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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

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FOR RELEASE July 18, 2008

Auditor of State David A. Vaudt today released a reaudit report on Harrison County for the period July 1, 2005 through June 30, 2006. The reaudit also covered certain items to determine practices applicable to the years ended June 30, 2004, 2005 and 2007. The reaudit was performed as a result of a citizens' petition pursuant to Chapter 11.6(4)(c) of the Code of Iowa as a result of concerns regarding the County's prepayments for rock.

Vaudt recommended the County review policies and procedures pertaining to payments and compliance with Chapter 21 and Chapter 331.506 of the Code of Iowa. Also, the Board should review and evaluate the amount of County funds invested in rock inventory, including a requirement the County Engineer establish guidelines for the Board's periodic review prior to allowing additional purchases of rock. Recommendations were also made to the County to consult the County Attorney regarding the Board's authority to approve prepayments, including advance purchases of rock, and payments made to relatives of County employees during fiscal years 2005 and 2006.

Vaudt also recommended all contractual agreements and changes to agreements, if any, be approved by the Board of Supervisors and the County implement procedures to ensure all invoices are properly cancelled to prevent possible re-use and/or duplicate payment.

The County responded favorably to the recommendations included in the reaudit report.

A copy of the reaudit report is available for review in the County Auditor's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/specials.htm>.

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HARRISON COUNTY
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2005 THROUGH JUNE 30, 2006

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Harrison County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Larry D. King	Board of Supervisors	Jan 2007
Robert V. Smith	Board of Supervisors	Jan 2007
Rolland Roberts	Board of Supervisors	Jan 2009
Susan E. Bonham	County Auditor	Jan 2009
Vicki Argotsinger	County Treasurer	Jan 2007
Lorie A. Thompson	County Recorder	Jan 2007
Terry A. Baxter	County Sheriff	Jan 2009
Judson Frisk	County Attorney	Jan 2007
Dennis Alvis	County Assessor	Jan 2010

Harrison County



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Auditor of State's Report on Reaudit

To the Board of Supervisors of
Harrison County:

We received a request to perform a reaudit of Harrison County (County) under Chapter 11.6(4)(c) of the Code of Iowa. As a result, we performed a review of the fiscal year 2006 audit report and workpapers prepared by the County's certified public accounting firm to determine whether the CPA firm may have addressed any or all of the specific issues identified in the request for reaudit during the annual audit of the County. Based on this review and our review of the preliminary information available, we determined a partial reaudit was necessary to further investigate specific issues identified in the request for reaudit. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of Harrison County for the period July 1, 2005 through June 30, 2006. We also inquired and performed procedures for certain items to determine practices applicable to the years ended June 30, 2004, 2005 and 2007.

The procedures we performed are summarized as follows:

1. We scanned the County's minutes for fiscal years 2005, 2006 and 2007 for Board of Supervisor discussion and action pertaining to purchases of rock for the Secondary Roads Department and the advance purchase of rock pertaining to Western Iowa Limestone, Logan, Iowa and its successor, Natural Materials, L.L.C.
2. We individually interviewed the members of the Board of Supervisors pertaining to advance purchases of rock.
3. We inquired about the County's policies and procedures pertaining to competitive bidding requirements, if any, for rock and/or other purchases pertaining to the Secondary Roads Department.
4. We reviewed a listing of disbursements from the Secondary Roads Department and identified the amount of advance purchases of rock for fiscal years 2004, 2005, 2006 and 2007.
5. We obtained and reviewed copies of the County Engineer's employment contract for the period November 2, 2006 through November 1, 2009 and the superceded employment contract for the period October 21, 2004 through October 20, 2007.
6. We inquired about the County's policies and procedures pertaining to the approval and payment of claims for the Secondary Roads Department.

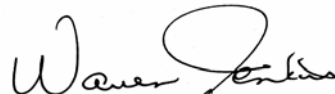
7. We identified and reviewed payments made to relatives of County employees during fiscal years 2005 and 2006 for compliance with County policy, the County's Union contract and Chapter 71 of the Code of Iowa regarding nepotism.
8. We inquired about allegations of the Secondary Roads Department performing work on private property.

Based on the performance of the procedures described above, we identified instances of non-compliance and have developed various recommendations for the County. Our recommendations and the instances of non-compliance are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, items of non-compliance were not noted during the performance of the specific procedures listed above.

The procedures described above are substantially less in scope than an audit of financial statements made in accordance with U.S. generally accepted auditing standards, the objective of which is the expression of an opinion on financial statements. Accordingly, we do not express an opinion. Had we performed additional procedures, or had we performed an audit of the Harrison County, additional matters might have come to our attention that would have been reported to you. A copy of this reaudit report has been filed with the Harrison County Attorney.

