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NEWS RELEASE

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FOR RELEASE _____ April 22, 2008 _____

Auditor of State David A. Vaudt today released a report on a special investigation of the City of Mingo. The report covers the period September 1, 2002 through June 30, 2006. During this period Amy Berkey was the City Clerk. The special investigation was requested by City officials when it was determined a complete audit of the City's financial statements could not be performed for the year ended June 30, 2006 because adequate records were not available.

Vaudt reported the special investigation identified \$14,498.09 of undeposited collections, \$3,362.45 of improper disbursements and \$34,079.08 of unsupported disbursements. The improper disbursements include a \$1,605.40 Goal Setter Systems basketball hoop purchased by the City but installed at Ms. Berkey's personal residence, \$265.00 paid by the City for repairs to Ms. Berkey's personal computer and \$1,492.05 of late fees, finance charges and bank fees. The unsupported disbursements include \$583.01 of reimbursements to Ms. Berkey, \$646.55 of credit card purchases and \$32,849.52 of payments to various vendors which were not supported by appropriate documentation.

The undeposited collections include \$13,752.06 of estimated utility collections and \$746.03 of cash collections recorded in utility records but not deposited. Vaudt also reported bank documentation for deposits made to the City's checking accounts show only 2 deposits of cash between September 1, 2002 and June 30, 2006. The cash deposited totaled \$136.48. In addition, the deposits made to the City's checking accounts did not include any collections for utility billings for 7 months during this time period. Vaudt reported the deposits made to the City's bank account during the subsequent months appear to include these utility collections.

Vaudt also reported a number of warrants issued to the City by the State of Iowa were not deposited in a timely manner. However, the collections were recorded in the City's financial records when they were received. As a result, financial reports provided to the Council did not accurately reflect the balances in the City's bank accounts. In addition, Annual Financial Reports prepared and filed with the Office of Auditor of State did not accurately reflect the City's cash balance at the end of fiscal years 2003, 2004 and 2005.

The report also includes a number of recommendations to strengthen the City's internal control and overall operations. For instance, Vaudt recommended certain financial duties be segregated between the City Clerk, Mayor and Council Members to provide accountability for assets susceptible to loss. Vaudt also recommended certain financial records such as prenumbered receipts, bank reconciliations, utility reconciliations and other accounting records be prepared in a timely manner and maintained.

Copies of the report have been filed with the Jasper County Sheriff's Office, the Jasper County Attorney's Office, the Division of Criminal Investigation 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 <http://auditor.iowa.gov/specials/specials.htm>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF MINGO
FOR THE PERIOD
SEPTEMBER 1, 2002 THROUGH JUNE 30, 2006**

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Auditor of State's Report

To the Honorable Mayor and
Members of the City Council:

As a result of alleged improprieties regarding certain utility billings and collections, we conducted a special investigation of the City of Mingo. We have applied certain tests and procedures to selected financial transactions of the City for the period September 1, 2002 through June 30, 2006. Because not all records were available, we were not able to perform all procedures for the entire period. Based on discussions with City personnel and a review of relevant information, we performed the following procedures for the periods specified:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Examined the bank statements for the City's checking accounts to identify any unusual activity and to identify any checks issued to unusual payees or for unusual amounts. We also examined copies of certain redeemed checks, deposit slips and related documents for propriety.
- (3) Examined deposits to the City's bank accounts to determine the source, purpose and propriety of each deposit.
- (4) Examined available utility billing and collection records to determine if utility collections were properly recorded and deposited.
- (5) Scanned all disbursements and examined images of selected checks and debit transactions to identify any unusual transactions.
- (6) Examined documentation for certain checks issued from the City's checking accounts to determine if they were appropriate and properly supported. We also compared the checks to published disbursement listings approved by the Council.
- (7) Examined all transfers between the City's checking accounts to ensure amounts withdrawn were properly deposited in a timely manner and approved by the Council.
- (8) Confirmed payments to the City by the State of Iowa and Jasper County to ensure the payments were deposited intact to the authorized bank accounts.
- (9) Reviewed the Council meeting minutes for significant actions.
- (10) Examined payroll checks to the former City Clerk, Amy Berkey, to determine if the appropriate number of payroll disbursements had been made, the amounts paid were appropriate and to identify any improper or unsupported disbursements.
- (11) Obtained and reviewed statements for Ms. Berkey's personal bank account to identify the source of certain deposits.
- (12) Examined City records seized by representatives of the Jasper County Sheriff's Office while serving a search warrant at Ms. Berkey's home.
- (13) Performed analytical procedures to determine if utility collections appeared reasonable.

Based on these procedures, some of the concerns we identified include:

- The cumulative amount of utility collections deposited to the bank was \$13,752.06 less than the amount expected for fiscal years 2004, 2005 and 2006 based upon meter readings taken by an independent contractor.
- Utility collection reports included \$746.03 of cash collections which were not deposited to the bank.
- Bank documentation for deposits made to the City's checking accounts show only 2 deposits of cash totaling \$136.48 between September 1, 2002 and June 30, 2006. In addition, the deposits made to the City's checking accounts did not include any collections for utility billings for 7 months. However, the deposits made to the City's bank account during the subsequent months appear to include these utility collections.
- A number of warrants issued to the City by the State of Iowa were not deposited in a timely manner. However, Ms. Berkey recorded the collections in the City's financial records when they were received. As a result, any financial reports provided to the Council did not accurately reflect the balances in the City's bank accounts. In addition, Annual Financial Reports prepared by Ms. Berkey and filed with the Office of Auditor of State did not accurately reflect the City's cash balance at the end of fiscal years 2003, 2004 and 2005.
- Improper disbursements totaling \$3,362.45 were identified. The disbursements included computer repairs, a basketball hoop, late fees, finance charges and bank fees.
- Of 46 payments we tested from the City's checking accounts, 23 were not supported in whole or in part by appropriate documentation. The unsupported portion of the payments totaled \$32,849.52. In addition, we identified \$583.01 of reimbursements to Ms. Berkey and \$646.55 of credit card purchases which were not supported by appropriate documentation.
- A number of the City's financial records and reports were not available for review.

We are unable to determine if all the City's collections were properly deposited or if all disbursements were appropriate because adequate records were not available. Several internal control deficiencies and items of non-compliance were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Findings A** through **M** of this report.

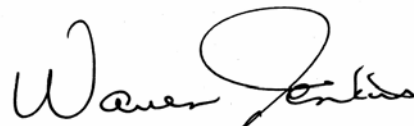
Copies of this report have been filed with the Jasper County Sheriff's Office, the Jasper County Attorney's Office, the Division of Criminal Investigation and the Attorney General's Office.

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 Mingo, other matters might have come to our attention that would have been reported to you.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the City of Mingo and the Jasper County Sheriff's Office during the course of our investigation.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 21, 2008

City of Mingo
Investigative Summary

Background Information

The City of Mingo is located in Jasper County and has a population of 269. Since March 1993, the City has employed 4 City Clerks. The City Clerk's responsibilities included:

- 1) Receipts – collecting, posting to the accounting records and preparing deposits,
- 2) Disbursements – check preparation and distribution, accounting for automatic electronic payments from the City's checking account and posting to the accounting records,
- 3) Payroll – monthly check preparation and distribution, electronic payment of payroll taxes and posting to the accounting records,
- 4) Utilities – preparation and mailing of billings for water, sewer and garbage services, collection and deposit of billing payment amounts, posting payments to customer accounts, tracking delinquent accounts and preparation of related financial reports,
- 5) Bank accounts – reconciliation of monthly bank statements to accounting records,
- 6) Reporting – preparation of Council minutes, packets for Council meetings and financial reports for Council review. Also, preparation of quarterly reports for payroll and annual reports to be submitted to the Iowa Department of Transportation and the Annual Financial Report submitted to the Office of Auditor of State.

The City's primary revenue sources are property taxes collected by Jasper County and remitted to the City and local option sales tax and road use tax from the State of Iowa. Revenue is also received throughout the year from collection of utility fees billed to each household and business. The City also collects fees for rental of the Community Center. Collections are to be deposited to the City's checking accounts. The City Clerk is responsible for the preparation and deposit of all collections other than fees collected for the Community Center. Fees for the Community Center are collected and deposited by the individual responsible for the operation of the Center.

The utility billings prepared by the City Clerk for water and sewer services are based on meter readings done by an independent contractor. The billings include a base charge of \$8.25 for water and \$10 for sewer with incremental fees based on usage exceeding a minimum amount. The billings also include a \$10 fee for residential garbage pickup or a \$7 fee to businesses for landfill charges.

The City maintains 2 checking accounts for all City activity, including utility activity. The primary operating account is a business checking account. The second checking account earns a higher rate of interest and functioned primarily as a savings account until the City ran out of checks for the primary operating account. When that occurred, instead of ordering new checks, Amy Berkey, the City Clerk, began to routinely use the second account to pay the City's obligations. Checks drawn on the City's checking accounts require only one signature. Checks are usually signed by the City Clerk. However, the Mayor periodically signs a check.

