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NEWS RELEASE

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FOR RELEASE

November 5, 2020

Auditor of State Rob Sand today released a report on a special investigation of the City of Hastings for the period December 1, 2018 through May 31, 2020. The special investigation was requested by City officials as a result of concerns regarding certain financial transactions processed by the former City Clerk, Darren Gray.

Sand reported the special investigation identified \$8,406.08 of improper disbursements and \$3,472.40 of unsupported disbursements. The improper disbursements identified include \$4,898.45 of unauthorized payroll to Mr. Gray and the related City share of the payroll costs. The improper disbursements identified also include \$1,733.76 of improper reimbursements to Mr. Gray and \$1,684.38 of late fees and interest. The \$3,472.40 of unsupported disbursements identified includes \$1,966.50 of payments to Mr. Gray's wife, for training she provided to Mr. Gray.

Sand reported it was not possible to determine if additional amounts were improperly disbursed or if any collections were not properly deposited because adequate documentation was not available.

Sand recommended City officials implement procedures to ensure the City's internal controls are strengthened, including segregation of duties, performing independent reviews of bank statements, reviewing payroll records, and ensuring all disbursements are properly supported, approved, and paid in a timely manner.

Copies of the report have been filed with the Iowa Division of Criminal Investigation, the Mills County Attorney's Office, and the Iowa Attorney General's Office. A copy of the report is available for review on the Auditor of State's web site at <https://www.auditor.iowa.gov/reports/audit-reports/>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF HASTINGS
FOR THE PERIOD
DECEMBER 1, 2018 THROUGH MAY 31, 2020**

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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 financial transactions processed by the former City Clerk and at your request, we conducted a special investigation of the City of Hastings. We have applied certain tests and procedures to selected financial transactions of the City for the period December 1, 2018 through May 31, 2020. 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 activity in the City's bank accounts to identify any unusual activity.
- (3) Scanned images of redeemed checks issued from the City's bank accounts for reasonableness. We examined supporting documentation for selected disbursements to determine if they were properly approved, supported by adequate documentation, and appropriate for the City's operations.
- (4) Examined payroll disbursements to the former City Clerk, Darren Gray, to determine the propriety of the payments.
- (5) Interviewed City officials and personnel to determine the purpose of certain disbursements to vendors and reimbursements to employees.
- (6) Confirmed payments to the City by the State of Iowa to determine if they were properly deposited to the City's bank accounts in a timely manner and verified payments from the County were received electronically.
- (7) Reviewed available City Council meeting minutes to identify significant actions and to determine if certain payments were properly approved.

These procedures identified \$8,406.08 of improper disbursements and \$3,472.40 of unsupported disbursements. We were unable to determine if additional amounts were improperly disbursed or if any collections were not properly deposited because adequate documentation was not available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibits A** and **D** 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 Hastings, other matters might have come to our attention that would have been reported to you.

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

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



ROB SAND
Auditor of State

August 3, 2020

City of Hastings
Investigative Summary

Background Information

The City of Hastings (City) is located in Mills County and has a population of approximately 150. The City employs a full-time City Clerk who is responsible for the business operations of the City and a part time maintenance employee whose duties include taking water samples. Darren Gray was employed from November 2018 until April 17, 2020. While Mr. Gray began employment with the City in November, he did not begin performing all the Clerk's duties until the previous Clerk left during December 2018. The City Council did not formally appoint him as the Clerk until the City Council meeting held on January 9, 2019. During that meeting, the City Council also authorized a payrate of \$12.50 per hour for the position. The minutes did not include the number of expected hours Mr. Gray was to work. As the City Clerk, Mr. Gray was responsible for the following functions.

- Receipts – opening mail, collecting receipts, posting all collections to the accounting records, and preparing and making bank deposits;
- Disbursements – making certain purchases, receiving certain goods and services, maintaining supporting documentation, preparing, and distributing checks, and posting to the accounting records;
- Payroll – calculating payroll amounts, preparing, and distributing checks, posting payments to the accounting records, and filing required payroll reports.
- Utilities – reading water meters each month and provides the readings to the vendor who operates and maintains the City's utility system, prepares bills, and collects the amounts billed.
- Bank accounts – receiving and reconciling monthly bank statements to accounting records; and
- Reporting – preparing City Council meeting minutes and financial reports, including monthly City Clerk reports and Annual Financial Reports.

According to City officials, typical hours at the City's office were from 9:00 am to 2:00 pm Monday through Friday. According to the Mayor, Mr. Gray was hired as a full-time Clerk and was originally expected to work 32 hours per week.

The minutes from the February 13, 2019 meeting document the City Council approved "to pay Silver City Clerk \$17.00 per hour for Training." The Clerk employed by Silver City at the time of the meeting was Mr. Gray's wife, Artema Gray.

The City's primary revenue sources include proceeds from utility billings, property taxes collected by the County on behalf of the City, and taxes remitted to the City by the State, such as road use tax and local option sales tax. Utility billings are based on meter readings provided by the City to the vendor with which the City has contracted to operate and maintain the City's utility system. Each month, the vendor issues billings to households and businesses receiving utility services, collects payments, and makes an electronic deposit to the City's bank account for the amount of utilities billings collected.

All City disbursements, including payroll, are to be made by check. The City does not have a credit card or charge accounts. All disbursements are required 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 to be paid and provide the listing to the City Council for approval. After the City Council approves the bills listing, the City Clerk is to prepare the checks to be signed by the City Clerk and the Mayor. While checks were counter signed by the Mayor, City officials report Mr. Gray did not provide bill listings to the City Council at the monthly meetings. According to a Council

Member, Mr. Gray only provided copies of monthly bank statements to the Council at their monthly meeting.

