



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 30, 2018

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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Stockton's Periodic Examination Report dated July 7, 2016. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period April 1, 2017 through March 31, 2018.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. While two of the thirteen findings reported in the Periodic Examination Report dated July 7, 2016 were corrected and three were partially corrected, eight of the findings are reported as "not corrected." Four additional findings identified during the follow-up procedures are also included in this report.

The Office of Auditor of State also released a report on the Special Investigation of the City of Stockton for the period January 1, 2016 through March 31, 2018. The special investigation was performed as a result of concerns regarding certain payroll transactions for the prior maintenance employee, reimbursements to the Mayor, funds donated for City parties, and City official's using City equipment for personal use.

A copy of the City of Stockton's Report on the Status of Periodic Examination Findings and Recommendations is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF STOCKTON

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
APRIL 1, 2017 THROUGH MARCH 31, 2018**

Table of Contents

		<u>Page</u>
Officials		3
Independent Accountant’s Report on the Status of Periodic Examination Findings and Recommendations		5
Status of Findings and Recommendations Previously Reported in the City’s Periodic Examination Report:	<u>Finding</u>	
Segregation of Duties	A	7
Receipts	B	7
Bank Reconciliations	C	8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D	8
Financial Reporting	E	8
Disbursements	F	9
Employee Timesheets	G	9
Authorized Pay	H	9
Monthly Cell Phone Reimbursement	I	9-10
Mileage Reimbursement	J	10
Annual Financial Report	K	10
City Council Meeting Minutes	L	10
Certified Budget	M	10-11
Additional Findings Identified During Follow-up Procedures:		
Investment Policy	N	11
Compensation Ordinance	O	11
Business Transactions	P	11
Special Investigation	Q	11
Staff		12

City of Stockton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Patrick Baker	Mayor	Jan 2016	Jan 2020
David Clark	Council Member	Jan 2014	(Resigned Jan 2018)
Michael Halferty	Council Member	Jan 2016	Jan 2020
Heidi Halferty	Council Member	Jan 2016	Jan 2020
Glenn Vandee	Council Member	Jan 2018	Jan 2022
Jake Bell	Council Member	Jan 2018	Jan 2022
Andrew Reames	Council Member	Jan 2018	Jan 2022
Janet Wheeler	City Clerk		(Resigned Dec 2017)
Cathy Jepson	City Clerk		Indefinite
R. Craig Oppel	Attorney		Indefinite

City of Stockton



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Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated July 7, 2016 on the City of Stockton, Iowa covering the period April 1, 2015 through March 31, 2016 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report date July 7, 2016 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period April 1, 2017 through March 31, 2018.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated July 7, 2016. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Stockton during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Mary Mosiman

MARY MOSIMAN, CPA
Auditor of State

November 30, 2018

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Stockton

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2017 through March 31, 2018

Findings Reported in the Periodic Examination Report dated July 7, 2016:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Disbursements – invoice processing, check writing, mailing and recording.
- (5) Payroll – preparing and distributing.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (7) Debt – record keeping, compliance and debt payment processing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

(B) Receipts – All cash receipts were not deposited intact. In addition, the former City Clerk deposited cash collections into her personal bank account and subsequently issued personal checks to the City for deposit. We were unable to determine the reason deposits were made in this manner. However, we were able to account for all collections and determine all collections were deposited to the City's bank account.

In addition, the City does not issue pre-numbered receipts for collections.

Recommendation – The City Council should establish a policy which prohibits depositing City receipts to a personal bank account. Procedures should be implemented to ensure all cash receipts are deposited intact, directly into a City bank account. In addition, pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

Current Status – Partially corrected. During the period reviewed, receipts were deposited intact to the City's bank account. However, the City does not consistently issue pre-numbered receipts for collections. The recommendation is partially repeated.

City of Stockton

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2017 through March 31, 2018

- (C) Bank Reconciliations – Although monthly bank reconciliations are prepared, not all City accounts are included in the reconciliations. The City reconciles the checking account but does not include the savings accounts in the reconciliations. Also, for the savings accounts, the City receives bank statements which do not cut off at month end.