The City also has 4 credit cards issued by Wal-Mart. Activity on all 4 credit cards is recorded to 1 account held in the City's name. According to the current City Clerk, 1 is used by the Librarian, 1 is used by the maintenance staff member, 1 is used for the Community Center and the remaining credit card is held by the City Clerk.

Table 1 lists the City Clerks and their approximate dates of service.

City Clerk	Approximate Dates of Service
Bertha Deaton*	March 1993 - September, 1999
Dee Ann Van Dusseldorp	March 2000 – August, 2002
Amy Berkey	October 2002 - June 30, 2006
Diane Mindham	June 2006 – present

* - Performed duties for utility billings until October 14, 2002. Ms. Berkey assumed responsibility for utility billings after Ms. Deaton left the City's employment.

Based on our review of Council minutes, it appears Ms. Deaton routinely provided financial reports at the Council meetings. In addition, it appears Ms. Deaton completed utility billing duties in a timely manner. Since Ms. Deaton's resignation in late 1999, the City has employed 3 City Clerks.

As illustrated by the **Table**, after Ms. Deaton's resignation as the City Clerk, she agreed to continue performing the duties associated with utility billings and collections. Initially, Ms. Deaton agreed to perform the utility duties until another billing clerk could be trained on the City's computer billing software. However, she remained through Ms. Van Dusseldorp's tenure as City Clerk. When Ms. Van Dusseldorp resigned as City Clerk, the Council decided to consolidate the utility duties with the City Clerk's responsibilities. Therefore, when Ms. Berkey became the City Clerk in October 2002, she also performed the utility duties.

According to Ms. Berkey and an individual we spoke with who was a Council member at the time Ms. Berkey was the Clerk, the City Clerk is to perform job duties at City Hall and be available for business hours at City Hall during established office hours, which were just a few hours each week. However, according to the former Council member, Ms. Berkey was not held to this expectation. She was allowed to perform most of her job duties from her personal residence. She also maintained City records, including utility billing information, on her personal computer at her home. Ms. Berkey continued to work from her personal residence between April 10, 2006, when she submitted her resignation letter, and the end of June 2006. Ms. Mindham began working for the City in June 2006 but did not take over the Clerk's responsibilities until July 2006.

In September 2002, just prior to Ms. Berkey's employment, the Council authorized the purchase and use of Peachtree Accounting software for utility billings. The City also purchased a notebook computer and printer in October 2002. In April 2004, the Council approved the purchase of SUMMIT software to maintain payroll transaction records. Ms. Berkey also continued to use the Peachtree software to record cash receipts, utility billings and prepare disbursements journals and ledgers.

Because Mingo's population is less than 700, the City is not required to be audited. However, in January 2004, the Office of Auditor of State was contacted by a Council member who just took office. The Council member expressed concerns regarding City finances and a desire the City's records be audited. The Council member requested the Office of Auditor of State provide the City an estimated cost for an audit of the fiscal year ended June 30, 2003.

When preparing the estimate, a representative of the Office of Auditor of State contacted the Council member and the City Clerk at her home. The Auditor's representative was told by Ms. Berkey the City held 1 checking account and did not bill for utility services to the City's citizens. In a letter dated January 21, 2004 and addressed to the Council member, the Office of Auditor of State provided the estimate requested. However, the published minutes of the subsequent Council meetings did not include mention of the estimate or further discussion of procurement of an audit.

According to the minutes from the March 8, 2004 meeting, a Certified Public Accountant (CPA) from Newton addressed the Council. We contacted the representative who stated she explained to the Council what auditing services could be provided to the City and responded to their questions. However, the CPA was not engaged to perform any auditing services.

The minutes from the September 12, 2005 Council meeting state a letter was submitted to the Council by Richard Phelps, the City Attorney. According to Mr. Phelps, the letter was a resignation letter resulting from the Council's lack of action in obtaining an audit. After Mr. Phelps' resignation, the Office of Auditor of State received another request for an estimate to conduct an audit of the City. The estimate request, dated December 15, 2005, was for an audit of the fiscal year ended June 30, 2006. It was signed by Ms. Berkey and faxed to the Office of the Auditor of State on January 5, 2006.

In a letter dated January 18, 2006 and addressed to Ms. Berkey, the Office of Auditor of State provided the estimate requested. The minutes of the February 15, 2006 Council meeting state the Council accepted the estimate. Audit fieldwork was scheduled to begin the week of July 24, 2006 and a letter requesting specific information to be made available for the audit was sent to Ms. Berkey by a representative of the Office of Auditor of State on July 20, 2006.

When audit staff began fieldwork for the audit, they were notified Ms. Berkey had submitted her resignation to the Council on April 10, 2006. However, she had continued to perform the City Clerk's duties until a replacement had been hired. According to the City's payroll records, Ms. Berkey was employed by the City through June 2006. Ms. Berkey also told the audit staff she could be available to assist them during the audit engagement in addition to the new City Clerk, Ms. Mindham.

The auditors were also notified City records had been maintained by Ms. Berkey on her personal computer at her home. However, the auditors were also told the computer had crashed and records for the months prior to February 2006 were lost. As stated previously, during February 2006, the Council authorized having the City's financial records audited.

Because the information on the computer had not been backed up, the auditors were informed utility records were unavailable. According to Ms. Berkey, utility billings, invoices, and collection data prior to February 2006 would not be available for the audit. Certain reports and data had not been printed nor were they accessible on the computer located at Mingo City Hall. However, paper copies of cash disbursements journals were available at the City.

Because adequate records were not available, it became apparent the Office of Auditor of State would be unable to conduct a complete audit of the City of Mingo's financial statements for the year ended June 30, 2006. The auditors noted Ms. Berkey's resignation and the destruction of the City's financial data in the reported computer crash occurred after the City Council approved an audit of the City for the year ended June 30, 2006. The auditors also noted the lack of availability of records and reconciliations which should have been in Ms. Berkey's custody.

Because City officials were concerned Ms. Berkey had not returned all City records they contacted the Jasper County Sheriff's Office. On August 10, 2006, representatives of the Jasper County Sheriff's Office served a search warrant on Ms. Berkey's home where City utility and other City documents were maintained. The records obtained as a result of the search warrant included copies of a few published City Council meeting minutes, reports from the accounting system, banks statements, unused and voided checks, invoices, a computer and CD's and disks. Many of the records recovered were from 2003 and 2004.

After discussing these concerns with City officials, the Office of Auditor of State was requested to conduct an investigation of the City's financial transactions. As a result of that request, we performed the procedures detailed in the Auditor of State's Report for the period September 1, 2002 through June 30, 2006.

Detailed Findings

Based on these procedures, some of the concerns we identified include:

- The cumulative amount of utility collections deposited to the bank was \$13,752.06 less than the amount expected for fiscal years 2004, 2005 and 2006 based upon meter readings taken by an independent contractor.
- Utility collection reports included \$746.03 of cash collections which were not deposited to the bank.
- Bank documentation for deposits made to the City's checking accounts show only 2 deposits of cash totaling \$136.48 between September 1, 2002 and June 30, 2006. In addition, the deposits made to the City's checking accounts did not include any collections for utility billings for 7 months. However, the deposits made to the City's bank account during the subsequent months appear to include these utility collections.
- A number of warrants issued to the City by the State of Iowa were not deposited in a timely manner. However, Ms. Berkey recorded the collections in the City's financial records when they were received. As a result, any financial reports provided to the Council did not accurately reflect the balances in the City's bank accounts. In addition, Annual Financial Reports prepared by Ms. Berkey and filed with the Office of Auditor of State did not accurately reflect the City's cash balance at the end of fiscal years 2003, 2004 and 2005.
- Improper disbursements totaling \$3,362.45 were identified. The disbursements included computer repairs, a basketball hoop, late fees, finance charges and bank fees.
- Of 46 payments we tested from the City's checking accounts, 23 were not supported in whole or in part by appropriate documentation. The unsupported portion of the payments totaled \$32,849.52. In addition, we identified \$583.01 of reimbursements to Ms. Berkey and \$646.55 of credit card purchases which were not supported by appropriate documentation.
- A number of the City's financial records and reports were not available for review.

We are unable to determine if all the City's collections were properly deposited or if all disbursements were appropriate because adequate records were not available. Several internal control deficiencies and items of non-compliance were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Findings A** through **M** of this report.

DEPOSITS TO CITY'S ACCOUNTS

Ms. Berkey did not maintain an initial receipts listing or issue prenumbered receipts for collections. Because receipt books were not available, we examined deposit slips prepared by Ms. Berkey to determine the composition of deposits made to the City's checking accounts.

As previously stated, the City's primary revenue sources include taxes from the State of Iowa and Jasper County and utility billings. The City also periodically collects fees for rental of the Community Center and miscellaneous fees.

Taxes from the State of Iowa – Between September 1, 2002 and June 30, 2006, 48 warrants were issued to the City by the State of Iowa for Road Use Tax (RUT). In addition, 24 warrants were issued to the City between May 1, 2003 and June 30, 2006 for local option sales tax (LOST). Using the State's accounting system and with the assistance of a representative of the City's bank, we determined all the State warrants were deposited to the City's accounts. However, the warrants were not deposited in a timely manner. **Table 2** summarizes the number of days between the date the warrants were issued and the dates they were deposited by Ms. Berkey.

