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NEWS RELEASE

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FOR RELEASE June 10, 2020

Auditor of State Rob Sand today released a report on a special investigation of the City of Ayrshire for the period September 1, 2018, through February 29, 2020. The special investigation was requested by City officials as a result of concerns regarding certain financial transactions processed by the former City Clerk, Alesha Olson.

Sand reported the special investigation identified \$9,807.32 of improper disbursements and a \$582.10 unsupported disbursement. The \$9,807.32 of improper disbursements identified includes \$9,084.11 of unauthorized checks issued to Ms. Olson, \$125.84 of excess IPERS' contributions made by the City of behalf of Ms. Olson, and \$509.87 for Christmas gatherings for the City Council members, the Mayor, and their significant others. Sand also reported the improper disbursements identified includes \$87.50 of penalties, late fees, and interest paid to the State of Iowa and IPERS. The \$582.10 unsupported disbursement identified was a check to Ms. Olson which was not supported by sufficient documentation.

Sand recommended City officials implement procedures to ensure the City's internal controls are strengthened, including segregation of duties, performing independent review of bank reconciliations, and ensuring all disbursements are properly supported, approved, and paid in a timely manner. Sand also reported City officials did not implement control recommendations made by the CPA firm that issued a report on an examination of the City's financial transactions in December 2018. Had City officials implemented the recommendations, it is likely the improper disbursements would have been identified earlier. In addition, the implementation of controls may have reduced the opportunity for the City's funds to be improperly disbursed.

Copies of this report have been filed with the Palo Alto County Sheriff's Office, the Iowa Division of Criminal Investigation, the Palo Alto 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 <https://auditor.iowa.gov/reports/audit-reports/>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF AYRSHIRE
FOR THE PERIOD
SEPTEMBER 1, 2018 THROUGH FEBRUARY 29, 2020**

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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 financial transactions processed by the former City Clerk and at your request, we have conducted a special investigation of the City of Ayrshire (City). We have applied certain tests and procedures to selected financial transactions of the City for the period September 1, 2018 through February 29, 2020. 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) Reviewed activity in the City's bank accounts to identify any unusual activity.
- (3) Examined certain deposits to the City's bank accounts to determine the source, purpose, and propriety of the deposits.
- (4) Scanned images of redeemed checks issued from the City's bank accounts for reasonableness. We also examined supporting documentation for selected disbursements to determine if they were properly approved, supported by adequate documentation, and appropriate for the City's operations.
- (5) Examined disbursements to the former City Clerk, Alesha Olson, to determine the propriety of the payments.
- (6) Reviewed payroll tax payments to the IRS and Iowa Department of Revenue to determine if the proper amount was remitted in a timely manner.
- (7) Interviewed City officials and personnel to determine the purpose of certain disbursements to individuals and vendors.
- (8) Reviewed available City Council meeting minutes to identify significant actions and to determine if certain payments were properly approved.
- (9) Reviewed IPERS contributions and reports to determine if the proper amount was remitted in a timely manner.
- (10) Interviewed the former City Clerk to obtain an understanding of her job duties and certain disbursements she issued from the City's bank account.

These procedures identified \$9,807.32 of improper disbursements and \$582.10 of unsupported disbursements. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibits A and B** of this report.

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

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

We would like to acknowledge the assistance extended to us by officials and personnel of the City of Ayrshire 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

June 4, 2020

City of Ayrshire

Investigative Summary

Background Information

The City of Ayrshire (City) is located in Palo Alto County and has a population of approximately 140. The City employs a City Clerk who is responsible for the business operations of the City. Alesha Olson was employed as the City Clerk from September 1, 2018 until January 30, 2020. Ms. Olson's husband, Tyle Olson, was Mayor at the time she began employment until his term ended on December 31, 2019. As the City Clerk, Ms. Olson was responsible for the following functions:

- Receipts – opening mail, collecting receipts, posting all collections to the accounting records, and preparing and making bank deposits;
- Disbursements – making certain purchases, receiving certain goods and services, presenting proposed disbursements to the City Council for approval, maintaining supporting documentation, preparing, signing and distributing checks, and posting transactions to the accounting records;
- Payroll – calculating payroll amounts; preparing, signing, and distributing checks; posting payments to the accounting records; and filing required payroll reports;
- Bank accounts – receiving and reconciling monthly bank statements to accounting records; and
- Reporting – preparing City Council meeting minutes and financial reports, including monthly Treasurer Reports.

