



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Rob Sand
Auditor of State

NEWS RELEASE

Contact: Rob Sand
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FOR RELEASE _____ September 10, 2024

Auditor of State Rob Sand today released a reaudit report on the City of Elkhart for the period June 1, 2021, through July 30, 2023. The reaudit petition was submitted to the Office of Auditor of State pursuant to Section 11.6(4)(a)(2) of the *Code of Iowa*. However, based on the nature of the concerns presented, certain reaudit procedures covered items applicable to the period January 1, 2021, through December 31, 2023.

The reaudit was requested due to concerns regarding the propriety of utility payments, the use of the City's credit card and overpayments of payroll and reimbursements to the former City Clerk and other City employees.

Sand identified \$49.94 of improper charges made on a City credit card for the purchase of a book and customizing of personal name plates, \$3,921.17 of unsupported credit card charges issued to the former City Clerk and the former City Administrator, \$5,121.10 of unsupported reimbursement checks to City employees, and \$5,807.50 of uncollected residential building permits.

The report includes recommendations to strengthen the City's internal controls and operations, such as enforcing the segregation of duties and implementing policies and procedures requiring adequate supporting documentation be submitted and maintained for all City disbursements or credit card charges.

The City responded favorably to the recommendations included in the reaudit report. A copy of the reaudit report is available for review on the Auditor of State's website at [Audit Reports – Auditor of State](#).

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CITY OF ELKHART
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JANUARY 1, 2021, THROUGH DECEMBER 31, 2023

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City of Elkhart

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John M. Kaczmarczyk	Mayor	Dec. 1, 2025
Rob Fouraker	Council Member	2024 – 2025
Brad Campbell	Council Member	2024 – 2027
Jill Edler	Council Member	2024 – 2027
Brad Fordyce	Council Member	2024 – 2027
Angie Schaffer	Council Member	2024 – 2027
Marissa Butler	City Deputy Clerk	2023-2024
Rick Huebner	Public Works	



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Auditor of State's Report on Reaudit

To the Honorable Mayor and
Members of the City Council:

We received a request to perform a reaudit of the City of Elkhart in accordance with Section 11.6(4)(a)(2) of the *Code of Iowa*. The reaudit was requested as a result of concerns regarding certain financial transactions processed by the former City Clerk. The City's management is responsible for the financial transactions of the City. Based on discussions with City official and a review of the preliminary information available, we performed the following procedures for the period January 1, 2021, through December 31, 2023.

1. Evaluated internal controls related to payroll, reimbursements, and credit cards to determine whether there were adequate policies and procedures in place and operating effectively.
2. Scanned the City Council meeting minutes to determine if there were any pay rate changes, and any changes in pay rates were properly approved.
3. Reviewed compensation to the former City Clerk, and other employees to determine the propriety of the payments.
4. Reviewed reimbursements issued to the former City Clerk and other staff to determine the propriety of the payments and compliance with the City policies.
5. Reconciled utility billings to the amounts collected and deposited to determine if deposits were made timely and intact.
6. Reviewed credit card charges to determine propriety, proper approval and to determine compliance with City policies.

Based on the performance of these procedures, we identified \$49.94 of improper charges made on a City credit card for the purchase of a book and customizing of personal name plates, \$3,921.17 of unsupported credit card charges issued to the former City Clerk and the former City Administrator 51 reimbursement checks totaling \$5,121.10 were unsupported, and \$5,807.50 of unpaid residential building permits.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of the City, additional matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the assistance extended to us by the officials and personnel of the City of Elkhart during the course of the reaudit.

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized with a large "R" and "S".

ROB SAND
Auditor of State

July 23, 2024

City of Elkhart

For the Period January 1, 2021, through December 31, 2023

Background Information

We received a request to perform a reaudit of the City of Elkhart in accordance with Section 11.6(4)(a)(2) of the *Code of Iowa* for the period ended June 30, 2023. The request detailed specific concerns, including:

- Alleged overpayments of the former City Clerk and other city employees' compensations and reimbursements.
- Concerns over unsupported purchases made using the City's Credit Card.
- Concerns with utility payments in regard to unusual transactions and whether payments received were deposited in the City's account.
- Transfer of money from certain accounts to cover deficits in other accounts.

As a result of the request and review of the concerns, we determined it was necessary to perform reaudit procedures for the concerns identified. Based on discussions with City official and a review of the preliminary information available, we performed procedures for the period January 1, 2021, through December 31, 2023.

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

Information obtained while performing the procedures is included in the following section of this report along with the concerns provided to us. Some of the concerns and findings include recommendations to City officials for corrective actions and/or improvements and their responses. Other concerns did not require recommendations to or responses from City officials based on our findings.

Concerns and Auditor's Response

- (A) **Unsupported Reimbursements** – The petitioners expressed concerns that the former City Clerk, Brenda Hysell, was receiving unauthorized reimbursements from the City.

Auditor's Response – According to the current City Clerk, reimbursements are to be supported by documentation such as receipts, invoices, or other similar documents. The supporting documents are to be provided with the bills listing given to the City Council for review and approval. Once approved, the City Administrator and the Mayor are permitted to issue a dual signed check for payments.

During the period of our review, we reviewed reimbursement checks issued to the former City Clerk other City employees. All employees received a monthly cell phone reimbursement and reimbursements for travel, clothing, and other items.

We determined Ms. Hysell received a monthly reimbursement for her cell phone. According to the City's Employee Handbook "Employees who are using their personal cell phone for business for the City of Elkhart on a daily basis will be reimbursed \$50 per month." The amount of the reimbursement was later increased to \$75.00 per month.

