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NEWS RELEASE

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FOR RELEASE July 29, 2013

Auditor of State Mary Mosiman today released a report on a special investigation of the City of Farmington for the period July 1, 2009 through November 30, 2012. The special investigation was requested by City officials as a result of concerns identified regarding certain financial transactions while the former City Clerk, Nichole Jarvis, was on an extended leave. Ms. Jarvis was terminated from employment on November 12, 2012.

The special investigation identified \$37,018.74 of improper disbursements and obligations and \$210,000.00 of estimated utility billings which were not billed, were not collected and/or were not properly deposited by the former City Clerk, for a total loss to the City of approximately \$247,000.00. Because adequate records for receipts and disbursements were not available, it was not possible to determine if additional amounts were improperly disbursed or additional collections were not properly deposited.

The improper disbursements identified include \$36,257.31 of late fees, penalties and interest charges incurred by the City because the former City Clerk did not remit payroll tax obligations or pay certain vendors in a timely manner. The improper disbursements and obligations identified also include \$761.43 of personal purchases, such as groceries, a vacuum cleaner, carpet cleaner, pet stain and odor detergent and party supplies, made with a City credit card.

The report also includes recommendations to the City to strengthen the City's internal controls, such as improving segregation of duties, prohibiting the signing of blank checks and performing bank reconciliations on a monthly basis. In addition, the City should perform reconciliations of utility billings and collections for each billing period, improve procedures for collection of rental fees and ensure time cards are completed in accordance with City policy.

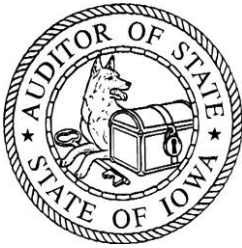
Copies of the report have been filed with the Van Buren County Sheriff's Office, the Division of Criminal Investigation, the Van Buren County Attorney's Office and the Attorney General's Office. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/specials.htm>.

# # #

**REPORT ON SPECIAL INVESTIGATION  
OF THE  
CITY OF FARMINGTON  
FOR THE PERIOD  
JULY 1, 2009 THROUGH NOVEMBER 30, 2012**

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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 and at your request, we conducted a special investigation of the City of Farmington. We have applied certain tests and procedures to selected financial transactions of the City for the period July 1, 2009 through November 30, 2012. Based on discussions with City personnel and a review of relevant information, we performed the following procedures for the period specified.


- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Reviewed the minutes of City Council meetings for significant actions.
- (3) Reviewed the activity in the City's bank accounts to identify any unusual activity. We also examined deposit slips and related documents for propriety.
- (4) Scanned all checks issued from the City's checking accounts and examined documentation for certain payments to determine if payments were approved, were properly supported and were for appropriate purposes.
- (5) Examined all payroll checks issued to the former City Clerk, Nichole Jarvis, to determine propriety.
- (6) Examined vendor billings and reports from the Internal Revenue Service (IRS) to identify late fees, penalties and interest charges paid by the City. Reports from the IRS included information through May 2013.
- (7) Reviewed the activity in the City's Wal-Mart and State Central Bank credit card accounts to identify any unusual activity or personal purchases.
- (8) Confirmed payments made to the City by the State of Iowa from July 1, 2011 through November 30, 2012 to determine if they were properly deposited to the City's bank accounts.
- (9) Examined utility billing and collection records to determine if utility billings were properly prepared, sent, collected and deposited.
- (10) Compared utility deposits during the period of Ms. Jarvis' employment to utility deposits for the period after her employment to determine if the amount of deposits changed significantly.
- (11) Reviewed the City's Annual Financial Reports for the fiscal years ended June 30, 2010 through June 30, 2012 to determine if the cash balance was accurately reported.
- (12) Obtained and reviewed Ms. Jarvis' personal bank statements to identify the source of selected deposits.


These procedures identified \$37,018.74 of improper disbursements and obligations and \$210,000.00 of estimated utility billings which were not billed, were not collected and/or were not properly deposited, for a total loss to the City of approximately \$247,000.00. We were unable to determine if additional amounts were improperly disbursed or additional collections were not properly deposited because adequate records for billings, receipts and disbursements were not available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibit A** 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 Farmington, other matters might have come to our attention that would have been reported to you.

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

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

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

June 4, 2013

City of Farmington

Investigative Summary

**Background Information**

The City of Farmington is located in Van Buren County and has a population of approximately 650. The City employs a City Clerk, 2 maintenance workers and a married couple who operate the City's park, which features fishing, picnicking and camping facilities. Nichole Jarvis became the City Clerk in May 2007. As the City Clerk, Ms. Jarvis was responsible for the following functions:

- 1) Receipts – opening mail, preparing and collecting utility billings, preparing deposits, posting to the accounting records and making deposits,
- 2) Disbursements – purchasing, presentation of proposed disbursements to the City Council for approval, preparing checks, posting to accounting records, maintaining supporting documentation and distributing checks,
- 3) Payroll – posting hours from the timecards to accounting records and preparing payroll checks,
- 4) Reporting – preparing City Council minutes and financial reports, including a monthly Clerk's report and the Annual Financial Report and
- 5) Bank accounts – reconciling monthly bank statements to accounting records.