According to City officials, as City Clerk, Ms. Olson was paid a salary of \$800.00 per month. City officials we spoke with also stated Ms. Olson was not eligible for paid vacation or sick leave. In addition, Ms. Olson was eligible for reimbursements for items purchased on the City's behalf. However, because she had access to the City's checkbook as the City Clerk, she should not have had a need to make purchases for the City with personal funds.

The City's primary revenue sources include local option sales tax, road use tax from the State of Iowa, and property tax collected by Palo Alto County and remitted to the City electronically. Revenue is also received from rental income from cellular equipment on the water tower and community center usage. Ms. Olson did not consistently prepare receipts for collections or record the collections on an initial receipt listing.

All City disbursements, including payroll, are made by check. The City does not have a credit card. All disbursements are to be supported by invoices or other documentation obtained by or submitted to the City Clerk. Each month, the City Clerk is to prepare a listing of bills to be paid and provide the listing to the Council for approval. After the City Council approves the bills, the City Clerk prepares and signs the checks. According to City officials, Ms. Olson, had the ability to sign checks. Dual signatures were not required for the checks. However, if dual signatures were used, the Mayor was the second signor for the checks.

The City established two bank accounts, including a primary checking account used for all City operations and a money market account. In addition, the City has two certificates of deposits for future City needs.

The monthly bank statements for the City's bank accounts are mailed directly to City Hall and opened by the City Clerk. According to the current City Clerk, the monthly statements and images of redeemed checks were not periodically reviewed by the Mayor or members of the City Council while Ms. Olson was the City Clerk. In addition, Ms. Olson did not prepare bank reconciliations.

On January 30, 2020, Ms. Olson resigned as the City Clerk. City officials reported she resigned because her husband was not re-elected as the Mayor.

In February 2020, City officials learned the City's Employer's Quarterly Federal Tax Returns (941 reports) had not been filed for the period of Ms. Olson's employment as City Clerk. While attempting to complete the 941 reports, City officials discovered payments from the City's bank account to Ms. Olson which appeared to be for her salary but exceeded the authorized number of salary payments. After this concern was identified, City officials shared their concerns with the Palo Alto County Attorney's Office.

As a result of the concerns regarding the propriety of the City's financial transactions, the Office of Auditor of State was requested to review the City's financial records. As a result of the request, we performed the procedures detailed in the Auditor of State's Report for the period September 1, 2018 through February 29, 2020.

Detailed Findings

The procedures performed identified \$9,807.32 of improper disbursements and \$582.10 of unsupported disbursements for the period of September 1, 2018 through February 29, 2020. The \$9,807.32 of improper disbursements identified includes:

- \$9,084.11 of unauthorized payments issued to Ms. Olson,
- \$125.84 of excess IPERS' contributions made by the City of behalf of Ms. Olson,
- \$509.87 for Christmas party gatherings for the City Council members, the Mayor, and their significant others, and
- \$87.50 of penalties, late fees, and interest paid to the State of Iowa and IPERS.

The \$582.10 of unsupported disbursements identified include a reimbursement to Ms. Olson that was described as for printer ink. Because the reimbursement was not supported by sufficient documentation to determine the type and quantity of items purchased, it was not possible to determine if the payment was for reimbursement of items purchased for City operations or personal in nature. All findings are summarized in **Exhibit A** and a detailed explanation of each finding follows.

On June 3, 2020, we conducted an interview with Ms. Olson. During the interview, she provided information regarding her job duties, described certain disbursements from the City's bank account, and identified unauthorized checks issued to herself.

