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**STATE OF IOWA**

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**NEWS RELEASE**

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FOR RELEASE \_\_\_\_\_ December 15, 2017 \_\_\_\_\_

Auditor of State Mary Mosiman today released a report on a special investigation of the City of Webster for the period December 1, 2014 through March 31, 2017. The special investigation was requested by City officials as a result of concerns regarding the propriety of certain financial transactions processed by the former City Clerk, Lindsey Black.

Mosiman reported the special investigation identified \$5,436.83 of improper and unsupported disbursements. The \$5,375.46 of improper disbursements identified includes \$3,493.20 of improper payroll and \$1,675.00 of improper reimbursements issued to Ms. Black, as well as \$103.28 and \$103.98 for the City's share of FICA and IPERS on the improper payroll, respectively. The \$61.37 unsupported disbursement identified was a reimbursement issued to Ms. Black which did not have sufficient supporting documentation.

Mosiman reported it was not possible to determine if additional amounts were improperly disbursed or if any collections were not properly deposited because sufficient records were not available.

The report also includes recommendations to strengthen the City's internal controls and overall operations, such as improving segregation of duties, maintaining supporting documentation for all disbursements, and ensuring payroll is properly approved by the City Council.

Copies of the report have been filed with the Division of Criminal Investigation, the Keokuk 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 <https://auditor.iowa.gov/reports/1722-0515-BE00>.

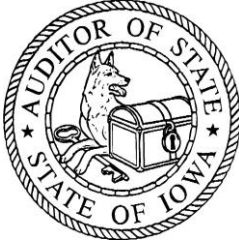
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**REPORT ON SPECIAL INVESTIGATION  
OF THE  
CITY OF WEBSTER  
FOR THE PERIOD  
DECEMBER 1, 2014 THROUGH MARCH 31, 2017**

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Auditor of State's Report

To the Honorable Mayor and  
Members of the City Council:

As a result of concerns regarding certain disbursements and at your request, we conducted a special investigation of the City of Webster. We have applied certain tests and procedures to selected financial transactions of the City for the period December 1, 2014 through March 31, 2017. Based on a review of relevant information and discussions with City officials and personnel, we performed the following procedures:

1. Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
2. Reviewed bank statements for the City's checking accounts to identify any unusual activity.
3. Scanned images of redeemed checks issued from the City's bank accounts for reasonableness. We also examined certain disbursements to determine if they were appropriate, properly approved, and supported by adequate documentation.
4. Examined payroll disbursements to the former City Clerk, Lindsey Black, to determine if the payments were properly approved, properly supported, and the amount and frequency of the payments were reasonable.
5. Examined reimbursements to Ms. Black to determine if the payments were for appropriate purposes, properly approved, and supported by adequate documentation.
6. Examined utility billings and collection records to determine if collections were properly accounted for and deposited.

These procedures identified \$5,436.83 of improper and unsupported disbursements. We were unable to determine if additional amounts may have been improperly disbursed or if all collections were properly deposited because adequate records were not available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary 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 an audit of financial statements of the City of Webster, other matters might have come to our attention that would have been reported to you.

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

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

*Mary Mosiman*  
MARY MOSIMAN, CPA  
Auditor of State

September 7, 2017

Report on Special Investigation of the  
City of Webster

Investigative Summary

**Background Information**

The City of Webster (City) is located in Keokuk County and has a population of approximately 90. The City employs a City Clerk who is responsible for the business operations of the City. The City also employs a Utility Clerk and a Water Main Operator.

Lindsey Black began employment with the City as City Clerk on December 1, 2014. As the City Clerk, Ms. Black was responsible for the following functions:

- 1) Receipts – opening mail, collection, posting to the accounting records, and preparing and making deposits;
- 2) Disbursements – making certain purchases, receiving certain goods and services, presenting proposed disbursements to the City Council for approval, maintaining supporting documentation, preparing, signing, and distributing checks, and posting to the accounting records;
- 3) Payroll – calculating payroll amounts, preparing, signing, and distributing checks, and posting payments to the accounting records;
- 4) Utility billings – preparing and making deposits;
- 5) Reporting – preparing City Council meeting minutes and financial reports, including monthly City Clerk reports and the Annual Financial Reports.

The City's primary revenue sources included local option sales tax and road use tax from the State of Iowa and property tax collected by Keokuk County and remitted to the City. Revenue is also received from customers for water and sewer services. However, monthly reconciliations of amounts billed, collected, and deposited for water and sewer services are not performed.

All City disbursements, including quarterly payroll, are to be made by check. All disbursements are to be supported by invoices or other documentation obtained by or submitted to the City Clerk. Each month, the City Clerk is to prepare a listing of bills paid and provide the listing to the City Council for approval. After the City Council approves the bills, the City Clerk is to prepare and sign the checks. During the period Ms. Black was employed as City Clerk, only her signature was required on checks issued from the City's checking accounts. However, the City now requires dual signatures on all checks.