Ms. Jarvis was expected to maintain regular City Hall business hours of 8:00 a.m. until 4:30 p.m. each Monday through Friday, but was allowed an hour for lunch each day. In accordance with Resolution Number 2010-7, City employees have a set salary and an expected number of work hours. The established City Hall business hours less the hour lunch break each work day would provide for a 37.5 hour work week for Ms. Jarvis during weeks there was not a City Council meeting. However, the resolution specifies Ms. Jarvis was expected to work 40 hours per week. According to the Mayor, she typically worked only 72-74 hours during each 2-week pay period.

The City's primary revenue sources include local option sales tax and road use tax from the State of Iowa and property tax collected by Van Buren County and remitted to the City. Revenue is also received throughout the year from utility collections for water, garbage and sewer fees assessed to each household and business which receives service. The City also has a community center which can be rented for meetings or other events, such as weddings and family gatherings.

In addition, the City operates Indian Lake Park. There are cabins in the Park which can be rented for \$40.00 to \$60.00 per night, recreational vehicle hookups for \$13.00 to \$18.00 per night, tent camp sites for \$8.00 per night and canoe rentals for \$5.00 per hour or \$30.00 per day. A stone lodge and several open-air shelters are also available to host parties and family gatherings for \$30.00 per day and \$10.00 per day, respectively. Iowa DNR hunting and fishing licenses can also be purchased at the Park. The staff at the Park collect fees and make deposits directly to a City bank account. The collections are not initially deposited with the City Clerk and the City Clerk does not maintain any records for collections received at the Park. However, the City Clerk prepares payments for obligations incurred for the Park.

The City maintains 2 checking accounts and a savings account. The savings account is used by the City for excess funds or for funds the City wants to set aside. Of the 2 checking accounts, 1 is the primary operating account of the City and the other is for the Library's operations.

According to City officials, all disbursements, including payroll, are to be made by check. All disbursements are to be supported by invoices or other support obtained by or submitted to the City Clerk. Each month, the City Clerk is to prepare a listing of bills and provide it to the City Council for approval. After the City Council approves the bills, the City Clerk is to prepare and sign the checks. The checks are to be counter-signed by the Mayor. According to the former Mayor and the current Mayor, both signed blank checks.

On a monthly basis, Ms. Jarvis was to provide the City Treasurer, Mary Jo Smith, with bank statements, utility sales reports, check stubs and related invoices and deposit slips so the City Treasurer could balance the City's books. According to Ms. Smith, she recorded the City's financial transactions using an accounting software program based on the transactions listed in the bank statements and records Ms. Jarvis provided to her. After she recorded all of the transactions, she stated she created the Treasurer's Report for the City Council and then returned all supporting documentation to Ms. Jarvis. Ms. Smith resigned from the City Treasurer's position in August 2012 and Becky Fry was hired by the City Council as her replacement in September 2012.

According to Ms. Fry and the Mayor, they asked Ms. Jarvis for certain financial records a number of times between the time Ms. Fry was hired in September 2012 and October 15, 2012. However, Ms. Jarvis never provided the information requested. Due to a health concern, Ms. Jarvis did not come to work on October 15, 2012 and began medical leave on that date. Because it appeared Ms. Jarvis might not return to her duties for some time, the Mayor and another City employee worked in City Hall beginning October 15, 2012 to complete Ms. Jarvis' job duties and organize records within City Hall which had not been properly filed. During this process, they discovered the check register did not match actual checks issued, electrical service was about to be turned off at City properties because the monthly bills had not been paid and approximately \$15,000.00 of accumulated late fees were identified.

As a result of these concerns, City officials contacted its insurance agent and, on the advice of the insurance agent, a CPA firm was contacted to determine what, if any, improprieties existed. After performing limited procedures, a representative of the CPA firm identified several irregularities, including lack of cash being deposited and a variance of approximately \$44,000.00 when payments recorded in the City's utility software program were compared to bank deposits for the period September 1, 2011 through September 30, 2012. It was also determined utility bills from the first part of 2012 were stacked on a table in City Hall and had not been mailed. Unsecured utility collections were also found throughout City Hall which should have been deposited.

As a result of the concerns identified, City officials terminated Ms. Jarvis' employment on November 12, 2012 and hired Ms. Fry as the City Clerk on the same date. City officials also requested the Office of Auditor of State conduct an investigation of the City's financial transactions. As a result of that request, we performed the procedures detailed in the Auditor of State's Report for the period July 1, 2009 through November 30, 2012.