During the period of the reaudit, the Elkhart City Hall was open Monday to Friday from 8 am to 4:30 pm. As the City Clerk, Ms. Hysell would have been able to work from City Hall and have access to the City's phone. Because Ms. Hysell had access to City Hall and the City's phone, Ms. Hysell would not need to use her personal cell phone for City business on a daily basis. As a result, the \$1,975.00 is considered improper for City operations.

We also reviewed the reimbursements issued to two public works employees. Both employees also received a monthly cell phone reimbursement. Because public works employees are not in the office full time, but on various job locations, it is reasonable to provide cell phone reimbursements to public works employees if the City did not provide a cell phone for their use.

For the 51 remaining reimbursement checks issued for travel, clothing, and other items, City officials could not locate supporting documentation. As a result, we considered the 51 reimbursement checks totaling \$5,121.10 as unsupported disbursements.

Recommendation – The City should ensure they follow city policies and procedures requiring supporting documentation be included for all reimbursement checks issued to city employees and officials prior to approving the reimbursement check. In addition, the City should reevaluate the cell phone reimbursement policy to determine if the policy should be applied to all City staff, or only those who demonstrate a need to receive the cell phone reimbursement.

Response – The City will ensure all reimbursement checks to City employees and officials are supported with documentation prior to reimbursement. The City will reevaluate the cell phone reimbursement policy to determine who demonstrates a need to receive the cell phone reimbursement.

Conclusion – Response accepted.

(B) **Payroll Concerns** – The petitioners expressed concerns over the former City Clerk, Brenda Hysell's and other staff being overpaid.

Auditor's Response – Based on the procedures performed we determined:

- One employee's pay raise from \$26.00 to \$29.00 effective July 12, 2021, was not approved in the City Council minutes. All other staff raises were approved in the City Council minutes.
- All payroll checks issued were supported by the payroll journals and included the authorized salary approved by the City Council.
- We did not identify any additional payroll checks for any employees.
- Timesheets are not required for salaried employees. City officials were unable to locate timesheets for hourly employees.

Recommendation – City officials should ensure all pay raises, including the amount of the raise and new salary or hourly rate, are approved and included in the City Council meeting minutes. Employee timesheets should also be approved and maintained.

Response – The City will ensure all pay raises including the amount of the raise and new hourly or salary rate is approved by the City Council and recorded in the minutes. Employee timecards will be reviewed and signed by the reviewer. Timecards will be retained at City Hall.

Conclusion – Response accepted.

- (C) **Credit Card Purchases** – The petitioners expressed concerns that the former City Clerk, Brenda Hysell, and other City employees used the City credit card for personal use.

Auditor’s Response – The City had three credit cards assigned to City staff. We requested all credit card statements and supporting documentation for the period January 1, 2021 through November 31, 2023. Using the supporting documentation available from the City; and discussions with City officials, we classified 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 City officials. For the three credit cards reviewed, we identified the following:

- \$49.94 of improper charges made on a City credit card for the purchase of a book and customizing of personal name plates.
- \$3,921.17 of unsupported purchases on the credit cards. The unsupported charges included charges on “Amazon, Google, Office Depot, convenience stores, and restaurants.

Recommendation – City officials should ensure all credit card purchases are supported by appropriate documentation. The documentation such as, receipts, invoices, or other supporting documentation should be attached to the monthly credit card statements and reconciled to the charges. Also, payments should be remitted in a timely manner to ensure late fees are not incurred. In addition, a timely review of the credit card statements by an independent person should be conducted and the date and initials of the review should be documented on the statement.

Response – The City will ensure credit card statements have attached supporting documents. A timely review of the credit card statements by an independent person will be conducted and the date and initials of the reviewer will be documented on the statement. Electronic payments prior to the due date will be made to ensure payment is timely.

Conclusion – Response accepted.

- (D) **Utility and Other Collections** – The petitioners expressed concerns regarding the City’s utility payments and whether cash and check payments received were properly deposited.

Auditor’s Response – We requested customer Utility Account History reports, Utility Adjustment Reports, Cash Received Reports, and deposit slips from the City.

Based on the review of available information we identified \$3,671.03 of total utility adjustments made during the period of the reaudit. Based on the descriptions noted in the Adjustment Report and the amount of the adjustment, most adjustments were due to late payments, payment being lost in the mail, or the transfer from one account to another as a result of a change in the owner of the property or renter of the property.

We also reviewed the billing calculations for selected residential and commercial building permits to determine whether the rates were properly applied, and payments were received and deposited. As a result of these procedures, we identified \$5,807.50 of uncollected residential building permit fees.

Recommendation – City officials should develop policies and procedures requiring adjustments to utility accounts be supported and approved.

Response – City staff will work with City officials to develop policies and procedures for the adjustment of utility accounts. This will include retaining supporting documentation with the reason for the write-off and signed approval prior to adjustment. The City will ensure building permits are paid in full prior to releasing to the customer.

Conclusion – Response accepted.

- (E) **Transfer of Funds** – The petitioners expressed concerns over fund transfers made by the City Clerk. The concern indicated instances when the former City Clerk Brenda Hysell made transfers without City Council approval.

Auditor’s Response – We reviewed the City bank statements and did not identify any transfers between bank account during fiscal year 2021 to 2023. Section 545-2 of the City Finance Committee Rules requires “A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred.

Response – The City will continue to prepare a fund transfer resolution for all transfers between funds in compliance with Section 545-2 of the City Finance Committee Rules.

Conclusion – Response accepted.

City of Elkhart

Staff

This reaudit was performed by:

Julius O. Cooper, Staff Auditor

A handwritten signature in black ink, consisting of a large, stylized initial 'J' followed by a long, horizontal, slightly wavy line that tapers to the right.

James S. Cunningham, CPA
Chief Deputy Auditor of State