We would like to acknowledge the assistance extended to us by personnel of Harrison County. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 9, 2008

Detailed Findings

Harrison County

Detailed Findings

July 1, 2005 through June 30, 2006

- (A) Prepayments for Rock – Over a period of years, Harrison County purchased Class D rock from Western Iowa Limestone. According to County records, some of the purchases were identified as prepayments, as noted in the following schedule of payments and prepayments, whereby the County paid for the rock but did not actually receive the rock prior to the payments to Western Iowa Limestone. Subsequent to these advance purchases and payment for rock, Western Iowa Limestone filed for bankruptcy in December 2005. As discussed further in Finding (B), the Harrison County Engineer continued to purchase from and entered into a “credit recovery agreement” dated March 15, 2006 with Natural Materials, L.L.C., the successor company to Western Iowa Limestone. However, Natural Materials, L.L.C., has suspended operations in Logan and, accordingly, the County did not fully recover the County’s cash and/or rock inventory from Natural Materials, L.L.C., as explained further in Findings (B) and (D).

Chapter 309.61 of the Code of Iowa regarding Advance Payment of Payrolls, states: “The board of supervisors may authorize the county auditor to draw warrants for the amount of payrolls for labor furnished under the day labor system, when said payrolls are certified to by the engineer in charge of the work. Said bills shall be passed on by the board at the first meeting following said payment.”

Chapter 331.506(1)(a) of the Code of Iowa states, in part: “Except as provided in subsections 2 and 3, the auditor shall prepare and sign a county warrant only after issuance of the warrant has been approved by the board by recorded vote.”

Chapter 331.506(2) of the Code of Iowa permits the County Auditor to issue warrants to pay claims against the county without prior approval of the Board for witness fees and mileage and other costs associated with criminal and civil actions.

Chapter 331.506(3) of the Code of Iowa permits the Board, by resolution, to authorize the County Auditor to issue warrants for specific payments without prior approval of the Board for certain fixed charges after a bill is filed with the County Auditor and salaries and payroll if the compensation has been fixed or approved by the Board.

Article III, Section 31 of the Constitution of the State of Iowa provides public funds may only be spent for the public benefit. This public benefit criterion is addressed in various court cases and opinions of the Attorney General, including an Attorney General’s opinion dated April 25, 1979. According to the opinion, the line to be drawn between a proper and an improper purpose is very thin.

The following purchases from Western Iowa Limestone and Natural Materials, L.L.C. by the Secondary Roads Department were identified from County records:

Vendor and Date Paid	Amount	Prepaid Amount
<u>Western Iowa Limestone:</u>		
April 26, 2004	\$ 202,500	202,500
May 10, 2004	67,500	67,500
May 24, 2004	11,303	-
June 14, 2004	284	-
June 28, 2004	58	-
June 28, 2004	90,710	90,710
Total fiscal year 2004	<u>372,355</u>	<u>360,710</u>
July 26, 2004	1,449	-
September 27, 2004	57	-
June 13, 2005	118	-
June 16, 2005	175,000	175,000
June 27, 2005	97,404	97,404
Total fiscal year 2005	<u>274,028</u>	<u>272,404</u>
Total	<u>\$ 646,383</u>	<u>633,114</u>

Vendor and Date Paid	Amount	Prepaid Amount
<u>Natural Materials, L.L.C.:</u>		
April 10, 2006	\$ 11,264	-
April 26, 2006	15,202	-
May 8, 2006	25,250	-
May 22, 2006	29,741	-
June 12, 2006	74,711	-
June 26, 2006	4,680	-
Total fiscal year 2006	<u>160,848</u>	<u>-</u>
July 10, 2006	55,607	-
July 24, 2006	23,126	-
August 14, 2006	27,237	-
August 28, 2006	25,045	-
September 11, 2006	70,065	-
September 25, 2006	28,333	-
October 9, 2006	3,247	-
November 13, 2006	9,829	-
November 27, 2006	11,811	-
December 11, 2006	5,915	-
December 26, 2006	38,980	-
January 8, 2007	3,573	-
February 12, 2007	14,886	-
February 26, 2007	14,620	-
March 12, 2007	22,462	-
March 26, 2007	20,806	-
April 9, 2007	69,647	-
April 23, 2007	6,992	-
Total fiscal year 2007	<u>452,181</u>	<u>-</u>
Total	<u>\$ 613,029</u>	<u>-</u>

The Board of Supervisors does not have a policy requiring competitive bids prior to purchases of rock or a policy pertaining to prepayment of goods and/or services. The County had invoices from Western Iowa Limestone for the prepayments of \$202,500 and \$67,500 made on April 26, 2004 and May 10, 2004, respectively. However, an invoice was not available from Western Iowa Limestone for the prepayment of \$90,710 on June 28, 2004. Instead, payment was made from a copy of the April 2004 invoice for \$202,500. We were unable to confirm whether an actual invoice was issued to the County since Western Iowa Limestone is no longer in business.

