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NEWS RELEASE

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Auditor of State David A. Vaudt today released a report on the City of Norwalk. The report covers the period July 1, 2006 through April 9, 2008. The procedures were performed at the request of City officials as a result of concerns identified in the Auditor of State's report on the Special Investigation of the City of Postville released on March 14, 2008. The report included concerns Postville's former Public Works Director, Gary Simmons, received improper reimbursements, authorized excessive purchases of chemicals and improperly used the City's computer. In June 2006, Mr. Simmons resigned as the Public Works Director for the City of Postville and became the Public Works Director for the City of Norwalk effective July 1, 2006.

On March 17, 2008, Mr. Simmons was placed on paid administrative leave pending review of his actions while Public Works Director for the City of Norwalk. On May 5, 2008, the City terminated Mr. Simmons' employment as the Public Works Director.

Vaudt reported Mr. Simmons attended a conference in San Antonio, Texas in September 2007. He traveled to San Antonio 2 days prior to the start of the conference. Vaudt determined the costs incurred by the City for Mr. Simmons' lodging and meals for the additional day totaled \$240.92. In addition, Vaudt reported 3 meal reimbursements to Mr. Simmons for costs incurred at the conference were not supported by detailed receipts.

Vaudt also reported Mr. Simmons purchased chemicals and other items from 4 vendors identified in the Postville report. The City did not have a history of transactions with 3 of the 4 vendors prior to Mr. Simmons' employment with the City. Some of the items purchased from these vendors had previously been purchased from other vendors at a lower cost, such as street

paint. Street paint was purchased from Continental Research at a cost of \$51.00 to \$54.00 per gallon. Prior to Mr. Simmons' employment, the City purchased street paint from another vendor at a cost of \$11.07 to \$12.50 per gallon.

Vaudt's report also includes recommendations to strengthen the City's controls and procedures over purchases, credit card use, travel reimbursements and internet usage.

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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City of Norwalk
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To the Honorable Mayor and Members of the City Council:

At the request of City officials, we conducted certain tests and procedures to selected financial transactions of the City for the period July 1, 2006 through April 9, 2008, or as otherwise noted. Based on discussions with the City Administrator and the Community Services Director and a review of relevant information, we performed the following procedures:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Reviewed City policies for purchasing, credit card use, travel and training and internet activity to determine if policies were complete and included adequate controls.
- (3) Reviewed supporting documentation for travel reimbursements made to Gary Simmons, the City's former Public Works Director, for reasonableness.
- (4) Reviewed training costs and related supporting documentation paid of behalf of Mr. Simmons for reasonableness.
- (5) Reviewed all credit card activity for Mr. Simmons and a sample of transactions for other cardholders to determine if purchases made with the City's credit cards were properly supported and met the test of public purpose.
- (6) Examined payments to selected vendors from January 1, 2005 through April 9, 2008 to determine if purchases were reasonable and appropriate for City operations, with specific attention directed towards the purchase of chemicals.
- (7) Reviewed documentation of internet activity identified on the computer assigned to Mr. Simmons to determine if it violated City policy.
- (8) Reviewed an independent consulting report prepared by Moulder and Associates, LLC at the request of City officials to investigate findings reported in the Auditor of State's report on the Special Investigation of the City of Postville released on March 14, 2008.

As a result of our review, we identified the following concerns and developed certain recommendations which should be considered by the City.

- (A) Travel and Training Policy – The current policy for travel and training states “The City will reimburse the employee for appropriate expenses incurred with the proper receipts or records.” However, the policy does not define which expenses are deemed appropriate and does not specify a mileage reimbursement rate or meal allowance.

We determined Mr. Simmons attended a conference in San Antonio, Texas held from September 9-12, 2007. Documentation submitted by Mr. Simmons showed he traveled to San Antonio on Friday, September 7, 2007, which was 2 days prior to the start of the conference. However, the documentation did not specify why the additional day was necessary. The Community Services Director, who also attended the conference, traveled to San Antonio on Thursday, September 6, 2007. We determined the Community Services Director did not request reimbursement for meals or hotel accommodations until Saturday, September 8. In addition, we also determined the Community Services Director took 16 hours of vacation during the month of September. We were unable to confirm the 16 hours of vacation were taken on September 6 and September 7 because the Community Services Director does not prepare a detailed timesheet.

Mr. Simmons did not take a day of vacation for the extra time he spent in San Antonio. According to the Community Services Director, he approved Mr. Simmons' request to travel to San Antonio on Friday, September 7, 2007. However, he was unable to provide an explanation of why Mr. Simmons needed to arrive in San Antonio 2 days prior to the start of the conference.