### **Detailed Findings**

These procedures identified \$37,018.43 of improper disbursements and obligations and \$210,000.00 of estimated utility billings which were not billed, were not collected and/or were not properly deposited for the period July 1, 2009 through November 30, 2012, for a total loss to the City of approximately \$247,000.00.

The improper disbursements and obligations identified include \$36,257.31 of late fees, penalties and interest charges incurred by the City because the former City Clerk did not remit payroll taxes and pay certain vendors in a timely manner. The improper disbursements and obligations



identified also include \$761.43 of personal purchases, such as groceries and party supplies, made with a City credit card.

Because adequate records for receipts and disbursements were not available, it was not possible to determine if additional amounts were improperly disbursed or additional collections were not properly deposited. All findings are summarized in **Exhibit A** and a detailed explanation of each finding follows.

### **IMPROPER DISBURSEMENTS AND OBLIGATIONS**

We scanned images of all checks issued from the City's primary checking account, the Library checking account and disbursements from the City's savings account for the period July 1, 2009 through November 30, 2012 for unusual disbursements or disbursements which were personal in nature. We also reviewed any available documentation related to certain payments to determine if they were appropriate. Supporting documentation was not available for some of the disbursements. As a result, we discussed the disbursements which were unusual in nature with City officials to determine if they were appropriate.

Based on our review of the available supporting documentation, the vendor, the frequency and amount of payments and discussions with the Mayor, we classified the payments as reasonable or improper. Payments which appeared consistent with City operations based on the vendor, the frequency and/or the amount of the payment were classified as reasonable. Payments were classified as improper if they appeared to be personal in nature or were not reasonable for the City's operations.

We also reviewed the payroll checks issued to Ms. Jarvis for propriety. Time cards were not available for Ms. Jarvis, but the Mayor stated she typically worked 72-74 hours per pay period. Based on the hours City Hall is open during the week and allowing for lunch hours, this is a reasonable number of hours per pay period for Ms. Jarvis. Using the estimated 74 hours per pay period provided by the Mayor, Ms. Jarvis' authorized hourly pay rate and appropriate amounts for withholdings, such as FICA, state withholding tax and IPERS contributions, we determined the amounts Ms. Jarvis received for her bi-weekly paychecks were reasonable. We also determined the number of paychecks issued to Ms. Jarvis was appropriate.

The improper disbursements and obligations we identified are explained in more detail in the following sections of the report.

**Late Fees, Penalties and Interest Charges** – As previously stated, the Mayor and Ms. Fry determined the City had incurred certain late fees, penalties and interest charges and electrical service was about to be turned off at City properties because the monthly bills had not been paid.

We reviewed a list of late fees, penalties and interest charges prepared by the Mayor and Ms. Fry and traced the amounts listed to supporting documentation. We also reviewed certain vendor billings to identify any additional late fees, penalties and interest charges incurred by the City. In addition, we reviewed certain reports obtained from the Internal Revenue Service (IRS).

It was Ms. Jarvis' responsibility as the City Clerk to prepare and issue payments in a timely manner. However, a significant amount of late fees, penalties and interest charges were incurred by the City because she did not issue all payments in a timely manner. The late fees, penalties and interest charges are summarized in **Table 1**. Some of the amounts are discussed in greater detail following the **Table**. The \$36,257.31 of late fees, penalties and interest charges incurred by the City are included in **Exhibit A** as improper disbursements and obligations.

**Table 1**

<b>Vendor</b>	<b>Amount</b>
Internal Revenue Service (IRS)	\$ 19,769.09
Rathbun Water - City	7,984.00
Rathbun Water – Indian Lake Park	313.95
Iowa sales tax	2,538.08
IPERS	1,645.54
Alliant Energy	1,273.99
Iowa withholding tax	822.50
Iowa Workforce Development	739.63
Casey’s General Store	438.61
Southern Iowa Electric	339.00
State Central Bank credit card	112.20
All American Pest Control	94.93
U.S. Cellular	85.00
Wal-Mart credit card	44.60
Mt. Hamill Elevator	39.36
Access Energy	16.83
Total	<u>\$ 36,257.31</u>

The City also incurred \$649.54 of late fees for an amount owed to Lawson Construction. However, the late fees were forgiven. Because the City did not pay the late fees, the \$649.54 is not included in **Table 1** or **Exhibit A**.

- IRS – As the City Clerk, it was Ms. Jarvis’ responsibility to prepare and distribute payroll checks. She was also responsible for filing 941 reports (Employer’s Quarterly Federal Tax Returns) with the IRS and remitting the payroll tax withheld from the City employees’ pay and the City’s share of payroll tax to the IRS in a timely manner.