IMPROPER AND UNSUPPORTED DISBURSEMENTS

As previously stated, the City established a checking account for City operations. Also as previously stated, all City disbursements are to be made by check. We reviewed the City's disbursements and redeemed checks from the City's checking and money market accounts for the period September 1, 2018 through February 29, 2020.

Using available supporting documentation, information obtained from internet searches, discussions with City officials, City Council meeting minutes, and frequency and amount of the payments, we classified payments as improper, unsupported, or reasonable.

Disbursements were classified as improper if they were personal in nature or not necessary or reasonable for operations of the City. Disbursements were classified as unsupported if appropriate documentation was not available or it was not possible to determine if disbursements were related to City operations or personal in nature. Other disbursements were classified as reasonable based on discussions with the Mayor and Council members, or frequency and amount of the payments if sufficient supporting documentation was not available. The improper and unsupported disbursements identified are explained in detail in the following paragraphs.

Checks Issued to Alesha Olson and Payroll Related Disbursements

As previously stated, Ms. Olson was responsible for preparing, signing, and distributing payments for the City, including payroll checks and reimbursements to herself. She was also responsible for payroll related disbursements, including contributions to IPERS, the Iowa Department of Revenue, and the Internal Revenue Service. During our review of the City’s bank statements, we identified 32 checks Ms. Olson issued to herself from September 1, 2018 through February 29, 2020. The 32 checks totaled \$20,018.15 and are described in detail in the following paragraphs.

Unauthorized Checks – Also as previously stated, Ms. Olson was to receive a monthly gross salary of \$800.00 as City Clerk. As a salaried employee, she was not required to complete a timesheet for the City. City officials were not able to provide documentation of her approved salary, such as an employment agreement, job description, or minutes from a City Council meeting concerning her hiring. However, using records obtained from IPERS, we determined the previous City Clerk employed from January through August 2018 received a gross salary of \$800.00 per month. As a result, it is reasonable Ms. Olson was also authorized to receive a gross salary of \$800.00 per month.

Using bank records, we identified 26 checks Ms. Olson issued to herself for \$606.47 which were described as salary in the memo portion of the checks and 2 additional \$606.47 checks which did not include a description. Ms. Olson also issued herself a \$1,200.00 check and a \$1,212.94 check which were described as salary in the memo portion of the checks. While the \$1,212.94 check is the total of two monthly net salary payments of \$606.47, we are unable to determine how the \$1,200.00 net amount of the remaining check was calculated. The 30 checks Ms. Olson issued to herself for \$606.47 or which were described as salary payments are listed in **Exhibit B**.

Each of the checks listed in **Exhibit B** were included in the City’s accounting records maintained on QuickBooks®. However, the payroll function of QuickBooks® was not used and the information recorded in QuickBooks® did not include the deductions used to calculate the \$606.47 net payroll Ms. Olson routinely received. However, City officials provided a spreadsheet prepared by Ms. Olson documenting her payroll deductions for calendar years 2018 and 2019. Based on our review of the spreadsheet, Ms. Olson withheld the appropriate amounts for FICA and IPERS.

Because Ms. Olson was employed by the City from September 1, 2018 until January 30, 2020, she should have received 17 monthly payroll checks. However, **Exhibit B** illustrates Ms. Olson received 30 checks for \$606.47 or which were described as a salary payment. Also as illustrated by **Exhibit B**, Ms. Olson issued herself more than one paycheck during 11 months from January 2019 through January 2020. **Table 1** compares the total of the payroll checks Ms. Olson actually received to the net authorized pay she should have received for the 17 months she was employed.

| Description | Amount |
|--|--------------------|
| Net pay received, per Exhibit B | \$ 19,394.10 |
| Less: | |
| Authorized monthly net pay | \$ 606.47 |
| Number of months employed | 17 |
| Total authorized net pay | (10,309.99) |
| Unauthorized net pay | <u>\$ 9,084.11</u> |

Of the 13 unauthorized checks Ms. Olson issued to herself, 11 were identical in amounts to authorized net payroll checks. In addition, the first check issued to Ms. Olson was prior to the end of her first month of employment and checks were not issued at a consistent time each month. As a result, we were unable to identify which specific checks were authorized and which were unauthorized.

