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NEWS RELEASE

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FOR RELEASE

Friday, June 28, 2019

Auditor of State Rob Sand today released a review on the City of De Soto (City) for the period July 1, 2014 through August 31, 2018. The review was requested by a City official as a result of concerns regarding the propriety of certain disbursements and multiple payments to vendors on a single disbursement listing which was approved by City Council. The City official also expressed concerns that payments related to the construction of the City's waste water treatment plant had exceeded the amounts bid for the construction. Sand reported the disbursements identified by the City official were properly supported and approved and appropriate for City operations. Sand also reported disbursements selected for testing were appropriate for City operations.

The review includes recommendations to strengthen the City's internal controls and overall operations, such as improving segregation of duties and ensuring Council meeting minutes document discussions and approval of transfers and include month end fund balances. Sand also recommended the City consult with legal counsel to ensure proper resolution of an escrow payment regarding the construction of the waste water treatment plant.

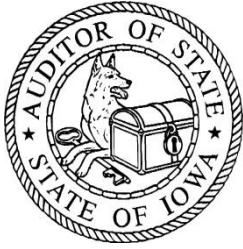
A copy of the review is available for review on the Auditor of State's website at <https://auditor.iowa.gov/reports/audit-reports/>.

**REPORT ON A REVIEW
OF THE
CITY OF DE SOTO**

**FOR THE PERIOD
JULY 1, 2014 THROUGH AUGUST 31, 2018**

Table of Contents

	<u>Page</u>
Auditor of State's Report	3-4
Background Information	5
Detailed Findings:	<u>Finding</u>
Segregation of Duties	A 5-6
City Council Minutes	B 6
Waste Water Treatment Plant	C 6-7
Staff	8



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Auditor of State's Report

To the Honorable Mayor and
Members of the City Council:

As a result of concerns regarding certain financial transactions of the City of De Soto (City) and at the request of a City official, we conducted a review for the City. We applied certain tests and procedures to selected financial transactions of the City for the period July 1, 2014 through August 31, 2018. Based on a review of relevant information and discussions with City officials and personnel, we performed the following procedures:

1. Evaluated internal controls to determine if proper control procedures were in place and operating effectively.
2. Reviewed City Council meeting minutes to identify significant actions and to determine if certain payments were properly approved.
3. Reviewed activity in the City's bank accounts to identify any unusual activity.
4. Scanned images of redeemed checks issued from the City's bank accounts to determine reasonableness of the payments. We examined supporting documentation for selected disbursements to determine if they were properly approved, supported by adequate documentation, and appropriate for City operations.
5. Interviewed City officials and personnel to determine the propriety of certain disbursements.
6. Obtained and reviewed the City's credit card statements to determine if purchases were appropriate for City operations, properly approved, and supported by adequate documentation.
7. Obtained and reviewed bidding documents, contracts, and invoices for the construction of the waste water treatment plant to determine compliance with policies and procedures, and if disbursements related to the construction were properly approved and supported by adequate documentation.
8. Reviewed payroll disbursements for selected employees to determine the propriety of the payments.

These procedures identified several internal control weaknesses which are described in the Detailed Findings of this review along with our recommendations. Unless reported in the Detailed Findings, items of non-compliance were not identified during the performance of the specific procedures listed above.

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

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

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

ROB SAND
Auditor of State

May 15, 2019

City of De Soto

July 1, 2014 through August 31, 2018

Background Information

The City of De Soto (City) is located in Dallas County and has a population of approximately 1,050. The City employs a City Clerk who is responsible for the business operations of the City. The City also employs a full-time Public Works Director and a Public Works employee. In addition, the City employs a part-time Utility Billing Clerk.

The City's primary revenue sources include local option sales tax and road use tax from the State of Iowa and property tax collected by Dallas County and remitted to the City. Revenue is also received from customers for water, sewer, and garbage services. Utility payments and other payments are collected through the mail, in person, or in the collection box at City Hall.

All City disbursements, including payroll, are to be made by check or using one of the City's credit cards assigned to specific City employees. All disbursements are to be supported by invoices or other documentation obtained by or submitted to the City Clerk. Each month, the City Clerk is to prepare a listing of bills to be paid and provide the listing to the City Council for approval. After the City Council approves the bills, the City Clerk prepares and signs the checks. The checks are given to the Mayor to be countersigned.

The City also maintains 5 credit cards held by the City Clerk, Librarian, Public Works Director, Public Works employee, and the Police Chief. Monthly statements are received by the City Clerk which show the purchases made with the individual credit cards issued to the City. Credit card purchases are to be supported by receipts, invoices, or other documentation and included in the monthly bill listing for City Council approval.

The monthly bank statements for the City's bank accounts are mailed directly to City Hall and opened by the City Clerk. Copies of the monthly bank statements are provided to City Council members for their review. The City Clerk was responsible for preparing monthly bank reconciliations; however, an independent review of the bank reconciliation was not performed.

