



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

Contact: Mary Mosiman
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE February 5, 2016

Auditor of State Mary Mosiman today released a report on a special investigation of certain bank accounts held by the City of Davenport Fire Department for the period January 1, 2009 through October 22, 2014. The special investigation was requested by City officials after identifying concerns with financial transactions processed by members of the Fire Department in the Clothing and Fire Safety House accounts which were separately maintained bank accounts kept by the Fire Department. As a department of the City, the Department should deposit all collections with the City and all disbursements should be paid by the City rather than from separately maintained bank accounts.

Mosiman reported the special investigation identified \$4,123.43 of improper and unsupported disbursements. The \$1,439.23 of improper disbursements identified include purchases of gifts and food. The \$2,684.20 of unsupported disbursements identified include cash withdrawals from the Fire Safety House Account which appear to be reimbursements to members for purchases; however, supporting documentation was not available to determine the propriety of the purchases. As a result, it was not possible to determine if the purchases were for the purposes the accounts were established for or personal in nature.

Mosiman reported it was not possible to determine if any additional improper disbursements were made or if donations and proceeds from fundraising events were properly deposited because adequate records were not available. In addition, because of the lack of available records, it was not possible to determine if the City should have retained any funds for the Clothing Account which were remitted to the Local Firefighters Union.

Mosiman also reported the City did not comply with section 384.20 of the *Code of Iowa*, which states, in part, "A city shall keep accounts which show an accurate and detailed settlement of all public funds collected, received, or expended." The report also includes recommendations

for the Department to discontinue the use of separately maintained accounts. Mosiman also recommended the City ensure compliance with section 384.3 of the *Code of Iowa* and determine and document the public purpose served by certain expenditures.

Copies of the report have been filed with the Division of Criminal Investigation, the Scott County Attorney's Office, and the Attorney General's Office. A copy of the report is available for review on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1420-0773-TE00.pdf> and in the Office of Auditor of State.

###

**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF DAVENPORT FIRE DEPARTMENT
FOR THE PERIOD
JANUARY 1, 2009 THROUGH OCTOBER 22, 2014**

Table of Contents

	<u>Page</u>
Auditor of State's Report	3-4
Investigative Summary:	
Background Information	5-7
Detailed Findings	8-12
Recommended Control Procedures	13-15
Exhibit:	
Selected Disbursements from the Safety Account	<u>Exhibit</u> A 18-21
Staff	22



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Auditor of State's Report

To the Honorable Mayor, Members of the
City Council, and Chief Washburn:

As a result of concerns with financial transactions processed by members of the Fire Department and at your request, we have reviewed the activity in certain bank accounts held by the Fire Department (Department). We have applied certain tests and procedures to selected financial transactions of these accounts for the period January 1, 2009 through October 22, 2014, unless otherwise specified. Based on discussions with Department and City personnel and a review of relevant information, we performed the following procedures:

- (1) Evaluated how the Department was organized to determine if it was a department of the City or a separate legal entity.
- (2) Evaluated the Department's internal controls over receipts and disbursements to determine whether adequate policies and procedures were in place and operating effectively.
- (3) Evaluated the City's internal controls over receipts and disbursements to determine whether adequate policies and procedures were in place and operating effectively.
- (4) Scanned images of redeemed checks issued from a separately maintained bank account referred to as the Clothing Account to determine reasonableness and examined disbursements to determine if they were appropriate, properly approved, and supported by adequate documentation.
- (5) Scanned images of redeemed checks issued from a separately maintained bank account referred to as the Fire Safety House Account to determine reasonableness and examined disbursements to determine if they were appropriate, properly approved, and supported by adequate documentation. Bank statements were not available for the period prior to January 1, 2012 or for the period from January 1, 2013 through March 31, 2013 for this account.
- (6) Examined all deposits to the Department's Clothing Account to determine the source, purpose, and propriety of each deposit. We also evaluated the Department's procedures for collecting and depositing donations and fund raising proceeds to determine if collections were deposited intact and in a timely manner. Detailed deposit information was not readily available for the Safety Account.
- (7) Interviewed Department and City officials to determine the purpose of certain disbursements.

These procedures identified \$4,123.43 of improper and unsupported disbursements for the period January 1, 2009 through October 22, 2014. We were unable to determine if there were any additional improper disbursements from the separately maintained bank accounts or if all collections related to donations and proceeds from fundraising events held by the Department

were properly deposited because adequate records were not available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Table 1** 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 performed an audit of financial statements of the Davenport Fire Department, other matters might have come to our attention that would have been reported to you.

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

We would like to acknowledge the assistance and many courtesies extended to us by the officials and staff of the City of Davenport and the Davenport Fire Department during the course of our investigation.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 27, 2015

Report on Special Investigation of the
City of Davenport Fire Department

Investigative Summary

Background Information

The City of Davenport is located in Scott County. The Davenport Fire Department (Department) is composed of 8 engine companies and 3 truck companies which respond to emergency incidents, including structure fires, emergency medical calls, hazardous materials calls, technical rescues, and citizen assists. The Department also provides education to citizens through prevention programs. The Department consists of 5 primary divisions: Administration, Fire Prevention and Public Education, Training and Emergency Medical Services, HazMat, and Operations.