During our interview with Ms. Olson, she stated she was paid a monthly gross salary of \$800.00 for the period September 2018 through December 2018. However, she also stated her salary changed from \$800.00 per month to \$800.00 on a biweekly basis beginning in January 2019. She stated the City Council was aware of the increase which doubled her salary and it came about because an examination of the City's financial transactions by a CPA firm showed the previous City Clerk had been paid more than \$800.00 per month. However, as previously stated, the IPERS reports submitted for the City show the previous City Clerk was paid \$800.00 per month. In addition, our review of disbursements from the City's bank account show the previous City Clerk was paid only once each month and the net pay was reasonable for an \$800.00 gross monthly salary.

Ms. Olson also stated during our interview the change in the frequency of her salary payments should be documented in the City Council meeting minutes. When we informed Ms. Olson the City Council minutes did not include any mention of a change in her salary, she indicated she was surprised. However, when Ms. Olson was directly asked if she increased the frequency of the payments she issued to herself because she had the ability to do that and could get away with it, her response was "yeah."

The \$9,084.11 of unauthorized payments Ms. Olson issued herself are included in **Exhibit A** as improper disbursements.

Excess IPERS Contribution - We also reviewed the wage and contribution reports submitted to IPERS on behalf of the City to determine if Ms. Olson included the unauthorized payments she issued herself. We determined Ms. Olson did not report the unauthorized payments to IPERS for the period September 1, 2018 through January 31, 2020. However, Ms. Olson reported IPERS contributions for herself for 18 months from September 2018 through February 2020. Because her employment with the City ended in January 2020, she should have reported withholdings for only 17 months ending in January 2020. For the month of February 2020, Ms. Olson reported and submitted the IPERS contributions for herself totaling \$125.84, which included \$75.52 for the City's share and \$50.32 for the employee's share. As a result, the City improperly incurred \$125.84 of additional costs for the contributions. This amount is included in **Exhibit A** as an improper disbursement.

Reimbursement checks - City officials we spoke with reported Ms. Olson was eligible for reimbursement of the cost of items she purchased on the City's behalf. We identified three checks Ms. Olson issued to herself which appeared to be for reimbursements. The three checks are described in the following paragraphs.

- As previously stated, **Exhibit B** includes a \$1,212.94 check Ms. Olson issued herself on December 20, 2019. According to the notation in the memo portion of the check, the payment was for "Clerk Salary + Reimburse QB."

According to City officials, the City Clerk prior to Ms. Olson had saved her personal credit card number on websites to pay for previous renewals of software used by the City. Because the credit card number had not been removed, the previous City Clerk's personal credit card was charged \$507.18 for the QuickBooks® renewal fee (which included payroll) and \$74.89 for the Microsoft® renewal fee in December 2019. The prior City Clerk's personal credit card was also used in December 2018 for the renewal charges and the City reimbursed her for those charges in 2018. The City also reimbursed the previous City Clerk the amount charged to her credit card in December 2019. As a result, Ms. Olson should not have received reimbursement for the same cost in December 2019.

During our interview with Ms. Olson, she agreed the previous City Clerk was reimbursed for the QuickBooks® renewal fee. However, she also reported she had to cancel the subscription and entered her own personal credit card information to renew the software under her name as the new City Clerk. Ms. Olson acknowledged the City would have paid for the QuickBooks® subscription twice in December 2019 if this had

occurred; once to reimburse the former City Clerk and once to reimburse Ms. Olson. When we asked the current City Clerk to research if Ms. Olson's credit card and/or name was associated with the City's QuickBooks® account, she reported she determined the account had not been changed to be under Ms. Olson's name and remained under the previous City Clerk's name.

As illustrated by **Exhibit B** and **Table 1**, the \$1,212.94 amount of this check was twice the amount of the net monthly pay Ms. Olson received and is included in the improper payroll checks Ms. Olson issued to herself.