Table 2

Number of Dates Between Issuance and Deposit	Number of RUT Warrants	Number of LOST Warrants
10 – 30 days	18	8
31 – 60 days	14	10
61 – 152 days	16	6
Total	48	24

Ms. Berkey deposited 4 of the RUT warrants and 4 of the LOST warrants from the State to the City's account on July 31, 2006, a month after she left the City's employment. The warrants were issued to the City between March 2006 and the end of June 2006 and totaled \$14,392.13. Because Ms. Berkey recorded the warrants in the City's financial records at the time they were received, all reports provided to Council showed the taxes had been collected. Because no one compared the financial records prepared by Ms. Berkey to activity in the City's checking accounts, no one realized the warrants had not been deposited in a timely manner.

RUT received from the State of Iowa for the period September 1, 2002 through June 30, 2006 totaled \$51,778.09. In addition, the City borrowed \$44,000 for street improvements. The RUT funds were accounted for separately from the City's general operating funds. Based on our review of the City's disbursements, it appears the RUT funds were properly used for road construction and maintenance.

Taxes from Jasper County – The taxes received by the City from Jasper County were electronically deposited in a timely manner. We confirmed all payments from the County and determined the payments were properly deposited to the City's checking accounts.

Utility Collections – As previously stated, Ms. Berkey had sole responsibility for the City's utility billing system from October 2002 through June 2006. She was responsible for preparing the billings, collecting payments, bank deposit preparation, delivery of collections to the bank and posting the billings and payments to customer accounts.

Utility rates entered into the software program by Ms. Berkey to calculate utility billings were not reviewed or approved by an independent person. In addition, there was not any evidence of review or approval of any adjustments made to customer accounts.

During our fieldwork, the City could not locate billing or collection records for the period August 2004 through February 2006. According to City officials we spoke with, Ms. Berkey kept all utility billing and collection records on her personal computer at her home. However, according to Ms. Berkey, the hard drive of her computer crashed, and because it was replaced, records were no longer available.

From the billing and collection records available, we judgmentally selected 2 months to determine if the amounts recorded as billed and collected from each customer appeared reasonable. We selected 1 month from 2002 and 1 month from 2003. Using the independent contractor's meter readings for each customer, we recalculated the amount which should have been billed to the customer. We also ensured each collection recorded by Ms. Berkey for all customers was included in amounts deposited in a City bank account. We did not identify any significant discrepancies in our recalculations and comparisons.

Utility billings and collection data for the period March 2006 through June 2006 were not available at City Hall. However, Ms. Berkey was able to print reports from the computer at her home. At our request, she provided listings of billings to each customer and deposit information for the City's utilities for this time period. Using meter readings for each customer, we recalculated the amount which should have been billed to the customer for each month during this time period. We also ensured each collection recorded by Ms. Berkey for the

customers was included in amounts deposited in a City bank account. We did not identify any significant discrepancies in our recalculations and comparisons. The deposit information was not available at the time of our testing. Because Ms. Berkey subsequently reprinted the missing reports, we have no assurance the reports she printed accurately reflect the original activity.

During our review of the City's bank statements, we identified 7 months between September 1, 2002 and June 30, 2006 during which there were no utility payments deposited. We were able to determine all deposits to the City's accounts for these months originated from other non-utility sources. The months identified are listed below. We also determined, however, the deposits made to the City's bank account during the subsequent months appear to include utility collections from these months.

- August 2003
- November 2003
- February 2004
- May 2004
- April 2006
- May 2006
- June 2006

The City Attorney and the current City Clerk stated there are 5 customers who typically pay their utility bills in cash. The information provided by Ms. Berkey for the months of March, April and May 2006 did not indicate any cash was included in the deposits to the City's bank accounts.

During our review of the deposit slips, we determined only 2 deposit slips included a notation of cash deposited to the City's checking accounts. The deposit slips showed only \$.02 cash was deposited on May 12, 2004 and \$136.46 cash was deposited on August 4, 2004.

During our investigation, the City was unable to locate any reconciliations between the utility billings and the collections. In addition, no outstanding or delinquent customer listings could be located for the period of our review. There were no records of amounts due but unpaid by customer or an aging of receivables maintained at the City. There was no periodic comparison of amounts recorded in the accounting system to supporting documentation.

Because we were unable to determine if all collections were properly recorded by Ms. Berkey and monthly utility reconciliations between the utility billings and collections could not be reviewed, we performed an analysis to determine the reasonableness of the amount deposited to the City's bank account during fiscal years 2004, 2005 and 2006 for utilities.

To determine if the amount deposited to the City's bank accounts for utility collections during fiscal years 2004, 2005 and 2006 were reasonable, we compared the amounts deposited to the expected amounts of utility collections. For example, the May meter reading provided the monthly usage which was billed to the customer for collection in June. This process was done on a monthly basis for the fiscal year. The expected amounts of collections were calculated using the meter readings taken by an independent contractor. Our comparisons are shown in **Exhibit B** and summarized in **Table 3**. The \$13,752.06 difference between the amount of expected collections and the amount deposited has been included in **Exhibit A**.

Table 3

Description	Fiscal Year			Total
	2004	2005	2006	
Expected collections	\$ 85,447.18	85,907.23	84,043.87	255,398.28
Amount deposited	78,565.67	79,061.28	84,019.27*	241,646.22
Difference	\$ 6,881.51	6,845.95	24.60	13,752.06

* - Includes July 2006 deposits for March, April and May 2006 billings.

Had adequate records been available, we could have determined how many utility payments had been made in cash during the period of our review. However, the necessary records were not available. Also, because adequate records were not available, we are unable to determine why the difference between the expected collections and amounts deposited were so much greater for fiscal years 2004 and 2005 than fiscal year 2006. However, as previously noted, Ms. Berkey was aware fiscal year 2006 was to be audited.

City officials voiced concern utility billings for the months of March, April and May 2006 were not prepared and distributed by Ms. Berkey in a timely manner. According to the current City Clerk, she did not make any bank deposit during the month of July. She also stated Ms. Berkey deposited utility payments collected during the months of March, April and May 2006 on July 13, 2006. As stated previously, the new City Clerk assumed her responsibilities in early July 2006. According to the current City Clerk, she prepared and distributed June and July 2006 utility billings in August 2006.

Cash Collections Not Deposited – As stated previously, we identified only 2 deposit slips for deposits to the City’s bank accounts which indicated cash collections for utility payments. City officials also voiced concern regarding the lack of cash deposited. Because of the limited amount of cash and the concerns identified, we performed procedures to determine the amount of cash deposited to the City’s checking accounts.

“Bank Deposit Reports” generated by the accounting system used by the City included:

- the date of the bank deposit,
- the customer invoice number for which a payment was deposited,
- an indication of whether the payment was made with a check, cash or money order,
- the customer name,
- and amount paid for each individual customer.

While not all Bank Deposit Reports were available, we were able to compare information recorded on the available reports to deposits made to the City’s bank accounts. The total deposit shown on the Bank Deposit Reports should agree to the deposit made to the bank. When we compared the Bank Deposit Report totals to the deposits made to the City’s bank account, we determined the total amount of the deposits for a number of the days agreed. However, the deposit slips prepared by Ms. Berkey did not identify any cash being deposited.

While the deposit slips do not identify cash being deposited, we were unable to ensure no cash was deposited without reviewing documentation obtained from the bank for each deposit made. Reviewing such documentation would be cost prohibitive. However, based on our review of the detailed bank documentation available for a limited number of utility deposits made to the City’s bank accounts, we did not identify any cash deposited. However, we did identify a number of money orders were deposited. Some of the money orders were from customers who had been identified as cash paying customers by the City Clerk and City Attorney.

Printouts from the City’s accounting system for the period July 1, 2005 through December 31, 2005 contained no data. Backups of the City’s accounting system were not done periodically and stored offsite for security.

During our comparison of the Bank Deposit Reports and the deposits to the bank, we identified several discrepancies. **Table 4** lists reports prepared by Ms. Berkey which indicate only cash was received. However, we are unable to identify any deposits associated with the reports. The \$1,536.03 of undeposited cash collections identified includes \$390.00 collected during fiscal

year 2004 and \$400.00 collected during fiscal year 2005. This amount is included in the calculation shown in **Table 3**. The remaining \$746.03 has been included in **Exhibit A**.

Table 4

Report Date	Amount of Cash Reported
12/04/02 & 12/06/02	\$ 258.63
01/17/03	59.38
02/20/03	76.17
03/20/03	150.00
06/06/03	151.85
10/03/03	240.00
12/31/03	50.00
06/30/04	100.00
07/30/04	400.00
Total	<u>\$ 1,536.03</u>

Collection Reports – From September 2002 through December 2004, the published Council minutes included the City’s total collections and a monthly summary of collections by fund. After December 2004, the City discontinued publishing fund information in the Council minutes.