The Fire Chief oversees Department Administration and Operations. In addition, the Department employs 3 Assistant Chiefs, 3 District Chiefs, and an Administrative Assistant. The Chief is responsible for all duties required by law and ordinance, including responding to fire calls, overseeing the fire scene, ensuring volunteers are properly certified, and the overall day-to-day operations of the Department.

As a Department of the City, the City budgets for the Department's operations, including payroll, equipment, maintenance, supplies, insurance, and other operating expenses. The Revenue Division within the City's Finance Department processes all billings for false alarms, inspections, permits, and other services. These collections are recorded in the City's accounting system and deposited in the City's bank account.

Members of the Department also established 13 separately maintained bank accounts funded by donations, fundraising events, and collections from members of the Department. According to Department officials, none of the 13 accounts were established as a 501(c)(3) non-profit organization in accordance with Internal Revenue Service regulations. In addition, the City Council did not approve the establishment of the separately maintained bank accounts. Based on information from the City's accounting system, the City did not disburse funds to any of the 13 accounts. Of the 13 accounts, 5 were funded by donations, fundraising events, and member contributions and 8 were funded solely by member contributions. According to City officials, the Department's operations are fully funded by the City and the Department does not hold fundraising events for the operations of the Department. Department members held fundraising events for these accounts in order to provide funds for services and events which are in addition to normal Department operations funded by the City, such as events to recognize retired members and community service. The following is a brief summary of the 13 accounts.

- Clothing Account – The Clothing Account was opened on October 4, 2000 at the Davenport Fire Department Credit Union using a member's social security number. The purpose of the Clothing Account was to allow Department members to purchase clothing and to sell clothing with the Department's logo at fundraising events. The Clothing Account was opened using funds collected from the sale of t-shirts purchased by the City. The shirts were sold to Department members and at fundraising events. According to City officials, there is no supporting documentation showing the cost of the t-shirts or if the City was reimbursed for the cost of the t-shirts. In addition, City officials are not aware of any related repayments.

In accordance with an agreement between the City and the Davenport Association of Professional Firefighters Local #17 (Union), the City provides each eligible member of the Department a \$700.00 annual clothing allowance. Because the City issues checks to eligible Department members for the clothing allowance through the City's payroll system, the allowance is properly included in each member's annual W-2.

After the checks are issued, the City is not responsible for and does not monitor how the \$700.00 allowance is used by each member.

Department members periodically placed clothing orders with various vendors. The orders were typically composed of t-shirts, polo shirts, or jackets. Some orders included only items specifically ordered by Department members, some orders included only items to be sold as a fundraiser, and some orders included both. Payments for all purchases were deposited to the Clothing Account. A check was issued to the vendor from the Clothing Account when the invoice for the clothing order was received.

The Clothing Account was transferred to the Family Credit Union when the Davenport Fire Department Credit Union closed in 2008. The City's federal employer's identification number (FEIN) had already been added to the account at the time it was transferred. The account was closed in October 2014 and the \$3,303.90 balance was transferred to the Union. According to City officials, the account was transferred to the Union because City funds were not in the account and the Union has an interest in maintaining the clothing account for Department members.

- Fire House Safety Account (Safety Account) – The Safety Account, also known as the Fire House Safety Fund, was established to provide training and educational events. Educational events include car safety and simulated fire events using the Fire Safety House to demonstrate the importance of smoke detectors and having a fire safety plan. The Fire Safety House is a 28-foot mobile trailer which is used at community events and events sponsored by non-profit organizations, schools, and churches. The Fire Safety House was purchased in June 1995 with funds provided by private business contributions and grants. According to City officials we spoke with, they could not recall the source of funds used to open the Safety Account or who established it.

City officials we spoke with also stated the Safety Account was funded by donations. According to Department officials, the donations deposited to the Safety Account were used for food and beverages for open houses, training, and to support the operations of the Safety House.

The City's FEIN was added to the Safety Account, but it is not possible to determine when that was done. The Safety Account was closed in October 2014 and the remaining balance was transferred to the City. The City deposited the \$1,581.80 balance in the City's bank account and created an account in the City's accounting system to record receipts and disbursements for the Fire Safety House.

- Seven accounts were established and funded by members who worked various shifts at various stations. According to individuals we spoke with, the accounts were used by the members who contributed to purchase food for those working various shifts during meal times.

According to the Fire Chief, the City does not provide food for preparing meals at the stations during members' shifts. Instead, the City provides each eligible Department member a \$500.00 annual food allowance for meals. As with the clothing allowance provided to each eligible member, the City is not responsible for and does not monitor how the \$500.00 allowance is used by each member.

The 7 accounts have been closed or the account name changed and the City's FEIN removed. The Chief believes the funds from these accounts are now managed by individuals for each shift and station.