In addition, the reconciled balance of the checking account agrees in total to the general ledger, but the breakdown by fund does not agree to the general ledger and there is no evidence of an independent review of the monthly bank reconciliations.

Recommendation – To facilitate month end balancing, the City should request bank statements which cut off at month end. The City should establish procedures to ensure all accounts, including checking and savings, are reconciled to the general ledger monthly and the reconciled balance agrees to the general ledger by fund and in total. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

Current Status – Not corrected. During the period reviewed, cash and investment balances in the City’s general ledger were not reconciled to the bank account balances. The recommendation is repeated.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled monthly. For one month reviewed, utility billings did not agree to deposits by \$117 and the utility billing payment report did not agree to the general ledger by \$2,392.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts each month. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. For one month reviewed, the billing report and payment register did not agree to the general ledger by \$44. The recommendation is repeated.

- (E) Financial Reporting – The City improperly recorded \$905 of local option sales tax receipts as road use tax receipts. In addition, a \$10,000 transfer from the General Fund to the Special Revenue, Road Use Tax Fund was improperly recorded as a negative \$10,000 property tax receipt and a \$10,000 road use tax receipt rather than as a transfer.

Recommendation – The City should implement procedures to ensure all transactions are properly recorded in the City’s financial statements.

Current Status – Not corrected. During the period reviewed, the City did not properly record \$3,020 of local option sales tax receipts and \$3,330 of road use tax receipts. The recommendation is repeated.

City of Stockton

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2017 through March 31, 2018

- (F) Disbursements – Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for six disbursements tested could not be located. Additionally, although individual invoices are reviewed by the Mayor prior to signing checks, there is no evidence of this review.

In addition, we identified a disbursement for maintenance services at City Hall issued to the City maintenance employee as a vendor through accounts payable rather than payroll.

Recommendation – All disbursements should be supported by an invoice or other supporting documentation. The independent review of invoices prior to payment should be documented by the signature or initials of the reviewer and the date of the review. In addition, payments issued to employees for work performed for the City should be issued through payroll.

Current Status – Partially corrected. During the period reviewed, we did not identify any accounts payable transactions which should have ran through payroll. However, for the period reviewed, the City Clerk could not locate supporting documentation for one disbursement. Additionally, for seven transactions reviewed there was no evidence the supporting documentation was reviewed by an independent person prior to payment. The recommendation is repeated.

- (G) Employee Timesheets – Employee timesheets do not include evidence of review and approval. Additionally, one instance was noted in which an employee was overpaid by one hour compared to the hours worked per the employee's timesheet.

Recommendation – Employee timesheets should be reviewed and approved by an independent person prior to processing payroll. The review should be documented by the signature or initials of the reviewer and the date of the review. Additionally, the City should ensure hours paid agree with hours worked per the employee timesheets.

Current Status – Not corrected. For the twelve month period ending March 31, 2018, 22 of 22 timecards tested did not have supervisor approval for the hours worked. The recommendation is repeated.

- (H) Authorized Pay – In accordance with the City's Code of Ordinances, the Mayor should be paid \$100 for each City Council meeting attended. However, the Mayor was paid \$100 for each regular City Council meeting attended, plus an additional \$40 for each meeting attended for outside boards. The additional pay of \$40 for attendance at these outside meetings is not authorized.

Recommendation – Compensation should be paid in accordance with the City ordinance. The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for past and current amounts improperly paid to the Mayor.

Current Status – Corrected. For the period reviewed, the City had no additional pay for outside meetings.

- (I) Monthly Cell Phone Reimbursement – In accordance with the City's personnel policy, adopted by Resolution 2011-10, the City will reimburse each maintenance department employee and the City Clerk \$20 per month for cell phone use. Beginning in August 2015, the former City Clerk was reimbursed \$25 per month for cell phone use. The increase from \$20 to \$25 per month was not authorized by the City Council.