The County had a "rock purchase agreement" but no invoice to support the prepayments of \$175,000 and \$97,404 made on June 16, 2005 and June 27, 2005, respectively. The rock purchase agreement was revised on June 27, 2005, as evidenced by hand-written changes and initials identified as those of the Office Manager in the Secondary Roads Department. According to a hand-written note on the rock purchase agreement, with initials identified as those of the County Engineer, and also as verbally represented by the County Engineer, the "Board authorized "hand-written" prepay of 25,000 ton on 6/16/05". However, the June 16, 2005 minutes did not include documentation of discussion, Board authorization or approval of these prepayments, nor did the June 2, June 9, June 17, June 23 or June 30, 2005 minutes. Also, the County Auditor represented this was never an agenda item. We did not determine whether the Board authorized or approved the prepayments for rock on April 26, 2004 for \$202,500 or on May 10, 2004 for \$67,500.

We obtained and listened to the tape of the June 16, 2005 Board meeting. There was no Board discussion, authorization or approval in open session on the tape recording regarding prepayments and/or handwritten warrants. However, the County Engineer can be heard on the tape apparently making a call to inform a third party of the Board's approval of the handwritten warrant. The following statement is an excerpt from the tape recording of the June 16, 2005 Board meeting shortly after the Board Chair called the meeting to order:

"... John, the prepayment has been approved, the handwritten well, whatever Gary is putting together right now...."

The reference to "John" is believed to refer to an employee in the Secondary Roads Office and the reference to "Gary" is believed to refer to Gary Danne of Natural Materials, L.L.C.

Therefore, it appears the Board of Supervisors discussed and approved the handwritten warrant prior to the official Board meeting in violation of Chapter 21 of the Code of Iowa, otherwise referred to as the Open Meetings Law. Chapter 21.3 of the Code of Iowa states, in part:

"Meetings of governmental bodies shall be preceded by public notice as provided in section 21.4 and shall be held in open session unless closed sessions are expressly permitted by law. Except as provided in section 21.5, all actions and discussions at meetings of governmental bodies, whether formal or informal, shall be conducted and executed in open session (emphasis added)."

The June 23, 2005 Board minutes stated, in part: "Mr. Stoner said they may have a couple of handwritten warrants that may need to be written next week before our fiscal year end. Auditor Susan Bonham said that they could wait on Monday before running the regular warrants to include those two claims that he is working on. The Board agreed to the handwritten warrants if they were needed."

The June 16, 2005 and June 23, 2005 Board minutes did not clearly indicate the nature, purpose or amount of the potential handwritten warrants, including whether prepayments were discussed or approved. Although the warrants were included on the list of claims allowed, the minutes did not document formal Board approval by documented vote to issue handwritten warrants to specific vendors for specific purposes and/or amounts or for prepayment of rock. Regardless, the June 16, 2005 prepayment of \$175,000 to Western Iowa Limestone with a hand-written warrant occurred prior to the June 23, 2005 Board meeting. Based upon the evidence, the Board did not authorize a handwritten warrant for the \$175,000 prepayment in open session pursuant to Chapter 21.3 of the Code of Iowa and did not formally authorize or approve the prepayment for rock.

Recommendation – The County should review its policies and procedures pertaining to payments and compliance with Chapter 21 and Chapter 331.506 of the Code of Iowa. Payments should only be made from original invoices and payments should not be made without adequate supporting documentation. Except as permitted by Chapter 309.61 and Chapter 331.506 of the Code of Iowa, the Board should approve all warrants by recorded vote prior to payment.

The County should consult the County Attorney to determine the Board's authority to approve prepayments. If determined to be allowable, the Board should document the public purpose of prepayments, including the necessity and propriety of the prepayment.

Pursuant to Chapter 21 of the Code of Iowa, Board authorization, approval and all Board action and discussion should be conducted during open meetings and documented in the Board minutes. We are unable to determine the propriety of the Board's actions which, based on the tape recording of the meeting, appear to have been taken prior to the official June 16, 2005 meeting.

