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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ October 2, 2003

Contact: David Vaudt
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Auditor of State David A. Vaudt today released a reaudit report on the City of Dyersville, Iowa for the period July 1, 2001 through June 30, 2002. Selected transactions and information for the periods July 1, 2000 through June 30, 2001 and July 1, 2002 through June 30, 2003 were also reviewed, as noted in the reaudit report. The reaudit was performed as a result of a petition filed with the Office of Auditor of State by a group of residents of the City of Dyersville.

The report includes findings pertaining to the City's participation in the National Association for the Exchange of Industrial Resources (NAEIR) program. The NAEIR program acts as a clearinghouse for excess inventory between companies and non-profit entities. Vaudt recommended policies and procedures be established for properly operating the program if the City is going to continue participating in the program. The policies and procedures should provide for adequate internal controls to safeguard merchandise on hand, an adequate record keeping system and procedures for ordering and appropriately distributing merchandise to eligible recipients.

Vaudt also recommended the City establish or modify policies and procedures regarding nepotism, approval of time worked, including over-time, use of city-owned credit cards, and use of City vehicles. The City should also strengthen controls to help ensure compliance with statutory requirements and established City policies and procedures. In addition, Vaudt recommended the City consult with legal counsel to determine the disposition of transactions with a business in which a City Council Member has an ownership interest. The City responded favorably to all items included in the reaudit report.

Copies of the report are available for review in the Office of Auditor of State and in the City Clerk's Office. The report is also available on the Auditor of State's web site at: www.state.ia.us/government/auditor/reports.

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CITY OF DYERSVILLE
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2001 THROUGH JUNE 30, 2002

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City of Dyersville

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|-----------------|---------------------|
| Alan T. Gibbs | Mayor | Jan 2004 |
| Michael J. English | Council Member | Jan 2004 |
| Raymond J. Sauser | Council Member | Jan 2004 |
| Robert C. Platz | Council Member | Jan 2006 |
| Kevin Klostermann | Council Member | Jan 2006 |
| Eileen Huberty | Council Member | Jan 2006 |
| Dave Van Dee | Administrator | Indefinite |
| Susan L. Ertl | Clerk/Treasurer | Indefinite |
| Marc Casey | Attorney | Indefinite |

City of Dyersville



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Independent Auditor's Report on Reaudit

To the Honorable Mayor and
Members of the City Council:

We received a request to perform a reaudit of the City of Dyersville under Chapter 11.6(4) of the Code of Iowa. As a result, we reviewed the audit report and workpapers of the City's independent auditing firm for the fiscal year ended June 30, 2002. Based on that review and other information provided to and obtained by us, we determined that a partial reaudit was necessary in order to further investigate specific issues identified in the request for reaudit or through our preliminary review. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Dyersville for the period July 1, 2001 through June 30, 2002. We also reviewed selected transactions and information for the periods July 1, 2000 through June 30, 2001 and July 1, 2002 through June 30, 2003, as noted.

The procedures we performed are summarized as follows:

1. We inquired about potential business transactions between the City and City officials and employees, and we obtained the names of known business affiliations involving City officials. We reviewed selected transactions and supporting documentation from those identified vendors.
2. We reviewed the City's local option sales tax referendum and the City's records for compliance with the referendum. We reviewed selected local option sales tax collections for proper recording and allocation in accordance with the referendum.
3. We reviewed the City's Capital Improvements Fund, including payments for remodeling Memorial Hall. We also reviewed whether the public hearing and bidding requirements were followed by the City as required by Chapters 384.96, 384.102 and 362.3 of the Code of Iowa for the contract for remodeling Memorial Hall. We reviewed the City Council minutes to determine whether the City Council had approved the project and contract.
4. We inquired whether the City had a policy regarding nepotism. We also inquired whether there were relatives of City officials working for the City. We reviewed the City's personnel policies regarding creating new positions, setting salaries and hiring full-time and part-time staff. We also reviewed selected payroll records for payments to relatives of City officials and the Council minutes approving their hiring and salary for compliance with Chapter 71 of the Code of Iowa.
5. We reviewed the City's participation in the National Association for the Exchange of Industrial Resources (NAEIR) Program (Program). We reviewed the Program regulations for compliance by the City. We inquired whether the City had any policies and procedures in place for operating the Program and whether records of the receipt and distribution of merchandise and an inventory of the merchandise on hand were maintained.