- Ms. Olson issued herself a \$41.95 check on March 26, 2019. We observed an invoice and email which showed office supplies totaling \$41.95 were ordered on March 13, 2019 with a credit card. The items purchased, including double pocket insertable plastic dividers, gel pens and a monthly desk calendar, were reasonable for City operations. As a result, the payment to Ms. Olson was reasonable.
- Ms. Olson also issued herself a \$582.10 check on November 21, 2019. The notation in the memo portion of the check stated, "Reimburse Printer toner." According to the City officials, Ms. Olson was asked to provide a receipt for the purchase; however, she did not provide one.

During our interview with Ms. Olson, she stated there should be a folder labeled "Alesha Olson's Reimbursements" at City Hall which would include supporting documentation for all of the reimbursement checks issued to her. When we asked the current City Clerk to look for a folder that fit this description, she reported she was unable to locate any.

Because sufficient documentation was not available to determine the payment to Ms. Olson was for toner that could be used for City operations, the \$582.10 payment was classified as an unsupported disbursement.

The \$582.10 reimbursement check issued to Ms. Olson is included in **Exhibit A** as an unsupported disbursement.

Late Fees, Penalties, and Interest

As previously stated, Ms. Olson's duties as City Clerk included preparing financial reports and submitting the reports to the appropriate entity in a timely manner.

FICA and Federal Taxes – After Ms. Olson resigned as the City Clerk, City officials determined she did not submit the 941 reports during the time of her employment which included fourth quarter of 2018 through the fourth quarter of 2019. According to City officials, the current City Clerk has filed the reports not submitted by Ms. Olson; however, the City expects to receive a statement regarding fees or penalties assessed to the City as a result of the late filings. Because the City has not received a notification of any late fees or penalties, we were unable to include an amount associated to late fees and/or penalties incurred by the City because Ms. Olson did not submit the 941 reports in a timely manner.

State of Iowa Taxes – As with the federal tax reporting, City officials determined Ms. Olson did not properly file all quarterly tax withholding reports with the State of Iowa. According to the current City Clerk, City officials determined the first and fourth quarters of 2019 State tax withholding reports were not filed. The reports were subsequently filed, but because the reports were not filed in a timely manner, the City incurred penalties and interest totaling \$27.25.

The \$27.25 of penalties and interest paid by the City is included in **Exhibit A** as improper disbursements.

IPERS Contributions – As previously stated, we obtained IPERS wages and contributions reports submitted for the City. We also obtained the IPERS Annual Statements for the City to determine if any late fees and/or interest was assessed to the City as a result of Ms. Olson not submitting reports and payments in a timely manner.

Using the reports obtained from IPERS and payment information from the City, we determined the City made back payments to IPERS for monthly employee and employer contributions which had not previously been paid for the period September 2018 through February 2020. Because monthly contributions were not remitted in a timely manner to IPERS, the City incurred three charges for late fees and interest totaling \$60.25.

The \$60.25 of late fees and interest charges are included in **Exhibit A** as an improper disbursement.

Other Disbursements

As previously stated, we reviewed the City’s disbursements and redeemed checks from the City’s checking account for the period September 1, 2018 through February 29, 2020. During our review, we identified three disbursements which did not appear reasonable for City operations. **Table 2** summarizes the three disbursements.

| Check Date | Check Number | Payee | Amount |
|-------------------|---------------------|-------------------------------------|------------------|
| 01/12/19 | 5707 | The Prime Rib Restaurant and Lounge | \$ 188.53 |
| 02/01/19 | 5717 | Tyle Olson | 48.15 |
| 02/22/20 | 5301 | The Prime Rib Restaurant and Lounge | 273.19 |
| Total | | | <u>\$ 509.87</u> |

According to a City official, the three disbursements identified in the **Table** were for the City’s Christmas Parties. The events were not open to the public and included only the Mayor, City Council members, and their significant others. Supporting documentation was not available for two of the three disbursements; however, according to a City official we spoke with, the reimbursement issued to Ms. Olson’s husband, former Mayor Tyle Olson, was for drinks for the 2019 Christmas event.