The Peachtree Accounting software used by Ms. Berkey to record the City’s collections and disbursements prepares reports titled Schedule of Cash Transactions and Fund Balance. The reports identify the collections recorded by individual fund. Ms. Berkey prepared the reports on a monthly basis. They were provided to the Council for its review.

During our review of the available Schedule of Cash Transactions and Fund Balance reports, we identified the following concerns:

- For 14 of the 46 months reviewed, a report was not available. The months for which a report was not available include:
 - December 2004 through February 2005
 - May, July and August 2005
 - November 2005 through June 2006
- It appears Ms. Berkey recorded the warrants from the State in the City’s financial records when they were received, even though the warrants were not deposited to the City’s checking accounts until much later. Because bank reconciliations were not performed or reviewed by an independent party, no one other than Ms. Berkey was aware the State warrants had not been deposited.
- The amount of the monthly RUT collections was incorrectly reported on 7 reports. The incorrect amounts reported are summarized in **Table 5**. We were unable to locate any corrections in the available subsequent reports.

Table 5

Month	Amount Received and Deposited	Amount Posted	Difference
May 2004	\$ 1,675.49	-	1,675.49
Aug. 2004	1,553.16	1,675.49	(122.33)
Sept. 2004	1,428.63	1,675.49	(246.86)
Feb. 2005	1,634.45	1,472.79	161.66
July 2005	1,375.00	-	1,375.00
Oct. 2005	1,674.04	1,521.35	152.69
Dec. 2005	1,344.98	-	1,344.98
Total	\$ 10,685.75	6,345.12	4,340.63

- In addition, RUT collections were not reported in 5 month's Statements of Cash Transactions and Fund Balance. However, the amounts were included in the total reported the following month. As a result, the amount reported was subsequently corrected.

DISBURSEMENTS

The City Clerk can issue checks, make disbursements directly from the City's bank accounts and make transfers between the City's checking accounts. The City Clerk is also responsible for posting the payments to the City's accounting software. As stated previously, the City's cash receipts, utility transactions and disbursements are recorded in the Peachtree software program and the payroll is recorded in the SUMMIT software program.

We attempted to obtain the City's cash disbursements journal (generated by the Peachtree program) and bank statements for the period September 1, 2002 through June 30, 2006. However, we were unable to obtain the cash disbursements journal for the period December 13, 2005 through January 9, 2006 and page 2 of the cash disbursements journal for the period August 13, 2002 through September 30, 2002.

We scanned the City's cash disbursements journals and bank statements for larger or unusual disbursements and selected certain disbursements to review for supporting documentation and propriety. When minutes of Council meetings were available, we also compared the disbursements to the listing of payments presented to and approved by the City Council.

During our review of the disbursement records, we determined:

- The January 2006 cash disbursements journal was handwritten rather than generated from the City's accounting system.
- The disbursements made for payroll are not summarized in the cash disbursements journals in any manner.
- Ms. Berkey did not include miscellaneous payments made directly from the City's checking accounts in the cash disbursements journals. The miscellaneous payments include disbursements from the City's checking account for items such as loan payments made directly to the bank and electronic payments for internet services or payroll tax withholding obligations to the State or IRS.

Using bank statements, we listed all disbursements from the City's 2 bank accounts for the period September 1, 2002 through July 11, 2006. We reviewed the disbursements to ensure the numerical sequence of the checks was accounted for and we traced the checks to postings

in cash disbursements journals and approval in the minutes of Council meetings. Based on the procedures we performed, we identified the following concerns.

Personal Purchase – Ms. Berkey prepared check number 3190 to Goal Setter Systems for \$1,605.40. The check was dated June 13, 2005 and was described in the cash disbursements journal as “basketball hoop.” According to a Council member we spoke with, the City does not have a basketball hoop. However, according to the Council Member, Ms. Berkey has a basketball hoop at her personal residence in Colfax that is similar in style to those sold by Goal Setter Systems. We observed the basketball hoop described by the Council Member at Ms. Berkey’s residence. The \$1,605.40 has been included in **Exhibit A** as an improper disbursement.

Lack of Supporting Documentation – The City did not have supporting documentation, in whole or in part, for 23 of 46 checks we selected for review. The 23 checks are listed in **Exhibit C** and total \$391,448.62. Of that amount, the City had documentation to support \$3,026.92 and \$388,421.70 was unsupported. A significant portion of the payments were for the purchase of goods or services reasonable for City operations and items for which the Council held discussions documented in the Council minutes. As illustrated by the **Exhibit**, over \$360,000 of the unsupported disbursements are costs related to infrastructure and a residential development. As also illustrated by the **Exhibit**, 18 of the unsupported disbursements were traced to a listing approved by the Council. The remaining 5 disbursements were unsupported and could not be traced to a listing approved by the Council. The 5 disbursements total \$32,849.52. This amount has been included in **Exhibit A**.

Disbursements Not Mailed – During our fieldwork, we observed 2 checks prepared by the City Clerk which were still on hand in July 2006. The older of the checks was dated November 14, 2005. It was payable to the Jasper County Tribune for \$50.68. We also observed a \$9,760.00 check dated May 9, 2006 payable to Denco Corp. for street repairs. The payment was subsequently reissued to the vendor by the current City Clerk.

The payments were recorded in the cash disbursements journals at the time the checks were prepared. Because the disbursements were recorded but not mailed timely, any subsequent cash balance reported by the City Clerk was not accurate.

Payments to Ms. Berkey – During our review of selected disbursements, we identified a disbursement which appeared to be personal in nature and several unsupported disbursements to Ms. Berkey.

On February 25, 2006, the City paid \$265.00 to Avatar Computer of Newton, which included \$15.00 of sales tax. According to the invoice, services provided included backup data, formatting the hard drive, installation of an operating system, updating all, installing security and a 250 watt power supply. The invoice was issued to Amy Berkey and appears to be for her personal computer. The purchase has been included in **Exhibit A** as an improper disbursement.

We also reviewed all other non-payroll payments to Ms. Berkey to determine if they were appropriate. **Table 6** lists the reimbursement payments to Ms. Berkey which were not supported by appropriate documentation. The unsupported reimbursements total \$583.01 and are included on **Exhibit A**.

Table 6

Date	Amount
03/21/06	\$ 243.77
05/31/06	163.30
06/12/06	175.94
Total	\$ 583.01

Overpayments – As noted in the description column of **Exhibit C** for check number 3180, the City overpaid Sully Construction on June 13, 2005. The amount due the vendor for invoices dated May 6, 2005 and June 6, 2005 totaled \$16,142.10. However, Ms. Berkey issued a check for \$24,512.60. We identified a miscellaneous receipt for \$8,370.50 in the City’s records which appears to be a reimbursement of the overpayment. The amount was deposited into a City bank account on January 5, 2006.

Bank Overdraft Charges and Late Fees – The City Clerk was responsible for ensuring a positive balance was maintained in the City’s checking accounts. The City incurred a bank overdraft charge and several service fees which totaled \$975.30. The \$357.00 overdraft fee occurred in March 2004. The remaining charges were incurred because the number of debits from the account exceeded the free debits. The account in which the bank fees were incurred was not established to be a general operating checking account and the number of free debits was limited. The overdraft charge and bank fees are listed in **Table 7** and have been included in **Exhibit A**.

Month	Fee/Charge	Month	Fee/Charge	Month	Fee/Charge
March 2004	\$ 357.00	Aug. 2005	55.45	Feb. 2006	18.25
March 2005	21.30	Sept. 2005	46.75	March 2006	12.75
April 2005	17.10	Oct. 2005	29.25	July 2006	186.55
May 2005	11.75	Nov. 2005	7.90	Total	\$ 975.30
June 2005	22.50	Dec. 2005	150.00		
July 2005	10.50	Jan. 2006	28.25		

As illustrated by the **Table**, \$186.55 of the fees were incurred in July 2006, which is the month the current City Clerk began her responsibilities. However, because of Ms. Berkey’s actions it was necessary for her to continue using the account until new checks could be ordered and received for the operating account.

CITY CREDIT CARD PURCHASES

As previously stated, the City maintained a business credit card account at Wal-Mart. The Wal-Mart credit card account is used primarily for Library purchases. However, the City Clerk was responsible for the timely monthly payment of the amount due on the credit card.

Because of concerns regarding the City’s lack of segregation of duties and administrative oversight, we reviewed the activity on the credit card. However, not all the monthly credit card statements were available for our review. Statements were not available for the following months:

- August 2003
- November 2003
- March 2004
- July 2004
- April 2005
- December 2005

Our findings, based on our review of available statements, include:

- The City was assessed late fees and penalties for the credit card account. As illustrated by **Table 8**, the charges for late fees identified on 27 statements totaled \$447.00 and finance charges totaled \$69.75. These amounts have been included in **Exhibit A**.