6. We reviewed the City's participation in the Federal Emergency Management Agency's (FEMA) Hazard Mitigation Grant. We reviewed the grant agreement between the City and FEMA and selected agreements between the City and homeowners being relocated from property within the flood plain.
7. We reviewed the City's personnel policies for accumulating, using and recording compensatory time. We also reviewed policies regarding payout for unused vacation and compensatory time. We reviewed the collective bargaining agreement. We also reviewed the printout for the annual vacation payout in December 2002.
8. We reviewed the City's personnel policies for earning overtime and the City's internal controls for time card/timesheet approval. We also reviewed selected time cards.
9. We reviewed the City's policies for use of City-owned credit cards and certain charges to those cards for propriety and proper supporting documentation.
10. We reviewed the City's car allowance agreement with the City Administrator and the City's policy for travel reimbursements. We reviewed selected mileage claims submitted by the City Administrator for supporting documentation and propriety. We reviewed Social Security Administration and IPERS regulations to determine whether the car allowance was taxable income to the City Administrator.
11. We reviewed the City's budgets for fiscal years 2003 and 2004 for compliance with Chapter 384 of the Code of Iowa.
12. We reviewed the City's policy for vehicle usage by City employees, including whether employees were allowed to have City vehicles at their residences overnight.

Based on the performance of the procedures described above, we have various recommendations for the City. Also, certain instances of non-compliance with the Code of Iowa were noted. Our recommendations and the instances of non-compliance are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, no other items of non-compliance were 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 City of Dyersville, additional matters might have come to our attention that would have been reported to you.

We would like to acknowledge the assistance extended to us by personnel of the City of Dyersville. 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

July 31, 2003

Detailed Findings

City of Dyersville

Detailed Findings

July 1, 2001 through June 30, 2002

- (A) Business Transactions - Council Member Klostermann has an ownership interest in Computer Doctors Inc. in Dubuque. The City has purchased various computers and supplies from this vendor. The payments made to Computer Doctors Inc. during fiscal years 2002 and 2003 were \$2,359 and \$6,355, respectively. These purchases were initiated by the City Administrator, Police Chief or the Fire Chief and all were approved by the City Administrator before being presented to the City Council. When Council Member Klostermann was present at nine City Council meetings at which disbursements to Computer Doctors Inc. were approved, he voted to approve the disbursements. He was absent from two other meetings at which disbursements to Computer Doctors Inc. were approved, so he did not vote on those disbursements. None of the votes made by Council Member Klostermann were the decisive vote for approval or denial for payment of the disbursement.

Mayor Gibbs is part owner of Gibbs Construction, which has been involved with the Matthias Hoffman Library project. Tricon Construction was the general contractor awarded the project through a competitive bid process, with a project cost of \$1,060,000. Tricon subcontracted with Gibbs Construction for exterior work on the building for a total of \$27,610.

Recommendation - In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions related to the construction would not represent a conflict of interest because the general contractor was awarded the contract through a competitive bid process. Subcontracts awarded by the general contractor are not subject to the provisions of Chapter 362.5 of the Code of Iowa.

The transactions with Computer Doctors Inc. may represent a conflict of interest since the total transactions exceeded \$1,500 during each fiscal year and the purchases were not competitively bid.

Also, in accordance with various opinions of the Attorney General, elected officials should abstain from voting on issues where actual or potential conflicts of interest exist.

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

Response - Legal counsel is being consulted to determine the disposition of this matter. City Administration is currently drafting a proposed disclosure letter to be completed and signed by all city officials and employees to disclose any potential conflicts of interest.

Conclusion - Response accepted.

- (B) Nepotism - The City Administrator's wife worked part-time at City Hall to fill in for an employee on medical leave and the City Administrator's son-in-law worked as a part-time police dispatch operator. In addition, the Mayor's wife was employed as a park and recreation groundskeeper and the Mayor's son and daughter were employed as seasonal part-time lifeguards at the pool/aquatic center.

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 City does not have a personnel policy regarding nepotism.

On October 21, 2002, the City Council approved the hiring of the City Administrator's son-in-law, based on the Police Chief's recommendation, and each May the City Council approved the hiring and wages for all pool/aquatic center employees and the groundskeeper, including the Mayor's wife, son and daughter, based on the recommendation of the Park and Recreation Board and its Director.

City officials represented that the City Clerk approved hiring the City Administrator's wife. However, there was no formal approval documented in the City Council minutes for the employment of the City Administrator's wife and it is unclear whether the City Clerk is authorized by the City Council to hire individuals. The City Administrator's wife was paid \$514 in fiscal 2001 and \$958 in fiscal 2002.

