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NEWS RELEASE

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FOR RELEASE

February 10, 2021

Auditor of State Rob Sand today released a report on a special investigation of the Keokuk County Emergency Management Agency (EMA) for the period January 1, 2017 through May 31, 2020. The special investigation was requested as a result of concerns regarding the purchase and trade-in of a County vehicle and certain purchases by the EMA Coordinator, Larry Smith.

Sand reported Mr. Smith purchased a 2018 Chevrolet Silverado on September 5, 2018 on behalf of the EMA. The purchase price for the vehicle was reduced by \$800 for the EMA's 2006 Ford 350 traded in as part of the transaction. The Ford was then purchased from the dealer by Mr. Smith the same day for \$800 even though the vehicle's value ranged from approximately \$6,600 to \$14,400 depending on the vehicle's condition. Because the trade-in amount received for the vehicle was less its value, the EMA incurred additional costs.

Sand also reported the special investigation identified \$932.18 of disbursements which may not meet the test of public purpose and \$16.26 of improper disbursements, including late fees and sales tax.

The report includes recommendations to strengthen the EMA's internal controls and overall operations, such as implementation of a policy to ensure the maximum trade-in value is received in order to obtain the best price when purchasing a vehicle and implementation of procedures to ensure all purchases meet the test of public purpose. In addition, EMA officials should ensure disbursements are made in a timely manner to avoid incurring late fees.

Copies of this report have been filed with the Keokuk County Sheriff's Office, 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 on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

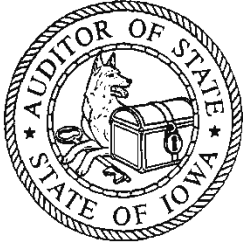
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**REPORT ON SPECIAL INVESTIGATION
OF THE
KEOKUK COUNTY EMERGENCY MANAGEMENT AGENCY

FOR THE PERIOD
JANUARY 1, 2017 THROUGH MAY 31, 2020**

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Rob Sand
Auditor of State

Auditor of State's Report

To the Keokuk County
Board of Supervisors:

At the request of Keokuk County officials and as a result of concerns regarding the purchase and trade-in of a County vehicle and certain purchases, we conducted a special investigation of the Keokuk County Emergency Management Agency (EMA). We have applied certain tests and procedures to selected financial transactions of the EMA for the period January 1, 2017 through May 31, 2020. Based on a review of relevant information and discussions with County officials and staff, we performed the following procedures:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Reviewed the supporting documentation for the purchase of a new truck and the related trade in to determine the propriety of the transaction.
- (3) Examined selected disbursements to determine whether they were properly approved, supported by sufficient documentation, and appropriate for the EMA's operations.
- (4) Interviewed the EMA Coordinator, Larry Smith, to obtain an understanding of the vehicle purchase and related trade in and the purpose of selected disbursements.

As a result of these procedures, we determined the EMA received an \$800 trade-in value for a vehicle that was worth \$6,600 to \$14,400 depending on the vehicle's condition. As a result, the EMA incurred additional costs when purchasing a vehicle. In addition, Mr. Smith purchased the traded vehicle from the dealer for the same amount as the trade-in value the same day.

The procedures also identified \$932.18 of disbursements which may not meet the test of public purpose and \$16.26 of improper disbursements. 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 additional procedures on the financial transactions of Keokuk County, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Keokuk County Sheriff's Office, 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 Keokuk County during the course of our investigation.


ROB SAND
Auditor of State

November 19, 2020

Report on Special Investigation of the
Keokuk County Emergency Management Agency
Investigative Summary

Background Information

The Keokuk County Emergency Management Agency (EMA) is a County agency established by section 29C.9 of the *Code of Iowa* to plan, prepare, respond, recover, and mitigate natural and manmade disasters in the County. The EMA is governed by the Keokuk County Emergency Management Commission (the Commission) which is composed of a member of the Board of Supervisors or an appointed representative, the Sheriff or the Sheriff's representative, and the Mayor or a representative from the following cities within the County: Delta, Gibson, Harper, Hayesville, Hedrick, Keota, Keswick, Kinross, Martinsburg, Ollie, Richland, Sigourney, South English, Thornburg, Webster, and What Cheer. The Commission is responsible for establishing policies and procedures for the operation of the EMA, including the collection and disbursement of EMA funds, personnel actions and benefits, and the coordination of emergency management activities and services among county and city governments and private sector agencies within the county.

Section 29C.9(5) of the *Code* states, "The commission shall model its bylaws and conduct its business according to the guidelines provided in the department's [Iowa Department of Homeland Security and Emergency Management] administrative rules." In accordance with the Iowa Administrative Code 605-7.3(2), the Commission "...shall develop bylaws to specify, at a minimum, the following information: ... g. The manner for acquiring, holding and disposing of property." However, the Commission has not adopted a policy which addresses the disposition of EMA assets.