A City Council member contacted the Office of Auditor of State regarding concerns about information included in the City Council member's monthly meeting packets and the construction of the City's waste water treatment plant. As a result of the concerns identified, the Office of Auditor of State was requested to review the City's financial records. We performed the procedures detailed in the Auditor of State's Report for the period July 1, 2014 through August 31, 2018.

We reviewed the propriety of certain disbursements and determined disbursements identified by the City officials were properly supported, approved, and appropriate for City operations, including multiple payments to vendors on a single disbursement listing which was approved by City Council. Except as included in this review, no additional findings were identified related to the specific concerns presented with the review request. While the procedures performed addressed the concerns presented, additional procedures were not performed during our fieldwork for the review. Had we performed additional procedures, additional matters might have been identified and included in this review.

Detailed Findings

- (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:
- 1) Receipts – collecting, posting to the accounting records, and preparing and making deposits.

- 2) Disbursements – making certain purchases, receiving certain goods and services, presenting disbursements to the City Council for approval, maintaining supporting documentation, preparing, signing, and distributing checks, and posting to the accounting records.
- 3) Payroll – calculating payroll amounts; preparing, signing, and distributing checks; posting payments to the account records; and filing required payroll reports.
- 4) Bank accounts – receiving and reconciling monthly bank statements to accounting records, and
- 5) Reporting – preparing City Council meeting minutes and financial reports, including monthly City Clerk reports and the Annual Financial Reports.

In addition, the Utility Billing Clerk had control over the utility billing process including preparing and mailing billings, receiving collections, and posting collections to customer accounts and accounting records.

Also, we determined bank reconciliations and utility reconciliations were not reviewed by an independent person.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the duties within each function listed above should be segregated between the City Clerk, the Utility Billing Clerk, the Mayor, and City Council members. In addition, the Mayor and/or designated City Council member(s) should review financial records, review reconciliations, and examine supporting documentation for accounting records on a periodic basis.

- (B) City Council Minutes – Chapter 21 of the *Code of Iowa* requires minutes to be kept of all meetings of governmental bodies. During our review, we determined:
- The minutes did not include any discussion or approval for transferring funds between bank accounts and funds.
 - The minutes included monthly revenue and disbursements for each fund but did not include ending fund balances.

Recommendation – City officials should ensure meeting minutes document any discussion and approval of all significant actions, including transfers between bank accounts and funds. In addition, the minutes should include ending fund balances to allow City Council members to review financial status of the City.

- (C) Waste Water Treatment Plant – During our fieldwork, we determined the City followed the bidding process required by Chapter 26 of the *Code of Iowa* and received 2 bids for the construction of a new waste water treatment plant. The bids were opened by the City’s engineering firm on June 15, 2017, and a recommendation of awarding the contract to Building Crafts, Inc. was made to the City. On June 20, 2017, the City Council approved awarding the bid to Building Crafts, Inc.

According to Building Crafts, Inc. website, they have been in business since 1972. According to a representative of Department of Natural Resources (DNR), Building Crafts, Inc. and a subcontractor engaged by Building Crafts, Inc., Waggoner Solutions, have been hired by other governmental entities for similar projects. A representative of DNR reported DNR is not aware of any concerns identified for those projects regarding the vendors’ performance.

We reviewed all the applications for payments submitted to the City by Building Crafts, Inc. to determine if the charges were supported and if progress had been made on the construction of the waste water treatment plant. Based on our review of the invoices, the

application for payments are adequately supported and approved by the City Council. The supporting documentation we received included 3 change orders. Change orders are not unusual as bid estimates cannot predict all potential problems which may cause additional time and cost. Based on our review of supporting documentation, the change orders appear reasonable.

During our fieldwork and discussions with a DNR representative, it was discovered Waggoner Solutions was unable to meet the time and equipment requirements for a specific portion of the waste water treatment plant project. As a result, Waggoner Solutions subcontracted with GOE to perform the sludge dredging portion of the project. Building Crafts Inc. was not aware Waggoner Solutions had subcontracted this portion of the project. According to a DNR representative, Waggoner Solutions agreed to pay GOE \$13,000 for the sludge dredging. However, a written contract was not completed and only a verbal agreement was established.

Based on discussions with a DNR representative, it was subsequently discovered GOE did not properly submit labor reports and is not licensed to work in the State of Iowa. As a result, the City's engineering firm is currently withholding a \$13,000 payment to Building Crafts Inc which, in turn, results in Waggoner Solutions and GOE not receiving payment for certain work performed.

Recommendations – Currently, the City has not incurred any additional expenses as a result of the sub-contractor not properly submitting labor reports. In addition, the City has not incurred the \$13,000 expense. However, the City should consult with legal counsel to ensure supporting documentation is maintained.

Report on a Review of the
City of De Soto

Staff

This review was performed by:

Melissa J. Finestead, CFE, Manager
Crystal D. Jimenez-Boender, Staff Auditor



Annette K. Campbell, CPA
Deputy Auditor of State