Recommendation – The payments to the City Administrator's wife in fiscal 2001 appear to be in compliance with Chapter 71 of the Code of Iowa, but the payment in fiscal 2002 exceeds the statutory limit. However, based upon the City officials' representations, the payments to the City Administrator's wife do not violate Chapter 71 of the Code of Iowa regarding nepotism since the individual was hired by the City Clerk.

To avoid similar situations in the future, the City should develop a personnel policy regarding nepotism and ensure that the City Council formally approves the hiring and wages of all part-time or full-time employees.

Response – The City will develop a personnel policy regarding nepotism. The City Council will monitor that it formally approves the hiring and wages of part-time and full-time positions and provide for hiring for temporary or emergency positions.

Conclusion – Response accepted.

- (C) National Association for the Exchange of Industrial Resources Program - The National Association for the Exchange of Industrial Resources (NAEIR), located in Galesburg, Illinois, acts as a clearinghouse for excess inventory between companies and non-profit entities. After paying an annual membership fee and handling charges, the nonprofit entities are allowed to receive a variety of merchandise for subsequent distribution to the ill, needy or infants (minors).

Entities receiving goods from NAEIR must acknowledge that the merchandise is to be used in accordance with the provisions of Internal Revenue Service (IRS) Code Section 170(e)(3). The merchandise is not to be bartered, traded or sold, and it is to be used for the care of the ill, needy or infants (minors). The entities are also informed that records are to be maintained by the entity of all transactions in the event the IRS wishes to verify the transactions.

During fiscal years 2002 and 2003, the City spent a total of \$3,277, for the membership fees, handling and some merchandise. City employees routinely traveled to Galesburg, Illinois, to pick up the merchandise. The City has used merchandise, including a booster pump and office supplies, in the daily operations of the City.

During our review of the program, the following items were noted:

- 1) The City does not have any written policies and procedures regarding the operation of the NAEIR program, including controls over who may order from NAEIR, quantities and intended use of the products ordered and approval for orders of merchandise. Also, the City has not determined eligibility requirements for appropriately distributing merchandise to eligible recipients.
- 2) The City does not maintain adequate records to reflect merchandise ordered, received and distributed for the program.
- 3) The City does not maintain an inventory system for merchandise on hand.
- 4) City employees have been allowed to purchase merchandise from the program for personal use. Two employees have since returned the merchandise and received a refund from the City. A former employee purchased items totaling \$23 which were not returned to the City.
- 5) The City does not have adequate internal controls in place to operate the program properly or safeguard merchandise on hand.
- 6) According to NAEIR officials, the City does not meet the definition of a nonprofit organization or school and, accordingly, use of merchandise by the municipality in daily operations rather than use for City programs benefiting the ill, needy or infants (minors) is a gray area. NAEIR officials recommended that the City consult legal counsel for clarification.

Recommendation – If the City intends to continue participating in the NAEIR program, policies and procedures should be established to properly operate the program, including controls over who may order from NAEIR, quantities and intended use of the products ordered, and approval for orders of merchandise. These should also include adequate internal controls for safeguarding merchandise on hand, an adequate record keeping system and procedures for receipt and appropriate distribution of merchandise to eligible recipients. The City should contact NAEIR and/or consult legal counsel to clarify the City's use of NAEIR merchandise in daily operations rather than use for City programs benefiting the ill, needy or infants (minors).

Response – The City intends to establish policies and procedures for operating the NAEIR program which will incorporate the reaudit suggestions. Additionally, the City is in the process of consulting both NAEIR and legal counsel to clarify the City's use of NAEIR merchandise in daily City operations.

Conclusion – Response accepted.

- (D) Time Cards – All non-salaried employees complete time cards to record hours worked each week, including any overtime, which are approved by their Department Supervisors. The City’s personnel policy does not specifically state whether time cards need to be punched by the time clock or be manually completed. Actual time cards reflected both use of the time clock and manual completions. The five salaried employees complete a timesheet that does not include any hours because the employees are not eligible for overtime or compensatory time.

According to the employee handbook, prior approval for overtime is required. However, approval of overtime was not documented as required. The salaried employees, including the City Clerk, approve time cards and timesheets, and the City Clerk has been allowed to approve her own timesheet. In addition, the City Clerk enters the data into the payroll system.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review the operating procedures for the payroll system to obtain the maximum internal control possible under the circumstances. Employees should not be allowed to approve their own time records. The City should determine and document employee requirements for recording time worked, including consistent use of the time clock, and City policy should be revised to require documentation of the prior approval of overtime. Procedures should be established to ensure compliance with the City’s policy.

Response – The City will revise its policy to provide documentation of prior approval of overtime, where practicable. Furthermore, the City will adopt a policy providing the circumstances under which a time clock will be utilized and the procedures to be employed to insure consistent use of the time clock under such circumstances. A formal written policy will be adopted to continue the practice that employees do not approve their own time cards.