Table 8

Date of Statement	Late Fee	Finance Charge	Total
January 2003	\$ 25.00	-	25.00
March 2003	25.00	2.17	27.17
July 2003	25.00	-	25.00
September 2003	25.00	-	25.00
October 2003	25.00	(0.69)	24.31
January 2004	-	2.59	2.59
February 2004	-	2.24	2.24
April 2004	25.00	1.72	26.72
June 2004	25.00	1.48	26.48
August 2004	25.00	3.53	28.53
October 2004	15.00	1.00	16.00
December 2004	-	2.89	2.89
January 2005	29.00	2.19	31.19
February 2005	29.00	3.96	32.96
March 2005	29.00	3.51	32.51
May 2005	-	4.09	4.09
June 2005	-	4.38	4.38
July 2005	-	2.89	2.89
August 2005	29.00	4.93	33.93
October 2005	29.00	3.19	32.19
November 2005	29.00	4.10	33.10
January 2006	29.00	(3.50)	25.50
February 2006	-	5.68	5.68
March 2006	29.00	7.04	36.04
April 2006	-	4.39	4.39
May 2006	-	3.27	3.27
June 2006	-	2.70	2.70
	<u>\$ 447.00</u>	<u>69.75</u>	<u>516.75</u>

- There was no indication of review of documentation supporting the credit card purchases.
- The credit card assigned to the Librarian was identified as “cardholder 3” on the monthly statements. Purchases made by this cardholder included books and movies. We identified several purchases which were not made by cardholder 3. According to the current City Clerk, 1 is used by the Librarian, 1 is used by the maintenance staff member, 1 is used for the Community Center and the remaining credit card is held by the City Clerk. We are unable to determine who made the purchases. The purchases included:
 - a vacuum, dehumidifier and paint purchased by cardholder 2 in October 2002. The purchases totaled \$374.42.

- o unidentifiable merchandise/consumables purchased by cardholder 4 in July 2004 which totaled \$77.78.
- o unidentifiable merchandise/consumables purchased by cardholder 1 in October and November 2004 which totaled \$152.13.
- o McAfee anti-virus software purchased by cardholder 4 in January 2006 for \$42.22. According to Ms. Berkey, she purchased the software for her home computer and the computer at City Hall. In the cash disbursements journal, the purchase was described as “book allowance.”

The purchases not made by the Librarian total \$646.55. Because the propriety of the purchases cannot be determined and they were not supported by adequate documentation, they have been included in **Exhibit A** as unsupported disbursements.

FINANCIAL REPORTING

Monthly Reports to Council - As stated previously, the City Clerk is responsible for preparation of monthly financial reports. We reviewed the available monthly financial reports. **Exhibit D** identifies the months for which reports were not available.

We compared the monthly reports submitted to the Council by Ms. Berkey to the actual cash balances in the City’s checking accounts. We determined the amounts reported by Ms. Berkey prior to February 2003 were reasonably close to the amount held in the bank. However, in February 2003 and for the months after July 2003, the amounts reported to the Council began to vary significantly from the City’s actual cash balances. **Exhibit D** also summarizes the amounts reported to the Council by Ms. Berkey for selected months, the amounts actually held in the bank and the differences. The amounts reported to Council were not supported by bank statements or the available accounting records.

As illustrated by the **Exhibit**, the amounts reported to the Council generally exceeded the amounts actually held in the City’s bank accounts. A portion of the differences can be attributed to Ms. Berkey making deposits to the bank accounts much later than the month they were received and reported in the City’s financial reports. No City official or employee performed an independent comparison of the amounts reported by Ms. Berkey to actual bank statements.

When we reviewed the monthly reports to Council, we also determined some of the balances reported by fund type were unusually large or in a significant deficit position. The large deficit balances should have raised questions by Council members. However, the minutes did not document any discussion occurred regarding the balances. As previously stated, the minutes indicated the financial information was approved as presented.

Council Approval of Payment Listings - We also compared the individual payment amounts Ms. Berkey submitted to the Council for approval to the actual checks she prepared. We identified several instances in which the payments prepared varied significantly from what she submitted to the Council for approval. In some instances, the amount approved by the Council was less than the amount for which the check was actually issued. In other instances, the amount approved by the Council was more than the amount of the actual check. As a result, we were not able to rely on the payments documented as approved in the Council minutes to assist in determining propriety of disbursements.

Annual Financial Reports - In addition, we compared the Annual Financial Reports (AFRs) submitted to the State of Iowa for the fiscal years ended June 30, 2003, 2004 and 2005 to the actual balances in the City’s bank accounts. The balance reported for the years ended

June 30, 2003 and 2004 were reasonably close to the actual balances in the City's bank accounts but differed by a larger amount for the fiscal year ended June 30, 2005. **Table 9** compares the balance reported on the AFRs to the City's cash balance in its bank accounts. The AFRs for fiscal years 2003, 2004 and 2005 were all completed by Ms. Berkey. They were not supported by bank statements or the available accounting records.

Table 9

Fiscal Year Ended June 30,	Balance Reported on AFR	Bank Balance	Difference
2003	\$183,132.00	180,307.20	2,824.80
2004	83,557.00	80,678.92	2,878.08
2005	97,507.00	82,902.41	14,604.59

Bank Reconciliations – During our review of City records, we located bank reconciliations for the period July 1, 2005 through June 30, 2006. This is the time period for which the Council engaged the Office of Auditor of State to perform a financial statement audit. We also located bank reconciliations for January, August, October and December 2003. However, it does not appear Ms. Berkey prepared bank reconciliations on a routine basis during her tenure as City Clerk.

The bank reconciliations we reviewed were not prepared properly and did not appear to have been reviewed by an independent party. Reconciling items included by Ms. Berkey on the bank reconciliations were not accurate reconciling items. For example, for the month ended June 30, 2006, the reconciling items identified by Ms. Berkey included \$32,897.396 as deposits in transit. However, at least \$31,555.35 of the amount identified as having been deposited prior to June 30, 2006 but not yet posted to the bank statement was actually not deposited until after Ms. Berkey left the City's employment in July. Specifically, Ms. Berkey deposited \$13,259.22 of utility collections on July 13, 2006 and \$18,296.13 of primarily State warrants on July 31, 2006. The reconciliation also included outstanding checks. However, the checks identified as outstanding included checks which had never been issued.

During our review of the bank reconciliations, we also identified amounts identified as deposits in transit which were included on the reconciliations for an extended period of time. For example, several of the same deposit amounts were listed as in transit on each month's bank reconciliation from July 2005 through October 2005. Another deposit amount was identified as in transit on bank reconciliations for July 2005 through November 2005 and 2 deposit amounts were listed on reconciliations for April 2006 through June 2006. It appears this occurred when deposits had been posted to the City's financial records but were not deposited to the bank in a timely manner.

ADDITIONAL INFORMATION

City Council Minutes – In accordance with section 372.13(5) of the *Code of Iowa*, minutes should be maintained by the City for at least 5 years. The minutes for December 2002, July 2003 and September 2005 could not be located. In addition, the files at the City contained agendas for the November 2004 Council meeting but did not contain the minutes for this meeting. During our review of Council meeting minutes, we determined minutes for the September 1, 2002 through June 30, 2006 meetings were not signed by the City Clerk or the Mayor.

For Council meetings held prior to and on November 22, 2004, a summary of collections and disbursements by fund for the previous month was included with the minutes. However, the minutes did not include this information for meetings held after November 22, 2004. Payroll

disbursements were included with the City's summary of bill payments published until this practice was discontinued after the January 2005 meeting. Annual salaries were not published as required by the *Code of Iowa*.

During our review of the published minutes, we determined the Council approved the bills and financial information as presented. It appears the financial information provided to the Council was the cash disbursements journal for the month and a summary page of the fund balances activity. The monthly file folders maintained at City Hall did not include any other reports on a consistent basis. If these were the reports submitted to the Council, they did not include a comparison of actual financial information to the City's budget. Also, based on our review of the minutes, it appears the Council approved the bills from the listing and did not periodically review individual invoices.

Tax Increment Financing – On June 11, 2001, the Council adopted a Tax Increment Financing (TIF) resolution. According to the resolution, the portion of taxes received in excess of the base period taxes were to be used to pay the principal and interest on loans, monies advanced to or indebtedness for the development of the project area.

On June 28, 2001, the Mingo Economic Development Commission (MEDCO) obtained a \$92,000 loan for engineering and construction costs associated with the development of a new subdivision in the City. According to the December 10, 2001 Council minutes, the Council agreed to guarantee the loan. The City was involved in obtaining and evaluating bids for the development.

The minutes from the July 15, 2002 Council meeting document the Council approved a loan from the City's Sewer Fund to the TIF Fund to pay engineering costs incurred. The City's monthly fund balance statements document an internal loan (transfer) of \$14,620 from the Sewer Fund to the TIF Fund. Because adequate documentation was not available, we were unable to determine if the \$14,620 was repaid, forgiven or is still an outstanding obligation to be repaid.

On April 21, 2003, the Council approved resolution #03-06 which accepted a vendor's \$278,509.75 bid for infrastructure development. The resolution also stated MEDCO was to rollover the original \$92,000 loan into new \$370,509.75 loan. The City was to pay the current interest on the \$92,000 loan.

Each month, the agenda for the Council meeting included a debt analysis/payoff item. However, the minutes generally indicated this item was to be tabled until the next month. During our review of Council minutes, we identified 2 payments authorized by the Council. The payments are summarized in **Table 10**.

