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NEWS RELEASE

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FOR RELEASE February 18, 2020

Auditor of State Rob Sand today released a report on a special investigation of the City of Roland (City) for the period September 12, 2016 through June 6, 2018. The special investigation was requested by City officials as a result of concerns regarding certain financial transactions processed by the former Utility Billing Clerk, Windy Weston.

Sand reported the special investigation identified utility payments from 4 customers which were improperly applied to the utility account for Ms. Weston's personal residence rather than to the paying customers' utility accounts. The four improperly applied payments identified totaled \$160.62.

Sand also reported all transactions posted to Ms. Weston's utility account were evaluated and additional improperly applied payments from other customers were not identified. However, it was not possible to verify the cash payments recorded in Ms. Weston's account were appropriate because receipts were not issued for all collections.

The report includes recommendations to strengthen the City's internal controls surrounding segregations of duties for utilities billings, collections, and deposits; reconciliation of utility billings, collections, and delinquent accounts; and cash receipts.

Copies of the report have been filed with the Division of Criminal Investigation, the Story County Attorney's Office, and the Iowa Attorney General's Office. A copy of the report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF ROLAND
FOR THE PERIOD
SEPTEMBER 12, 2016 THROUGH JUNE 6, 2018**

**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF ROLAND**

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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 certain utility collections and at your request, we conducted a special investigation of the City of Roland (City). We have applied certain tests and procedures to selected utility transactions of the City for the period September 12, 2016 through June 6, 2018. Based on a review of relevant information and discussions with City officials and personnel, we performed the following procedures:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Interviewed the City Clerk to obtain an understanding of procedures used for receipting, recording, depositing, and reconciling utility collections.
- (3) Tested a selection of utility payments made by the City's customers to determine whether the payments were appropriately recorded in the City's records, applied to the correct customers' accounts, sufficiently supported, and properly deposited.
- (4) Determined if the cash and check payments recorded in the utility system for certain transactions were supported by appropriate bank documentation and whether the cash payments recorded in the utility system were supported by entries in the cash receipts book.
- (5) Interviewed the City Clerk to obtain an understanding of procedures used for receipt, recording, and depositing miscellaneous receipts, such as for the Library and swimming pool concessions.

These procedures identified \$160.62 of diverted utility collections. Specifically, \$160.62 of utility payments from 4 customers were improperly applied to the utility account for the former Utility Billing Clerk's personal residence rather than to the paying customers' utility accounts. We evaluated all transactions posted to the former Utility Billing Clerk's account and additional improperly applied payments from other customers were not identified. However, we were unable to verify the cash payments recorded in her account because receipts were not issued for all collections.

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 Roland, 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 Story County Attorney's Office, and the Iowa Attorney General's Office.

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

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized with a large, looped "R" and "S".

Rob Sand
Auditor of State

November 6, 2019

City of Roland
Investigative Summary

Background Information

The City of Roland (City) has a population of approximately 1,300 and is located in Story County. The City employs a full-time City Clerk, a part-time Utility Billing Clerk / Receptionist, a Public Works Director, and a Public Works employee.

Windy Weston began employment with the City as the part time Utility Billing Clerk / Receptionist on September 12, 2016. As the Utility Billing Clerk, Ms. Weston had primary responsibility for preparing utility bills, collecting payments, recording payments in the City's utility system, printing the utility payment journal (payment journal), and preparing and making deposits. Ms. Weston was also responsible for picking up, opening, and delivering the bank statements to the City Clerk.

In addition, Ms. Weston was responsible for connecting each handheld meter reading device to the utility system to transfer customer names, addresses, meter numbers, and the prior month's meter readings to the handheld devices used by the public works employees to read meters. After the meters were read each month, the handheld devices were given to Ms. Weston to transfer the updated meter readings to the utility system. The utility system generates the utility bills based on the meter readings and the rates coded into the system. Once the bills were prepared, Ms. Weston mailed the utility bills to the customers.

Payments were received in the mail, in person at City Hall, placed in the drop box outside City Hall, or by electronic deposit from customers' bank accounts. According to the City Clerk, most customers paid by check; however, some customers paid with cash. Ms. Weston was responsible for picking up the mail and collecting any payments from the drop box. When payments were received, Ms. Weston was to record the payment in the utility system, prepare the deposit, and take it to the bank.

The City records related to utility billings include a cash receipt book which was to be used for all cash collections, utility stubs which are to be detached by customers from their bill and submitted with their utility payment, a calculator tape of the utility stubs submitted each day (summary calculator tape), the payment journal, bank deposit records, and delinquent account records. According to the City Clerk, checks received by mail or in person were not included in the receipt book, unless the individual requested a receipt. According to the City Clerk, a utility reconciliation was not prepared, and she did not compare the amount collected to the amount recorded in the customer's utility account.