The additional costs incurred by the City for Mr. Simmons' meals and hotel accommodations on Friday, September 7, 2007, totaled \$240.92. The costs were either billed to the City's credit card or submitted to the City for reimbursement.

As previously stated, Mr. Simmons submitted a request for reimbursement of meals purchased while attending the conference. The documentation he submitted for 3 of 5 meals was a credit card receipt rather than a detailed sales receipt. The cost for each of the 3 meals exceeded \$20.00. Because a charge receipt was submitted rather than a detailed sales receipt, the City is unable to determine how many meals were purchased and if alcohol was purchased.

Recommendation – The City should establish a travel and training policy which includes a clear definition of travel and training expenses deemed to be appropriate for reimbursement. In addition, the City should specify a maximum amount allowable for reimbursement to employees for meals, lodging and other travel related costs and should specifically prohibit reimbursement for the purchase of alcoholic beverages.

Also, the policy should establish guidelines to specify when it is appropriate to travel to the conference location prior to the conference date or stay after completion of the conference, including which party should incur the travel costs, such as lodging and meals.

In addition, City officials should ensure all documentation submitted by employees is sufficient to determine all reimbursements are appropriate and in accordance with City policy.

- (B) Preferred Vendors – A report on the Special Investigation of the City of Postville issued by the Office of Auditor of State on March 14, 2008 identified 7 vendors from which Mr. Simmons authorized purchases of chemicals in quantities determined to be excessive. As a result of the concerns identified at the City of Postville, we reviewed the City of Norwalk's vendor history and determined Mr. Simmons purchased chemicals and other items from 4 of these 7 vendors while employed by the City of Norwalk. Specifically, Mr. Simmons purchased items from Continental Research, Atco, Chemsearch and Superior Lamp.

We reviewed the City's purchase history with these vendors from January 1, 2005 (the earliest date available in the City's computer history) to April 9, 2008 and determined

the City did not have a history of transactions with 3 of the 4 vendors prior to Mr. Simmons' employment with the City. However, during the time Mr. Simmons was employed as the City's Public Works Director, we identified purchases totaling \$11,644.05 from Continental Research, \$8,400.03 from Chemsearch, \$2,032.90 from Atco and \$452.88 from Superior Lamp. Details of the purchases are included in **Table 1**.

| Payment Date | Description | Amount Paid | | | |
|---------------------|---|-----------------------------|--------------------|-----------------|----------------------|
| | | Continental Research | Chem-search | Atco | Superior Lamp |
| 09/08/06 | 1 dz. Maxi-Lube Red Aero | \$ - | 140.75 | - | - |
| 11/16/06 | 3 Graffiti Be Gone Kits | 893.73 | - | - | - |
| 12/07/06 | 6 bags X-Ice | - | 824.20 | - | - |
| 01/04/07 | 1 Shop Pack | - | - | 177.65 | - |
| 03/01/07 | 1 dz. Diesel Guard | - | 208.48 | - | - |
| 03/01/07 | <i>Invoice not found</i> | - | 668.85 | - | - |
| 05/03/07 | 2 containers Root Free II | - | 682.35 | - | - |
| 06/08/07 | 1 dz. Lemon Drop, Wipe Out | - | 492.84 | - | - |
| 06/08/07 | 100 lbs. Formula 411 | - | - | 660.00 | - |
| 08/02/07 | 40 gallons Street Paint | 2,236.99 | - | - | - |
| 09/06/07 | 20 gallons ND-165 | - | 615.35 | - | - |
| 09/20/07 | 40 gallons Street Paint | 2,218.44 | - | - | - |
| 09/20/07 | 24 Fluorescent Tube Lights | - | - | - | 452.88 |
| 10/18/07 | 40 gallons Street Paint | 2,273.95 | - | - | - |
| 10/18/07 | 40 gallons Soy Float | 2,006.99 | - | - | - |
| 11/01/07 | <i>Invoice not found</i> | - | 208.48 | - | - |
| 11/01/07 | 5 gallon Type II Safety Can | - | 528.46 | - | - |
| 11/15/07 | 35 gallons Meltdown II | - | - | 840.00 | - |
| 01/03/08 | 40 gallons Soy Float | 2,013.95 | - | - | - |
| 01/17/08 | 25 bags X-Ice | - | 2,367.13 | - | - |
| 02/07/08 | 1 dz. Maxi-Lube Red Aero | - | 144.25 | - | - |
| 02/21/08 | 5 gallons Destroyer | - | - | 355.25 | - |
| 04/17/08 ^ | 1 dz. Lemon Drop and 5 gal Healthy Hands Anti Cleaner | - | 433.54 | - | - |
| 05/01/08 ^ | 20 gallons Aqua-Trim II | - | 1,085.35 | - | - |
| Total | | \$ 11,644.05 | 8,400.03 | 2,032.90 | 452.88 |

^ - Invoices were paid after April 9, 2008 but products were shipped in February and March 2008.