City of Stockton

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2017 through March 31, 2018

Recommendation – The City should seek reimbursement for past and current amounts improperly paid to the former City Clerk. The City should also implement procedures to ensure cell phone reimbursements are paid at the authorized rate.

Current Status – Corrected. During the period reviewed, cell phone reimbursements were not paid by the City.

- (J) Mileage Reimbursement – In accordance with Chapter 70A.9 of the Code of Iowa, the City Council is required to establish an authorized rate to be reimbursed to employees for mileage incurred while on official City business. The City’s mileage reimbursement rate was not approved by the City Council. For the period reviewed, employees and elected officials of the City were reimbursed \$0.505 per mile and in one instance, the former City Clerk was reimbursed \$0.575 per mile.

Recommendation – The City Council should establish an authorized mileage rate, as required, and should implement procedures to ensure all employees and officials of the City are reimbursed at that rate.

Current Status – Partially corrected. For the period reviewed, the City reimbursed mileage at the consistent rate of \$.505 per mile. However, the City has not established an authorized mileage rate. The recommendation is repeated.

- (K) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Report (AFR) to contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City, and all expenditures...” The disbursements and beginning and ending fund balances included in the City’s AFR do not agree to the City’s records.

Recommendation – The City should establish procedures to ensure amounts reported in the AFR agree to the City’s records. An independent person should review the report for accuracy and document the review by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The City’s June 30, 2017 AFR beginning and ending fund balances did not reconcile to City records. Additionally, there was no independent review of the City’s June 30, 2017 AFR. The recommendation is repeated.

- (L) City Council Meeting Minutes – Chapter 380.7 of the Code of Iowa requires minutes of all City Council proceedings be signed by the City Clerk. Signed copies of City Council meeting minutes for the months of September 2015 and January 2016 were not available.

Recommendation – The City should comply with the Code of Iowa and ensure all City Council meeting minutes are signed, as required.

Current Status – Not corrected. For the period reviewed, four of thirteen meeting minutes were not signed. The recommendation is repeated.

- (M) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works, culture and recreation and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

City of Stockton

Report on the Status of Periodic Examination Findings and Recommendations

For the Period April 1, 2017 through March 31, 2018

Additionally, a comparison of actual disbursements to budgeted amounts by function is not prepared and provided to City Council monthly.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The City Clerk should prepare and provide to the City Council a comparison of actual disbursements to budgeted amounts by function monthly.

Current Status – Not corrected. Disbursements for the year ended June 30, 2017 exceeded the amounts budgeted in culture and recreation and the general government functions before the budget amendment. The recommendation is repeated.

Additional Findings as a Result of Follow-up Procedures:

(N) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. During the twelve month period ended March 31, 2018, the City opened three certificate of deposit accounts.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

(O) Compensation Ordinance – The City has not adopted a written compensation ordinance establishing rates to be paid to the Mayor and City Council members for meetings attended and special meetings.

Recommendation – The City should adopt a written compensation ordinance that establishes rates to be paid to the Mayor and City Council members for meetings attended and special meetings.

(P) Business Transactions – Business transactions between the City and City officials or employees for the fiscal year ending June 30, 2018, as of March 31, 2018 are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Glen Vandee, Council Member, Owner of Van's Heating & Air	Air conditioner, furnace and water meters	\$ 4,332

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

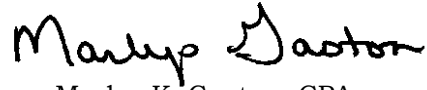
(Q) Special Investigation – The Office of Auditor of State also released a Report on the Special Investigation of the City of Stockton for the period January 1, 2016 through March 31, 2018. The special investigation was performed as a result of concerns regarding certain payroll transactions for the prior maintenance employee of the City of Stockton, concerns about reimbursements to the Mayor, funds donated for City parties, and a City official using City equipment for personal use.

City of Stockton

Staff

This engagement was performed by:

James S. Cunningham, CPA, Manager
Marcus B. Johnson, Senior Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director