- An account for smoke detectors was established by the Department, which received funding from donations. The \$720.00 balance in the account at the time it was closed was deposited in the City's bank account and included in the City's accounting system for the Fire Safety House.
- An account for a fitness challenge was established by the Department, which received funding from donations. The Fitness Challenge Account had no activity for over 10 years. The account has been closed.
- An account was established by the Union, which was funded by payroll withholdings. The account was established as an optional investors' club which members could participate in if they wished. The account is still active and is handled by the Union.
- A joint account for an explorer scout program was established by the Fire and Police Departments. The account was funded by donations from the community. The account has been closed.

On October 3, 2014, the City received a request for public records under the Freedom of Information Act (FOIA) from the Meloy Law Firm. The request was for records pertaining to the "firefighter clothing account." As a result of the request, the City began an internal review of the account and issued a press release on October 22, 2014 with the results of its review. The press release disclosed:

- The City's FEIN had been added to the account without authorization.
- The account had been closed and the remaining balance of \$3,303.90 was remitted to the Union.
- No city funds were disbursed to any of the 13 accounts identified as having the City's FEIN number attached to the account.
- Davenport firefighters receive \$700.00 annually as a uniform allowance and \$500.00 annually as a food allowance.

On November 10, 2014, the City issued a press release regarding the Safety Account. According to the press release, the account was established by the Fire Department and the City's FEIN was added to the account without authorization of the City. The press release also disclosed private parties voluntarily closed the account on October 16, 2014. According to the press release the Family Credit Union confirmed "all 13 accounts that were using the City's FEIN without its authorization had been either closed or had a new FEIN."

On December 6, 2014, a veteran member of the Department submitted a request to the Mayor and the Office of Auditor of State for a formal investigation of the Clothing Account and Safety Account. On December 16, 2014, the Mayor sent a letter requesting the Office of Auditor of State review the accounts. Considering the source of funds deposited to the remaining separately established accounts, the purpose of the accounts, the level of account activity, and 2 accounts had no activity in the past 5 years; we determined there would be no significant benefit in reviewing the transactions in any of the remaining 11 accounts.

As a result of the Mayor's request, the Office of Auditor of State performed the procedures detailed in the Auditor of State's Report to the Clothing and Fire Safety House Accounts for the period January 1, 2009 through October 22, 2014.

Detailed Findings

These procedures identified \$4,123.43 of improper and unsupported disbursements. **Table 1** summarizes the amounts identified by bank account. The improper and unsupported disbursements identified for each account are discussed in the following paragraphs.

Table 1

Description	Page Number /Exhibit	Amount		
		Improper	Unsupported	Total
Clothing Account				
Gifts	Page 9	\$ 548.00	-	548.00
Fire prevention items	Page 10	430.23	-	430.23
Safety Account	Page 11/Exhibit A	461.00	2,684.20	3,145.20
Total		\$ 1,439.23	2,684.20	4,123.43

IMPROPER AND UNSUPPORTED DISBURSEMENTS

As previously stated, the Department is a part of the City and does not have a separate auxiliary organization associated with it to handle donations and fundraising proceeds. Because the Department is part of the City, all funds received are considered City funds and should be deposited to a City bank account and recorded in the City’s accounting system. In addition, all disbursements should be supported by adequate documentation, be necessary and reasonable for the operations of the Department, in the best interest of the public, and approved by the City Council.

Section 384.20 of the *Code of Iowa* states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipts, use, and disposition of all city property. Public money may not be expended or encumbered except under and an annual or continuing appropriation.” Based on this *Code* requirement, the City should maintain all accounts related to the Department.

Using the documentation available from the Department and the bank, including images of checks redeemed from the Department’s separately maintained bank accounts, available supporting documentation from vendors, and discussions with Department and City staff, we classified the disbursements as improper, unsupported, or unsupported but reasonable.

Disbursements were classified as improper if they were not related to the purpose for which the account was created or appeared personal in nature. Disbursements were classified as unsupported if sufficient documentation was not available and we were unable to determine the propriety of the payment based on information obtained from City or Department officials, the payee, amount, and frequency of the payments. Disbursements were classified as reasonable if supporting documentation was available and/or if the disbursement appeared to be for the purpose the account was created for based on the vendor, amount of payment, and frequency of payments to the vendor. It is possible some of the unsupported disbursements may be appropriate for the Department’s operations

We were unable to determine if there were any additional improper disbursements from the separately maintained bank accounts or if all donations and proceeds from fundraising events held by the Department were properly deposited in the accounts because adequate records were not available.

Clothing Account

Because the Department has not established a separate auxiliary or non-profit organization which sponsored the fundraising events and administered the proceeds of the fundraising events, the proceeds from such events deposited to the Clothing Account are considered City funds. We reviewed disbursements from the Clothing Account for the period January 1, 2009 through October 22, 2014 and identified 7 disbursements from the account which were not related to clothing purchases. As previously stated, the Clothing Account was established to facilitate purchasing clothing for members who wished to purchase clothing with the Department’s logo and to purchase clothing to be sold at fund raising events.

The 7 disbursements identified are listed in **Table 2** and include payments related to retirement breakfasts, gifts for helping with interviews, and purchases related to fire prevention.