According to the procurement policy approved by the Commission, Mr. Smith has the day-to-day authority to purchase and pay for goods and services up to \$500 without any formal action by the Commission. In addition, the policy states expenditures in excess of \$500 shall be approved by the Chair or Vice Chair of the Commission.

The former 911 Coordinator contacted the Office of Auditor of State with concerns regarding the purchase and trade-in of an EMA vehicle, the location of a utility terrain vehicle shared with Washington County, and certain purchases made by the EMA Coordinator, Larry Smith. As a result of the concerns identified, Keokuk County officials requested the Office of Auditor of State conduct an investigation of certain financial transactions of the Keokuk County EMA. We performed the procedures detailed in the Auditor of State's report for the period January 1, 2017 through May 31, 2020.

Detailed Findings

As a result of the procedures performed, we determined the EMA received an \$800 trade-in value for a vehicle that was worth \$6,600 to \$14,400 depending on the vehicle's condition. As a result, the EMA incurred additional costs when purchasing a vehicle. In addition, Mr. Smith purchased the traded vehicle from the dealer for the same amount as the trade-in value the same day.

The procedures also identified \$932.18 of disbursements which may not meet the test of public purpose and \$16.26 of improper disbursements, including late fees and sales tax. The findings are summarized in **Table 1** and a detailed explanation of each finding follows.

Table 1

| Description | | Amount | |
|---|----------------|-----------|-----------|
| <u>Public Purpose:</u> | | | |
| Purchases of coffee and machines, 07/01/16-05/31/20 | Table 2 | \$ 591.65 | |
| Purchases of additional machines prior to 07/01/16 | Page 7 | 340.53 | \$ 932.18 |
| <u>Improper Disbursements:</u> | | | |
| Late fees | Page 7 | \$ 12.75 | |
| Sales tax | Page 7 | 3.51 | 16.26 |
| Total | | | \$ 948.44 |

VEHICLE PURCHASE

On August 21, 2018, the Commission authorized the purchase of a 2018 Chevrolet and trade in of the EMA's 2006 Ford at Deery Brothers automotive dealer in Pleasant Hill, Iowa at a cost of \$35,810. According to the Motor Vehicle Purchase Agreement dated September 5, 2018, Mr. Smith purchased a 2018 Chevrolet Silverado on behalf of the County and traded in a 2006 Ford F-350. The purchase price of the new vehicle was listed on the agreement as \$36,610. The agreement also included a trade-in value of \$800 for the Ford for a net purchase price of \$35,810.

However, according to the current Kelley Blue Book provided by a representative of the Department of Transportation (DOT) at the time of our testing, the value of the Ford F-350 ranged from approximately \$6,600 to approximately \$12,500. In addition, the current National Automotive Dealers Association (NADA) values provided by a representative of the DOT at the time of our testing ranged from approximately \$9,100 to approximately \$14,400 depending on the condition of the vehicle. We were unable to determine the specific value of the 2006 Ford F-350 on September 5, 2018. According to DOT representatives, the vehicle may have been worth more than the specified ranges in September 2018.

With the assistance of DOT representatives, we also determined Mr. Smith purchased the 2006 Ford from Deery Brothers on September 5, 2018 for \$800.

According to Mr. Smith, the dealership had a bad experience with that series of truck and was worried about the engine, which is why the trade-in value was significantly less than the expected value. Mr. Smith also stated that series of truck is prone to engine troubles. According to the salesman from the dealership, the trade-in was valued so low because the truck had a lot of rust, the engine needed work, and there were a lot of holes in it from additional equipment being mounted to it.

Because the trade-in was valued below its worth, the County paid more for the 2018 Chevrolet Silverado than they should have. In addition, Mr. Smith purchased the 2006 Ford F-350 at a significant savings.

DISBURSEMENTS

As previously stated, Mr. Smith has the day-to-day authority to purchase and pay for goods and services up to \$500 without any formal action by the Commission. We scanned all reimbursements issued to Mr. Smith for the period January 1, 2017 through May 31, 2020, as well as all disbursements to Menards for that same period because a concern was expressed regarding Mr. Smith allegedly split purchases from this vendor to remain below the established \$500 threshold.

In addition, because County officials expressed concern regarding the propriety of purchases, we scanned all of the most recent disbursements issued to vendors, specifically those from June 1, 2019 through May 31, 2020. Because we did not identify a significant number of concerns with the propriety of the purchases during this period, we did not test all disbursements from January 1, 2017 through May 1, 2020. However, we extended testing to include the period July 1, 2016 through June 30, 2017. For the disbursements tested, we examined supporting documentation available from the EMA, internet searches, and/or held discussions with EMA officials to determine the propriety of the disbursements tested.

Disbursements were classified as improper if they were personal in nature or not necessary or reasonable for operations of the EMA. Disbursements were classified as not meeting the test of public purpose based on guidance found in an Attorney General’s Opinion dated April 25, 1979, which states, in part, “The key is ‘public purpose’; public monies may be spent only for the public benefit.” The improper disbursements identified, and the disbursements identified which do not appear to meet the test of public purpose are explained in detail in the following paragraphs.

