/13	204,557.26	167,280.92	37,276.34
08/15/13 - 09/15/13	176,269.31	140,331.92	35,937.39
09/15/13 - 10/15/13	157,038.61	119,704.00	37,334.61
10/15/13 - 11/15/13	125,989.17	96,737.12	29,252.05
11/15/13 - 12/15/13	149,415.68	118,454.04	30,961.64
12/15/13 - 01/15/14	145,594.38	114,674.41	30,919.97
Total	\$ 1,242,515.21	983,283.63	259,231.58

The **Table** shows the City overbilled its customers a total of \$259,231.58. We recalculated the amount the City overbilled its largest commercial account for the period May 15, 2013 through June 15, 2013. Using the kwh and the correct fees, the City's largest commercial customer was overbilled approximately \$149,000.00. The remaining amount of approximately \$110,000.00 is the amount residents and the remaining commercial accounts were overbilled.

We also recalculated 2 residential customers' billings based on their usage and determined the first customer was over billed \$3.00 and the second customer was overbilled \$5.89 for the billing period May 15, 2013 through June 15, 2013.

In order to determine the amount to be refunded to each customer, the City will have to evaluate each customer's monthly bill for the period May 2013 through January 2014.



## **Recommended Control Procedures**

As part of our investigation, we reviewed the controls and procedures used by the City of West Liberty. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check of those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the City of West Liberty's internal controls.

- A. Segregation of Duties - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The former Administrative Secretary had control over each of the following areas for the City.
- (1) Receipts - collecting, journalizing, and posting receipts to the accounting system.
  - (2) Utilities - preparing billings, collecting payments, assessing penalties, depositing and posting payments to customer accounts, and recording payments in the City's utility software. In addition, she could post adjustments and write-off's to the utility system.

In addition, an initial receipt listing was not prepared by someone independent of the receipting process.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the functions listed above should be segregated. In addition, City Council members should periodically review records related to utility billings, collections and deposits, perform or review monthly utility reconciliations and examine supporting documentation for accounting records. In addition, City Council members should review financial records, perform reconciliations and examine supporting documentation for accounting records on a periodic basis.

To improve financial accountability and control, an initial receipt listing should be prepared by someone independent of other receipt duties for all collections received through the mail to ensure all collections have been receipted at the initial point of contact.

- B. Utility Billings, Reconciliations and Delinquent Accounts - Utility billings were not periodically reconciled to the amounts collected and unpaid balances.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council should ensure an independent party reviews the reconciliation.

- C. Electric Rates - The City bills for electric service provided to customers. City staff read the electric meters and transfer the information to the utility system monthly. Based on the established rate, the utility system calculates the electric bill and includes it on the customer's utility bill.

The City used an incorrect rate when calculating electric bills for the period May 15, 2013 through January 15, 2014. As a result, the City overbilled customers a total of \$259,231.58.

Recommendation – The City should work with the City Attorney to determine a resolution of the overbillings to utility customers. The City should also ensure the proper approved rate is entered into the utility system and any changes in rates are properly approved by the City Council.

- D. Deposits – All receipts were not deposited intact and the composition of deposits did not reconcile to the City’s utility system. While the City’s utility system printed payments recorded in the utility system, the Utility Billing Clerk manually prepared spreadsheets to document payments recorded. However, the manually prepared spreadsheet frequently did not agree with payments collected.

Recommendation – All collections should be deposited intact and an independent person should compare collections received to deposits to ensure the composition of the deposit agrees with the City’s utility system. In addition, the City’s utility system generated reports should be attached to deposit slips to support the amount collected and recorded.

- E. Supporting Documentation – The City did not maintain adequate supporting documentation to determine the amounts which should be collected and deposited for various City operations. Adequate supporting documentation was not maintained in the following areas:

- Police Department – support for parking tickets written and the amount collected.
- Parks and Recreation Department – support was not maintained for rental of the shelter house or registrations for various sports and other activities provided by the Parks and Recreation Department.
- Utility Billings – support was not maintained for adjustments and write-offs to individual utility accounts.
- Ambulance Billings – support was not consistently maintained showing the amount collected, the amount owed by individuals, reconciliations to TriTech reports to show the amount received was deposited and reported to TriTech and the outstanding balance was correct.

Recommendation – The City should develop policies and procedures to ensure receipts are issued for all transactions and adequate supporting documentation, including subsidiary ledgers, parking tickets, team rosters and receipts, are maintained to support the amounts collected, recorded, and deposited.

Report on Special Investigation of the  
City of West Liberty

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