Table 2

Date	Check Number	Payee	Amount	Description^
02/20/09	700329	John Fuller	\$ 248.00	Made a fishing pole as a gift for Rob Thomas for helping with interviews.
05/18/09	124409	Mike Carlsten	98.89	Member reimbursed for retirement breakfast, food purchased.
05/18/09	124410	Rick Flynn	182.63	Member reimbursed for retirement breakfast, food purchased.
12/29/09	125727	Mark Kakert	430.23	Lt. Fire Marshall reimbursed for Fire Prevention items for kids at Christmas, pizza, etc.
05/19/10	126678	Neil Gainey	300.00	Retirement breakfast
06/02/11	128784	Robbie Minnaert	370.00	Retirement breakfast
12/04/12	131799	Lynn Washburn	300.00	Reimbursement for 2 \$150.00 Amazon gift cards for individuals doing candidate interviews.
Total			<u>\$ 1,929.75</u>	

^ - The description is based on discussion with City and Department officials.

Food for Retirement Breakfasts – **Table 2** includes 4 reimbursements related to retirement breakfasts. The 4 reimbursements total \$951.52. According to the Fire Chief, the Department has a long-standing tradition of hosting an annual breakfast to recognize all members retiring during the past year. Members, retired members, City officials, and Department partners, such as members of the Police Department, are invited to the breakfast.

As stated previously, the proceeds from fundraising events deposited to the Clothing Account are considered City funds because the Department did not establish a separate auxiliary or non-profit organization which organized the fundraising events and administered the proceeds of the fundraising events. According to City officials, the City does not have a policy on paying for retirement gifts or meals. The City’s practice has been to pay for a small retiree gift, cake, and refreshments; however, it will not approve a meal or reception hosted at a restaurant.

It is not unusual for an auxiliary organization to sponsor an event such as the annual breakfast. In addition, it is not unusual for a city or a City Department to purchase food and beverages

when there is a clear public benefit. Purchases of food for meetings, training, or recognition ceremonies, such as the annual breakfast, may be an allowable use of public funds. However, the public benefit should be identified, documented, and approved during a City Council meeting prior to the event for which food and beverages are to be provided.

Gifts for Assisting with Interviews – **Table 2** includes 2 disbursements related to gifts purchased for individuals who assisted with candidate interviews for the Department. As illustrated by the **Table**, John Fuller was reimbursed \$248.00 in 2009 for making a fishing pole as a gift for Rob Thomas, a retired State Patrol Officer, for helping with the interviews. According to Department officials, the 2 \$150.00 Amazon gift cards were purchased by Chief Washburn in 2012 and given to Michael Reyes and Mr. Thomas.

According to City officials, when a non-City employee participates on an interview panel, the City will pay for their lunch and compensate them for their travel, if requested. If a City employee were to purchase a gift for someone who helped with interviews, the employee would be required to follow City policy to be reimbursed. Because the City's reimbursement policy was not followed and the gifts do not meet the purpose of the account, the \$548.00 spent from the Clothing Account for gifts for assisting with interviews is included in **Table 1** as improper disbursements.

Fire Prevention Items - The \$430.23 disbursed to Mark Kakert for fire prevention promotional items was determined to be improper because these items do not relate to the purpose of the Clothing Account. Because the disbursement is an allowable disbursement from the Safety Account, the Safety Account should reimburse \$430.23 to the Clothing Account which is currently held by the Union. As a result, the \$430.23 is considered an improper disbursement from the Clothing Account and is included in **Table 1** as an improper disbursement.

Reasonable Disbursements – We determined the remaining \$45,035.16 of disbursements from the Clothing Account during the period of our investigation were reasonable based on the vendor name and the type of service or goods they provide, internet searches, and discussions with Department officials. The disbursements identified as reasonable were disbursements made to vendors who sell clothing and who add custom embroidery or printing to clothing items.

Reimbursement to the City - As previously stated, the Clothing Account was established using proceeds from the sale of t-shirts originally purchased by the City. As a result, the City should have been reimbursed for the cost of the t-shirts. According to City officials, there is no supporting documentation showing the City was reimbursed for the cost of the t-shirts, and City officials are not aware of any related repayments. Because records were not available to determine the cost of the t-shirts purchased by the City, no amount is included in **Table 1**.

Reimbursement to the Union – Because of the lack of available records to determine the amount of City funds deposited to the Clothing Account from donations and fundraising events, we cannot determine if the City should have retained any portion of the balance of the Clothing Account which was remitted to the Union.

Safety Account

Because the Department has not established a separate auxiliary or non-profit organization which sponsored the education or training events funded with the proceeds from the Safety Account, the collections deposited to the Safety Account are considered City funds. We reviewed disbursements from the Safety Account during the period January 1, 2012 through October 14, 2014. Bank statements were not available for the period prior to January 1, 2012 or for the period from January 1, 2013 through March 31, 2013. Based on a review of the bank statements available and supporting documentation provided, we determined all disbursements from the Safety Account were cash withdrawals.

Exhibit A lists the disbursements from the account and the purpose of the disbursements based on the records provided by the City and the Department. Based on the limited documentation available, the cash withdrawals from the Safety Account were made to reimburse members for purchases they made on behalf of the Department. Rather than cash withdrawals, disbursements should have been by check issued by the City and supported by adequate documentation to ensure the disbursement was for the purpose the account was established.