Public Purpose

During our testing of disbursements, we identified 13 payments to a vendor which may not meet the requirements of public purpose as defined in the Attorney General’s Opinion because the public benefits to be derived were not clearly documented. **Table 2** summarizes the 13 payments identified by date for the periods reviewed. The \$591.65 total is included in **Table 1**.

| Date | Description | Amount |
|-------------|--|---------------|
| 10/03/16 | 4 boxes of Diedrich morning edition blend coffee | \$ 39.96 |
| 01/16/17 | Keurig® Office Pro Coffee System | 144.99 |
| 05/01/17 | Snapple raspberry iced tea k-cups | 13.99 |
| 05/01/17 | 6 boxes of Diedrich morning edition blend coffee | 58.74 |
| 06/05/17 | 4 boxes of Diedrich morning edition blend coffee | 29.20 |
| 06/27/19 | 4 boxes of Diedrich morning edition k-cups | 55.96 |
| 09/09/19 | 24-count dark chocolate k-cups | 14.99 |
| 09/09/19 | 3 boxes of Diedrich morning edition blend coffee | 41.97 |
| 11/12/19 | 3 boxes Folgers black silk k-cups | 35.97 |
| 01/03/20 | 2 boxes Folgers classic roast k-cups | 23.98 |
| 01/16/20 | 3 boxes Folgers classic roast coffee | 38.97 |
| 04/02/20 | 3 boxes of Diedrich morning edition blend coffee | 44.97 |
| 04/20/20 | 4 boxes of Diedrich morning edition blend coffee | 47.96 |
| Total | | \$ 591.65 |

During fieldwork, it was brought to our attention that a Keurig® Office Pro Coffee System had been purchased on three other occasions. The three purchases totaled \$340.53 and included the following instances. The \$340.53 total is included in **Table 1**.

- \$100.55 purchased on September 28, 2010,
- \$109.99 purchased on December 7, 2010, and
- \$129.99 purchased on February 11, 2016.

According to the opinion, it is possible for such 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.

Improper Late Fees and Sales Tax

During our review of supporting documentation available at the EMA, we determined the EMA paid \$12.75 of late fees to DirecTV, which, according to Mr. Smith, is subscribed to for news and weather reports. The late fees were incurred because certain EMA obligations were not paid in a timely manner. In addition, we identified two transactions for which the EMA incurred sales tax totaling \$3.51.

Other Concerns Brought to our Attention

In addition to concerns regarding the propriety of purchases, questions were voiced regarding the current location of a utility terrain vehicle (UTV) previously used by the EMA. We confirmed Washington County retained ownership of the UTV when the sharing agreement between Keokuk and Washington Counties ended.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the Keokuk County EMA for disposition of property and processing disbursements. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from errors or 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 EMA's internal controls.

- A. Vehicle Purchase – Mr. Smith purchased a 2018 Chevrolet Silverado on September 5, 2018 on behalf of the EMA. The purchase price for the vehicle was reduced by \$800 for the EMA's 2006 Ford 350 traded in as part of the transaction. The Ford was then purchased from the dealer by Mr. Smith the same day for \$800 even though the vehicle's value ranged from approximately \$6,600 to \$14,400 depending on the vehicle's condition. Because the trade-in amount received for the vehicle was less than its value, the EMA incurred additional costs.

Recommendation – Commission officials should implement procedures to ensure the maximum trade-in value is received in order to obtain the best price possible when purchasing a new vehicle. Commission officials should also ensure sufficient procedures are established and following regarding the disposition of other EMA assets.

- B. Disbursements – During our testing of disbursements, the following concerns were identified:

- The Commission does not independently review and approve all disbursements for the EMA. If a purchase was split into multiple transactions to remain below established thresholds, the Commission would not detect it.
- Disbursements which may not meet the test of public purpose.
- Late fees as a result of not paying obligations in a timely manner.
- Sales tax improperly paid by the EMA.
- A disbursement for which sufficient supporting documentation was not available to determine the propriety of the purchase.

Recommendation – Commission officials should implement procedures to ensure all disbursements are properly reviewed and approved by members of the Commission. This review and approval should be documented through the Commission meeting minutes.

Also, Commission officials should implement procedures to ensure all disbursements meet the test of public purpose and all disbursements are paid timely to avoid payment of late fees. In addition, procedures should be put in place to ensure all disbursements are supported by sufficient documentation.

- C. Disposal Policy – The Commission has not adopted a policy which addresses the disposition of EMA assets.

Recommendation – Commission officials should develop and implement a policy and procedures to ensure proper disposition of EMA assets.

Report on Special Investigation of the
Keokuk County Emergency Management Agency

Staff

This review was conducted by:

Jennifer Campbell, CPA, Manager
Sidot K. Shipley, Senior Auditor

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

Annette K. Campbell, CPA
Deputy Auditor of State