Because City officials were not able to locate any recent 941 reports and there was a concern Ms. Jarvis had not paid all of the City’s obligations, the Mayor contacted the IRS and learned the last 941 report filed by the City was for the 1<sup>st</sup> quarter of fiscal year 2010. As a result, the City owed the IRS the employees’ and the employer’s share of payroll tax for the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2010, all quarters of 2011 and the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2012, in addition to the related late fees, penalties and interest charges. On December 3, 2012, the City remitted \$46,872.25 and the related 941 reports to the IRS. The \$46,872.25 payment to the IRS included only withholding tax owed and did not include any penalties or interest incurred by the City.

By reviewing the City’s bank statements, we determined Ms. Jarvis issued a number of payments to the IRS between May 17, 2010 and October 12, 2012, the last day she worked prior to her medical leave and subsequent termination. Most of the checks were described in the memo portion of the checks as “941”. It appeared to the City Treasurer, who reviewed the payments, the checks were for the employees’ and the employer’s shares of payroll tax. However, based on information obtained from the IRS, the payments were for various late fees, penalties and interest charges incurred by the City because the 941 reports and the related payments had not been remitted.

Using reports obtained from the IRS, we determined the City paid \$10,389.09 of late fees, penalties and interest charges to the IRS as of May 31, 2013 for the 941 reports

which were not remitted by Ms. Jarvis in a timely manner. In addition, the City established a 24-month payment plan with the IRS in February 2013 to repay the remaining balance of late fees, penalties and interest charges. The plan requires a \$469.00 monthly payment by the City. The City has an outstanding balance of \$9,380.00 owed to the IRS as of May 31, 2013. The \$10,389.09 already paid to the IRS and the \$9,380.00 obligation for future payments are included in **Table 1**.

As previously stated, a number of records were found in disarray at City Hall when Ms. Jarvis began her medical leave in October 2012. When City officials attempted to file the records properly, they determined several bank statements could not be located at City Hall. As a result, they obtained copies of the missing bank statements and images of checks issued from the City's primary checking account directly from the bank. According to City officials, Ms. Jarvis obtained the City's bank statements online, but statements had been printed and were provided to the City Treasurer on a periodic basis.

While City officials were working to properly file records left in disarray, the Mayor and Ms. Fry identified a bank statement which appeared different from other bank statements they had located at City Hall. The unusual bank statement was printed in color ink. The City did not have a color printer at the time the statement was discovered. When the Mayor and Ms. Fry compared the color copy of the bank statement to the statement obtained directly from the bank, they determined the image for check number 14502 had been altered on the color copy. Copies of the altered check and the image of the check obtained from the bank are included in **Appendix 1**.

As illustrated by the **Appendix**, the altered image of check number 14502 shows a \$1,623.91 payment was issued to the Internal Revenue Service. The memo portion of the check states the payment was for "941". However, the image obtained directly from the bank shows the \$1,623.91 payment was actually issued to B&B Propane Houghton. The payee is a vendor from whom the City purchased propane.

Check numbers 14502 and 14503 cleared the City's checking account on July 25, 2012. Ms. Jarvis issued check number 14503 to B&B Propane Houghton for \$1,248.00. It appears Ms. Jarvis split the payments to the vendor and modified the payee on the image of check number 14502 so it appeared to the City Treasurer she had paid payroll tax when she actually had not. Ms. Jarvis confirmed this is why she altered the image during an interview with a law enforcement officer.

Check numbers 14502 and 14503 were not included in the bill listings approved during the July or August 2012 City Council meetings. However, the listings included a \$354.24 payment to B&B Propane Houghton and a \$1,965.77 payment to the IRS for August 2012.

- The City purchases its water from Rathbun Regional Water Association (RRWA) and the amounts paid are based on actual usage for the month. Based on reports we obtained from the City for RRWA for the period December 1, 2007 to October 15, 2012, the City paid \$7,984.00 of penalties to RRWA for late payments related to water usage at City owned properties and \$313.95 of penalties for properties at the City-owned Indian Lake Park. As City Clerk, Ms. Jarvis was responsible for paying City obligations in a timely manner.
- The City is responsible for remitting state payroll tax withheld from employee payroll and the employer's share of payroll tax to the Iowa Department of Revenue on a quarterly basis. In addition, any sales tax collected by the City for water, sewer and garbage services are to be remitted to the Iowa Department of Revenue on a quarterly basis. For the period November 1, 2009 to June 30, 2012, the City accrued and paid

\$2,538.08 of penalties and interest charges for the late filing of sales tax returns and \$822.50 of penalties and interest charges for the late filing of payroll withholding tax returns. As City Clerk, Ms. Jarvis was responsible for the timely filing of all tax documents and the timely disbursement of all taxes owed to the State of Iowa.

- Based on reports we obtained from IPERS for the period July 1, 2009 through November 30, 2012, we determined the City incurred \$1,645.54 of late fees and interest charges because Ms. Jarvis did not remit contributions or submit required reports to IPERS in a timely manner. As the City Clerk, it was Ms. Jarvis' responsibility to ensure all City obligations were paid in a timely manner.