As illustrated by **Table 1**, several items were purchased from these vendors, including products such as graffiti removal kits, street paint, chemicals, a shop pack (3 items each of rubberized undercoating, engineering solvent, choke and carburetor cleaner and penetrating oil), ice melt and weed killer. We discussed the specific items

purchased from each of these vendors with City officials and were told some comparable products had been purchased in the past from a local hardware store at a significantly lower cost than that paid to these vendors, including products included in the Shop Pack, Graffiti Be Gone Kits and weed killer. Because the City's invoices from the hardware store were not readily available, we are unable to determine the cost previously paid to the hardware store for similar products. We contacted Norwalk Hardware and determined the current retail cost for similar products, which are shown in **Table 2**.

Table 2

| Description | Cost per Can |
|--------------------|---------------------|
| Graffiti Remover | \$ 9.99 |
| Undercoating | 6.69 |
| Mineral Spirits | 4.29 |
| Carburetor Cleaner | 5.19 |
| Penetrating Oil | 6.00 - 9.00 |
| Round-up (gallon) | 13.99 |

In addition, Mr. Simmons authorized the purchase of 120 gallons of street paint from Continental Research at a cost ranging from \$51.00 to \$54.00 per gallon. At Norwalk Hardware, a 5 gallon pail of street paint currently retails for \$18.00 per gallon. We also contacted representatives of the Iowa Department of Transportation who stated the current cost for a 5 gallon pail of street paint ranges from \$6.99 to \$7.33 per gallon. In addition, between July 2004 and August 2005, the City purchased 205 gallons of street paint from Vogel Paints at a cost ranging from \$11.07 to \$12.50 per gallon.

According to City officials, the chemicals purchased by Mr. Simmons were used at the City's lift stations and are reported to control the level of grease build-up from the pumps at the bottom of the lift stations. The alternative to using chemicals to control the grease level is to manually pump water from the lift stations, which was the practice of the City prior to Mr. Simmons' employment as the Public Works Director. According to City officials, the cost of pumping the lift station is significantly lower than the cost of using chemicals, as well as more effective. City officials stated the City will revert to the former practice of manually pumping water from the lift stations in the future.

We compared Continental Research sales invoices obtained from the City of Norwalk to invoices we obtained from the City of Postville and determined Mr. Simmons conducted transactions at both Cities with a single sales representative. Information available on the website for Continental Research suggests the company sometimes offers promotional incentives if certain items are purchased in specified quantities. We were not able to determine if Mr. Simmons personally benefited from promotional items.

The City's purchasing policy requires submission of a written price quotation from at least 2 vendors prior to the purchase of items costing more than \$1,000.00. We did not find evidence written price quotes were obtained for purchases from Continental Research and Atco and confirmed with City officials price quotes were not obtained. City officials stated the purchasing policy is outdated with respect to the \$1,000.00 threshold and the purchasing policy is currently being rewritten.

Recommendation – The City should review the current purchasing and bid policies to ensure they are sufficient for the City’s needs and implement necessary revisions. Also, the City’s policies should clearly define procedures to be used when a series of purchases are planned for specific items from the same vendor. The City should implement procedures to ensure purchase orders are not split or made over time to avoid complying with City policies. In addition, the City should take measures to ensure all purchases are in compliance with the City’s purchasing policy in place at the time of the purchase.

- (C) Inappropriate Computer Use – The City has an internet policy which prohibits use of the internet for “unprofessional references, i.e. games or profane or obscene material is prohibited.” The policy also states “employees who violate the policy shall be subject to disciplinary action, including termination...” We obtained from City officials a document prepared by the City’s IT representative which identifies several internet sites of an adult nature which were accessed with the City owned computer assigned to Mr. Simmons.

Recommendation – The City should ensure all employees are aware of the internet policy. The City should also implement procedures to periodically review use of the internet by employees to ensure the policy is complied with and continue to enforce the policy to the fullest extent possible.