As illustrated by the **Exhibit**, the amounts reimbursed to the members were often even dollar amounts, even when the receipts associated with the reimbursement were not for purchases made in even dollars. For example, a \$67.73 purchase was made from Happy Joe's Pizza and Ice Cream on December 3, 2012. On December 5, 2012, \$68.00 was withdrawn from the Safety Account for what appears to be a reimbursement of the purchase. Also, a \$68.48 purchase was made from Jimmy Johns #642 on May 14, 2013 and \$65.00 was withdrawn on May 21, 2013 for what appears to be a reimbursement of the purchase. We did not include the variance between the reimbursement amounts and the purchase amounts as improper disbursements.

As a result of our review of the disbursements from the Safety Account detailed in **Exhibit A**, we identified \$461.00 of improper disbursements and \$2,684.20 of unsupported disbursements. Based on information on the available receipts from vendors, descriptions on the vendor receipts, and notations on the available withdrawal slips, the remaining \$347.35 of cash withdrawals are supported and were reasonable based on the purpose of the account.

Improper Disbursements - Of the \$461.00 of improper disbursements identified:

- 3 cash withdrawals totaling \$335.00 included a notation they were for lunch with the County Attorney related to an on-going trial. Based on the documentation available, 4 to 5 people attended each of these 3 meals. As previously stated, the Safety Account was created to provide funds for training and education. Disbursements for food related to a trial does not meet the purpose of the Safety Account. However, the City allows reimbursement of meals if a request for reimbursement is submitted which clearly shows the purpose of the meal and includes the required supporting documentation. If the purpose of the meal is an allowable activity, the request will be processed and the individual reimbursed.
- \$46.00 was withdrawn for purchases at the Downtown Deli (\$28.30) and at the Air Host Moline Lounge (\$18.47) located in the Quad City International Airport. According to a City official we spoke with, the purchases at the Downtown Deli and at the Air Host Moline Lounge appear to be for 1 or 2 people and not for a meeting or training event related to the Fire Safety House.
- \$80.00 was withdrawn for purchases at Los Agaves (\$39.59) and Family Restaurant (\$39.86). The supporting documentation provided showed food was purchased for 3 to 4 individuals which was not for training or educational events associated with the Fire Safety House.

It is not unusual for a City or a City Department to purchase food and beverages when there is a clear public benefit. Purchases of food for meetings or training may be an allowable use of public funds. However, the public benefit should be identified, documented, and approved during a City Council meeting prior to the event for which food and beverages are to be provided. Because the cash withdrawals were not made in accordance with City policy and the disbursements are not for the purpose of the account, the \$461.00 of disbursements is included in **Table 1** as improper disbursements.

Unsupported Disbursements - As previously stated, all disbursements from the Safety Account were cash withdrawals and, for the transactions for which a corresponding receipt was available,

the cash withdrawals were the same day or shortly after purchases were made. As a result, it appears the cash withdrawals from the Safety Account were reimbursements to members for purchases they made on behalf of the Department.

The Department did not provide support for \$2,684.20 of the cash withdrawals listed in **Exhibit A**. In addition, the withdrawal slips provided did not include a signature of the individual who made the withdrawal. Because we cannot determine if the withdrawals were for the operations of the Department or the Fire Safety House or if they were personal in nature, the \$2,684.20 of disbursements are included in **Table 1** as unsupported disbursements.

Reasonable Disbursements – As illustrated by **Exhibit A**, we also identified \$347.35 of disbursements determined to be reasonable based on information from the receipts available, the vendor name, and the type of service or goods the vendors provide, or discussions with Department officials.

UNDEPOSITED COLLECTIONS

As previously stated, the Department received funds from donations and proceeds from fundraising activities. All donations and proceeds from fundraising activities were deposited into the Department's separately maintained bank accounts. Section 384.20 of the *Code of Iowa* states, in part, "A city shall keep accounts which show an accurate and detailed statements of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipts, use, and disposition of all city property. Public money may not be expended or encumbered except under an annual or continuing appropriation." Based on this requirement, the City should maintain all accounts related to the Department.

Because the Department did not maintain support for the amounts received from donations and fundraising events, we are unable to determine if all collections were deposited to the Department's separately maintained bank accounts.

OTHER ADMINISTRATIVE ISSUES

Bank Information – The monthly bank statements for the Clothing and Safety Accounts established by members of the Department with the City's FEIN were mailed to Department's headquarters. However, copies of all statements were not available from the Department when the City began its review of the accounts. The City's record retention policy requires supporting documentation, including bank statements, be retained for 3 years. We identified the following concerns with the bank statements and other documentation provided to us as part of the investigation.

- The City obtained bank statements for the Safety Account directly from the bank to review activity in the account. However, the bank was not able to provide statements for the period January 1, 2013 through March 31, 2013.
- There is no evidence monthly bank reconciliations were prepared for the accounts.
- The City was unaware accounts had been established using the City's FEIN.
- Prior to the investigation, the City did not confirm with area banks the existence of bank accounts established using the City's FEIN.

Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. These concerns demonstrate the need to increase oversight of bank accounts established in the City's name or some related name.

