



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

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FOR RELEASE November 20, 2017

Auditor of State Mary Mosiman today released a reaudit report on the City of Milford for the period July 1, 2014 through June 30, 2016. The reaudit was performed at the request of petitioners pursuant to Section 11.6(4)(a)(3) of the *Code of Iowa*. The petition submitted to the Office of Auditor of State requested a reaudit of the year ended June 30, 2015. However, based on the nature of the concerns presented, the reaudit also covered items applicable to the year ended June 30, 2016.

The reaudit was requested due to concerns regarding City operations, including certain agreements approved by the City Council, the propriety of an increase in garbage collection rates, and the financial position of the City.

Mosiman recommended the City strengthen internal controls, such as improving segregation of duties for payroll functions, ensuring review of employee time cards by appropriate supervisors is documented, and implementing procedures to ensure employees do not receive more than the authorized salary payment. In addition, the City Council should ensure the public purpose of disbursements, as defined in an Attorney General's opinion dated April 25, 1979, is documented and all disbursements provide a public benefit and are in the best interest of the City.

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

A copy of the reaudit report is available for review in the City Administrator's Office, on the Auditor of State's website at <https://auditor.iowa.gov/reports/1520-0274-T00Z>, and in the Office of Auditor of State.

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CITY OF MILFORD
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2016

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City of Milford

Officials – Fiscal Year 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bill Reinsbach	Mayor	Jan 2016
John Walters	Mayor Pro-Tem	Jan 2018
Don Olsen	Council Member	Jan 2016
Rody Peterson	Council Member	Jan 2016
Mary Kay Rolling	Council Member	Jan 2018
Jason Simpson	Council Member	Jan 2018
LeAnn Houge	City Administrator/City Clerk	Indefinite
Harold Dawson	City Attorney	Indefinite

Officials – Fiscal Year 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bill Reinsbach	Mayor	Jan 2018
John Walters	Mayor Pro-Tem	Jan 2018
Mary Kay Rolling	Council Member	Jan 2018
Jason Simpson	Council Member	Jan 2018
Bill Huse	Council Member	Jan 2020
Don Olsen	Council Member	Jan 2020
LeAnn Houge	City Administrator/City Clerk	Indefinite
Harold Dawson	City Attorney	Indefinite

City of Milford



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Auditor of State'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 Milford in accordance with Section 11.6(4)(a)(3) of the *Code of Iowa*. As a result, we performed a review of the audit report for the year ended June 30, 2015 and the workpapers prepared by the City's Certified Public Accounting firm to determine whether the CPA firm addressed any or all of the specific issues identified in the request for reaudit during the annual audit of the City. 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 the City for the period July 1, 2014 through June 30, 2015. In addition, we have applied certain tests and procedures to selected prior and current fiscal year transactions, as deemed necessary.

Based on a review of relevant information and discussions with City officials and personnel, we performed the following procedures:


1. Reviewed City ordinances and applicable City Council meeting minutes regarding utilities to determine propriety of an increase in garbage collection rates.
2. Evaluated internal controls related to the payroll function to determine whether adequate procedures were in place and operating effectively.
3. Examined payroll history reports and recalculated salary and wages for certain employees to determine whether payments issued were accurate and complied with City policy.
4. Verified spreadsheets prepared by City staff summarizing bonuses issued to City employees and determined the propriety of the bonuses identified.
5. Reviewed the severance agreement and employment agreements approved by the City Council for the former City Administrator and current City Administrator, respectively, to determine propriety.
6. Reviewed the City's employee handbook to determine if a policy was established regarding payout of sick leave and vacation upon termination. Also, examined sick leave and vacation payouts identified for propriety.
7. Scanned general ledger reports and invoices to identify disbursements for employee recognition meals and determined the propriety of any payments identified.
8. Obtained and reviewed the ending cash balances and ending fund balances included in the City's bank statements and financial statements, respectively, to determine whether the City's financial position was accurately reported.

Based on the performance of these procedures, we identified inadequate documentation of public purpose for certain expenditures and instances of non-compliance with established City policies and have developed various recommendations for the City. The inadequate documentation of public purpose and instances of non-compliance with established City policies and our recommendations are described in the Detailed Findings of this report. Unless reported in the

Detailed Findings, items of non-compliance were not identified during the performance of the specific procedures listed above.