Table 10

Date of Council Meeting	Amount Approved to be Paid
January 10, 2005	\$ 38,500.00
February 13, 2006	9,800.00
Total	\$ 48,300.00

However, Ms. Berkey did not make the payments approved by the Council. According to bank documents, the only payments made on the current loans by June 30, 2006 were interest payments. During our review of the limited number of financial reports available, the interest payments made by the City were recorded in the Debt Service Fund.

Payroll – The City Clerk prepares payroll checks for all City employees once each month. During our review of the City’s payroll procedures, we identified the following concerns:

- Ms. Berkey prepared, signed and issued all payroll checks, including her own. She also distributed and posted the payroll amount to the accounting records and reconciled the actual payroll activity to the financial records.
- An independent review of payroll records or reports was not performed.
- The City Clerk and librarian are not required to prepare timesheets although they are paid on an hourly basis.
- Payroll was not included in the list of disbursements provided to the Council for its review and approval and was not published after the January 10, 2005 Council meeting.

We reviewed the City’s payroll records for the period September 1, 2002 through June 30, 2006. Using the City’s payroll journals, we summarized the number of hours Ms. Berkey was paid for during her tenure as City Clerk. The hours are summarized in **Exhibit E**. As illustrated by the **Exhibit**, the number of hours Ms. Berkey was paid for increased between the time she began and ended her employment with the City. Because Ms. Berkey did not prepare timesheets and payroll checks were not included in the list of disbursements provided to the Council for review and approval, the Council was unaware of the increase.

Table 11 summarizes the average number of hours Ms. Berkey was paid for during each fiscal year of her tenure.

Fiscal Year Ended June 30,	Average Number of Hours Paid Each Month
2003	74
2004	86
2005	88
2006	105

During Ms. Berkey’s first year of employment with the City, she was never paid for more than 80 hours in a month. **Exhibit E** illustrates Ms. Berkey was paid for over 100 hours during November of 2003, 2004 and 2005. Ms. Berkey was also paid for over 100 hours in December 2003. During this time of year, Ms. Berkey would have been responsible for preparation and filing of the City’s Annual Financial Report (AFR), which could have required more hours.

However, we identified several other months during Ms. Berkey’s employment for which she was paid for over 100 hours. During the months identified, she would not have any additional duties, such as preparing the AFR. Ms. Berkey was paid for over 100 hours for each month between February and June 2006. As illustrated by **Exhibit E**, Ms. Berkey was paid for 115 hours during each month of 2006, except during March 2006. During March, she was paid for 113.5 hours.

Despite the fact Ms. Berkey was working more hours than she typically worked, financial records were not being maintained. Also, as previously discussed, the deposits made by Ms. Berkey during this period were not made in a timely manner. Because Ms. Berkey did not prepare timesheets, we are unable to obtain any additional information about the work she performed during these months.

During our review of the payroll journals, we also reviewed the hourly pay rate used to calculate Ms. Berkey's gross pay. For the period of our review, Ms. Berkey was consistently paid \$10 per hour. The previous Clerks were also paid \$10 per hour. We also determined the net pay recorded in the payroll journal for Ms. Berkey agreed with the amount of the checks issued to her.

During our review of payroll transactions, we also reviewed several notices to the City from the Internal Revenue Service (IRS). The City received a notice from the IRS dated May 16, 2006 regarding a contribution overpayment of \$149.01 for the quarter ended December 31, 2005 and an underpayment of \$474.16 for the quarter ended March 31, 2006. The City also received a notice from the IRS dated September 25, 2006 stating Tax Form 941 related to remittance of payroll withholdings for the quarter ended March 31, 2006 had not been received. The current City Clerk indicated she had completed the report and sent it in; however, a copy of the report was not available for review.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the City of Mingo to process receipts and disbursements. An important aspect of internal control is to establish procedures that 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 that errors or irregularities will be noted 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 City Clerk had control over each of the following areas for the City:
- (1) Cash – preparation of bank account reconciliations, recording of cash transactions, transfers between City bank accounts and custody. Bank reconciliations were not performed for the City bank accounts for all months, including January 2004 through June 2005.
 - (2) Receipts – collecting, depositing, journalizing and posting.
 - (3) Utility receipts – billing, collecting, depositing, posting to the customer accounts, application of penalties and/or cancellations and deposit preparation and reconciling.
 - (4) Disbursements – check preparation, check signing, distribution and posting.
 - (5) Payroll – check preparation, check signing, distribution and posting.
 - (6) Long-term debt – recording, reconciling and performing cash functions.
 - (7) Financial reporting – preparation of monthly reports and distribution.
 - (8) Accounting system – performance of all general accounting functions and custody of assets.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. The duties within each function listed above should be segregated between the City Clerk, Mayor and/or Council members. In addition, the City Council should review financial records, reconciliations and supporting documentation on a periodic basis. Evidence of independent reviews should be indicated by initials of the reviewer and the date of the review.

In addition, bank statements should be delivered to and reviewed by an official who does not collect or disburse City funds. Bank reconciliations should be performed on a monthly basis.

All disbursements should be approved prior to payment and documented in the minutes. All payments should be supported by invoices or other appropriate documentation.

- B. Receipts – Only a limited number of receipts were located in the City's records. The receipts were not prenumbered. In addition, collections were not consistently deposited in a timely manner and we were unable to determine if they were deposited intact.

Recommendation - Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all funds collected. Also, control over cash collections would be strengthened if receipts were deposited intact on a timely basis and were issued on an individual basis for moneys received to avoid combining different types of collections. A receipt could be issued for each day's total utility collections.

C. Accounting Records – Very limited financial records were available from the City for the period of our investigation.

- 1) Receipts were not journalized and disbursements were not consistently supported by invoices or other appropriate documentation. Not all disbursements were approved by the City Council. And specifically, 3 disbursements paid to the former City Clerk were not supported by invoices or other documentation.
- 2) The City does not maintain the accounting records on a current basis. In addition, certain accounting records were not retained for a sufficient amount of time.
- 3) A separate process was not established for adjustments to the accounting records and adjustments to the records were not adequately explained, supported or approved.
- 4) Utility records of billings, collections and unpaid accounts were not maintained at City Hall or properly retained.
- 5) Monthly financial reports detailing bank balances submitted during Council meetings were not supported by the bank statements or the accounting records.

Recommendation – The Council should establish formal accounting procedures to account for the City's financial transactions, such as receipts, disbursements and payroll. The City should maintain all accounting records on a current basis. Receipt and disbursement journals should be retained to support the reporting of collections and disbursements.

All disbursements should be approved prior to payment, with approval documented in the minutes record.

The City should develop a process for adjustments to the accounting records. All adjustments should be adequately explained, supported and approved.

D. Bank Reconciliations – Except for 4 months prior to July 2005, monthly reconciliations of financial records to the bank accounts were not maintained. In addition, the monthly bank reconciliations during the year ended June 30, 2006 were not appropriately prepared. Certain collections were recorded as deposits in transit while they were withheld from deposits for several months. In addition, certain outstanding checks were listed in the reconciliations which had not been issued.

Recommendation – To improve financial accountability and control, the City's financial records should be reconciled each month to the bank balances. The reconciliations should be reviewed by an independent party. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month and retained.

- E. Reconciliation of Water, Sewer and Garbage Billings – We are unable to determine if water, sewer and garbage collections were properly deposited. The City’s utility transactions were not reconciled on a periodic basis. In addition, the amounts deposited for utilities were not consistently supported by reported collections.

Recommendation – Procedures should be established to reconcile water, sewer and garbage billings, collections and delinquencies for each billing period. The collections should be deposited intact. The City Council or an independent person designated by the City Council should review the reconciliations and monitor delinquencies. Delinquencies should not be written off without Council approval. The listing of delinquent accounts should be retained.

- F. City Council Minutes - Section 372.13(6) of the *Code of Iowa* states, in part, “Within fifteen days following a regular or special meeting of the Council, the Clerk shall cause the minutes of the proceedings of the Council, including the total expenditure from each City fund, to be published in a newspaper of general circulation in the City. The publication shall include a list of all claims allowed and a summary of all receipts and shall show the gross amount of the claims. The list of claims allowed shall show the name of the person or firm making the claim, the reason for the claim, and the amount of the claim.”

During our review of minutes from the Council meetings, we identified the following:

- An official signed copy of the minutes was not available at the City. The minutes reviewed during fieldwork were obtained from files at City Hall containing copies of the published minutes.
- The minutes reviewed did not always contain an accurate and detailed listing of individual bills to be approved for payment. Not all bills and transfers were approved for payment in the minutes record. A summary of receipts and total disbursements by fund was not published each month after November 2004.
- Monthly financial reports, as indicated to have been submitted to the City Council, were not retained with the minutes record.
- The minutes were not properly signed by the City Clerk or Mayor to authenticate the record as required by section 380.7(3) of the *Code of Iowa*.
- Minutes were not properly retained. Minutes were not available at the City for meetings held during December 2002, July 2003, November 2004 and September 2005.

Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation - The City should ensure the minutes, list of claims, summary of receipts, total disbursements by fund and annual individual salaries are published as required. The Council should also ensure they are provided with accurate bill listings which are retained and that all actions taken to approve all bills and transfers are recorded in the minutes. Also, the minutes should be signed to authenticate the record.

- G. Written Policies and Procedures – The City does not have written accounting policies and procedures.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

H. City Financial Management Information – Monthly financial reports, including fund balances and comparisons of actual results to budget by function, were not consistently compiled from accounting records and provided to the Council for review and approval.

Procedures do not exist to ensure the accounting system includes all transactions applicable to the reporting period. Receipts are not verified to deposits, checks issued are not compared to checks clearing the bank and the receipts and checks issued are not compared to a check register which should maintain a running book balance.

Recommendation – To improve financial accountability and control, a monthly report should be submitted to the Council showing beginning balance, receipts, disbursements, transfers and ending balance for each individual fund. To provide better control over budgeted disbursements and the opportunity for timely amendments to the budget, the Clerk's monthly financial reports to the Council should include comparisons to the certified budget by function.

Procedures should be established to ensure the accounting system includes all transactions applicable to the reporting period and receipts, disbursements and transfers are correctly coded.

A monthly reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be prepared each month and retained.

Also, to provide better financial information and control and to assist in locating and correcting errors in a timely manner, the computer information should be reconciled to receipt and disbursement printouts on a monthly basis.

I. Electronic Check Retention – Section 554D.114 of the *Code of Iowa* allows the City to retain cancelled checks/warrants in electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check/warrant. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

J. Tax Increment Financing Collections – During fiscal years 2002 through 2006, tax increment financing collections were posted to the Special Revenue, Urban Renewal Tax Increment Fund. However, the collections were not used to pay the interest or reduce applicable tax increment debt. Interest was paid from the City's Debt Service Fund.

In addition, the TIF debt balance at June 30, 2006 of \$314,466 was reported by the City on the 2005 and 2006 Annual Financial Reports and certified to the Jasper County Auditor as TIF revenue debt. This balance appears to be excessive based upon TIF collections that could be applied to reduce the obligation.

Recommendation – The City should transfer funds to replenish the Debt Service Fund for the payment interest on TIF debt. Also, the City should reduce TIF debt with funds that are available.

- K. Credit Card – The City has a credit card account for use by certain employees for City business. The City has not adopted a formal policy to regulate the use of the credit cards.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges.

- L. Payroll – According to the City Clerk, only the maintenance employee completes time sheets. The City Clerk and Librarian are paid on an hourly basis but do not prepare timesheets to support their monthly payroll amounts.

Recommendation – The Council should implement procedures to ensure all hourly employees maintain time sheets which are reviewed by someone who would have a basis for determining if the information recorded is accurate. In addition, a Council Member or an individual independent of payroll preparation should periodically compare the payroll checks to the payroll register and timesheets to ensure the amounts disbursed are appropriate and properly supported.

- M. Record Retention – During our review of disbursements, we were unable to locate documentation for all payments. In addition, the former City Clerk maintained City records, such as bank statements and utility records, at her personal residence.

Recommendation – Supporting documentation, such as receipts or invoices, should be maintained for all disbursements. In addition, the Council should implement procedures to ensure all City records are retained at City Hall and a retention policy should be established.

Exhibits

Exhibit AReport on Special Investigation of the
City of MingoSummary of Findings
For the period September 1, 2002 through June 30, 2006

Description	Exhibit/Table Page Number	Improper	Unsupported	Total
Undeposited Collections:				
Estimated utility collections	Table 3	\$ 13,752.06	-	13,752.06
Cash collections not deposited	Page 12	746.03	-	746.03
Subtotal		14,498.09	-	14,498.09
Improper and Unsupported Disbursements:				
Personal purchase	Page 14	1,605.40	-	1,605.40
Lack of supporting documentation	Exhibit C	-	32,849.52	32,849.52
Computer repair	Page 14	265.00	-	265.00
Reimbursements to Ms. Berkey	Table 6	-	583.01	583.01
Overdraft charges and service fees	Table 7	975.30	-	975.30
Credit card late fees	Table 8	447.00	-	447.00
Credit card finance charges	Table 8	69.75	-	69.75
Credit card purchases	Page 17	-	646.55	646.55
Subtotal		3,362.45	34,079.08	37,441.53
Total		\$ 17,860.54	34,079.08	51,939.62

Report on Special Investigation of the
City of Mingo

Comparison of Expected Utility Collections and Bank Deposits
For the period July 1, 2003 through June 30, 2006

	Fiscal Year		
	2004	2005	2006
Per the meter readings:			
Total number of gallons used, per meter readings	6,856,700	6,812,200	6,652,000
Less: Number of gallons included in base rate	1,560,000	1,596,000	1,587,000
Remainder at incremental rate	5,296,700	5,216,200	5,065,000
Number of customers with meter readings	130	133	133
Less: Number of business customers with meter readings	8	8	8
Number of residential customers	122	125	125
Calculated billing amount:			
Water:			
Base rate of \$8.25 for first 1,000 gallons per month	\$ 12,870.00	13,167.00	13,167.00
Incremental rate of \$4.50 for each additional 1,000 gallons per month	23,835.15	23,472.90	22,792.50
Sales tax on water sales	2,569.36	2,564.79	2,517.17
Sewer:			
Base rate of \$10.00 for first 1,000 gallons per month	15,600.00	15,960.00	15,960.00
Incremental rate of \$2.50 for each additional 1,000 gallons per month	13,241.75	13,040.50	12,662.50
Sales tax on sewer	2,018.92	2,030.04	2,003.58
Garbage @ \$10.00 per residential customer per month	14,640.00	15,000.00	15,000.00
Landfill @ \$7.00 per commercial business per month	672.00	672.00	672.00
Calculated billing amounts	85,447.18	85,907.23	84,774.74
Less: allowance for uncollected accounts	-	-	(730.87)
Expected collections for utilities	\$ 85,447.18	85,907.23	84,043.87
Amounts deposited to the bank for utilities*			
July through June	\$ 78,565.67	79,061.28	66,216.72
July 2006^	-	-	17,802.55
Total	\$ 78,565.67	79,061.28	84,019.27
Difference between expected collections and amounts deposited	\$ 6,881.51	6,845.95	24.60

* - The amounts deposited to the bank were determined by subtracting proceeds from State and County taxes from the deposits to the City's account. The remaining amounts appear to be utility collections, which would include sales tax and deposit fees.

^ - Deposits were for March, April and May 2006 utility billings.

Report on Special Investigation of the
City of Mingo

Unsupported Disbursements
For the period September 1, 2002 through June 30, 2006

Per the Check				Per Cash Disbursement Journal		
Paid Date	Check Number	Payee	Amount of Check		Description	Amount
10/14/02	1010	DeeAnn Van Dusseldorp	\$ 3,211.78		Reimburse - Notebook computer, laser all-in-one printer, cable, CD-RW's, case	\$ 2,669.88
					Reimburse - Peachtree Software	199.95
					Reimburse - Peachtree support plan	159.00
					Reimburse - Peachtree 2003 tax service	129.95
					Reimburse - Deposit tickets	53.00
07/09/03	2372	McDowell & Sons	* 49,789.50	#	Development fees through June 27	49,789.50
08/11/03	2418	Colin Herbold	1,136.00		Reimbursement for radios/tower	1,136.00
09/08/03	2459	CGA Consultants	* 4,860.00	#	Phase 207 (\$2,555.00) & Phase 208 (\$2,305.00)	4,860.00
09/18/03	2477	City of Colfax	11,800.00	#	Police Car	11,800.00
09/17/03	2481	McDowell & Sons	* 95,597.42	#	Morning Sun Addition II	95,597.42
10/15/03	2531	McDowell & Sons	* 106,255.60	#	Payment for services (Morning Sun Addition II)	106,255.60
11/12/03	2572	John Watson	* 18,775.00	#	Sewer/Manhole Repairs	18,775.00
12/03/03	2574	Scott Miller	* 18,617.59	#	Davenport Street House Sale	18,617.59
12/30/03	2626	McDowell & Sons	* 22,865.17	#	Morning Sun Addition II Development	22,865.17
02/14/04	2701	McDowell & Sons	* 13,291.06	#	Development Fees	13,291.06
08/25/04	2875	MCCBG (Wal-mart Business)	424.10	#	Book Allowance	424.10
08/02/04	2878	Sully Construction	* 6,919.00	#		1,428.50
						4,673.50
						817.00
11/08/04	2981	MidAmerican Energy	1,552.92	#	Electric Distribution Bond Number SY23023	1,552.92
12/29/04	2995	MCCBG (Wal-mart Business)	152.13	#	Book Allowance	152.13