RECOMMENDED CONTROL PROCEDURES

As part of our investigation, we reviewed the procedures used by the City of Davenport Fire Department to perform bank reconciliations and process receipts, disbursements, and payroll. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be identified 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's and the Department's internal controls.

- A. Separately Maintained Bank Accounts – Because the Department has not established a separate auxiliary or non-profit organization which sponsored fundraising events, received grants on behalf of the Department, and administered the proceeds from grants, donations, and fundraising events, the proceeds from grants and such events deposited to the Clothing Account and Safety Account are considered City funds.

Section 384.20 of the *Code of Iowa* states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” The Department established separate bank accounts for various collections and disbursements. Because the Department is considered part of the City, the Department's separately maintained bank accounts should have been included in the City's accounting records.

In addition, transactions from the Clothing and Safety Accounts and the resulting balances were not reported to the City Council and disbursements from the accounts were not reviewed or approved by the City Council.

The Clothing and Safety Accounts were closed in October 2014. The \$3,303.90 remaining balance in the Clothing Account was transferred to the Union because the balance in the account was determined not to be City funds. The \$1,581.80 remaining balance in the Safety Account was transferred to the City and included in the City's accounting records as a separate account.

Recommendation – All financial transactions of the Department's accounts should be included in the City Clerk's monthly financial reports. The Department's activity should be subject to City Council review and approval and the City's budget process. In addition, internal control would be strengthened and operating efficiency could be increased by integrating the receipts and disbursements of these accounts with the City's accounting records in the City Clerk's office.

- B. Bank Statements and Reconciliations – The monthly bank statements for the Clothing and Safety Accounts established by members of the Department with the City's FEIN were mailed to Department headquarters. However, copies of all statements were not available from the Department when the City began its review of the accounts. City policy requires bank statements and other supporting documentation be retained for 3 years. In addition, bank accounts are to be reconciled to the book balance and reviewed on a monthly basis. We determined bank statements were not consistently maintained.
- The City obtained bank statements for the Safety Account directly from the bank to review activity in the account. However, the bank was not able to provide statements for the period January 1, 2013 through March 31, 2013.
 - There is no evidence monthly bank reconciliations were prepared for the accounts.

Recommendation – Monthly bank reconciliations should be prepared for all accounts. The reconciliations should be reviewed by someone independent of other financial responsibilities and the review should be documented by the signature or initials of the reviewer and the date of the review. The bank statements and supporting documentation usually received with the statements, such as redeemed checks and deposit slips, should be retained in accordance with the City’s record retention policy.

- C. Bank Accounts – The City was unaware of the separately maintained bank accounts which used the City’s FEIN. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity. These concerns demonstrate the need to increase oversight of bank accounts established in the City’s name or some related name.

Recommendation – The City should contact local financial institutions on a periodic basis and request a list of accounts which were established with or include the City’s FEIN as part of the b detail.

For the fiscal year 2015 audit, the City sent out confirmations to all area banks asking them to confirm any accounts which included the City’s FEIN. According to City officials, the banks did not identify any accounts other than those operated by the City.

- D. Receipts – According to Department officials, the Department did not issue receipts or prepare initial listings for collections of donations or other funds received for the Clothing Account or the Safety Account. Receipts and initial listings provide a basis for an independent reviewer to compare the amount of checks and cash received to the amount deposited. Because receipts and initial listings were not prepared, we were unable to determine if all collections were properly deposited.

Recommendation – Receipts or initial listings of collections should be prepared listing all checks and cash received. An individual independent of the receipt and deposit process should compare the receipts and listings to the amounts subsequently deposited and the review should be documented by the reviewer’s signature or initials and the date of the review. A City Council member or an independent individual designated by the City Council may perform the review.

- E. Supporting Documentation – The Department did not maintain adequate supporting documentation for all disbursements. We were able to determine a portion of the disbursements were necessary and reasonable for the Department’s operations based on the goods and services provided by the vendor. We classified disbursements which could be for Department or personal use as unsupported and disbursements for personal use or not for the purpose the account was established as improper.

We determined there was no evidence of independent approval of the disbursements from the accounts, and all disbursements from the Safety Account were cash withdrawals. In addition, the disbursements were not presented to the City Council for its review and approval.

Recommendation – The Department and the City Council should implement policies requiring adequate supporting documentation be provided in order to document the goods and services purchased, the related quantity, and the cost. Disbursements should not be approved unless adequate supporting documentation is available. Disbursements should be approved by the City Council prior to payment. In addition, all payments should be made by check.

- F. Public Purpose – Section 384.3 of the *Code of Iowa* states, in part, “All moneys received for city government purposes from taxes and other sources must be credited to the general fund of the city.” Because the Department is a part of the City, all monies received by the Department are subject to section 384.3 of the *Code of Iowa*.

During the course of our investigation, we identified disbursements which may not meet the test of public purpose as defined in an Attorney General’s Opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. Examples of these disbursements include food and items purchased for a retirement recognition.

According to the Attorney General’s opinion, it is possible for these disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – City officials should determine and document the public purpose served by these expenditures before authorizing any payments from City accounts or any separate Department accounts. If these practices continue, City officials should establish written policies and procedures for documenting the public purpose served.