Monthly statements for the City's bank accounts are mailed directly to City Hall and opened by the City Clerk. The monthly statements and related images of redeemed checks are not periodically reviewed by members of the City Council or the Mayor. In addition, bank reconciliations were not performed during Ms. Black's time as City Clerk.

According to City officials, Ms. Black moved to Iowa City, Iowa in October 2016, but she continued her duties as City Clerk by having either the Mayor or the Utility Clerk bring the necessary financial records to her. Subsequent to her relocation, Ms. Black attended fewer City Council meetings. On March 6, 2017, Ms. Black resigned from employment with the City. Around that same time, the Mayor contacted the Office of Auditor of State after identifying multiple payroll checks issued to Ms. Black in the same quarter.

As a result of the concerns identified and the results of the agreed-upon procedures issued December 6, 2017, the Office of Auditor of State was requested to review the City's financial transactions. We performed the procedures detailed in the Auditor of State's report for the period December 1, 2014 through March 31, 2017.

## Detailed Findings

These procedures identified \$5,436.83 of improper and unsupported disbursements for the period December 1, 2014 through March 31, 2017. **Table 1** summarizes the amounts identified.

<b>Table 1</b>				
Description		Improper	Unsupported	Total
Payroll issued to Ms. Black	<b>Table 2</b>	\$ 3,493.20	-	3,493.20
City's share of FICA and IPERS	<b>Page 7</b>	207.26	-	207.26
Reimbursements issued to Ms. Black	<b>Page 8</b>	1,675.00	61.37	1,736.37
Total		\$ 5,375.46	61.37	5,436.83

The \$5,375.46 of improper disbursements identified includes \$3,493.20 of improper payroll issued to Ms. Black, \$207.26 for the City's share of FICA and IPERS on the improper payroll, and \$1,675.00 of improper reimbursements issued to Ms. Black. The \$61.37 unsupported disbursement identified was a reimbursement issued to Ms. Black which did not have sufficient supporting documentation. We were unable to determine if additional amounts were improperly disbursed or if any collections were not properly deposited because sufficient records were not available.

After the completion of our fieldwork, we attempted to contact Ms. Black to provide an opportunity for her to meet with us, but she did not respond to the messages left.

### IMPROPER AND UNSUPPORTED DISBURSEMENTS

We reviewed all disbursements from the City's bank accounts for the period December 1, 2014 through March 31, 2017. We also attempted to review supporting documentation for the disbursements to determine if they were appropriate; however, supporting documentation was not maintained for some of the disbursements.

Because supporting documentation was not available for all disbursements, we reviewed the payees and other notations on images of redeemed checks. We also reviewed receipts, invoices, and other documentation which was maintained. In addition, we discussed the disbursements with City officials to determine propriety.

Based on our review of available supporting documentation, the vendor, the frequency, and amount of the payments, and discussions with City officials, we classified payments as improper, unsupported, or reasonable. Payments were classified as improper if they appeared personal in nature or were not reasonable for City operations. Payments were classified as unsupported if it was not possible to determine if the payment was related to the City's operations or was personal in nature. Disbursements were classified as reasonable if the vendor, frequency, and amount of payments to vendors appeared appropriate for the City's operations.

The improper and unsupported disbursements identified are discussed in detail in the following paragraphs.

**Checks Issued to Lindsey Black** – As previously stated, Ms. Black began employment with the City on December 1, 2014. As City Clerk, Ms. Black was paid on a quarterly basis. As part of her duties, Ms. Black prepared the payroll for all City employees, and all unused checks were maintained by Ms. Black at her personal residence. Ms. Black was also eligible for reimbursement of expenses related to City operations if she submitted supporting documentation. We identified 27 checks totaling \$10,951.06 paid to Ms. Black during the period of our investigation, which are listed in **Exhibit A**. Of the \$10,951.06, 17 checks totaling \$8,734.61



were for payroll, and the remaining 10 checks totaling \$2,216.45 were issued to Ms. Black for reimbursement purposes.

Payroll – According to the City Council meeting minutes dated November 3, 2014, the City Council approved an annual salary of \$2,700 to be paid in \$675 quarterly installments. Based on a review of the checks issued to Ms. Black, the City’s accounting records, and the City Council meeting minutes, we identified the following concerns related to the 17 payroll checks issued to Ms. Black:

- 12 were not included on the disbursement listing presented to the City Council for approval and
- 4 were not recorded in the City’s accounting records.

Based on discussions with City officials, we expected 11 payroll checks to be issued to Ms. Black during the period of her employment, as follows:

- a check in December 2014 for that month’s wages,
- 4 quarterly payroll checks in 2015,
- 4 quarterly payroll checks in 2016, and
- 2 checks in 2017 for January and February wages, respectively, because her payroll was converted to monthly in 2017.