Response –

a. Prepayments for rock:

- Prepayments were historically reviewed and utilized with positive consequences until Western Iowa Limestone's bankruptcy. The practice of prepaying for aggregate (rock surfacing materials) began in 1985. Since that time Harrison County has prepaid for approximately 600,000 tons of aggregate at, what the County Engineer estimates to be, a typical cost reduction of 15%. The County has prepaid for materials from a number of suppliers. Prepaying allows the County Engineer to negotiate a price that might otherwise be unobtainable.
- The practice has been reviewed by numerous individuals without objection. The state has audited this county on at least three prior occasions when well documented prepayments were being utilized and never indicated that the practice was inappropriate or unauthorized. The first board to approve this practice consisted of Duane Grooms, Ivan Leonard and John Erixon. There have been a number of individuals who have had an opportunity to object to this practice, but so long as the County was saving money no objections were made. The practice was only objected to when money was lost. Unfortunately the loss was sizable and County officials acknowledge that fact. One reason for the size of the loss was that June is the end of the fiscal year and many offices are increasing their spending at that time in preparation for the next fiscal year.
- There will be a review of the prepayment practice by all offices involved. The County acknowledges that the benefit of prepayment is directly tied to a risk that

you may not receive the goods and services for which you paid. However, there are also some goods and services that require prepayment. All county officials involved with prepayments acknowledge that the benefits involved with some prepayments involving large dollar amounts may not be worth the risk. Policies will be reviewed and changed to require uncommon and/or extraordinarily expensive prepayments to be pre-approved by the Board of Supervisors in an open meeting and shall require that the office requesting the prepay approval note the estimated cost, the public purpose served, and the necessity of the prepay. This policy will also allow more routine and inexpensive prepays to be approved using the traditional “claim” method.

- b. It is not customary to give invoices for prepayments. The State indicates that invoices were not available for certain payments from the County. The State is correct. Invoices correlate to aggregate received. No invoices were given for the payments noted because they were prepayments without rock received.
- c. Open meetings
 - Open meetings procedures were not always complied with. The County Engineer would regularly meet with the Board in order to keep them informed. On some occasions he would unknowingly begin his discussions prior to the formal commencement of the meeting. Frequently the media was in attendance for these discussions. There was no ill intent on the part of the Board members or the County Engineer.
 - The Board of Supervisors will review Open Meetings Laws and will halt discussions of County “business” prior to the formal start of any meeting. This audit has made all officials involved more aware of the necessity of thorough record keeping. It is acknowledged that thorough record keeping begins with fully recording all meetings and not allowing discussions regarding the County, no matter how seemingly innocent or informal, to begin prior to the recording and commencement of the meeting.
- d. Authorization for prepayments
 - All prepayments were authorized by the Board of Supervisors. All payments were approved by the Board of Supervisors, just as they have been since 1985 when the practice began. Unfortunately some pre-approvals may be missing from the record due to the unintentional open meetings noncompliance discussed above.
 - Many purchases of limestone were discussed with the board in open session. Meetings of the Board of Supervisors are recorded using audio tapes. A sampling of tapes revealed discussions regarding limestone prepayments. Dates containing discussions regarding limestone prepayments include, but are not limited to, the following: June 5, 2003; June 24, 2004; June 16, 2005; and June 23, 2005.
 - The County shall implement a policy regarding handwritten warrants. Handwritten warrants should not be used regularly. Handwritten warrants should be individually authorized. The authorization should contain a maximum dollar value, the name of the proposed payee, the purpose of the payment and the reason why a handwritten warrant is necessary. This authorization should be given during a formal vote of the Board of Supervisors.
- e. Iowa Code Section 331.506(1)(a) does not prevent prepayments. Iowa Code Section 331.506(1)(a) states, in part: “the auditor shall prepare and sign a county warrant

only after issuance of the warrant has been approved by the board by recorded vote.” Handwritten warrants individually authorized in advance by the board seem to fall into this section.

Conclusion – Response accepted.

- (B) Agreements with Natural Materials, L.L.C. – As noted in Finding (A), the Harrison County Engineer entered into a “credit recovery agreement” with Natural Materials, L.L.C., the successor company to Western Iowa Limestone, dated March 15, 2006. According to a memo dated March 17, 2006 from the Harrison County Engineer to the Secondary Roads secretary:

“The attached agreement is for 5000 tons of ‘D’ stone from Natural Materials. The reference to 6% ‘credit recovery agreement’ is a deal I have worked out with them so that basically 6 loads out of every 100 loads will be at no charge to the County. When we receive those ‘no charge’ tickets, you can then calculate the value of those based on the total tons times the per ton price and keep a running total of the value of those ‘free’ loads. The theory is that, over time, perhaps several years, we will recover the value of the credit we lost when Western Iowa Limestone went bankrupt. Natural Materials will be keeping track of these credit recovery loads. We just need to keep them separate so that we can track the credit recovery and audit their numbers. We’ll probably get the free loads in a ‘lump’ and about every two weeks. Eventually, we will be applying the ‘CRA’ to all purchases from Natural Materials, including other graduations of limestone and rip rap.”