The City Clerk performs a monthly bank reconciliation. After reconciling the bank statements to the City's accounting records, she provides the reconciliation reports, bank statements, and outstanding check reports to a City Council member who reviews, signs, and dates the reconciliation.

In May 2018, a resident reported to the City Clerk the payment amount applied to their utility account was incorrect. As a result, the City Clerk traced payments included in the deposit detail obtained from the bank for the specific day to the utility payment journal and determined a portion of the resident's check was applied as a partial payment on the resident's account and the remainder was applied to Ms. Weston's personal utility account. Because of this discovery, the City Clerk reviewed additional utility payments Ms. Weston recorded to her utility account and identified additional concerns.

As a result of these concerns and other concerns City officials had previously identified regarding Ms. Weston's job performance, City officials placed Ms. Weston on unpaid administrative leave effective June 3, 2018. During the City Council meeting on June 6, 2018, the City Council voted unanimously to terminate Ms. Weston from employment.

Section 11.6(7) of the *Code of Iowa* requires entities such as the City to “immediately notify the Auditor of State regarding any suspected embezzlement, theft, or other significant financial irregularities.” The Office of Auditor of State was notified by City officials in August 2018.

As a result of the concerns identified, the Office of Auditor of State was requested to review the utility billings and collections processed by the former Utility Billing Clerk. We performed the procedures detailed in the Auditor of State’s Report for the period September 12, 2016 through June 6, 2018.

Detailed Findings

These procedures identified \$160.62 of diverted utility collections. Specifically, \$160.62 of utility payments from 4 customers were improperly applied to the utility account for Ms. Weston’s personal residence rather than to the paying customers’ utility accounts. **Table 1** summarizes the 4 amounts diverted to Ms. Weston’s personal utility account.

Table 1	
Date	Amount
12/16/16	\$ 20.00
03/20/17	82.00
01/10/18	18.57
05/22/18	40.05
Total	\$ 160.62

We evaluated all transaction posted to Ms. Weston’s utility account and additional improperly applied payments from other customers were not identified. However, we were unable to verify the cash payments recorded in her account because receipts were not issued for all transactions.

At the completion of our fieldwork, we contacted Ms. Weston to obtain information regarding her duties at the City and an explanation for the improperly applied utility payments. While Ms. Weston originally agreed to meet with us, we were unable to arrange a suitable time and place for a meeting.

DIVERTED UTILITY COLLECTIONS

As previously stated, Ms. Weston was primarily responsible for preparing utility bills, collecting payments, recording payments in the utility system, printing the utility payment journal and preparing and making deposits. We reviewed all utility payments recorded by Ms. Weston to the utility account for her personal residence from October 2016 through May 2018. Based on our review of available records, we determined \$160.62 of the payments recorded to Ms. Weston’s utility account were diverted from other customers’ utility accounts. Each instance identified is summarized in the following bullets.

- December 16, 2016 - The payment journal shows Ms. Weston recorded the transactions listed in **Table 2** in the utility account for her personal residence on December 16, 2016. The cash receipts book did not include any cash received for Ms. Weston’s utility account on or near December 16, 2016.

Table 2			
Date	Description	Transaction Amount	Account Balance
12/15/16	Balance Due		\$ 111.60
12/16/16	Cash payment	\$ (61.60)	50.00
12/16/16	Payment reversal	61.60	111.60
12/16/16	Cash payment	(80.60)	31.00
12/16/16	Payment reversal	80.60	111.60
12/16/16	Cash payment	(81.60)	30.00

We compared all collections recorded in the payment journal on December 16, 2016 to the related deposit slip obtained from the bank and images of the checks included in the deposit. As a result of the comparison, we determine all check payments recorded in the payment journal were properly deposited, except a \$77.56 check which was applied to the customer's utility account as \$57.56. As a result, the check payments posted to the payment journal totaled \$20.00 less than the amount of checks deposited.

We also determined the amount of the cash payments posted to the payment journal exceeded the cash deposited to the bank by \$20.00. As illustrated by **Table 2**, the original cash payment posted to Ms. Weston's personal utility account was \$20.00 less than the amount which was ultimately posted to her account after two reversals and an additional cash payment.

As previously stated, only Ms. Weston collected utility payments and posted the collections to the utility accounting records. As a result, it is apparent she improperly applied the \$20.00 shortage from the \$77.56 check to her personal utility account as a cash payment. The \$20.00 improperly recorded payment for Ms. Weston's utility account is included in **Table 1**.

- March 20, 2017 - The payment journal shows Ms. Weston recorded an \$82.00 check payment in the utility account for her personal residence on March 20, 2017.