- G. Retirement Policy – The City does not have a written policy on the purchase of retirement gifts or providing refreshments for a retirement party. As previously stated, the City’s practice has been to pay for a small retiree gift, cake, and refreshments; however, it will not approve a meal or reception hosted at a restaurant.

Recommendation – The Department and the City Council should develop and implement a written policy for retirement gifts and retirement parties. The policy should include documenting the public purpose of purchasing retirement gifts and providing refreshments. The purchase of gifts and refreshments should be approved by the City Council.

- H. Clothing Account – Fire prevention promotional items totaling \$430.23 were paid from the Clothing Account. These items should have been paid from the Safety Account.

Recommendation – The Safety Account should reimburse the Clothing Account, which is currently held by the Union, for the \$430.23 in fire prevention promotional items paid from the Clothing Account.

**Report on Special Investigation of the
City of Davenport Fire Department**

Exhibit

Report on Special Investigation of the
City of Davenport Fire Department

Selected Disbursements from the Safety Account
For the Period January 1, 2012 through October 14, 2014

Per Bank Information					
Transaction Date	Description	Note on Withdrawal Slip	Amount	Date	
03/26/12	SHARE WITHDRAWAL TO CASH DISBURSED	##	\$ 45.88	-	
05/01/12	SHARE WITHDRAWAL TO CASH DISBURSED	Training Drinks	25.00	04/30/12	
06/27/12	SHARE WITHDRAWAL TO CASH DISBURSED	##	15.50	-	
07/16/12	SHARE WITHDRAWAL TO CASH DISBURSED	##	128.40	-	
07/30/12	SHARE WITHDRAWAL TO CASH DISBURSED	##	29.77	-	
08/01/12	SHARE WITHDRAWAL TO CASH DISBURSED	None	75.00	-	
09/13/12	SHARE WITHDRAWAL TO CASH DISBURSED	None	48.00	09/11/12 09/11/12	
09/19/12	SHARE WITHDRAWAL TO CASH DISBURSED	Training amb	14.00	09/15/12	
10/04/12	SHARE WITHDRAWAL TO CASH DISBURSED	##	38.00	-	
10/11/12	SHARE WITHDRAWAL TO CASH DISBURSED	None	50.00	-	
10/22/12	SHARE WITHDRAWAL TO CASH DISBURSED	##	15.35	-	
10/31/12	SHARE WITHDRAWAL TO CASH DISBURSED	##	98.76	-	
11/01/12	SHARE WITHDRAWAL TO CASH DISBURSED	Temp Training	200.00	-	
11/05/12	SHARE WITHDRAWAL TO CASH DISBURSED	##	35.00	-	
11/07/12	SHARE WITHDRAWAL TO CASH DISBURSED	Lunch United Way	94.00	<i>Illegible</i>	
12/05/12	SHARE WITHDRAWAL TO CASH DISBURSED	Interview/Testing	68.00	12/03/12	
12/06/12	SHARE WITHDRAWAL TO CASH DISBURSED	Interview	100.00	-	
02/08/13	~ SHARE WITHDRAWAL TO CASH DISBURSED	Trial Lunch	120.00	02/07/13	
				<i>Unknown</i>	
03/06/13	~ SHARE WITHDRAWAL TO CASH DISBURSED	Co. Atty Lunch	90.00	03/06/13	
04/19/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	24.00	-	
04/25/13	SHARE WITHDRAWAL TO CASH DISBURSED	NR	54.00	-	
04/26/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	35.00	-	
05/07/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	180.00	-	
05/21/13	SHARE WITHDRAWAL TO CASH DISBURSED	Hayman Class	65.00	05/14/13	
05/30/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	171.50	-	
05/31/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	22.50	-	
06/05/13	SHARE WITHDRAWAL TO CASH DISBURSED	<i>Illegible</i>	60.00	<i>Illegible</i>	

Per Supporting Documentation

Vendor	Amount	Description per receipt	Improper	Unsupported	Reasonable
-	\$ -	-	\$ -	45.88	-
HyVee	26.04	Aquafina water, Diet Coke, Mountain Dew, Pepsi, bottle deposit	-	-	25.00
-	-	-	-	15.50	-
-	-	-	-	128.40	-
-	-	-	-	29.77	-
-	-	-	-	75.00	-
Slagel's Foods	26.07	Ice, Solo Plas Cup 16, Diet Pepsi, deposit	-	48.00	-
<i>Cash register receipt only</i>	21.94	Dept. 02	-	-	-
HyVee	14.33	Bagels, Bismarks 6@0.89, bakery keyed	-	-	14.00
-	-	-	-	38.00	-
-	-	-	-	50.00	-
-	-	-	-	15.35	-
-	-	-	-	98.76	-
-	-	-	-	200.00	-
-	-	-	-	35.00	-
<i>Incomplete receipt</i>	104.06	Pizza (<i>Partial receipt</i>) ticket #223 Central Fire	-	-	94.00
Happy Joe's Pizza & Ice Cream	67.73	<i>None</i>	-	-	68.00
-	-	-	-	100.00	-
Barrel House 211	87.59	Chicken Sandwich; BBQ & Soup; Chipotle Chicken Taco; Shrimp Taco; Chic Taco Salad; Firkin Burger; 5 water; 2 soda	120.00	-	-
<i>Cash register receipt only</i>	34.19	Dept. 01	-	-	-
Barrel House 211	92.61	Boom Boom Enchiladas, 1/2 BBQ & Soup; Firkin Bruger; California Burger; Chicken Sandwich; Shrimp Taco; 3 soda, 4 water	90.00	-	-
-	-	-	-	24.00	-
-	-	-	-	54.00	-
-	-	-	-	35.00	-
-	-	-	-	180.00	-
Jimmy Johns #642	68.48	8 sandwich boxes	-	-	65.00
-	-	-	-	171.50	-
-	-	-	-	22.50	-
Happy Joe's	59.23	3 pizzas	-	60.00	-