**Personal Purchases on City Credit Cards** – The City has a credit card issued by State Central Bank, the local bank. The credit card was held by Ms. Jarvis and used for general purchases, such as office supplies and online purchases which required a credit card. We reviewed the monthly credit card statements and did not identify any unusual transactions based on the vendors, the amount and frequency of the purchases.

The City also has 2 credit cards issued by Wal-Mart. Of the 2 cards, 1 is held by an employee who operates Indian Lake Park and it was used to make purchases for the Park. The remaining Wal-Mart credit card was held by Ms. Jarvis and was to be used to purchase items needed at City Hall. Because statements for the Wal-Mart credit card accounts were not located at City Hall, City officials obtained copies directly from Wal-Mart, which they provided to us for our review.

We reviewed the statements for the Wal-Mart credit card accounts and identified several unusual purchases made with the credit card held by Ms. Jarvis, including printer ink which would not be usable in the City's printer, food, party supplies, a vacuum cleaner and a carpet extractor. We discussed these purchases with the Mayor, who stated these items were not for the City's operations. Neither the vacuum cleaner nor the carpet extractor were located at any of the City's properties. The purchases which appear personal in nature and were not for the City's operations are listed in **Table 2**.

<b>Date of Purchase</b>	<b>Description</b>	<b>Amount</b>
01/26/11	Plants, Kodak ink, aqua globes	\$ 129.15
10/13/11	Vacuum cleaner	171.16
11/06/11	Party supplies, pet stain, odor detergent and carpet extractor	279.78
11/10/11	Groceries	181.34
Total		<u>\$ 761.43</u>

The \$761.43 of personal purchases on the City's Wal-Mart credit card is included in **Exhibit A** as improper disbursements and obligations.

**UNDEPOSITED COLLECTIONS**

As previously stated, the City's primary revenue sources include taxes from the State of Iowa and Van Buren County. Revenue is also received from utility collections for water, sewer and garbage fees assessed to each household and business which receives services. In addition, the City operates a Community Center and Indian Lake Park which has cabins, recreational vehicle hookups, tent camping sites and canoe rentals available to rent for a fee.

**Taxes from the State and County** – We determined payments from the County for property tax are deposited electronically. We confirmed payments from the State to determine if they were properly deposited to the City's bank accounts. We determined all payments from the State were properly deposited except for amounts retained by the State as offsets for outstanding amounts owed by the City for sales tax and payroll withholding tax which were not remitted.

The State issued a \$3,094.32 payment to the City for local option sales tax on September 27, 2012. However, because Ms. Jarvis had not filed the required report or remitted sales tax for the quarters ended June 30, 2011, March 31, 2012 and June 30, 2012, the payment was not immediately sent to the City. After the appropriate report was filed and the sales tax was remitted in early October 2012, the \$3,094.32 payment was issued to the City. As a result, the \$3,094.32 is not included in **Exhibit A** as undeposited collections.

The State also issued a \$6,347.92 payment to the City for road use tax on September 13, 2012. However, because Ms. Jarvis had not filed the required report or remitted withholding taxes for the quarters ended March 31, 2012, June 30, 2012 and September 30, 2012, the payment was not immediately sent to the City. After the appropriate report was filed in September 2012, the \$4,711.00 obligation was withheld and the remaining \$1,636.92 was remitted to the City and properly deposited. Because the \$4,711.00 withheld by the State was to satisfy the City's obligation for withholding tax, it is not included in **Exhibit A** as undeposited collections.

**Indian Lake Park** – As previously stated, the City collects rental fees for cabins, recreational vehicle sites, tent sites and canoes. Iowa DNR hunting and fishing licenses can also be purchased at the Park. The City employs 2 people who collect and deposit the fees from Park operations into the City's primary checking account. However, because the 2 employees are married to each other, the duties associated with the collections cannot be adequately segregated. Collections from the Park are not initially deposited with the City Clerk and the City Clerk does not maintain any records for collections received at the Park. All receipts and deposit support is kept at the Park. We reviewed the collections deposited by the Park with City officials and did not identify any concerns. However, because sufficient records were not maintained, we are unable to determine if all collections from the Park were properly deposited.

**Community Center** – The City operates a Community Center which can be rented for a fee. The collections from the rentals are to be deposited in the City's primary checking account. Reservations for the Community Center are recorded on a calendar. We were unable to determine if all rental fees collected were properly deposited because the calendars which included the Community Center reservations could not be located in City Hall. We reviewed the collections deposited to the City's primary checking account with City officials and did not identify any specific concerns. However, because sufficient records were not maintained, we are unable to determine if all collections were properly deposited.