The City established a primary checking account used for City operations. The primary checking account is managed by the City Clerk. Separate bank accounts were also established for the Hastings Fire Department and the Hastings Cemetery. The City Clerk also prepares and signs the checks for both of these accounts based on invoices received. However, the bank statements and redeemed checks are mailed to the Fire Chief for the Fire Department bank account and a Council member who oversees the Cemetery account.

On April 20, 2020, we were contacted by a member of the City Council about concerns regarding Mr. Gray's performance as the Clerk. The Council member reported the City Council advised Mr. Gray during the March 18, 2020 City Council meeting to make sure his responsibilities were being completed in a timely manner. The City Council member also reported Mr. Gray left employment in April 2020. City Council members subsequently confirmed City obligations had not been paid in a timely manner. They also identified concerns regarding certain payroll records found in City Hall.

As a result of the concerns identified, the Office of Auditor of State was requested to review the City's financial records. We performed the procedures detailed in the Auditor of State's Report for the period December 1, 2018 through May 31, 2020.

Detailed Findings

The procedures performed identified \$8,406.08 of improper disbursements and \$3,472.40 of unsupported disbursements. The improper disbursements identified include \$4,898.45 of unauthorized payroll to Mr. Gray and the related City share of the payroll costs. The improper disbursements identified also include \$1,733.76 of improper reimbursements to Mr. Gray and \$1,684.38 of late fees and interest. The \$3,472.40 of unsupported disbursements identified include \$1,966.50 of payments to Mr. Gray's wife, Artema Gray.

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

At the completion of fieldwork, we contacted Mr. Gray to obtain an explanation for the improper disbursements identified. However, he did not return our calls requesting an interview.

IMPROPER AND UNSUPPORTED DISBURSEMENTS

As previously stated, all City disbursements are to be made by check. Also as previously stated, Mr. Gray was responsible for calculating payroll amounts, preparing and distributing checks to vendors and for payroll, and posting payments to the accounting records. We scanned all disbursements and copies of redeemed checks issued from the City's bank account from December 1, 2018 through May 31, 2020 to identify any unusual payments. For certain disbursements, we used supporting documentation available from the City, internet searches, the vendor, the frequency and amount of the payments, discussions with City officials, and approved disbursement listings, to classify payments as improper, unsupported, or reasonable.

Disbursements were classified as improper if they were personal in nature or not necessary or reasonable for operations of the City. Disbursements were classified as unsupported if appropriate documentation was not available or it was not possible to determine if the disbursement was related to City operations or was personal in nature. Other disbursements were classified as reasonable if it appeared they were for City operations based on available supporting documentation, the vendor, frequency and amount of the payments, and/or discussions with the Mayor and current City Clerk.

Based on our review of copies of redeemed checks included with the City's bank statements, the City Clerk preceding Mr. Gray signed checks issued from the City's bank account through December 14, 2018. The first checks signed by Mr. Gray were dated December 31, 2018.

The improper and unsupported disbursements identified from the City's bank account are explained in detail in the following paragraphs.

Unauthorized Payroll and Related Costs

After the previous City Clerk departed in December 2018, Mr. Gray prepared the payroll records, signed the payroll checks, and provided the checks to the Mayor for countersignature. He was to be paid on or about the 1st and 15th of each month for the prior pay period. His gross pay was to be based on the number of hours worked during each pay period multiplied by his approved hourly rate. He was paid for holidays but was not eligible for paid time off for sick leave or vacation. Mr. Gray was also entitled to reimbursement of expenses related to training such as supplies, mileage, food, and lodging.

Also as previously stated, Mr. Gray began issuing checks and carrying out the Clerk's other duties in December 2018 and was officially appointed by the City Council as the City Clerk during the January 9, 2019 meeting. While the City Council minutes do not specify a set number of hours Mr. Gray was to work, the Mayor reported he was to work 32 hours per week and was originally paid \$12.00 per hour.

The City Council also periodically increased Mr. Gray's authorized hourly pay rate and, on one occasion, they increased the number of hours he was authorized to work. Based on resolutions and minutes of City Council meetings we reviewed, the City Council authorized the following changes.

- February 13, 2019 – The City Council approved a pay increase to \$14.00 per hour. Based on the payroll register, the raise was included with the March 1, 2019 payroll check which covered the last half of February 2019.
- August 28, 2019 – Minutes of the City Council meeting document the “Clerk will be working some extra hours for a couple of weeks to improve the filing system in the office.” However, the minutes do not document when the improvements were completed, and Mr. Gray was to return to his previously established level of authorized hours per week.
- December 18, 2019 – The City Council approved a pay increase to \$14.50 per hour. Based on the payroll register, the raise was included with the December 31, 2019 payroll check which covered the last half of December 2019.

The Mayor also reported Mr. Gray was expected to use the time clock located in City Hall to punch in and out each workday. The timecard was to be reviewed and signed by the Mayor. When we requested copies of Mr. Gray's timecards for December 2018 through April 2020, City officials could only locate timecards for the 16 pay periods from May 16, 2019 through January 1, 2020. During our review of the available timecards, we identified the following concerns:

- None of the timecards included an indication they were reviewed by the Mayor or another City official. As a result, no one determined the propriety of the time recorded.
- The time clock was not used on a number of occasions to document the time Mr. Gray started or ended his workday. Instead, the timecard included a manual notation of the time. No one verified the accuracy of the time recorded.
- The timecards included manual notations of the number of hours Mr. Gray recorded for a holiday. While Mr. Gray recorded 6 hours for July 4, Labor Day, two days for

Thanksgiving, Christmas Eve, Christmas, and New Year's Day (January 1, 2020), he recorded 8 hours for Memorial Day in May 2019.