The agreement with Natural Materials, L.L.C. dated March 15, 2006 included a product description “D-stone per 3/2/06 RFQ (per credit recovery agreement @ 6%) for 5,000 tons at \$8.40 per ton.” The agreement did not include an end date for the agreement. Also according to the March 15, 2006 agreement, “Harrison County will pick-up”, so transportation costs were not included in the \$8.40 per ton price. The March 15, 2006 agreement did not identify the quarry location.

A revised agreement with Natural Materials, L.L.C. dated July 11, 2006 included a product description “D-Stone (per revised credit recovery agreement 7 @ N/C after 100 loads for 50,000 tons at \$8.75, quoted prices good through 12/31/06).” Also according to the July 11, 2006 agreement, the rock will “ship via Harrison County Trucks”, so transportation costs were not included in the \$8.75 per ton price. The July 11, 2006 agreement identified Logan as the quarry location.

According to the Board minutes, the Board did not approve or authorize the County Engineer to enter into the credit recovery agreement dated March 15, 2006 or the revised agreement dated July 11, 2006 with Natural Materials, L.L.C. If this was discussed and/or authorized, it was not evidenced in the Board minutes.

As previously noted, the Board of Supervisors does not have a policy requiring competitive bids prior to purchases of rock or a policy pertaining to prepayment of goods and/or services. According to documentation obtained from Secondary Roads Department files, the County had a price listing from Schildberg Construction Company, Inc. effective May 1, 2006 for Harrison County quoting a price of \$7.50 for Class D rock at the Logan Quarry and \$8.20 for Class D rock at the Crescent Quarry. The per ton price listing did not appear to include transportation costs.

The County also had an agreement with Hallett Materials dated February 2001 for several subsequent periods, including river gravel purchases for \$6.40 per ton produced in

2006. However, in September 2005, Hallett Materials increased the price by \$0.25 per ton, resulting in a per ton price of \$6.65. Although the Board approved the February 2001 agreement with Hallett Materials, according to the Board minutes, the Board did not approve or authorize the price increase or change in agreement with Hallett Materials. The price per ton did not include transportation costs.

We were unable to determine the propriety of the agreements with Natural Materials, L.L.C., including the credit recovery agreement, since the Board did not approve the agreements or the propriety of the \$0.25 per ton price increase imposed by Hallett Materials without formal Board approval or authorization.

We question the reasonableness of the Natural Materials, L.L.C. agreement at \$8.75 per ton, excluding transportation costs, compared to the lower price per ton quoted by other companies, as noted above. Based upon our calculations, we were unable to reach the County Engineer's theoretical conclusion that "over time, perhaps several years, we will recover the value of the credit we lost when Western Iowa Limestone went bankrupt."

According to documents obtained from the County, the County made total prepayments of \$633,114 for rock. The County's credit balance as of April 4, 2007 was \$225,547, which represents the amount to be reported as a loss by the County in its financial statements for the year ended June 30, 2007.

Recommendation – All contractual agreements and changes, if any, to contractual agreements should be approved by the Board of Supervisors. Although the County Engineer's memo indicated the County would eventually apply the "CRA" to all purchases from Natural Materials, L.L.C., we found no written evidence of this agreement, if any, between the County and Natural Materials, L.L.C. The agreement with Natural Materials, L.L.C. should have been approved by the Board of Supervisors.

Response –

- a. The "Credit Recovery Agreement" was a discount offer. The term agreement implies that there is an exchange of obligations. There was no such exchange. This "Agreement" was actually a discount offer. There was no obligation for the County to buy aggregate from Natural Materials. The County was given a discount to gain their business. There was also no "Credit Recovery". The discount was provided despite the fact that it was not Natural Materials that had gone bankrupt. The County was a creditor of Western Iowa Limestone, not Natural Materials.
- b. The Harrison County Engineer attempted to purchase less expensive aggregate. While there were often other suppliers of aggregate with lower list prices than the suppliers utilized by Harrison County, they were frequently unable to provide the quantity necessary. The Harrison County Engineer's Office would routinely call Schildberg's to check availability. Also, the prices referenced in the audit for Natural Materials are somewhat misleading as Harrison County was receiving seven free loads after every 100 loads purchased. Finally, there are significant cost advantages to purchasing aggregate locally. Transportation costs are significant and there is a 7% sales tax when purchasing from Nebraska.
- c. Competitive bidding
 - Bids were sought for large purchases of aggregate of a known quantity. Not all purchases should be bid. Both Crawford County and Shelby County also buy at list price for routine purchases. When a purchase of a known quantity is large enough that the County Engineer feels that it is likely to attract a discount, a bid

is sought. Unfortunately due to high demand for aggregate, suppliers did not always submit bids. One example of this is a March 2, 2006 bid request where Schildberg's declined to submit a bid. This failure to submit was documented by Ron Bell.