We compared the collections recorded in the payment journal on March 20, 2017 to the related deposit slip obtained from the bank and images of the checks included in the deposit. As a result of the comparison, we determine all checks were properly deposited, except a \$157.74 check. **Table 3** summarizes how the check was recorded in the customer's utility account.

Date	Description	Transaction Amount	Account Balance	Amount Improperly Applied
03/19/17	Balance Due		\$ 70.43	-
03/20/17	Check payment	\$ (150.74)	(80.31)	7.00
03/20/17	Payment reversal	75.00	(5.31)	75.00
Total				\$82.00

As illustrated by the **Table**, the incorrect application of the check to the paying customer's utility account and the subsequent payment reversal resulted in an \$82.00 difference between what the customer paid and what was recorded in the customer's utility account on March 20, 2017. The \$82.00 which was not properly recorded in the paying customer's utility account was instead recorded in Ms. Weston's personal utility account. As previously stated, only Ms. Weston collected utility payments and posted the collections to the utility accounting records.

The \$82.00 improperly recorded payment for Ms. Weston's utility account is included in **Table 1**.

During our review of the activity posted to the paying customer's utility account, we also identified a \$70.00 payment recorded on March 30, 2017. When we reviewed bank records to determine if the payments recorded in the payment journal on March 30, 2017 was properly deposited, we determined the \$70.00 recorded payment was deposited in cash. Because the \$70.00 payment was made in cash and there were no related collections recorded in the cash receipts book for the payment, we are unable

to determine the source of the payment. It is possible the payment was made to replace \$70.00 of the \$82.00 not properly applied to the paying customer's account earlier in March. Because we are unable to determine the source of the \$70.00 cash payment, we did not include it in **Table 1** as a repayment.

- January 10, 2018 – When we compared the amount of cash and checks deposited to the bank on January 10, 2018 to the cash and check payments recorded in the payment journal, we determined the amount of cash collections recorded in the payment journal exceeded the cash deposited to the bank by \$18.57. In addition, the amount of checks deposited to the bank exceeded the check payments recorded in the payment journal by \$18.57.

The deposit slip obtained from the bank shows \$100.00 of currency and \$1.43 of coins was deposited on January 10, 2018. In addition, the payment journal for January 10, 2018 shows a \$100.00 cash payment was recorded in a customer's utility account and a \$20.00 cash payment was recorded in Ms. Weston's utility account for her personal residence. The cash receipts book did not include any cash received for Ms. Weston's utility account on or near January 10, 2018.

We compared the collections recorded in the payment journal on January 10, 2018 to the related deposit slip obtained from the bank and images of the checks included in the deposit. As a result of the comparison, we determined all checks were properly deposited, except a \$135.65 check. The memo portion of the check includes a notation \$63.18 of the check amount was to be applied to a utility account held in the customer's name and \$72.47 was to be applied to a second utility account held by the customer. However, \$53.90 was applied to one account and \$63.18 was applied to the other. The remaining \$18.57 was not applied to either of the paying customer's accounts.

Table 4 illustrates how the \$18.57 not properly recorded for the \$135.65 check payment submitted by a customer was improperly included in the \$20.00 cash payment recorded in Ms. Weston's personal utility account.

Description	Amount
Amount not recorded in customer's accounts for \$135.65 check	\$ 18.57
Value of coins listed on deposit slip	1.43
Total cash payment recorded in Ms. Weston's personal utility account	<u>\$ 20.00</u>

The \$18.57 improperly recorded payment for Ms. Weston's utility account is included in **Table 1**.

- May 22, 2018 – When we compared the amount of cash and checks deposited to the bank on May 22, 2018 to the cash and check payments recorded in the payment journal, we determined the amount of cash collections recorded in the payment journal exceeded the cash deposited to the bank by \$40.05. In addition, the amount of checks deposited to the bank exceeded the check payments recorded in the payment journal by \$40.05.

The deposit slip obtained from the bank shows \$415.42 of cash was deposited on May 22, 2018. In addition, the payment journal for May 22, 2018 shows 5 cash payments totaling \$455.47 were posted to customers' utility accounts, including a \$40.05 cash payment recorded in Ms. Weston's utility account for her personal residence. The cash receipts book did not include any cash received for Ms. Weston's utility account on or near May 22, 2018.

We compared the collections recorded in the payment journal on May 22, 2018 to the related deposit slip obtained from the bank and images of the checks included in the deposit. As a result of the comparison, we determined all checks were properly deposited, except a \$52.60 check. Only a \$12.55 check payment was applied to the paying customer's account in the payment journal. The remaining \$40.05 was improperly applied to Ms. Weston's account as a cash payment.

The \$40.05 improperly recorded payment for Ms. Weston's utility account is included in **Table 1**.