**Estimated Uncollected Utility Billings** – Ms. Jarvis had sole responsibility for the City's utility billing system from July 2009 through September 2012. She was responsible for preparing the billings, collecting payments, preparing deposits, delivering deposits to the bank and posting billings and collections to customer accounts.

Utility rates entered into the software program by Ms. Jarvis to calculate utility billings were not reviewed or approved by an independent person. In addition, there was no evidence of review or approval of any adjustments made to customer accounts, if any.

According to the Mayor, several individuals spoke with her about their concerns regarding their utility billings, stating their accounts were not credited in a timely manner when payments had been made. The Mayor also stated households which had not been included in the City's utility billing system were identified after Ms. Jarvis' employment had ended. As a result, utility billings had not been issued to the households. In addition, the Mayor stated the check

for her April 2012 utility billing had not been redeemed. She stated her husband specifically asked Ms. Jarvis why the check had not been cashed when the following month's billing showed a delinquency for the April billing. The Mayor stated Ms. Jarvis explained it must be a bank error and the delinquency was eliminated from the following billing statement. However, the check still had not been redeemed. According to the Mayor, the uncashed check was located in City Hall after Ms. Jarvis' termination. As a result, it is apparent Ms. Jarvis posted the payment to the Mayor's household account even though the related check was not deposited to the City's primary checking account.

During our investigation, the City was unable to locate any reconciliations between the utility billings and the collections. In addition, an outstanding or delinquent customer listing could not be located for the period of our review. There were no records of amounts due but unpaid by customer or an aging of receivables maintained by the City. There was no periodic comparison of amounts recorded in the accounting system to supporting documentation.

To determine if the amount deposited to the City's primary checking account for utilities during fiscal years 2010 through 2012 and from July 2012 through September 2012 were reasonable, we compared the amounts deposited to the expected amount of collections. The expected amount of collections for water and sewer services was calculated using meter readings which were taken by an independent city employee and the approved utility billing rates for customers who receive water and sewer services. We calculated the expected amount of collections for garbage service by multiplying the number of customers by the appropriate billing rate. We were not able to determine billing amounts for households which had not been included in the City's utility billing system prior to Ms. Jarvis' termination because meter readings were not available for them. We also included a 15% allowance for uncollected accounts in our calculation, which is based on the delinquency rate the City is currently experiencing.

Our comparisons are summarized in **Table 3** by fiscal year. The **Table** includes a \$5,264.58 deposit made by the Mayor on October 19, 2012. The deposit consisted of cash and checks payable to the City for utility services which the Mayor found in an unsecured location at City Hall after Ms. Jarvis began her medical leave. The \$210,000.00 difference between the calculated expected collections and the amounts actually deposited for utility billings is included in **Exhibit A**.

**Table 3**

Description	Fiscal Year				Total
	2010	2011	2012	2013*	
Calculated billings:					
Water service	\$ 133,339.06	130,662.41	136,841.55	38,428.19	439,271.21
Sewer service	62,736.83	62,132.33	63,659.86	16,743.15	205,272.17
Garbage service	56,845.35	58,188.10	57,689.85	14,275.65	186,998.95
Total calculated billings	252,921.23	250,982.84	258,191.27	69,446.99	831,542.33
Amount deposited	188,696.20	187,214.75	187,331.60	49,931.48	613,174.03
Difference	\$ 64,225.03	63,768.09	70,859.67	19,515.51	218,368.30
Less: Undeposited collections <sup>^</sup>					(5,264.58)
Allowance for delinquent accounts					(2,969.49)
Calculated uncollected utility billings					\$ 210,134.23
Rounded estimated uncollected utility billings					\$ 210,000.00

\* - Includes activity for July 2012 through September 2012. Billings for October 2012 services were prepared and distributed after Ms. Jarvis' medical leave began.

<sup>^</sup> - Cash and checks located in City Hall for prior utility billings were not deposited by Ms. Jarvis but were deposited by the Mayor on October 19, 2012.

Because sufficient records were not available, we were unable to determine if the \$210,000.00 of estimated utility billings were not billed by Ms. Jarvis, were billed but not collected, were collected but not properly deposited or a combination of these situations. During an interview with a law enforcement officer, Ms. Jarvis stated she did not prepare utility bills as she was required to do. She also stated she did not collect any payments which she kept for her personal use.

#### **ADDITIONAL INFORMATION**

**Payment to CPA Firm** – As previously stated, City officials contacted a CPA firm to determine if any improprieties existed after concerns regarding Ms. Jarvis’ actions were initially identified. After performing limited procedures, the CPA firm identified several irregularities, including a lack of cash being deposited and a variance of approximately \$44,000.00 when payments recorded in the City’s utility billing system were compared to bank deposits for the period September 1, 2011 through September 30, 2012.