- A policy regarding the necessity for competitive bidding will be developed. It is acknowledged that there should be guidelines in place regarding the necessity of competitive bidding. While competitive bidding has been and continues to be utilized, there is still no policy in place. A policy will be developed that will allow for flexibility while still assuring the future utilization of competitive bidding.
- d. There was no change in the contract rate paid to Hallett. Once confronted, Hallett admitted their error and charged the contract rate, so there was no need for the Board of Supervisors to approve any change as Harrison never paid the \$ 0.25 increase.
- e. The quotation provided in the audit is misleading because it lacks context. The quote that "over time, perhaps several years, we will recover the value of the credit we lost when Western Iowa Limestone went bankrupt" is taken out of context. Not even the County Engineer, who is quoted, stands by this statement at this time. This statement was made before Natural Materials ceased providing aggregate. No one disputes that there was a loss incurred, that loss is now unrecoverable and everyone involved with this audit regrets that fact.

Conclusion – Response accepted.

- (C) Inventory – The County maintains perpetual inventory records for its rock inventory. According to work performed by the County's independent auditors, based on County records, the County's independent auditor's determined the Secondary Roads Department had an inventory of approximately a two year supply of rock, totaling approximately \$2,187,484, as of June 30, 2006.

Recommendation – We were unable to determine the reasonableness, necessity or propriety of maintaining a two year supply of rock, a portion of which resulted from the prepayments made in June 2004 and 2005. The Board should review and evaluate the amount of County funds invested in rock inventory and require the County Engineer to establish guidelines for the Board's review, consideration and approval prior to allowing additional purchases of rock.

Response –

- a. Past difficulties have revealed the desirability of keeping aggregate reserves. Prior to 1986 aggregate reserves were not kept. In 1986, the Harrison County Engineer ran out of aggregate at a time when it was greatly needed. Since that time the Engineer has attempted to keep a one to two year supply of aggregate in reserve. This allows him to wait out price increases, continue work when material is unavailable, and better utilize staff (allowing them to haul aggregate) when there is ebb in projects.
- b. The June 2006 stockpile was not excessive. The June 2006 stockpile would have lasted approximately one year had no additional purchases been made. County stockpiles contained 299,204.39 tons of aggregate at the end of June 2006. From July 1, 2006 through the end of June 2007 the County used 264,269.57 tons of aggregate (185,525.27 tons directly purchased and 78,744.30 tons from the farm to market account). This would have left only 34,934.82 tons (approximately 1 ½ months worth) of aggregate in reserve as of July 1, 2007 had no additional purchases been made.

- c. Stockpile inventories should be regularly reviewed in open session. The Harrison County Board of Supervisors feel as though they have always been kept informed of the approximate quantity of aggregate maintained by the County Engineer. The stockpile quantities are also estimated every year as part of Harrison County's annual audit. However, it is acknowledged that the Board of Supervisors should receive verbal estimates of either the approximate quantity of the stockpiles or approximately how long they are expected to last from the County Engineer's Office. These will be very informal estimates and will be provided approximately every quarter.

Conclusion – Response accepted.

- (D) Account Classification – The County's fiscal year 2006 audit report included inventory of \$2,697,152, including \$252,322 for the credit at Natural Materials, L.L.C. The credit at Natural Materials, L.L.C. is not "inventory" and should not be reported as "inventory". The credit would have been more appropriately classified as a "deposit" with a vendor. The \$252,322 credit reported as inventory instead of a "deposit" with a vendor appears to overstate inventory in the County's fiscal year 2006 financial statements and audit report. However, as previously noted in finding (B), since Natural Materials, L.L.C. suspended operations in Logan in April 2007, there was no longer any credit to recover and the County needed to record a loss of approximately \$225,000 as of June 30, 2007.

Recommendation – The County should review this with its independent auditor to ensure proper reporting in fiscal year 2007.

Response – Harrison County shall inform its independent auditor of the necessity for use of the correct category on all future audit reports.

Conclusion – Response accepted.