Description per invoice or other documentation	Supported	Unsupported	
<i>Invoice not available</i>	\$ -	2,669.88	
<i>Invoice not available</i>	-	199.95	
<i>Invoice not available</i>	-	159.00	
<i>Invoice not available</i>	-	129.95	
<i>Invoice not available</i>	-	53.00	
<i>Invoice not available</i>	-	49,789.50	
<i>Invoice not available</i>	-	1,136.00	
<i>Invoice not available</i>	-	4,860.00	
<i>Invoice not available</i>	-	11,800.00	
<i>Invoice not available</i>	-	95,597.42	
<i>Invoice not available</i>	-	106,255.60	
<i>Invoice not available</i>	-	18,775.00	
<i>Invoice not available</i>	-	18,617.59	
<i>Invoice not available</i>	-	22,865.17	
<i>Invoice not available</i>	-	13,291.06	
<i>Invoice not available; paid by phone</i>	-	424.10	
<i>Invoice not available. Observed billing statement dated 06/13/05 from vendor which showed payment was for invoice #4998 dated 07/08/04. Vendor provided infrastructure services to the City.</i>	-	1,428.50	
<i>Invoice not available. Observed billing statement dated 06/13/05 from vendor which showed payment was for invoice #4999 dated 08/02/04. Vendor provided infrastructure services to the City.</i>	-	4,673.50	
<i>Invoice not available. Observed billing statement dated 06/13/05 from vendor which showed payment was for invoice #5027 dated 08/02/04. Vendor provided infrastructure services to the City.</i>	-	817.00	
<i>None - (Indicated to be for Electrical & Gas Distribution Bonds #5420023)</i>	-	1,552.92	#
<i>Invoice not available</i>	-	152.13	#

Report on Special Investigation of the
City of Mingo

Unsupported Disbursements
For the period September 1, 2002 through June 30, 2006

Per the Check				Per Cash Disbursement Journal		
Paid Date	Check Number	Payee	Amount of Check		Description	Amount
02/14/05	3064	Forbes Office Equipment, Inc.	1,194.70	#	Printer	499.00
					Bookcases (Library)	660.80
					Misc. Office Supplies (W-2's, paper)	34.90
02/14/05	3084	Data Technologies, Inc.	2,671.15	#	Invoice #13935	1,300.00
					Invoice #15605	250.00
					Invoice #13425	325.31
					Invoice #13566	450.00
					Invoice #14982	14.00
					Invoice #12858	14.00
					Invoice #15563	317.84
03/14/05	3099	Marion Webster	1,500.00	#	Reimbursement for Comm. Center Repairs	1,500.00
05/09/05	3144	Forbes Office Equipment, Inc.	397.99	#	Office Supplies (Copier, cartridges, envelopes, etc.)	397.99
06/13/05	3180	Sully Construction, Inc.	24,512.60	*		6,780.00
						991.50
						2,000.60
						6,370.00
						8,370.50
06/13/05	3195	Toyne, Inc	1,439.14		Fire Dept Supplies	1,439.14
06/13/05	3198	Colfax Fire Department	2,550.00		Ambulance	2,550.00
12/12/05	1235	Data Technologies	1,935.77	#	Software License & Support	1,365.00
					Computer Training	570.77
		Total	<u>\$ 391,448.62</u>			<u>\$ 391,448.62</u>

* - Related to infrastructure and a residential development. These payments total \$361,482.94.

- Traced to listing of disbursements approved by the Council. These disbursements total \$358,599.10.

The remaining disbursements of \$32,849.52 have been included in **Exhibit A**.

Description per invoice or other documentation	Supported	Unsupported
For Scratchdent Furniture, Brother MFC 8220 V60995C4J127605	499.00	-
<i>Invoice not available</i>	-	660.80
<i>Invoice not available</i>	-	34.90
Invoice #13935 (2005 SUMMIT License Fee and Support Fee)	1,300.00	-
<i>Invoice not available</i>	-	250.00
Invoice #13425 (On-site A/P and G/L Training)	325.31	-
<i>Invoice not available</i>	-	450.00
<i>Invoice not available</i>	-	14.00
Invoice #12858 (Update Release 5.1.62e)	14.00	-
Invoice #15563 (On-site Installation of Utility Billing);	317.84	-
<i>Invoice not available</i>	-	1,500.00 #
<i>Invoice not available</i>	-	397.99 #
<i>Invoice not available.</i> Observed billing statement dated 06/13/05 from vendor which showed payment was for invoice #5230 dated 05/06/05. Statement included hand-written notation "Water line for CPS."	-	6,780.00
<i>Invoice not available.</i> Observed billing statement dated 06/13/05 from vendor which showed payment was for invoice #5231 dated 05/06/05. Statement included hand-written notation "Water Leak."	-	991.50
<i>Invoice not available.</i> Observed billing statement dated 06/13/05 from vendor which showed payment was for invoice #5290 dated 06/06/05. Statement included hand-written notation "Hydrant."	-	2,000.60
<i>Invoice not available.</i> Observed billing statement dated 06/13/05 from vendor which showed payment was for invoice #5291 dated 06/06/05. Statement included hand-written notation "School."	-	6,370.00
<i>Invoice not available.</i> Overpaid \$8,370.50; Subsequently refunded and deposited in City's bank account. Statement dated 06/13/05 showed a balance due of \$16,142.10 rather than the \$24,512.60 paid by the City.	-	8,370.50
<i>Invoice not available</i>	-	1,439.14
<i>Invoice not available</i>	-	2,550.00
<i>Invoice not available</i>	-	1,365.00
Invoice #16156 (On-site Training for A/P, Payroll & G/L)	570.77	-
	3,026.92	388,421.70

Report on Special Investigation of the
City of Mingo

Comparison of Balances Reported to Council and Bank Balances
For the period February 2003 through June 2006

Month	Balance Reported to Council	Bank Balance	Difference
February 2003	\$ 162,300.81	150,653.19	11,647.62
July 2003	201,098.66	181,081.23	20,017.43
August 2003	218,538.38	190,380.39	28,157.99
September 2003	203,268.28	176,032.99	27,235.29
October 2003	<i>Not available</i>	174,892.54	-
November 2003	100,510.55	163,058.37	(62,547.82)
December 2003	166,028.45	154,172.31	11,856.14
January 2004	106,806.70	99,029.14	7,777.56
February 2004	84,735.74	57,123.89	27,611.85
March 2004	74,499.71	57,646.33	16,853.38
April 2004	112,467.46	81,136.80	31,330.66
May 2004	98,134.11	58,319.52	39,814.59
June 2004	115,636.09	80,678.92	34,957.17
July 2004	93,467.00	54,030.84	39,436.16
August 2004	84,086.02	50,418.81	33,667.21
September 2004	80,422.06	52,648.17	27,773.89
October 2004	129,710.44	96,499.79	33,210.65
November 2004	9,833.59	88,560.15	(78,726.56)
December 2004	<i>Not available</i>	127,955.86	-
January 2005	<i>Not available</i>	95,734.53	-
February 2005	<i>Not available</i>	102,934.59	-
March 2005	103,057.65	84,471.10	18,586.55
April 2005	127,768.81	129,512.89	(1,744.08)
May 2005	<i>Not available</i>	119,172.48	-
June 2005	84,130.54	82,902.41	1,228.13
July 2005	<i>Not available</i>	66,394.22	-
August 2005	57,964.93	42,401.22	15,563.71
September 2005	<i>Not available</i>	53,966.12	-
October 2005	122,318.54	101,722.66	20,595.88
November 2005	<i>Not available</i>	106,261.70	-
December 2005	<i>Not available</i>	97,561.20	-
January 2006	<i>Not available</i>	115,271.88	-
February 2006	<i>Not available</i>	110,971.52	-
March 2006	<i>Not available</i>	120,982.67	-
April 2006	<i>Not available</i>	161,856.49	-
May 2006	<i>Not available</i>	142,881.84	-
June 2006	<i>Not available</i>	126,707.93	-

Report on Special Investigation of the
City of Mingo

Number of Hours Paid to Amy Berkey
For the period September 1, 2002 through June 30, 2006


Month	Number of Hours Paid	Month	Number of Hours Paid
October 2002	65.0	September 2004	85.0
November 2002	77.0	October 2004	85.0
December 2002	71.0	November 2004	110.0
January 2003	74.0	December 2004	85.0
February 2003	80.0	January 2005	85.0
March 2003	74.0	February 2005	85.0
April 2003	74.0	March 2005	80.0
May 2003	75.0	April 2005	85.0
June 2003	73.0	May 2005	85.0
July 2003	73.0	June 2005	100.0
August 2003	72.5	July 2005	85.0
September 2003	80.0	August 2005	95.0
October 2003	80.0	September 2005	110.0
November 2003	115.0	October 2005	85.0
December 2003	100.0	November 2005	123.0
January 2004	85.0	December 2005	95.0
February 2004	85.0	January 2006	95.0
March 2004	103.0	February 2006	115.0
April 2004	80.0	March 2006	113.5
May 2004	85.0	April 2006	115.0
June 2004	75.0	May 2006	115.0
July 2004	83.0	June 2006	115.0
August 2004	85.0		

Report on Special Investigation of the
City of Mingo

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
Ronald D. Swanson, CPA, Manager
Jennifer R. Edgar, CPA, Senior Auditor
James R. Wittenwyler, Staff Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State