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 the City, 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 officials and personnel of the City during the course of the reaudit.


MARY MOSIMAN, CPA
Auditor of State

October 23, 2017

City of Milford

City of Milford

Background Information

July 1, 2014 through June 30, 2016

We received a citizens' petition to conduct a reaudit of the City of Milford for fiscal year 2015. The request detailed specific concerns, including:

1. Prior to his termination, the former City Administrator retained an attorney and resigned only after agreeing to a severance. The City is paying both the former and the current City Administrator as a result.
2. The propriety of the hiring process for LeAnn Houge, the current City Administrator, and the propriety of Ms. Houge's employment agreement, which includes a clause for 2 years of severance upon her termination.
3. The propriety of the increase to the garbage collection rates approved by the City Council without a public hearing.
4. The City's financial condition and the decrease to the City's \$2 million surplus over the past 2 years.
5. The accuracy of the City's payroll and whether appropriate personnel are processing the City's payroll.
6. Inclusion of the phrase "Monthly bills – approve bills paid in vacation" on the consent agenda for a City Council meeting without further discussion or explanation.
7. The appearance the City's independent auditors prepare a significant portion of the City's accounting records but also perform the City's financial statement audit.
8. The lack of fund accounting and proper recording of transactions in the City's general ledger.
9. Numerous transfers between funds approved by the Mayor and Ms. Houge without City Council approval.

As a result of the request, we performed a review of the City's audit report and workpapers prepared by the City's independent auditors to determine whether a complete or partial reaudit of the City should be performed. As a result of this review, we determined it was necessary to perform reaudit procedures for the first 7 concerns presented for the period July 1, 2015 through June 30, 2016. Items 8 and 9 were sufficiently reviewed by the City's independent auditors. In addition, 3 concerns presented were either outside the scope of the reaudit or were not considered to be an audit issue.

Except as included in this report, no additional findings were identified related to the specific concerns presented with the citizens' petition for reaudit. While the reaudit procedures performed addressed the concerns presented, additional procedures were not performed. Had we performed additional procedures, additional matters might have been identified and included in this report.

City of Milford

Detailed Findings

July 1, 2014 through June 30, 2016

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following functions related to processing payroll for the City:

- Recording sick leave and vacation, comparing time records to payroll, receiving and distributing payroll warrants, custody of undistributed payroll warrants, and preparing payroll checks.
- Payroll rates are not entered into the computer, or reviewed and approved, by an independent person. In addition, rates are not tested to ensure the proper calculations are being made.

Also, the individual who has control over personnel functions also has access to functions related to processing payroll for the City.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing current available staff, including elected officials. Such reviews should be performed by independent persons and should be evidenced by the signature or initials of the reviewer and the date of the review.

Response – Sick leave and vacation is recorded in the city payroll module. Starting May 2, 2017, after the Deputy City Clerk enters the payroll either the City Administrator or office assistant compares time cards to the payroll register. After payroll is complete, the checks are locked up and are given to Department heads for disbursement. Prior to the beginning of a fiscal year, payroll rates are reviewed by the office assistant and a member of the finance committee (elected official). After rates are entered into the computer, by the Deputy City Clerk the data is reviewed by City Administrator.

Conclusion – Response accepted.

(B) Payroll – Time cards were not always approved and initialed by the employee's supervisor or other responsible official. In addition, procedures do not exist to ensure employees do not receive more than the authorized salary amount.

Recommendation – All time cards should be approved and initialed by the employee's supervisor or by an independent official who is not involved with payroll. Also, procedures should be implemented to ensure employees do not receive more than the authorized salary amount.

Response – With the exception of the Library and Public Works Department, all payroll cards were approved and signed off. Starting in May 2017, both the Library Director and Public Works Department Supervisor started reviewing and signing off on payroll cards. The procedure to ensure employees are not receiving more pay than authorized has been addressed in response letter A.

Conclusion – Response accepted.