- (E) Neptotism and Potential Conflict of Interest – Chapter 71 of the Code of Iowa states, in part:

"It shall hereafter be unlawful for any person elected or appointed to any public office or position under the laws of the state or by virtue of the ordinance of any city in the state, to appoint as deputy, clerk, or helper in said office or position to be paid from the public funds, any person related by consanguinity or affinity, within the third degree, to the person elected, appointed, or making said appointment, unless such appointment shall first be approved by the officer, board, council or commission whose duty it is to approve the bond of the principal; provided this provision shall not apply in cases where such person appointed receives compensation at the rate of six hundred dollars per year or less."

The County's Employee Handbook, Section 2.5 "Employment of Relatives" states, in part:

"It is the County's policy to hire the best qualified person available for each position. Relatives of current employees are eligible for employment with the County, subject to limitations of state law governing the employment of relatives of public officials and employees and the terms of this policy. To avoid the appearance of favoritism and difficulties in administering discipline, the County will not hire, appoint, transfer, promote, or otherwise place an individual in a position that involves the direct supervision of, or by, a family member. For purposes of this policy, "family member" includes the individual's mother, father, grandparent, spouse, daughter, son, grandchild, great-

grandchild, niece, nephew, aunt, uncle, sister, brother, mother-in-law, father-in-law, sister-in-law, brother-in-law, daughter-in-law and son-in-law.”

The County’s fiscal year 2006 audit report included related party transactions. However, the amounts reported in the fiscal year 2006 audit report were actually transactions for fiscal year 2005. Also, the fiscal year 2006 audit report referred to Chapter 362.5 of the Code of Iowa, which pertains to City governments. The applicable County statute pertaining to conflicts of interest in public contracts is Chapter 331.342 of the Code of Iowa.

Payments made to relatives of County employees during fiscal years 2005 and 2006 are as follows:

Name and County Relative	Position Held or Work Performed	Amount
<u>Fiscal Year 2005</u>		
Lindsay Stoner, Father is Tom Stoner, County Engineer	Summer help in Engineer's Office	\$ 3,305
Cheryl Smith, Husband is Robert V. Smith, County Supervisor	Cleaning at Secondary Roads Office	2,860
Matt Busing, Father is Bruce Busing, Maintenance Employee	Demolition labor	77
Sara Bonham, Mother is Susan Bonham, County Auditor	Election duties	53
Mike Busing, Father is Bruce Busing, Maintenance Employee	Demolition labor	43
Steven Bonham, Mother is Susan Bonham, County Auditor	Election duties	41
<u>Fiscal Year 2006</u>		
Lois Hall, Wife of Dennis Hall, Secondary Roads Department	Cleaning at Human Services and Public Health Office	6,320
Cheryl Smith, Husband is Robert V. Smith, County Supervisor	Cleaning at Secondary Roads Office	2,805
Lindsay Stoner, Father is Tom Stoner, County Engineer	Summer help in Engineer's Office	1,355
Andrew Cartmill, Father is Lloyd Cartmill, Secondary Roads Department	Conservation summer help	1,329
Erika Alvis, Father is Dennis Alvis, County Assessor	Worked in Assessor's Office	778
Cole Bell, Father is Ron Bell, Secondary Roads Department	Assessor - Vehicle Maintenance	112
Steven Bonham, Mother is Susan Bonham, County Auditor	Election duties	100
Sara Bonham, Mother is Susan Bonham, County Auditor	Election duties	57

Based on the Board minutes and inquiry of the County Auditor and County Assessor, the Board of Supervisors and the Conference Board did not formally approve the hiring of the relatives of County employees as required by Chapter 71 of the Code of Iowa. Some payments were made through the payroll process while other payments were paid to “vendors”.

Recommendation – The payments to individuals for amounts less than \$600 appear to be in compliance with Chapter 71 of the Code of Iowa. Payments to individuals for amounts greater than \$600 may not comply with Chapter 71 of the Code of Iowa since the hiring of these individuals was not approved by the Board of Supervisors or the Conference Board. The County should modify its policy and implement procedures to require Board approval prior to hiring relatives of County employees to ensure compliance with Chapter 71 of the Code of Iowa. Some payments may represent a potential conflict of interest pursuant to Chapter 331.342(10) of the Code of Iowa since the cumulative total exceeds \$1,500 during a fiscal year. All payments of salary and/or wages should be made through the County’s payroll system. The County should consult the County Attorney to determine the disposition of this matter.