As previously stated, the Mayor reported Mr. Gray was expected to work 32 hours per week. Because he was paid twice each month instead of biweekly, the expected hours for each pay period is calculated by multiplying the 32 hours per week by 52 weeks per year and dividing the 1,664 total by 24 pay periods per year to arrive at 69 hours per pay period. As previously stated, minutes from the August 28, 2019, City Council meeting document Mr. Gray would be working some extra hours for a couple of weeks to improve the filing system in the office. However, City officials reported the filing system was not improved. As a result, they do not believe he worked any additional time once it was approved.

To determine the propriety of the amounts of the payroll checks Mr. Gray issued to himself, we compared the number of hours recorded on his timecards to the hours he recorded for himself in the City's payroll register used to calculate payroll. We also compared the number of hours recorded in the payroll register to the 69 hours Mr. Gray was expected to work each pay period. When timecards were not available, we only compared the information recorded in the payroll register to the expected 69 hours per pay period. Our comparisons are illustrated in **Exhibit B**.

As illustrated by the **Exhibit**, we identified 20 instances for which Mr. Gray recorded more hours in the payroll register than were recorded on his timecard or which exceeded the maximum authorized hours expected by City officials. As a result, he received pay for 297.71 hours in excess of what he was authorized to receive. The number of excess hours per instance ranged from 3.23 to 54.9.

Also as illustrated by **Exhibit B**, for the 16 pay periods for which timecards were available, the number of hours Mr. Gray recorded in the payroll register exceeded the number of hours recorded on the timecards on 14 occasions. As previously stated, timecards were not available for the period prior to May 16, 2019 or after January 1, 2020. As a result, we were not able to compare the number of hours recorded on the timecards to the number of hours recorded in the payroll register to the payroll amounts Mr. Gray issued to himself during these periods. Had sufficient records been available, we may have identified additional excess hours for which he paid himself.

Using his authorized hourly wage, we determined Mr. Gray received \$4,183.48 of gross wages for the 297.71 of excess hours identified. Because Mr. Gray's gross pay was \$4,183.48 in excess of what was appropriate, the City also incurred additional FICA and IPERS contributions for the employer's share of these payroll costs. As illustrated by **Exhibit B**, the City paid \$320.05 for the employer's share of FICA and \$394.92 for the employer's share of IPERS contributions for the excess hours. The \$4,898.45 total improper disbursements identified is included in **Exhibit A**.

Reimbursements to Darren Gray

As previously stated, Mr. Gray was eligible for reimbursement of expenses related to his job duties, such as travel costs for conferences and mileage for reading the water meters each month. The City Council approved a mileage reimbursement rate of \$0.58 per mile the period December 1, 2018 through December 31, 2019 and \$0.575 per mile beginning January 1, 2020. According to City officials, reimbursements were to be supported by documentation and approved by the Mayor.

We compared the reimbursements to Mr. Gray recorded in the City's accounting system to copies of redeemed checks issued from the City's bank account and determined the reimbursements listed in the accounting system exceeded the amount of the checks actually issued to Mr. Gray. We are unable to determine why the amounts recorded in the accounting system did not agree with the check amounts for certain instances. We also compared the descriptions and amounts recorded in the accounting system and the amounts of the checks to any available supporting documentation and notations in minutes of City Council meetings. In addition, we discussed the payments with City officials.

Based on available supporting documentation and discussions with City officials, we determined \$2,138.82 of the reimbursements issued to Mr. Gray were reasonable, \$1,733.76 were improper and \$211.92 were unsupported. **Exhibit C** lists the 36 reimbursements checks Mr. Gray issued to himself.

The reasonable reimbursements identified include costs which were authorized by the City Council for which support was available, including the purchase of cleaning supplies, costs associated with certain training events, and the purchase of a laptop. City officials were unable to locate any support for the number of miles Mr. Gray drove while reading the water meters. However, as illustrated by **Exhibit C**, the \$2,138.62 of reasonable reimbursements identified includes the estimated mileage reimbursements for reading water meters each month. According to the current Clerk, she drives approximately 25 miles while reading the water meters near the first of each month. As illustrated by **Exhibit C**, we identified a reimbursement check issued to Mr. Gray around the first of the 16 months he was responsible for reading water meters. Using the estimated 25 miles the current Clerk drives and the mileage rate approved by the City Council, we determined a \$14.50 reimbursement for mileage while reading meters was reasonable from December 2018 through December 2019 and a \$14.38 was reasonable from January 1, 2020 through April 30, 2020.

Exhibit C also includes three reimbursements to Mr. Gray for which we were unable to determine the propriety of the payment. Based on descriptions recorded in the accounting system, two of the payments included reimbursement of meals and/or mileage to training events. While supporting documentation was not available for these reimbursements, we were able to confirm training events were held near the time of the reimbursements and Mr. Gray may have attended them. However, without documentation we were not able to determine if meals were provided as part of the events or the propriety of the meals purchased by Mr. Gray. For instance, we were unable to determine if meals were purchased for only one individual and/or if alcohol was included in the cost of the meals reimbursed to Mr. Gray. As a result, we classified the portion of the payments not related to mileage as unsupported. The third payment was described in the accounting system as "City Hall & Maintenance." It is possible Mr. Gray may have purchased supplies related to the cleaning or upkeep of City Hall. However, supporting documentation should have been filed with the City's records for the purchase.