We obtained a copy of the receipt for the \$273.19 disbursement made on February 22, 2020. The receipt shows 5 prime rib dinners, 3 fisherman platters, and an Oscar’s Oscar dinner were purchased on February 22, 2020 and totaled \$218.55. In addition, there was tax of \$15.30 and tip of \$39.34.

During our interview with Ms. Olson, she stated City officials had historically participated in Christmas gatherings and that a recent examination of the City’s financial transactions by a CPA firm had identified that City funds were used to purchase alcohol at the gatherings. According to Ms. Olson, a representative of the CPA firm advised City officials alcohol could not be directly purchased using City funds; however, someone using their personal funds could pay for the alcohol and then seek reimbursement by the City and classify the expense as “entertainment.” However, when we reviewed the report of the examination file with the Office of Auditor of State, the CPA firm included a reimbursement to the former City Clerk for the purchase of alcohol for a Christmas party as a questionable disbursement. As a result, it is clear a representative of the CPA firm would not have told City officials it acceptable to reimburse an individual with City funds for the purchase of alcohol.

Because these events are not open to the public and do not serve a public purpose, the \$509.87 of disbursements identified related to Christmas events is included in **Exhibit A** as improper disbursements.

OTHER ADMINISTRATIVE ISSUES

City officials have a fiduciary responsibility to exercise authority over its funds, efficiently and effectively achieve its mission, provide oversight of the City's operations and maintain the public trust. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Based on our review, we determined the City officials did not provide sufficient oversight of the City's financial transactions and did not:

- Properly review payroll disbursements or related supporting documentation prior to issuance.
- Compare the bill listings to supporting documentation and checks.
- Require and maintain original, itemized receipts for all disbursements, including employee reimbursements, and review the supporting documentation to ensure an appropriate purpose of the disbursements.
- Review the City's bank statements.
- Request and review bank reconciliations.

In addition, as previously stated, a CPA firm issued a report of an examination of the City's financial transactions. The report covered the fiscal year ended June 30, 2018 and was issued on December 27, 2018. During an interview with Ms. Olson, she reported the firm discussed the findings in the report with City officials. The report specified a \$235.62 disbursement to the Prime Rib for a Christmas party and a \$40.90 reimbursement to the former City Clerk for "Christmas party alcohol" did not meet the requirements of public purpose. However, City funds were again used to purchase dinners and alcohol for Christmas parties in January 2019 and February 2020.

The report issued by the CPA firm also included recommendations regarding the segregation of duties, the preparation of bank reconciliations to be reviewed and signed by an independent person, and inclusion of annual individual gross salaries in City Council meeting minutes. The report also recommended "The City Council should document in the minutes approved pay rates for all employees and City officials." If members of the City Council had implemented any of these controls recommended by the CPA firm in the report issued in December 2018, it is likely the unauthorized checks to Ms. Olson would have been identified earlier. In addition, the implementation of controls may have reduced the opportunity for the City's funds to be improperly disbursed.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the City of Ayrshire to perform bank reconciliations and process 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 internal controls.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among individuals to prevent one person from handling duties which are incompatible. The former City Clerk had control over each of the following areas:
- (1) Receipts – opening mail, collecting, posting to the accounting records, and preparing and making bank deposits,
 - (2) Disbursements – making certain purchases, receiving certain goods and services, presenting disbursements to the City Council for approval, maintaining supporting documentation, preparing, signing, and distributing checks, and posting to the accounting records,
 - (3) Payroll – calculating payroll amounts, preparing, signing, and distributing checks, posting payments to the accounting records, and filing required payroll reports,
 - (4) Bank accounts – receiving and reconciling monthly bank statements to accounting records, and
 - (5) Reporting – preparing City Council meeting minutes and financial reports, including monthly Treasurer Reports.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the duties within each function listed above should be segregated between the City Clerk 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.