Conclusion – Response accepted.

- (E) Credit Cards – On July 15, 2002, the City established a policy governing the use of City-owned credit cards. The policy allowed credit cards to be issued to the City Administrator, Chief of Police, Public Works Supervisor and the City Clerk. The policy states that a credit card may be utilized while the employee is on official City business and specifically allows charges for the following purchases: “emergency vehicle maintenance, gasoline, meal expense (excluding alcohol or liquor) and lodging.” The policy also sets the credit limit at \$1,250 per card. All receipts from credit card use are to be turned into the City Clerk as soon as possible. The credit card invoice separates the charges by card/employee.

Based on our review of selected credit card purchases during fiscal years 2002 and 2003, we noted several purchases for items outside the City’s policy, including \$1,417 in airfare charges, \$114 in telephone charges at hotels and \$1,243 for various miscellaneous items. The airfare charges were subsequently reimbursed to the City through the FEMA grant. Items supported by vendor invoices appeared to be allowable City expenditures. However, vendor invoices were not available for many of the purchases. We also noted \$245 in charges that would be in compliance with the policy but were not supported by documentation. Our review also found that the credit card statement shows the credit limit is \$1,300 per card, which is different than the limit stated in the policy. Credit cards were used prior to the credit card policy established on July 15, 2002.

Recommendation – The City should enforce its policy regarding required supporting documentation and use of City-owned credit cards for purchases or modify policies to allow for additional City purchases, if desired. The policy could be modified to clarify the

types of expenses allowed to be charged, the dollar limit of allowable expenses and the documentation required to be submitted to support the expense incurred. The City should also determine the credit limit needed and ensure that the credit limit provided by the credit card company does not exceed the amount specified in City policy.

Response – The current policy will be expanded to reflect the actual use of the cards as needed for the conduct of City business. The City will continue its current policy regarding supporting documentation with revised procedures for monitoring receipts. Further, the City will conform the credit card limits to the policy limits and advise the credit card company that the credit limit may not be changed unilaterally by the company.

Conclusion – Response accepted.

- (F) Car Allowance/Travel Reimbursements – The City Administrator’s employment agreement states that the City will provide a car allowance of \$300 per month to use his personal car to conduct City business within Dubuque and Delaware counties. It also states the City will reimburse him for mileage for City related trips made outside of that area. The employee handbook does not state the requirements for documentation on a travel claim. However, based on the expense reports observed, the date of travel, reason, total miles, rate per mile and a signature are included. Receipts for meals, lodging and parking were also attached to the expense reports.

One instance was noted where it appears the City Administrator charged mileage while also using the City credit card for a \$19 gasoline purchase. However, City employees represented this charge was for fuel purchased for a new City vehicle purchased and picked up in Des Moines. This information was not documented on the expense report.

Recommendation – The City should determine specific requirements for expense reports to provide consistency between the reports submitted by various employees. The City should also review credit card statements and related documentation to ensure an employee does not charge a purchase on the credit card and on an expense report and ensure sufficient documentation and/or explanation accompanies the claim.

Response – The City will adopt a standard reimbursement form to be used by all officials or employees seeking expense reimbursement. The City will continue to review credit card statements and expense reports to ensure there is no duplication.

Conclusion – Response accepted.

- (G) Vehicle Usage – The City has a policy governing use of City vehicles. According to the policy, a City vehicle may be taken home if the employee is required to perform City work outside of normal daytime hours. In addition, the Police Chief may authorize police officers to take vehicles home after their respective shift or vehicles can be located at an officer’s residence prior to the start of their next shift.

In accordance with an Attorney General’s opinion dated May 13, 1983, private use of public property is permissible only if the private use is incidental to a public purpose and heads of agencies should promulgate rules establishing guidelines for mixed public and private usage of public-owned property. The City’s policy does not address incidental private use of City vehicles. In addition, City policy and procedures should be modified to ensure compliance with Internal Revenue Service regulations governing personal use of vehicles.

Recommendation – The City should modify its policy to address incidental private use of City vehicles. In addition, City policy and procedures should be modified to ensure compliance with Internal Revenue Service regulations governing personal use of vehicles.

Response – The City will adopt a Resolution setting out the circumstances where mixed private and public use is permissible when a public purpose is served. The City will consult its independent auditor to ensure compliance with Internal Revenue Service Regulations governing personal use of vehicles.

Conclusion – Response accepted.

City of Dyersville

Staff

This reaudit was performed by:

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