City of Milford

Detailed Findings

July 1, 2014 through June 30, 2016

- (C) Bonuses – Full-time and part-time City employees receive a City Council approved “Holiday Stipend” (Bonus) on an annual basis. Full-time employees receive \$350 plus an additional \$10 for each year of service, up to \$500. Part-time employees receive \$200 each. These payments have been subject to income tax withholdings and FICA and were reported as earned compensation for income tax purposes. However, the approval of these payments in the minutes did not clearly document the public purpose served as defined in an Attorney General’s opinion dated April 25, 1979. **Table 1** summarizes total employee bonuses and the City’s share of FICA by fiscal year for fiscal years 2008 through 2016.

Table 1

Fiscal Year Ended*	Amount	Employer Share FICA	Total
06/30/08	\$ 5,950.00	455.18	6,405.18
06/30/09	6,670.00	510.26	7,180.26
06/30/10	5,210.00	398.57	5,608.57
06/30/11	6,660.00	509.49	7,169.49
06/30/13	6,440.00	492.66	6,932.66
06/30/15	6,490.00	496.49	6,986.49
06/30/16	6,390.00	488.84	6,878.84
Total	\$ 43,810.00	3,351.49	47,161.49

* - Supporting documentation was not available to determine the amount of bonuses paid during fiscal years ended 2012 and 2014.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures to ensure the public purpose is clearly documented and City resources are used in the best interest of the City.

Response – Historically, the city has paid out employee bonuses, so we have continued to carry on that practice. Milford is union, and the new 3-year union contract includes longevity bonuses. The City will address the continued need for these bonuses going forward and take appropriate action to develop policies; and, if continued, will document the need and state the public purpose is in the best interest of the City.

Conclusion – Response accepted.

City of Milford

Detailed Findings

July 1, 2014 through June 30, 2016

- (D) Questionable Disbursements – We noted certain disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. **Table 2** summarizes the questionable disbursements identified.

Table 2

Date	Paid To	Description per General Ledger	Amount
01/09/12*	Deb & Anns Supper Club	EMPLOYEE RECOGNITION DIN	\$ 992.23
01/11/13	Perkins	EMPLOYEE RECOGNITION DIN	907.56
01/11/14	Mill Creek	EMPLOYEE DINNER	772.73
01/16/15	Boji Bay	EMPLOYEE RECOGNITION PAR	1,255.07
01/28/16	The Coffee Shop	EE RECOGNITION	1,045.00
01/26/17	The Coffee Shop	EMPLOYEE APPREC DINNER	1,406.25
Total			<u>\$ 6,378.84</u>

* - In accordance with the Iowa League of Cities Record Retention Manual for Iowa Cities, which was adopted by the City in August 2012, supporting documentation was no longer available for review. As a result, the information was obtained from the City’s general ledger.

Also, 2 of the above amounts include the payment of sales tax totaling \$137.27. Section 422.5(5) of the *Code of Iowa* exempts the City from the payment of sales tax.

On November 14, 2016 the City Council approved Resolution 16-49, establishing public purpose for current and future expenses incurred by the City of Milford City Council for meal expense, flowers, goal setting sessions, receptions, and other de minimis expenses. Specifically, the Resolution states the aforementioned expenses are for general corporate purpose and for public purpose as a whole. However, the Resolution does not specifically state how these types of expenses serve a public purpose or benefit the public. In addition, the Resolution does not establish dollar limits on these types of expenses. There are very few instances where the purchase of flowers serves a public purpose.

According to the Attorney General's opinion, dated April 25, 1979, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should revise current written policies and procedures to specify how the types of expenses included in the Resolution serve a public purpose and are in the best interest of the City, including examples as deemed necessary, and to establish dollar limits on such expenses. In addition, the City should implement procedures to ensure that sales tax is not paid.

Response – Going forward, we will address the need to have this expenditure with the City Council. If deemed necessary, we will review our Resolution and include a dollar limit and document the public purpose it serves pertaining to the best interest of the City.

Conclusion – Response accepted.

City of Milford

Detailed Findings

July 1, 2014 through June 30, 2016

- (E) Severance Agreement – Matt Skaret was employed as the City Administrator from January 18, 2010 through June 23, 2014. Mr. Skaret did not have an employment contract. Upon his termination, the City Council approved a severance agreement. The approved severance agreement allowed the payout of “116 hours of vacation he accrued at the rate of \$34.62 for a total of \$4,015.92” and the payout of “240 hours of sick leave he accrued at the rate of \$34.62 for a total of \$8,308.80”.