Bank statements should be delivered to and reviewed by an official who does not collect or disburse City funds and bank reconciliations should be performed on a monthly basis. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

- B. City Council Meeting Minutes – During our review of the monthly City Council Meeting Minutes, we determined not all minutes were not signed by the City Clerk as required by section 380.7(4) of the *Code of Iowa*. In addition, they did not include the signature of the Mayor or a City Council member to authenticate the record. In addition, City Council members or a designated official did not initial the disbursements.

Recommendation – City officials should implement procedures to ensure the City Clerk and Mayor or a City Council member sign all meeting minutes in accordance with section 380.7(4) of the *Code of Iowa*. In addition, City Council members should document their review and approval of City disbursements by initialing and dating the meeting minutes.

- C. Payroll – During our review of payroll, we determined Ms. Olson issued herself unauthorized checks totaling \$9,084.11 and she did not maintain accurate and complete payroll records for the City. In addition, documentation regarding the amount approved by the City Council for her monthly compensation was not available.

Recommendation – City officials should implement procedures to ensure appropriate payroll records are maintained, including documentation of employees’ approved salary or hourly wages. City officials should also periodically review payroll records to ensure payroll is calculated properly and paychecks are prepared for the appropriate amount at the end of each pay period. Payroll checks should not be distributed prior to the end of a pay period.

According to City officials, the City Clerk position has now been changed to an hourly position instead of a salary position. As a result, a City Council member(s) or a designated individual who is familiar with the City Clerk’s actions should review and approve his/her timesheet for each pay period. The review and approval should be documented by the signature or initials of the reviewer and the date of approval.

D. Disbursements – During our review of the City’s disbursements, the following concerns were identified:

- (1) Disbursements were not consistently supported by invoices or other documentation.
- (2) Not all disbursements were approved by the City Council.
- (3) The City incurred late payment fees because the City Clerk did not pay certain City obligations in a timely manner.
- (4) Checks were only signed by the City Clerk.

Recommendation – All City disbursements should be approved by the City Council prior to payment, with the exception of those specifically allowed by a City Council approved policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next meeting for review and approval. All payments should be remitted in a timely manner to ensure last fees are not incurred.

To strengthen internal control, each check should be prepared and signed by one person and detailed supporting documentation and invoices should be provided, along with the check, to an independent individual for review and countersignature.

E. Oversight by City officials – City officials have 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.

Based on our observations and the procedures we performed, we determined City officials failed to exercise proper fiduciary oversight. The lack of appropriate oversight and the failure to ensure implementation of adequate internal controls permitted an employee to exercise too much control over the operations of the City.

In addition, City officials failed to implement recommendations made by a CPA firm which performed an examination of the City’s financial transactions for the fiscal year ended June 30, 2018.

Recommendation – Oversight by City officials is essential and should be an ongoing effort. City officials should exercise due care and review all pertinent information, such as the report previously issued by the CPA firm. City officials should also ensure sufficient information is prepared and provided to them for making decisions and appropriate policies and procedures are adopted, implemented, and monitored to ensure compliance.

For example, bank statements should be delivered to an official who does not collect or disburse City funds. The bank statements should be reviewed in a timely manner for unusual activity. Bank reconciliations should be performed monthly and reviewed by someone independent of other financial responsibilities. The review should be documented by the signature or initials of the reviewer and the date of the review.

Exhibits

Report on Special Investigation of the
City of Ayrshire

Summary of Findings
For the Period September 1, 2018 through February 29, 2019

| Description | Table / Page Number | Improper | Unsupported | Total |
|--|--------------------------------|--------------------|--------------------|------------------|
| Improper and unsupported disbursements: | | | | |
| Checks issued to Alesha Olson and payroll related disbursements: | | | | |
| Unauthorized checks | Table 1 | \$ 9,084.11 | - | 9,084.11 |
| Excess IPERS contribution | Page 8 | 125.84 | - | 125.84 |
| Reimbursement check | Page 9 | - | 582.10 | 582.10 |
| Late fees, penalties, and interest: | | | | |
| State of Iowa | Page 9 | 27.25 | - | 27.25 |
| IPERS | Page 10 | 60.25 | - | 60.25 |
| Payments for Christmas gatherings | Table 2 | 509.87 | - | 509.87 |
| Total improper and unsupported disbursements | | <u>\$ 9,807.32</u> | <u>582.10</u> | <u>10,389.42</u> |