However, based on the frequency of the checks issued to Ms. Black, we identified 6 payments totaling \$3,493.20 which were additional payroll checks issued. **Table 2** summarizes the date, check number, and amount of the additional payroll checks identified. The \$3,493.20 of additional payroll is included in **Table 1** as improper disbursements.

<b>Date</b>	<b>Check Number</b>	<b>Improper Amount</b>
11/21/15	4093	\$ 582.20
05/08/16	4630	582.20
08/14/16	4695	582.20
08/25/16	4696	582.20
11/02/16	4734	582.20
12/05/16	4766	582.20
Total		<u>\$ 3,493.20</u>

Based on a review of the City’s payroll records, we determined Ms. Black’s payroll checks were issued in the amount of \$582.20 after payroll taxes. We also determined only 2 of the additional 6 checks identified were processed through payroll with the appropriate payroll taxes withheld. The remaining 4 checks were issued for \$582.20, Ms. Black’s normal net payroll check, to appear as though they were regular payroll checks. Because check #4093 issued in 2015 and a check issued in 2016 were processed through payroll, the City incurred \$103.28 and \$103.98 of FICA and IPERS, respectively. The total of \$207.26 has been included in **Table 1** as improper disbursements.

Reimbursements – As previously stated, we identified 27 checks totaling \$10,951.06 paid to Ms. Black during the period of our investigation. Of the 27 checks identified, 10 checks totaling \$2,216.45 were issued to Ms. Black for reimbursement purposes. Based on a review of the supporting documentation and disbursement listings presented to the City Council for approval,

we determined 7 of the 10 reimbursements totaling \$480.08 were reasonable for City operations and included items such as antivirus software renewal, purchase of IRS W-2 forms, and office supplies.

However, the remaining 3 reimbursements totaling \$1,736.37 were considered to be improper or unsupported as follows:

- 2 checks issued for \$1,000 and \$675, respectively, which were not accompanied with supporting documentation, recorded in the City's accounting records, or included on the disbursement listing presented to the City Council for approval. It is unusual for reimbursements to be issued for even dollar amounts. In addition, as previously stated, \$675 was Ms. Black's gross quarterly wage.
- a check issued for \$61.37 which was for mileage and mailing a certified letter according to the disbursement listing presented to the City Council for approval; however, no supporting documentation for the reimbursement could be located.

The 2 checks totaling \$1,675 which had no supporting documentation and were not approved by the City Council and the \$61.37 reimbursement for which no supporting documentation could be located are included in **Table 1** as improper and unsupported disbursements, respectively.

## **COLLECTIONS**

As previously stated, the City's primary revenue sources include taxes from the State of Iowa and Keokuk County. In addition, the City receives revenue for providing water and sewer services to residents. We reviewed documentation related to these revenue sources to determine if collections were properly deposited.

**Taxes from the State of Iowa** – The majority of revenues received from the State of Iowa are road use tax and local option sales tax. We confirmed all payments to the City by the State of Iowa and determined they were properly deposited to the City's checking account.

**Taxes from Keokuk County** – We verified all payments to the City by Keokuk County were properly deposited to the City's checking account.

**Water and Sewer Fees** – Water and sewer are provided to each household. Each household is billed quarterly for services. Quarterly reconciliations of the amounts billed, collected, deposited, and delinquent amounts are not prepared. As a result, we were unable to ensure all fees were properly billed, collected, and subsequently deposited to the City's bank account. However, the amounts billed and deposited appeared reasonable based on the number of households served and the rates established by the City Council.

## **OTHER ADMINISTRATIVE ISSUES**

Ms. Black had control over the financial transactions of the City with limited oversight provided by City officials. Specifically:

- Not all disbursements were presented to the City Council for approval and the approved disbursement listings were not included in the official meeting minutes.
- Not all disbursements were supported by invoices or other documentation.
- Bank reconciliations were not performed, and there was no independent review of the City's bank statements.

## **Recommended Control Procedures**

We reviewed the procedures used by the City of Webster to process receipts and disbursements, including payroll. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be identified within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the City's 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:
- 1) Receipts – opening mail, collection, posting to the accounting records, and preparing and making deposits;
  - 2) Disbursements – making certain purchases, receiving certain goods and services, presenting proposed disbursements to the City Council for approval, maintaining supporting documentation, preparing, signing, and distributing checks, and posting to the accounting records;
  - 3) Payroll – calculating payroll amounts, preparing, signing, and distributing checks and posting payments to the accounting records;
  - 4) Utility billings – preparing and making deposits;
  - 5) Reporting – preparing City Council meeting minutes and financial reports, including monthly City Clerk reports and the Annual Financial Report.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. In addition, the Mayor or City Council should review financial records, perform reconciliations, and examine supporting documentation for accounting records on a periodic basis.