As illustrated by **Exhibit C**, all or a portion of 30 of the reimbursements checks to Mr. Gray were determined to be improper. The \$1,733.76 of improper reimbursements identified includes checks which included the notion "mileage" in the accounting system but for which there was no supporting documentation or explanation. However, as previously stated, we determined it was reasonable for Mr. Gray to be reimbursed for 25 miles each month for mileage incurred while reading meters for the City.

The improper reimbursement checks identified also include three payments for which the accounting system included an explanation in addition to mileage. Specifically, the three payments included the following checks.

- Check number 3711 was dated June 26, 2019 and issued for \$117.80. It was described in the accounting system as "Mileage – Training." Based on support from IMFOA, Mr. Gray was not registered for any training in June 2019. City officials did not recall any training during June 2019 which Mr. Gray would have attended.
- Check number 3728 was dated July 12, 2019 and issued for \$211.94. Check number 3728 was described in the accounting records as a \$176.79 payment for a "Car Rental" with the invoice number 07122019a. The \$176.79 payment was supported by a car rental agreement and the City Council authorized the payment. As a result, this portion of the check to Mr. Gray is classified as reasonable in **Exhibit C**.

The accounting system also included a \$42.30 payment with invoice number 07122019 which was described as “Mileage/Supplies.” This amount was not supported by any documentation and did not agree with the \$35.15 remaining portion of the check amount. Because the City Council authorized a car rental, there was not a need to reimburse Mr. Gray for mileage and documentation was not available to support a purchase of supplies. As a result, the remaining \$35.15 portion of the check issued to Mr. Gray is classified as improper in **Exhibit C**.

- Check number 3732 was dated August 1, 2019 and issued for \$192.90. The check was described in the accounting system as a \$93.66 payment for “MEAL/CONFERENCE” with the invoice number 08012019. Based on available supporting documentation, Mr. Gray attended training around the date of the check, however, the documentation did not specify what meals, if any, were provided by during the conference and individual receipts were not available for meals purchased by Mr. Gray. Because we are unable to determine the number of meals purchased and if alcohol was included with the meal purchases, we are unable to determine the propriety of the \$93.66 portion of the payment and this amount is included as unsupported in **Exhibit C**.

Check number 3732 was also described in the accounting system as a \$99.24 payment for “MILEAGE” with the invoice number 08012019-2. As previously stated, the City Council approved renting a car for Mr. Gray to take for the training session. Because the incurred a debit card charge for fuel related to the event, the \$99.24 portion of the check should not have been paid to Mr. Gray as mileage related to the training event. However, based on the date of the checks a portion of the check may be related to reading the water meters. As a result, we classified \$14.50 as reasonable for the operations of the City. The remaining \$84.74 is included as an improper disbursement in **Exhibit C**.

The five remaining improper reimbursement checks identified are listed in **Table 1**. The five payments were not properly supported by documentation and the accounting system include the descriptions listed in the **Table** for the payments.

Date	Check Number	Description per Accounting System	Check Amount
04/26/18	3663	MILEAGE/OFFICE SUPPLIES	\$ 42.84
06/12/19	3700^	CLEANING SUPPLIES/MILEAGE	33.26
06/17/19	3705	MILEAGE/SESQ SUPPLIES	104.00
08/29/19	3762*	MILEAGE/OFFICE SUPPLIES	68.05
10/15/19	3801	MILEAGE POSTAGE	68.13

^ - A receipt was available to show \$6.58 of this payment was for the purchase of supplies. Only the remaining portion described as mileage was not supported.

* - Because the check was issued near the first of the month, a portion was identified as reasonable for mileage to read meters for the City.

Because these payments were not properly supported, and City officials were unable to identify a reason for their issuance, the check amount or a portion of it is included in **Exhibit C** as improper.

Payments to Artema Gray

As previously stated, during the February 13, 2019 meeting, the City Council approved “to pay Silver City Clerk \$17.00 per hour for Training.” The Clerk employed by Silver City at that time was Mr. Gray’s wife, Artema Gray. The minutes did not include the number of training hours to be provided or what expenses Ms. Gray was to be reimbursed.

We identified 13 payments to Ms. Gray totaling \$2,082.42. The 13 payments were made between February 15, 2019 and April 1, 2020 and ranged from \$81.00 to \$348.50. In addition to payments for training Mr. Gray, some payments are described as reimbursements of costs incurred by Ms. Gray. The 13 payments are listed in **Exhibit D** and summarized in **Table 2**.

Table 2

Date Range	Number of Checks Issued	Description in Accounting System		Total
		Training	Reimbursement	
02/15/19-06/30/19	5	881.50	115.92	\$ 997.42
07/01/19-12/31/19	4	572.00	-	572.00
01/01/19-04/01/20	4	513.00	-	513.00
Total	13	\$ 1,966.50	115.92	2,082.42

Based on our review of available documentation, we determined the checks to Ms. Gray include \$89.49 of improper payments, \$1,966.50 of unsupported payments, and a \$26.43 reasonable reimbursement made on February 15, 2019 for the purchase of batteries and envelopes. The improper and unsupported disbursements include:

- Check number 3661 for \$89.49 which included the description “CONFERENCE MEALS” in the accounting system. City officials could not locate any supporting documentation showing the Ms. Gray attended training and the City Council did not authorize training costs for Ms. Gray. As a result, the \$89.49 is an improper payment. As previously stated, Ms. Gray was employed as the Clerk for Silver City. We were not able to readily determine if Silver City incurred any costs related to the training event.
- Eleven checks totaling \$1,693.57 which were described as “TRAINING” or “EOY TRAINING” in the accounting system. City officials were unable to locate any records showing the number of hours Ms. Gray spent training Mr. Gray. Because we were unable to determine the propriety of the amounts of the eleven checks, they are classified as unsupported in **Exhibit D**. However, during our review of the eleven payments we identified the hours worked based on dividing the amount of the check by the authorized \$17.00 per hour did not calculate to normal increments for reporting hours, such as by the hour, half-hour, or 15 minute increments. As a result, the payment appears unusual in nature.
- Check number 3623 for \$272.93 included the notation “TRAINING/SUPPLIES” in the accounts payable ledger. City officials located a receipt from a vendor showing the reimbursement to Ms. Gray included \$26.43 for reimbursement of supplies purchased, including batteries and envelopes. Because the \$26.43 is supported by reasonable documentation, it is classified as a reasonable payment. City officials were unable to find any support for the remaining \$246.50. As a result, the \$246.50 is included as an unsupported reimbursement.

Other Disbursements

During our review of disbursement from the City's checking account we identified \$1,293.98 of disbursements for which supporting documentation was not available. The unsupported payments identified are listed in **Table 3**.

Table 3

Date	Check Number	Payee	Amount
12/05/18	##	WALMART.COM	\$ 33.50
12/05/18	##	WALMART.COM	64.71
12/17/18	3590	Troy J Hatcher	27.70
12/18/18	##	WR HARDWARE	262.85
02/12/19	##	AMXN MKTP	13.89
06/21/19	3703	Troy J Hatcher	305.88
06/21/19	3704	Troy Hatcher	67.09
07/12/19	3724	Troy Hatcher	58.85
10/15/19	##	OFFICEMAX/DEPOT	320.99
12/19/19	3838	Troy J Hatcher	138.52
Total			<u>\$ 1,293.38</u>

- Disbursement made with a debit card.

As illustrated by the **Table**, five disbursements totaling \$695.94 were made with a debit card associated with the City's bank account. City officials we spoke with reported they were unaware the former City Clerk had requested a debit card for the City's bank account. They stated supplies may have been purchased from the vendors paid with the debit card. Because supporting documentation was not available for the purchases, we were not able to determine their propriety.

The remaining \$598.04 of unsupported disbursements were made to the City's part-time maintenance employee. According to City officials we spoke with, he periodically purchased items necessary for City operations, but they were unable to determine the reason for each of the payments listed in **Table 3**. As a result, we were not able to determine propriety of the individual payments.

The \$1,293.98 total summarized in **Table 4** is included in **Exhibit A** as unsupported disbursements.

Late Fees and Interest

During our review of various records available at the City, we determined the City paid \$1,684.38 of penalties, late fees and interest to various parties, including the Iowa Department of Revenue, IPERS, and certain vendors from whom the City purchased goods or services. The penalties, late fees, and interest were incurred because certain reports were not filed and the City's obligations were not paid in a timely manner. Because we were not able to ensure all documentation was available, we were not able to determine if additional penalties, late fees, and/or interest were paid by the City during Mr. Gray's tenure. **Table 4** lists the amount of penalties, late fees, and interest identified.

Table 4

Description	Amount	
Iowa Department of Revenue:		
Sales tax (utilities)	\$ 1,245.80	
Withholding tax	143.40	1,389.20
IPERS contributions		242.25
Vendors		52.93
Total		\$ 1,684.38

Mr. Gray was responsible for ensuring all reports were filed and City obligations were paid in timely manner. The \$1,684.38 summarized in **Table 4** is included in **Exhibit A** as improper disbursements.

OTHER ADMINISTRATIVE ISSUES

Oversight – City officials have a fiduciary responsibility to exercise authority over its funds, efficiently and effectively achieve its mission, 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. Based on our review, we determined the City officials did not provide sufficient oversight of the City’s financial transactions and did not:

- Properly review payroll documentation prior to issuance.
- Compare the bill listings to supporting documentation and checks.
- Require and maintain original, itemized receipts for all disbursements, including employee reimbursements, and review the supporting documentation to ensure the disbursements met the test of public purpose.
- Review the City’s bank statements.
- Request and review bank reconciliations.

Debit Card – As previously stated, all City disbursements are to be made by check and the Mayor countersigns the checks. Countersigning checks provides an opportunity for oversight to ensure disbursements are appropriate. During our review of the bank statements, we identified purchases made with a debit card. According to City officials, they were unaware the former City Clerk had obtained a debit card for the City’s bank account. The use of a debit card circumvents the oversight provided by a countersignature on disbursements made by check.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the City of Hastings to perform bank reconciliations and process receipts, disbursements, and 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 internal controls.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among individuals to prevent one person from handling duties which are incompatible. The former City Clerk had control over each of the following areas:
- Receipts – collecting, posting to the accounting records, and preparing and making bank deposits,
 - Disbursements – making certain purchases, receiving certain goods and services, presenting disbursements to the City Council for approval, maintaining supporting documentation, preparing, and distributing checks, and posting to the accounting records,
 - Payroll – calculating payroll amounts, preparing, and distributing checks, posting payments to the accounting records, and filing required payroll reports, and
 - Financial 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 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 Mayor and City Council members should review financial records, perform reconciliations, and examine supporting documentation for accounting records on a periodic basis.