The City incurred costs totaling \$4,592.69 for the work performed by the CPA firm as a direct result of Ms. Jarvis’ job performance. Had Ms. Jarvis adequately performed her job duties, these costs would not have been incurred by the City.

**Cash Deposits to Personal Account** - We reviewed Ms. Jarvis’ personal bank accounts and mortgage statements for the period July 1, 2009 through November 30, 2012 and identified cash deposits totaling \$1,300 to her checking account. We are unable to determine the source of the cash deposits.

**City Council Minutes** – During our review of City Council meeting minutes, we determined the minutes for 7 meetings did not include an approved bill listing. In addition, we determined the minutes for 47 of 52 of the meetings reviewed were not signed by the Mayor and the City Clerk to authenticate the record in accordance with section 380.7(4) of the *Code of Iowa*.

We also determined the bills listing submitted to the City Council for approval were not accurate. Specifically, in disbursement listings for meetings held from July 2009 through October 2010, we identified 6 disbursements for \$1,965.77 described as payments to the IRS for payroll tax. We also identified 2 disbursements for \$1,185.29 described as payments to Southern Iowa Electric for the same time period. It would be very unlikely the City made payments to these parties for the exact same amounts on multiple occasions. When we compared these payments to the checks which were actually issued from the City’s primary checking account, we determined the amounts reported to the City Council were not accurate.

Because these irregularities were identified, it is apparent the City Council members were not reviewing the disbursement listings in sufficient detail. The City Council has a fiduciary responsibility to exercise authority over the City’s funds, 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. The lack of appropriate fiduciary oversight and the failure to ensure implementation of adequate internal controls can permit an employee to exercise too much power over the City’s operations or financial transactions.

## **Recommended Control Procedures**

As part of our investigation, we reviewed the procedures used by the City of Farmington to process receipts, disbursements and payroll. An important aspect of internal control is to establish procedures to 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 noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the City's internal controls.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The former City Clerk had control over each of the following areas for the City:
- (1) Receipts – collecting, posting to the accounting records and preparing and making bank deposits,
  - (2) Disbursements – making purchases, receiving certain goods and services, presentation of disbursements to the City Council for approval, maintaining supporting documentation, preparing, signing and distributing checks and posting payments to the accounting records,
  - (3) Payroll – calculating, preparing, signing and distributing checks and posting payments to the accounting records,
  - (4) Utility billings – preparing and mailing billings, collecting payments, posting billings and payments to customer accounts and preparing and making bank deposits,
  - (5) Bank accounts – receiving and reconciling monthly bank statements to accounting records and
  - (6) Reporting – preparing City Council meeting minutes and financial reports, including monthly Clerk's reports and Annual Financial Reports.

Additionally, the City employees who operate Indian Lake Park are responsible for collecting and depositing all rental fees and the proceeds from items sold at the Park. Collections from the Park are not initially deposited with the City Clerk and the City Clerk does not maintain any records for collections received at the Park. All receipts and deposit support is kept at the Park.

While dual signatures are required on checks issued from the City's checking accounts, blank checks were signed by the current and former Mayors and given to the former City Clerk.

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, the Mayor and City Council members. In addition, the City Council should review financial records, perform reconciliations and examine supporting documentation for accounting records on a periodic basis.

In addition, bank statements should be delivered to and reviewed by an official who does not collect or disburse City funds. Bank reconciliations should be performed on a monthly basis.



Checks should not be signed until a specific payee and amount have been designated and the cosigner has reviewed the related supporting documentation to ensure the payment is appropriate.

- B. Reconciliation of Utility Billings, Collections and Delinquent Accounts – The former City Clerk had sole responsibility for the City’s utility billing system. She was responsible for preparing the billings, collecting payments, preparing deposits, delivering deposits to the bank and posting billings and collections to customer accounts. In addition, utility billings, collections and delinquent accounts were not reconciled.

We identified an estimated \$210,000.00 difference between the expected collections for utility billings and the amounts actually deposited in the City’s primary checking account for utility billings. Because sufficient records were not available, we were unable to determine if the \$210,000.00 of estimated utility billings were not billed by the former City Clerk, were billed but not collected, were collected but not properly deposited or a combination of these situations.

Recommendation – Procedures should be established to ensure utility billings are reconciled to subsequent collections and delinquent accounts for each billing period. The City Council, or an independent individual designated by the City Council, should review the reconciliations and monitor delinquent accounts. Delinquent accounts should not be written off without City Council approval.

- C. Late Fees, Penalties and Interest Charges – Quarterly payroll reports, such as 941’s and IPERS benefit reports, were not submitted and the related payments were not remitted in a timely manner as required. In addition, a number of vendors were not paid in a timely manner. As a result, the City incurred a significant amount of late fees, penalties and interest charges.

Recommendation – The City Council should implement procedures to ensure all required reports are submitted and all payments are remitted in a timely manner.