Exhibit BReport on Special Investigation of the
City of AyrshireChecks Issued to Alesha Olson
For the Period September 1, 2018 through February 29, 2020**Per Bank Statements**

| Check Date | Check Number | Payee | Memo | Amount |
|-------------------|---------------------|--------------|-----------------------------|---------------|
| 09/13/18 | 5668 | Alesha Olson | Clerk Salary | \$ 606.47 |
| 10/11/18 | 5672 | Alesha Olson | Clerk Salary | 606.47 |
| 11/08/18 | 5684 | Alesha Olson | Clerk Salary | 606.47 |
| 12/12/18 | 5691 | Alesha Olson | Clerk Salary | 606.47 |
| 01/03/19 | 5706 | Alesha Olson | Clerk Salary | 606.47 |
| 01/15/19 | 5714 | Alesha Olson | <i>None</i> | 606.47 |
| 02/08/19 | 5718 | Alesha Olson | Clerk Salary | 606.47 |
| 03/05/19 | 5730 | Alesha Olson | March Salary | 606.47 |
| 03/18/19 | 5739 | Alesha Olson | Clerk Salary | 606.47 |
| 04/02/19 | 5745 | Alesha Olson | Clerk Salary | 606.47 |
| 04/30/19 | 5754 | Alesha Olson | Clerk Salary | 606.47 |
| 05/22/19 | 5760 | Alesha Olson | Clerk Salary | 606.47 |
| 05/30/19 | 5766 | Alesha Olson | Clerk Salary | 606.47 |
| 06/12/19 | 5771 | Alesha Olson | June Salary | 606.47 |
| 06/25/19 | 5770 | Alesha Olson | Clerk Salary | 606.47 |
| 07/05/19 | 5772 | Alesha Olson | Clerk Salary | 606.47 |
| 08/05/19 | 5790 | Alesha Olson | Clerk Salary | 606.47 |
| 08/16/19 | 5799 | Alesha Olson | July - August Clerk Salary | 1,200.00 |
| 09/13/19 | 5805 | Alesha Olson | September Clerk Salary | 606.47 |
| 09/24/19 | 5811 | Alesha Olson | Clerk Salary | 606.47 |
| 10/10/19 | 5820 | Alesha Olson | Oct Clerk Salary | 606.47 |
| 10/15/19 | 5821 | Alesha Olson | Clerk Salary | 606.47 |
| 11/07/19 | 5824 | Alesha Olson | Nov salary | 606.47 |
| 11/19/19 | 5831 | Alesha Olson | <i>None</i> | 606.47 |
| 12/03/19 | 5836 | Alesha Olson | Clerk Salary -Nov | 606.47 |
| 12/10/19 | 5851 | Alesha Olson | Clerk Salary - Dec | 606.47 |
| 12/20/19 | 5852 | Alesha Olson | Clerk Salary + Reimburse QB | 1,212.94 |

Report on Special Investigation of the
City of AyrshireChecks Issued to Alesha Olson
For the Period September 1, 2018 through February 29, 2020**Per Bank Statements**

| Check Date | Check Number | Payee | Memo | Amount |
|-----------------------|-------------------------|--------------|--------------|---------------------|
| 01/06/20 | 5856 | Alesha Olson | Clerk salary | 606.47 |
| 01/10/20 | 5865 | Alesha Olson | Salary | 606.47 |
| 02/01/20 | 5866 | Alesha Olson | Clerk Salary | 606.47 |
| Total | | | | <u>\$ 19,394.10</u> |

Auditor's notations are in italics.

Report on Special Investigation of the
City of Ayrshire

Staff

This special investigation was performed by:

Melissa Finestead, CFE, Manager
Blair Johnston, Auditor Investigator



Annette K. Campbell, CPA
Deputy Auditor of State