- B. Disbursements – During our review of the City's disbursements, the following were identified:
- The former City Clerk did not provide bill listings to the City Council for review and approval at City Council meetings.
 - Disbursements were not consistently supported by invoices or other documentation.
 - The City incurred penalties, late fees, and interest because certain City obligations were not paid in a timely manner.

Recommendation – Original receipts for each disbursement should be provided to or obtained by the City Clerk. The documentation should be reviewed and scrutinized for compliance with City policy prior to submitting the proposed payment to the City Council for approval and payment. All payments should be remitted in a timely manner to ensure late fees and interest are not incurred.

All City disbursements should be reviewed and approved by the City Council prior to payment. A listing of all disbursements should be prepared and presented to the City Council. The Council's approval of the listing should be documented in the minutes. To strengthen internal control, the listing should be signed by the Clerk and a City official then filed with the minutes. In addition, City officials should ensure each check continues to be

countersigned; however, detailed supporting documents should also be provided to the countersigner along with the check for review.

City officials should determine if it is necessary to establish a policy which allows certain disbursements to be issued prior to City Council review and approval. However, if such a policy is established, it should be in writing and disbursements eligible for payment prior to City Council approval should be limited to those which are routine and repetitive in nature, such as payments for utility services. For the disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval.

- C. Payroll – We determined Mr. Gray’s gross pay exceeded the amount authorized. The excess gross pays and the City’s share of related FICA and IPERS costs totaled \$4,898.45. In addition, there was no evidence of review of Mr. Gray’s timecards for the periods he submitted timecards. In addition, the City Council did not document the expected number of hours Mr. Gray was to work each pay period.

Recommendation – City officials should periodically review payroll records to ensure payroll is calculated properly and compare the amount recorded in the payroll register to the actual payroll checks issued. Timecards should be reviewed and approved by the employees’ supervisor to ensure they are completed in an appropriate manner and the time recorded is reasonable.

In addition, the City Council should clearly document the expected number of hours employees are to work during a typical pay period and ensure any increase or decrease to the expected number of hours is properly reviewed, approved, and documented.

- D. Debit Card – City disbursements are to be made by check which are countersigned by the Mayor. However, we identified purchases made with a debit card. The use of a debit card circumvents the oversight provided by a countersignature on disbursements made by check.

City officials reported they were unaware the former City Clerk had obtained a debit card for the City’s bank account. Because no one other than the former City Clerk reviewed the City’s monthly bank statements, the debit card transactions were not identified by City officials.

Recommendation – City officials should ensure the use of a debit card is discontinued so disbursements cannot be made prior to the City Council’s approval. The City Council should also implement procedures requiring all City obligations be paid by check and properly supported with original invoices, receipts, or other appropriate documentation.

- E. Oversight by City Officials – City officials have 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 we performed, we determined City officials 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 financial operations of the City.

Recommendation – Oversight by City officials is essential and should be an ongoing effort. City officials should exercise due care and review all pertinent information. City officials should also ensure sufficient information is prepared and provided to them for making decisions and appropriate policies and procedures are adopted, implemented, and monitored to ensure compliance.

For example, 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. Bank reconciliations should be performed monthly and reviewed by someone independent of other financial responsibilities. In addition, an initial listing of miscellaneous receipts should be maintained and periodically reviewed by someone independent of the collecting, recording and depositing functions. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

Exhibits

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

Report on Special Investigation of the
City of Hastings

Summary of Findings
For the Period December 1, 2018 through May 31, 2020

Description	Exhibit/Table/ Page Number	Improper	Unsupported	Total
Improper and unsupported disbursements:				
Unauthorized payroll and related costs	Exhibit B	\$ 4,898.45	-	4,898.45
Reimbursements to Darren Gray	Exhibit C	1,733.76	211.92	1,945.68
Payments to Artema Gray	Exhibit D	89.49	1,966.50	2,055.99
Other disbursements	Table 3	-	1,293.98	1,293.98
Late fees and interest	Table 4	1,684.38	-	1,684.38
Total		<u>\$ 8,406.08</u>	<u>3,472.40</u>	<u>11,878.48</u>

Report on Special Investigation of the
City of Hastings

Payroll Disbursements to Darren Gray
For the Period December 1, 2018 through May 31, 2020

Per Payroll Register

Check Date	Check Number	Number of Hours	Gross Amount	Net Amount	Hours per Timesheet	Maximum Allowable Hours[^]
12/01/18	3576	10.57	\$ 126.84	109.16	##	10.57
12/14/18	3594	44.28	531.36	442.63	##	44.28
12/31/18	3599	68.10	817.20	648.82	##	68.10
01/16/19	3610	63.74	764.88	610.71	##	63.74
02/01/19	3611	60.47	725.64	582.61	##	60.47
02/16/19	3622	57.87	694.44	560.68	##	57.87
03/01/19	3630	60.57	847.98	670.43	##	60.57
03/15/19	3641	74.19	1,038.66	806.66	##	69.00
04/01/19	3644	65.00	910.00	714.99	##	65.00
04/16/19	3658	83.16	1,164.24	895.97	##	69.00
05/01/19	3668	73.50	1,029.00	799.26	##	69.00
05/16/19	3682	79.13	1,107.82	855.71	67.12	67.12
06/01/19	3686	71.35	998.90	778.18	64.30	64.30
06/16/19	3702	66.66	933.24	731.82	58.35	58.35
07/01/19	3715	63.82	893.48	703.32	52.07	52.07
07/16/19	3727	74.34	1,040.76	808.27	73.15	69.00
08/01/19	3730	78.89	1,104.46	853.13	78.38	69.00
08/16/19	3740	68.57	959.98	750.32	56.20	56.20
09/01/16	3778	72.23	1,011.22	786.61	63.98	69.00
09/16/19	3784	78.00	1,092.00	844.57	76.02	69.00
10/01/19	3797	91.95	1,287.30	983.34	92.88	69.00
10/16/19	3803	73.60	1,030.40	800.34	18.70	18.70
11/01/19	3809	74.34	1,040.76	808.27	61.68	61.68
11/15/19	3814	71.56	1,001.84	780.42	65.50	65.50
11/27/19	3826	75.96	1,063.44	824.67	41.87	41.87
12/16/19	3832	69.94	979.16	764.03	36.77	36.77