We reviewed the City’s approved policies and procedures to determine the propriety of the payouts approved in the severance agreement. Based on a review of the Employee Handbook, we determined the following:

- Vacation – Employees terminating employment, after 5 or more continuous years, will be paid an amount equal to vacation earned to the date of termination during the current year of employment. Mr. Skaret was employed by the City of Milford for approximately 4 years, 7 months. As a result, under the approved Employee Handbook, he was not eligible for a vacation payout.
- Sick Leave – Employees terminating employment will be paid at one half (1/2) the normal rate for all accumulated sick leave. Mr. Skaret’s accrued sick leave balance at the date of termination was 423 hours. Under the approved Employee Handbook, he was eligible for a sick leave payout of \$7,322.13 (423 hours x \$17.31).

Table 3 summarizes the actual vacation and sick leave Mr. Skaret received, the amount allowable in accordance with the Employee Handbook, and the variance.

Payout	Per Severance Agreement	Allowable per Employee Handbook	Variance
Vacation	\$ 4,015.92	-	4,015.92
Sick Leave	8,308.80	7,322.13	986.67
Total	\$ 12,324.72	7,322.13	5,002.59

As illustrated by **Table 3**, Mr. Skaret received \$12,324.72 in vacation and sick leave payouts under the approved severance agreement, which is \$5,002.59 more than what is allowed in accordance with the Employee Handbook. The public purpose of paying out the amounts was not documented by the City Council when approving the agreement.

Recommendation – The City Council should ensure the public purpose of any future severance agreements is clearly documented. Employment contracts should include provisions which cover any financial issues related to early termination of a contract. In addition, the City Council should ensure the terms of future employment contracts and/or severance agreements comply with current City policies.

Response – The severance agreement dollar amount was put together and calculated by prior administration and the City Council also felt assured the agreement was correct as it was recommended by the interim Administrator and Attorney. Moving forward, the City Council will make sure any employee contracts and/or severance agreements will clearly denote any financial stipulations, comply with current City policies and state the public purpose of such contracts.

Conclusion – Response accepted.

City of Milford

Detailed Findings

July 1, 2014 through June 30, 2016

- (F) Excess Payroll – Due to an error in the calculation of the Police Chief’s biweekly salary, actual payroll for fiscal year 2015 was \$1,613 in excess of what was approved by the City Council. Per discussion with the City Administrator, no formal request for repayment from the Police Chief was made or subsequent payroll reduced to recoup the overpayment.

Recommendation – The City Council should consult legal counsel to determine the disposition of the salary overpayment.

Response – The City Council will consult with our City Attorney to advise us on our actions for the overpayment.

Conclusion – Response accepted.

- (G) City Council Minutes – The City Council went into closed sessions on September 22, 2014 to discuss Resolution 14-52, 14-53, and the City Administrator position. During the closed sessions, the City Council voted to approve the Resolutions and to offer the City Administrator position to LeAnn Houge. In accordance with Section 21.5(3) of the *Code of Iowa*, final action by any governmental body on any matter shall be taken in open session unless some other provision of the *Code* expressly permits such actions to be taken in closed session.

Actions taken during the September 22, 2014 closed sessions were published within the City Council meeting minutes. In accordance with Section 21.5(5)(b)(1) of the *Code of Iowa*, the detailed minutes and audio recording of a closed session shall be sealed and shall not be public record open to public inspection.

Recommendation – Closed meetings should be held in compliance with Chapter 21.5 of the *Code of Iowa*. The City should ensure that final action is taken in open session unless otherwise permitted by the *Code of Iowa*. The City should ensure that detailed minutes and audio recordings of a closed session remain sealed and do not become public record open to public inspection.

Response – This mistake was made under the supervision of our interim Attorney and Administrator. Since that date we have had closed session meetings and have complied with Section 21.5 in which formal action is taken in open session unless permitted by the Code of Iowa. Detailed minutes and audio recordings of closed session have been sealed are not available for public inspection.


Conclusion – Response accepted.

City of Milford

Staff

This reaudit was performed by:

Deborah J. Moser, CPA, Manager
Anthony M. Heibult, Senior Auditor
Cody J. Pifer, Assistant Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State