Report on Special Investigation of the
City of Davenport Fire Department

Selected Disbursements from the Safety Account
For the Period January 1, 2012 through October 14, 2014

Per Bank Information				
Transaction Date	Description	Note on Withdrawal Slip	Amount	Date
06/28/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	38.52	-
07/17/13	SHARE WITHDRAWAL TO CASH DISBURSED	<i>Illegible</i>	70.00	-
07/30/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	198.50	-
09/27/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	50.00	-
10/10/13	SHARE WITHDRAWAL TO CASH DISBURSED	Trial & Co. Atty Lunch	125.00	-
10/31/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	60.00	-
11/04/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	39.88	-
11/21/13	SHARE WITHDRAWAL TO CASH DISBURSED	United Way Pizza	45.00	-
12/05/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	32.09	-
12/27/13	SHARE WITHDRAWAL TO CASH DISBURSED	##	436.54	-
01/17/14	SHARE WITHDRAWAL TO CASH DISBURSED	##	64.00	-
03/14/14	SHARE WITHDRAWAL TO CASH DISBURSED	##	37.94	-
03/22/14	SHARE WITHDRAWAL TO CASH DISBURSED	##	29.10	-
04/10/14	SHARE WITHDRAWAL TO CASH DISBURSED	<i>None</i>	46.00	04/08/14 04/08/14
06/04/14	SHARE WITHDRAWAL TO CASH DISBURSED	<i>Illegible</i>	40.00	06/04/12
07/02/14	SHARE WITHDRAWAL TO CASH DISBURSED	71st mtg	80.00	06/12/14
				06/06/14
08/05/14	SHARE WITHDRAWAL TO CASH DISBURSED	##	14.01	-
08/07/14	SHARE WITHDRAWAL TO CASH DISBURSED	##	14.96	-
08/14/14	SHARE WITHDRAWAL TO CASH DISBURSED	Mike xxxx, Rob xxxx	110.00	-
10/02/14 ~	SHARE WITHDRAWAL TO CASH DISBURSED	##	22.00	-
10/10/14 ~	SHARE WITHDRAWAL TO CASH DISBURSED	Locks and Smoke	36.35	10/10/14 <i>Unknown</i>
Total			\$ 3,492.55	

NA - Not provided by the Department or the Bank.

~ - The bank statement was not provided. The date shown is the date on the withdrawal slip.

- The withdrawal slip was not provided.

Italics - emphasis added.

Per Supporting Documentation

Vendor	Amount	Description per receipt	Improper	Unsupported	Reasonable
-	-	-	-	38.52	-
-	-	-	-	70.00	-
-	-	-	-	198.50	-
-	-	-	-	50.00	-
-	-	-	125.00	-	-
-	-	-	-	60.00	-
-	-	-	-	39.88	-
-	-	-	-	-	45.00
-	-	-	-	32.09	-
-	-	-	-	436.54	-
-	-	-	-	64.00	-
-	-	-	-	37.94	-
-	-	-	-	29.10	-
Downtown Deli	28.30	None (Visa Receipt)	46.00	-	-
Air Host Moline Lounge	18.47	None (Visa Receipt)	-	-	-
Little Ceasers	39.06	4 HNR Sausage, 3 HNR Pep, 1 20 oz pop	-	40.00	-
Los Agaves	39.59	1 Shrimp Faj Que, 1 shrimp Fajitas, 1 Faj Quesadilla, 1 Fajitas, 2 pop	80.00	-	-
Family Restaurant	39.86	3 flap jacks, 1/2 Baconcheeseburger, Baconcheeseburger, Tra'nl sausage patty, Diet Coke, iced tea, Mello Yellow, chocolate milk	-	-	-
-	-	-	-	14.01	-
-	-	-	-	14.96	-
-	-	-	-	110.00	-
-	-	-	-	22.00	-
Harbor Freight Tools	21.38	5/8 in clipper pin lock (2)	-	-	36.35
Party City	14.97	1 gal fog liquid	-	-	-
	<u>\$ 803.90</u>		<u>\$ 461.00</u>	<u>2,684.20</u>	<u>347.35</u>

Report on Special Investigation of the
City of Davenport Fire Department

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
James S. Cunningham, CPA, Manager


Tamera S. Kusian, CPA
Deputy Auditor of State