Hours Paid in Excess of Allowable Maximum	Authorized Hourly Wage	Unauthorized Payroll			
		Gross Payroll	Employer's Share of:		Total
			FICA	IPERS	
-	\$ 12.00	-	-	-	-
-	12.00	-	-	-	-
-	12.00	-	-	-	-
-	12.00	-	-	-	-
-	12.00	-	-	-	-
-	12.00	-	-	-	-
-	14.00	-	-	-	-
5.19	14.00	72.66	5.56	6.86	85.08
-	14.00	-	-	-	-
14.16	14.00	198.24	15.17	18.71	232.12
4.50	14.00	63.00	4.82	5.95	73.77
12.01	14.00	168.14	12.86	15.87	196.87
7.05	14.00	98.70	7.55	9.32	115.57
8.31	14.00	116.34	8.90	10.98	136.22
11.75	14.00	164.50	12.58	15.53	192.61
5.34	14.00	74.76	5.72	7.06	87.54
9.89	14.00	138.46	10.59	13.07	162.12
12.37	14.00	173.18	13.25	16.35	202.78
3.23	14.00	45.22	3.46	4.27	52.95
9.00	14.00	126.00	9.64	11.89	147.53
22.95	14.00	321.30	24.58	30.33	376.21
54.90	14.00	768.60	58.80	72.56	899.96
12.66	14.00	177.24	13.56	16.73	207.53
6.06	14.00	84.84	6.49	8.01	99.34
34.09	14.00	477.26	36.51	45.05	558.82
33.17	14.00	464.38	35.53	43.84	543.75

Report on Special Investigation of the
City of Hastings

Payroll Disbursements to Darren Gray
For the Period December 1, 2018 through May 31, 2020

Per Payroll Register

Check Date	Check Number	Number of Hours	Gross Amount	Net Amount	Hours per Timesheet	Maximum Allowable Hours[^]
12/31/19	3849	76.47	1,108.82	856.47	76.98	69.00
01/16/20	3862	66.73	967.59	762.62	##	66.73
01/30/20	3865	6.00	87.00	74.88	##	6.00
02/01/20	3864	65.27	946.42	747.38	##	65.27
02/18/20	3870	48.50	703.25	571.90	##	48.50
03/01/20	3883	65.80	954.10	752.28	##	65.80
03/16/20	3885	63.00	913.50	723.13	##	63.00
04/01/20	3890	92.61	1,342.85	1,031.40	##	69.00
05/14/20	3921	52.00	754.00	608.82	##	52.00
Totals		2,308.17	\$ 31,972.53	\$25,043.80	983.95	2,010.46

[^] - The lesser of time recorded on timesheet or the 69 hours Mr. Gray was expected to work each pay period. maximum established by City officials. If a timesheet was not available, the number of hours recorded in the payroll register was used for the comparison.

- Timesheet not available from the City.

Hours Paid in Excess of Allowable Maximum	Authorized Hourly Wage	Unauthorized Payroll			
		Gross Payroll	Employer's Share of:		Total
			FICA	IPERS	
7.47	14.50	108.31	8.29	10.22	126.82
-	14.50	-	-	-	-
-	14.50	-	-	-	-
-	14.50	-	-	-	-
-	14.50	-	-	-	-
-	14.50	-	-	-	-
-	14.50	-	-	-	-
23.61	14.50	342.35	26.19	32.32	400.86
-	14.50	-	-	-	-
297.71		4,183.48	320.05	394.92	4,898.45

Report on Special Investigation of the
City of Hastings

Reimbursements to Darren Gray
For the Period December 1, 2018 through May 31, 2020

Per Redeemed Check			Description in Accounting System or from Supporting Documentation
Date	Number	Amount	
12/31/18	3602	\$ 37.82	Mileage with no support or explanation
02/01/19	3612	32.48	Mileage with no support or explanation
03/01/19	3625	45.82	Mileage with no support or explanation
04/01/19	3645	49.30	Entry in accounting system described the payment as "City Hall & Maintenance" but there was no supporting documentation.
04/08/19	3653	51.89	Mileage with no support or explanation
04/16/19	3659	171.68	Milage to traning event
04/26/18	3663	42.84	Mileage/office supplies with no support or explanation
05/01/19	3669	44.00	Mileage with no support or explanation
05/08/19	3672	48.60	Mileage with no support or explanation
05/16/19	3683	32.48	Mileage with no support or explanation
05/31/19	3689	38.28	Mileage with no support or explanation
06/12/19	3700	33.26	Cleaning supplies totaling \$6.58; rest of payment is described as mileage in accounting system with no support or explanation.
06/17/19	3705	104.00	"MILEAGE/SESQ SUPPLIES" with no support or explanation
06/26/19	3711	117.80	"Mileage-Training" with no support or explanation
07/01/19	3716	40.60	Mileage with no support or explanation
07/12/19	3728	211.94	Car rental 07/13-07/19/19 for \$176.79 approved by Council; rest of payment is described as mileage in accounting system with no support or explanation.
08/01/19	3732	192.90	The accounting system described \$93.66 of the payment as "Meal/Conference" for which there was no supporting documentation. We are unable to determine if meals were provided as part of the conference Mr. Gray attended or the propriety of meals purchased. The accounting system also described the remaining \$99.24 as mileage, but the Council authorized renting a car for the trip.
08/16/19	3738	140.36	Mileage with no support or explanation
08/29/19	3762	68.05	"Mileage/Office Supplies" with no support or explanation
09/16/19	3785	32.57	Mileage with no support or explanation