- (D) Credit Cards – We reviewed all activity for the City credit card issued to Mr. Simmons and selected activity for credit cards issued to other City employees. Based on our review, we identified the following:

1. Credit Card Use – City policy specifies certain purchases which may be paid for with City-issued credit cards. Transactions for lodging, per-diem, transportation, event registration and emergency repairs all qualify as an allowable purchase with a City credit card. We scanned credit card activity and identified numerous transactions which do not appear to meet the criteria identified in the policy to qualify as an eligible credit card transaction.
2. Public Purpose – We identified 19 transactions posted to City credit cards for which the public purpose was not documented. Based on our review, the purchases appear appropriate for City operations but the public benefits to be derived have not been clearly documented as required by an Attorney General’s opinion dated April 25, 1979. For 1 of the 19 transactions, a personal check was issued from the cardholder to the City to reimburse the credit card charge. None of the 19 transactions were posted to the credit card issued to Mr. Simmons.
3. Unsupported Transactions – We identified 10 purchases with City credit cards which were not supported by receipts and 5 purchases for which the receipt did not provide sufficient detail to determine the specific items purchased. Of the 15 transactions, 7 were posted to the account held by Mr. Simmons. Mr. Simmons reimbursed the City for 1 of the 7 transactions. The remaining 8 transactions were posted to the accounts of other cardholders, for which 1 of the 8 transactions was reimbursed to the City by the cardholder.

Recommendation – The City should review the current credit card policy to ensure it is sufficient for the City’s needs. The City should also implement procedures to ensure all purchases are reviewed and approved by an independent individual prior to payment. All transactions posted to City credit cards should be in compliance with City policy and City officials should be responsible for enforcement of the policy.

Also, according to the Attorney General’s opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

The City should determine and document the public purpose served by these expenditures. In addition, the City should establish written policies and procedures to clearly include the requirement for documentation of the public purpose served by future expenditures.

In addition, all employees who hold a City credit card should be required to provide a detailed receipt for each transaction posted to the account for which they are responsible. The City should implement procedures to ensure all purchases are reviewed and approved by an independent individual prior to payment. All transactions with City credit cards should be in compliance with City policy and City officials should be responsible for enforcement of the policy.

Additional Information:

Moulder and Associates, LLC – The City hired an independent consulting firm to determine what actions should be taken by the City as a result of the concerns identified by the Office of Auditor of State in the Special Investigation of the City of Postville. According to an undated letter signed by the Mayor, the City engaged the consultant to “investigate the facts and circumstances related to the Auditor’s Report and the specific allegations contained therein as they relate to Mr. Simmons.” In addition, the City requested the consultant “make a determination regarding how such allegations affect Mr. Simmons’ continued employment and ability to perform his job functions with the City of Norwalk.”

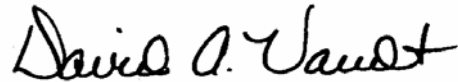
The consultant’s report included a transcript of his April 3, 2008 interview with Mr. Simmons to discuss the findings and concerns reported in the Auditor’s report. Based on our review of the transcript, it appears the consultant did not have a complete understanding of the findings and specific circumstances of certain transactions included in the Auditor of State’s report. In addition, it does not appear the consultant independently verified Mr. Simmons’ responses. We identified several remarks made by the consultant or Mr. Simmons which contradict documented information obtained by the Office of Auditor of State prior to issuance of the Auditor of State’s report.

Prior to the interview with Mr. Simmons, the consultant contacted a representative of the Office of Auditor of State on 2 occasions to ask a specific question about information included in the report. However, the consultant did not request documentation to support conclusions in the report, ask for clarification of the Exhibits included in the report or request to meet with representatives of the Office of Auditor of State. For instance, an Exhibit in the report includes a series of phone numbers which had been redacted by the Office of Auditor of State to protect privacy. However, based on the consultant’s report, he assumed the phone numbers were not available and were to access Mr. Simmons’ email rather than to call his personal residence.

According to the consultant’s report, “nothing contained in the Special Report should impact Mr. Simmons status as an employee of Norwalk.” However, the consultant’s report did not address the finding reported in the Auditor of State’s report regarding inappropriate use of City equipment. As previously stated, Mr. Simmons’ inappropriate use of a City computer has also been identified at the City of Norwalk. As previously stated, the City has an internet policy which prohibits use of the internet for “unprofessional references, i.e. games or profane or obscene material is prohibited.” The policy also states “employees who violate the policy shall be subject to disciplinary action, including termination...”

The procedures we performed 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 Norwalk, 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 officials and staff of the City during the course of our review.

A handwritten signature in black ink that reads "David A. Vaudt". The signature is written in a cursive style with a large, stylized 'D' and 'V'.

DAVID A. VAUDT, CPA
Auditor of State

May 22, 2008