ADJUSTMENTS

As a result of the improperly applied payments identified, we also scanned account activity in the payment journal for the period September 12, 2016 through June 3, 2018 to identify any unusual or unexpected transactions. During our scanning, we identified reversals, adjustments, and credits applied to various accounts. However, based on available supporting documentation, discussions with the City Clerk, and an evaluation of transactions within the account near the time of the reversal, adjustment, or application of a credit, we did not identify any additional transactions which were improperly recorded to an account. However, some of the unusual transactions identified should not have been necessary if Ms. Weston had been diligent in recording utility billings and collections. The instances identified are described in the following paragraphs.

- We identified a large number of payments recorded on May 7 which were reversed on May 8, 2018. According to the City Clerk, Ms. Weston recorded payments from certain customers multiple times and incorrect payments which needed to be reversed.

The City Clerk also reported when she identified the double entries, she helped Ms. Weston make the necessary adjustments to correct the duplicate and incorrect payment amounts recorded in the payment journal. In addition, the Mayor reported he also remembered this happening in May 2018 and the instance was communicated to the City Council.

- We identified five unusually large payment amounts recorded in the utility billing system by Ms. Weston in error. The payments ranged from approximately \$1,000.00 to approximately \$8,000.00. The five payments recorded by Ms. Weston were reversed out on the same day. When we reviewed the account history for these five customers, the amount billed was subsequently paid by a check recorded in the customer's account and posted to the payment journal.

In addition, we identified a \$8,715,146.51 adjustment to a customer's account. According to the City Clerk, the error resulted from Ms. Weston incorrectly entering the meter number for a new meter. The amount was adjusted appropriately in the payment journal by the City Clerk based on the actual reading.

- We identified a number of adjustments to remove penalties and interest which were needed because Ms. Weston recorded entries to the wrong customer accounts and/or did not post payments in a timely manner. As a result, it was necessary for Ms. Weston to record numerous adjustments to remove penalties which should not have been applied to the customer accounts.

In addition, we determined Ms. Weston did not properly record electronic payments received through GovPayNet. When a customer makes a utility payment using GovPayNet, the payment is electronically transferred by GovPayNet from the customer's bank account to the City's bank account and is recorded as an ACH deposit on the bank statements. The City's utility system allows these payments to be recorded in customer accounts as an ACH payment. However, Ms. Weston recorded the GovPayNet payments as check payments rather than an ACH payment in the utility system. Because she recorded these collections as checks and not ACH payments, the amounts shown in the payment journal as payments by check did not agree with the amount of checks recorded on the deposit slips for those days.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the City of Roland to process utility billings. 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 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 Utility Billing Clerk had control over preparing and mailing billings, receipting and depositing collections, posting collections to customer accounts and accounting records, and preparing and making bank deposits.

Recommendation – City officials should implement procedures to ensure the duties for utility billing, collection, recording, and depositing are adequately segregated. We realize segregation of duties is difficult with a limited number of employees. However, utility duties listed above should be segregated between the Utility Billing Clerk, the City Clerk, the Mayor, and City Council members. In addition, the Mayor and City Council members should review financial records, perform reconciliations, and examine supporting documentation for accounting records on a periodic basis.

- B. Reconciliation of Utility Billings, Collections, and Delinquent Accounts – Reconciliations of utility billings and collections and delinquent accounts were not prepared. We also determined supporting documentation was not consistently maintained for adjustments posted to customers' accounts.

Recommendation – City officials should implement procedures to ensure utility reconciliations are prepared each month. In addition, the City Council or another independent party designated by the City Council should review the reconciliations and monitor delinquencies. Any irregularities identified by the reconciliations should be addressed and resolved in a timely manner. The independent review should be documented by the signature or initials of the reviewer and the date of the review.

- C. Cash Receipts – Cash receipts was not consistently included in the cash receipt book. As a result, there is not a document to which to compare cash deposited to the bank to ensure completeness of the deposit.

Recommendation – City officials should implement procedures to ensure all collections received by the City are promptly recorded in the receipt book and the accounting records. An independent City official should compare the daily cash receipts to the bank deposit slips and later to the bank statements. Evidence of this review should be documented.

- D. Notification – Section 11.6(7) of the Code of Iowa requires the Office of Auditor of State be notified by the governmental subdivision immediately upon suspicion of embezzlement, theft, or other significant financial irregularities. The City failed to notify the State Auditor's Office in a timely manner as required regarding the concerns identified.

Recommendation – The City should ensure if any suspected irregularities are identified in the future, they are promptly reported to the State Auditor's Office as required by the *Code of Iowa*.

Report on Special Investigation of the
City of Roland

Staff

This special investigation was performed by:

James S. Cunningham, CPA, Director
Mark C. Moglestad, CPA, Senior Auditor


Annette K. Campbell, CPA
Deputy Auditor of State