Also, bank statements should be delivered to an official who does not collect or disburse City funds. The bank statements should be reviewed in a timely manner for unusual activity and the review should be documented by the signature or initials of the reviewer and the date of the review.

- B. Disbursements – During our review of the City's disbursements, the following were identified:
- 1) Disbursements were not always supported by invoices or other documentation.
  - 2) Not all disbursements, including payroll, were approved by the City Council.
  - 3) Not all disbursements were recorded in the City's accounting records.

Recommendation – All disbursements should be approved by the City Council and the approval should be documented in the City Council meeting minutes. Supporting documentation should be retained for all disbursements.

To strengthen internal control, each check should be prepared and signed by one person and detailed supporting vouchers and invoices should be provided, along with the check, to an independent individual for review and countersignature. In addition, monthly bank reconciliations should be reviewed by an independent person to ensure all redeemed checks are recorded in the City's accounting records. The review should be evidenced by the signature or initials of the reviewer and the date of the review.

- C. City Council Oversight – The City Council has a fiduciary responsibility to provide oversight of the City’s operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity.

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

Recommendation – Oversight by the City Council is essential and should be an ongoing effort by all members. In the future, the City Council should exercise due care and require and review pertinent information and documentation prior to making decisions affecting the City. In addition, appropriate policies and procedures should be adopted, implemented, and monitored to ensure compliance with established policies and procedures.

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

Report on Special Investigation of the  
City of Webster

Checks Issued to Lindsey Black  
For the period December 1, 2014 through March 31, 2017

<b>Per Bank Statement and/or Redeemed Check Image</b>				
<b>Check Date</b>	<b>Check Number</b>	<b>Memo Line</b>	<b>Amount</b>	<b>Description of Improper</b>
12/02/14	4512	Wages	\$ 194.40	-
01/10/15	4532		61.37	-
03/06/15	4563	Qtr 1	582.20	-
03/24/15	4577	McAfee renewal	59.99	-
06/04/15	4007		582.20	-
08/03/15	4033	cert letters	13.48	-
08/28/15	4048	Qtr 3 wages	582.21	-
11/21/15	4093		582.20	Additional 4th quarter wages
12/13/15	4101		582.20	-
02/03/16	4128	W-2 forms	52.45	-
03/07/16	4146	Qtr 2016 - <i>illegible</i>	582.80	-
03/12/16	4608	McAfee	49.99	-
04/15/16	4620		40.03	-
05/08/16	4629	QB update	219.95	-
05/08/16	4630	payroll	582.20	Additional 2nd quarter wages
06/06/16	4645	Qtr 2	582.21	-
08/14/16	4695	Qtr 3	582.20	Additional 3rd quarter wages
08/25/16	4696		582.20	Additional 3rd quarter wages
09/12/16	4705	Qtr 3	582.20	-
10/02/16	4720	<i>Illegible</i>	1,000.00	-
11/02/16	4734	Qtr 4	582.20	Additional 4th quarter wages
11/06/16	4741	paper/ink	44.19	-
12/05/16	4750	Qtr 4 wages	582.20	-
12/05/16	4766	Qtr 4	582.20	Additional 4th quarter wages
01/13/17	4775	QB	675.00	-
01/31/17	4781	Jan	194.40	-
02/27/17	4789	Feb wages	194.39	-
Total			<u>\$ 10,951.06</u>	


	<b>Improper</b>			
	<b>Reasonable</b>	<b>Payroll</b>	<b>Reimbursement</b>	
\$ 194.40	-	-	-	-
-	-	-	-	61.37
582.20	-	-	-	-
59.99	-	-	-	-
582.20	-	-	-	-
13.48	-	-	-	-
582.21	-	-	-	-
-	582.20	-	-	-
582.20	-	-	-	-
52.45	-	-	-	-
582.80	-	-	-	-
49.99	-	-	-	-
40.03	-	-	-	-
219.95	-	-	-	-
-	582.20	-	-	-
582.21	-	-	-	-
-	582.20	-	-	-
-	582.20	-	-	-
582.20	-	-	-	-
-	-	1,000.00	-	-
-	582.20	-	-	-
44.19	-	-	-	-
582.20	-	-	-	-
-	582.20	-	-	-
-	-	675.00	-	-
194.40	-	-	-	-
194.39	-	-	-	-
<b>\$ 5,721.49</b>	<b>3,493.20</b>	<b>1,675.00</b>	<b>61.37</b>	

Report on Special Investigation of the  
City of Webster

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director  
Jennifer Campbell, CPA, Manager  
Alex N. Kawamura, CPA, Staff Auditor  
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Tamera S. Kusian, CPA  
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