	Improper	Unsupported	Reasonable
\$	23.32	-	14.50 #
	17.98	-	14.50 #
	31.32	-	14.50 #
	-	49.30	-
	37.39	-	14.50 #
	-	-	171.68
	42.84	-	-
	29.50	-	14.50 #
	48.60	-	-
	32.48	-	-
	23.78	-	14.50 #
	26.68	-	6.58
	104.00	-	-
	117.80	-	-
	26.10	-	14.50 #
	35.15	-	176.79
	84.74	93.66	14.50 #
	140.36	-	-
	53.55	-	14.50 #
	32.57	-	-

Report on Special Investigation of the
City of Hastings

Reimbursements to Darren Gray
For the Period December 1, 2018 through May 31, 2020

Per Redeemed Check			Description in Accounting System or from Supporting Documentation
Date	Number	Amount	
09/18/19	3788	50.00	Council approved purchasing a gift card to compensate a citizen for time and expense for work done on City property.
10/01/19	3798	39.90	Mileage with no support or explanation
10/04/19	3800	1,237.49	Laptop computer approved by Council on 09/18/19 not to exceed \$1,500.00.
10/15/19	3801	68.13	"Mileage/Postage" with no support or explanation
10/23/19	3805	264.07	"Mileage/Meals IMFOA" We confirmed training was held and calculated reasonable mileage reimbursement based on its location. Unable to determine propriety of meals because supporting documentation was not available.
10/31/19	3810	70.18	Mileage with no support or explanation
11/15/19	3815	43.06	Mileage with no support or explanation
11/27/19	3829	370.92	Mileage with no support or explanation
12/18/19	3844	36.31	Mileage with no support or explanation
12/19/19	3848	69.53	Lockset and boots
12/31/19	3850	48.37	Mileage with no support or explanation
01/16/20	3863	41.98	Mileage with no support or explanation
01/30/20	3867	29.50	Mileage with no support or explanation
02/26/20	3881	62.20	Mileage with no support or explanation
03/16/20	3884	73.49	Mileage with no support or explanation
04/01/20	3901	42.70	Mileage with no support or explanation
Totals		<u>\$ 4,084.50</u>	

- Based on the date of the check, it is reasonable this check included mileage for monthly meter readings. The reasonable portion was calculated by multiplying the current Clerk's approximate mileage by the authorized reimbursement rate per mile. Any remaining portion was determined to be improper.

Improper	Unsupported	Reasonable
-	-	50.00
25.40	-	14.50 #
-	-	1,237.49
68.13	-	-
-	68.96	195.11
55.68	-	14.50 #
43.06	-	-
356.42	-	14.50 #
36.31	-	-
-	-	69.53
33.87	-	14.50 #
41.98	-	-
15.12	-	14.38 #
47.82	-	14.38 #
73.49	-	-
28.32	-	14.38 #
\$ 1,733.76	211.92	2,138.82

Report on Special Investigation of the
City of Hastings

Payments to Artema Gray
For the Period December 1, 2018 through May 31, 2020

Per Redeemed Check			Description per Accounting System	Improper
Date	Number	Amount		
02/15/19	3623	\$ 272.93	TRAINING/SUPPLIES	\$ -
03/01/19	3624	178.50	Training	-
03/27/19	3642	348.50	TRAINING	-
04/23/19	3661	89.49	CONFERENCE MEALS	89.49
05/31/19	3687	108.00	TRAINING	-
08/01/19	3731	99.00	TRAINING	-
08/28/19	3750	216.00	TRAINING	-
11/20/19	3824	176.00	TRAINING	-
11/27/19	3827	81.00	TRAINING	-
01/30/20	3866	108.00	EOY TRAINING	-
02/26/20	3880	144.00	TRAINING	-
03/18/20	3886	144.00	TRAINING	-
04/01/20	3900	117.00	TRAINING	-
Totals		<u>\$ 2,082.42</u>		<u>\$ 89.49</u>

* - Check amount less any reimbursements divided by \$17.

Unsupported	Reasonable	Calculated*	
		Number of Hours	HH:MM
246.50	26.43	14.50	14:30.0
178.50	-	10.50	10:30.0
348.50	-	20.50	20:30.0
-	-	-	-
108.00	-	6.35	6:21.0
99.00	-	5.82	5:49.2
216.00	-	12.71	12:42.6
176.00	-	10.35	10:21.0
81.00	-	4.76	4:45.6
108.00	-	6.35	6:21.0
144.00	-	8.47	8:28.2
144.00	-	8.47	8:28.2
117.00	-	6.88	6:52.8
1,966.50	26.43	115.66	115:39.6

Report on Special Investigation of
City of Hastings

Staff

This special investigation was performed by:

James S. Cunningham, CPA, Director
Mark W. Hart, Assistant Auditor

A handwritten signature in black ink that reads "Annette K. Campbell". The signature is written in a cursive style with a large initial "A".

Annette K. Campbell, CPA
Deputy Auditor of State