Response –

a. Iowa Code Chapter 71

- Iowa Code Chapter 71 was unintentionally violated.
- Lindsay Stoner’s hiring was not voted on by the Board of Supervisors, but she received no additional benefits due to her father’s employment. Both the Board of Supervisors and the County Engineer were unaware of the necessity of a formal vote approving the hiring of Ms. Stoner. However, the Board of Supervisors was aware of her hiring and had no objection to the hiring of Ms. Stoner. Ms. Stoner was paid a wage that was competitive with the wages paid to other summer help.
- There was no violation of Iowa Code Chapter 71 as applied to Cheryl Smith. Cheryl Smith is not a “deputy, clerk, or helper” to the Board of Supervisors. She provides services to the Secondary Roads Department. She is also an independent contractor and not an employee.
- There was no violation of Iowa Code Chapter 71 as applied to Lois Hall. Lois Hall is not a “deputy, clerk, or helper” to the Secondary Roads Department. She was also not appointed by her husband.
- There was no violation of Iowa Code Chapter 71 as applied to Andrew Cartmill. Andrew Cartmill is not a “deputy, clerk, or helper” to the Secondary Roads Department. He was also not appointed by his father.
- Erika Alvis’s hiring was not voted on by the Board of Supervisors, but she received no additional benefits due to her father’s employment. Both the Board of Supervisors and the County Assessor were unaware of the necessity of a formal vote approving the hiring of Ms. Alvis. However, the Board of Supervisors was aware of her hiring and had no objection to the hiring of Ms. Alvis. Ms. Alvis was responsible for a mundane job that required a high level of trustworthiness. There was another individual who had performed the same task but received higher wages. The other individual possessed other skills that commanded a higher hourly wage, so it seemed logical to have Ms. Alvis perform this mundane task at a lower wage. This allowed the other skilled individual to perform more tasks that required her unique skill set. Ms. Alvis received an hourly wage that was similar to other unskilled work wages.

- The Harrison County Employee Handbook shall be revised to include some of the language from Iowa Code Chapter 71.
- b. Iowa Code Section 331.342
- Iowa Code Section 331.342 (10) was unintentionally violated. Section 331.342 does not apply to contracts for employment, so the only violation relates to Cheryl Smith. Iowa Code Section 331.342 requires that Ms. Smith's position be open to competitive bidding and that Robert Smith not participate in the awarding of the contract. There was no vote by Mr. Smith when Ms. Smith was initially awarded her contract, but since a vote is required Robert Smith will abstain from that vote. While interest was solicited via word of mouth and at least one other known contractor was directly asked about the possibility of performing cleaning services, there seemed to be no interest expressed by others.
 - A cleaning contract for the Secondary Roads Office shall be reviewed and opened to competitive bidding with Robert V. Smith abstaining from the vote.

Conclusion – Response accepted. The Board's lack of knowledge of this issue does not relieve it of its fiduciary responsibilities.

- (F) Invoices – The Secondary Roads Department (Department) enters its claims into the computer system for payment by the County Auditor. Secondary Roads Department invoices are not provided to the County Auditor. Instead, the County Auditor pays Department claims from a list of claims after approval by the Board of Supervisors. The Secondary Roads Department retains the invoices and supporting documentation for expenditures from that Department. Twenty-five (25) of twenty-seven (27) County invoices for the Secondary Roads Department tested were not cancelled to prevent possible re-use and/or duplicate payment.

Recommendation – The County should implement procedures to ensure all invoices are properly cancelled to prevent possible re-use and/or duplicate payment. While not required, internal control over the Secondary Roads Department claims process would be enhanced if invoices and supporting documentation were provided to the County Auditor for review and cancellation prior to payment of the claims. The invoices and supporting documentation could be returned to the Secondary Roads Department for retention, if desired.

Response –

- a. The Board of Supervisors receives all invoices. The invoices are entered into the computer system and the invoice or the first page of multi-page invoices is marked "posted" to indicate to the Secondary Roads Department that the invoices have already been entered into the system. A claim list is then printed and the invoices are attached. The packet is then submitted to the County Engineer for approval. He then marks the claim list indicating that he has reviewed and approved the claims. The packet is then forwarded to the Board of Supervisors for further review and approval.
- b. The recommendation of the State Auditor will be adopted. The current procedure will be changed. After the County Engineer reviews the claims he will submit them to the County Auditor who will review and present them to the Board of Supervisors. The Board of Supervisors will then allow or disallow the claim. The County Auditor will then hold all approved claims until payment is issued. The County Auditor will mark the invoices as paid and will return the invoices to the Office of the County Engineer.

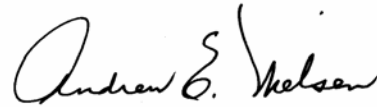
Conclusion – Response accepted.

Harrison County

Staff

This reaudit was performed by:

Susan D. Battani, CPA, Director
Donna F. Kruger, CPA, Manager
Nancy F. Curtis, CPA, Senior Auditor II

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State