- D. Record Retention – Supporting documentation, such as invoices, timecards, payroll registers, receipts and utility reports should be maintained by the City. During our investigation, we were unable to locate timesheets for the former City Clerk and documentation for certain disbursements.

In addition, calendars which included information regarding the rental of the Community Center were not maintained.

Recommendation – The City Council should implement procedures to ensure all City records are retained at City Hall and a retention policy should be established for all records.

- E. Community Center – The City’s Community Center is available for a rental fee. We were unable to determine if all rental fees were properly deposited to a City bank account. Specifically, we were unable to locate records which documented:

- (1) Pre-numbered receipts were utilized.
- (2) Billings for uncollected rent were completed.
- (3) Collections were deposited in a timely manner.
- (4) Reconciliations between billings and collections were performed on a periodic basis.

- (5) A listing of all cash and checks received was prepared and compared to the amount actually deposited by an independent party.

Recommendation – Pre-numbered receipts should be issued when funds are collected. In addition, the City Council should develop written procedures for the rental of the Community Center, including whether the rent should be received prior to the date of the event. If the City allows for payment after the event, a process should be developed to track collections and send billings for unpaid rent.

- F. City Council Minutes – Chapter 21 of the *Code of Iowa* requires minutes be kept of all meetings of governmental bodies. During our review of minutes, we determined:

- (1) The minutes were not properly signed by the City Clerk or Mayor to authenticate the record as required by section 380.7(4) of the *Code of Iowa*.

- (2) Not all disbursements were presented to the City Council for approval.

Recommendation – The City Council should implement procedures to ensure either the City Clerk or the Mayor sign all meeting minutes and any errors are noted and corrected. In addition, the City Council should ensure all City obligations are presented to the City Council for approval and are paid in a timely manner.

In addition, the City Council should ensure all minutes are maintained at City Hall and an official copy is kept in the City Council meeting book.

**Exhibit**

**Report on Special Investigation  
of the  
City of Farmington**

Report on Special Investigation of the  
City of Farmington

Summary of Findings  
For the period July 1, 2009 through November 30, 2012

<b>Description</b>	<b>Table</b>	<b>Amount</b>
Improper disbursements and obligations:		
Late fees, penalties and interest charges	<b>Table 1</b>	\$ 36,257.31
Personal purchases on City's credit card	<b>Table 2</b>	761.43
Subtotal improper disbursements and obligations		<u>37,018.74</u>
Estimated uncollected utility billings*	<b>Table 3</b>	<u>210,000.00</u>
Total		<u><u>\$ 247,018.74</u></u>


\* - Billings were not billed, were not collected and/or were not properly deposited to the City's bank accounts.

Report on Special Investigation of the  
City of Farmington

Staff

This special investigation was performed by:

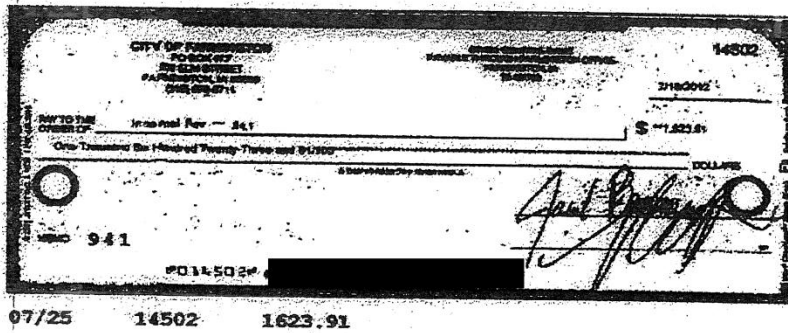
Annette K. Campbell, CPA, Director  
Justin M. Scherrman, Staff Auditor  
Stephen Hoffmann, Assistant Auditor

  
Tamera S. Kusian, CPA  
Deputy Auditor of State

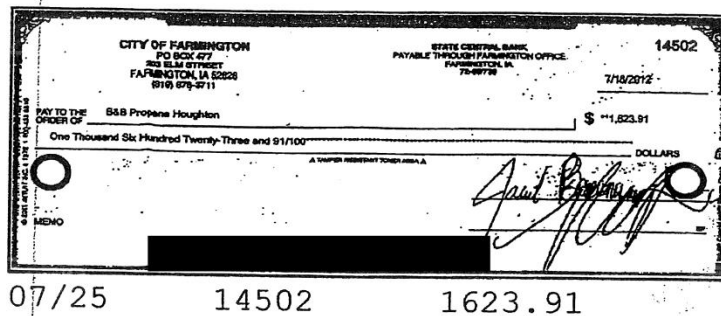
## **Appendix**

Report on Special Investigation of the  
City of Farmington

Copies of Altered and Original Checks



Altered check image located in bank statements found in City Hall. Payee appears to state "Internal Rev - IRS".



Check image obtained directly from State Central Bank.