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NEWS RELEASE

Contact: Roger L. Shaffer
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FOR RELEASE February 13, 2009

Roger L. Shaffer, CPA today released a report on a special investigation of the City of Sumner. The report covers the period July 1, 2007 through June 30, 2008. The special investigation was requested by the Mayor of the City as a result of concerns regarding missing cash over the weekend of June 21 and 22, 2008.

Shaffer reported the special investigation identified utility fees collected were not deposited in a timely matter. Specifically, utility fees paid in cash were not deposited and were missing for up to 13 days. The missing cash started in November of 2007 and continued until being discovered in June of 2008. The June 20, 2008 deposit was short \$1,437.08.

It was also discovered that cash from the sales of garbage stickers were not being deposited. It has been determined that \$1,377.20 was not deposited to the City's checking account and some pages of the garbage sticker control book were missing.

A few internal control weaknesses were identified. The report includes recommendations to strengthen the City's internal controls and overall operations, including proper segregation of duties and timely deposits of all collections.

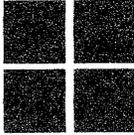
Copies of the report have been filed with the Bremer County Attorney's Office, the Division of Criminal Investigation and the Attorney General's Office. In addition, a copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/search.php>.

**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF SUMNER**

**FOR THE PERIOD
JULY 1, 2007 THROUGH JUNE 30, 2008**

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AUDITOR'S REPORT ON THE SPECIAL INVESTIGATION

To the Honorable Mayor and
Members of the City Council:

As a result of concerns identified by the City Clerk and at the request of the Mayor of the City of Sumner, I conducted a special investigation of the City of Sumner (the City). I have applied certain tests and procedures to selected financial transactions of the City for the period July 1 2007 through June 30, 2008. Based on a review of relevant information and discussions with the City's employees, I performed the following procedures:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place.
- (2) Reviewed the audit report and related work papers for the fiscal year ended June 30, 2007 to identify any findings that might impact my investigation.
- (3) Obtained an understanding of the job duties of the Deputy Clerk.
- (4) Reviewed the City's bank statements and related documentation.
- (5) For the month of April 2008, accounted for utility (water, sewer, sewer flat charge & garbage) deposits. Traced deposits to utility packets, reconciled to general ledger, and tested timelessness of deposits.
- (6) Expanded testing for timelessness of deposits for all deposits July 1, 2007 to June 30, 2008, comparing deposit slip dates to utility packet dates.
- (7) Performed analytical procedures of receipts to determine if collections appeared reasonable and to identify if significant changes existed.
- (8) Reviewed cash deposits for garbage stickers. Compared garbage sticker deposits to the garbage sticker control book.

Based on these procedures, I determined utility deposits were not always deposited intact on a timely basis. I also determined that some of the sales of garbage stickers were not deposited. A few internal control weaknesses were also identified. My detailed findings and recommendations are presented in the Investigative Summary and Exhibit's A and B of this report.

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

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

I would like to acknowledge the assistance and many courtesies extended to me by the officials and personnel of the City of Sumner.

SHAFFER COMPANY, PC

Shaffer Company, PC

Sumner, Iowa

January 15, 2009

City of Sumner

Investigative Summary

Background Information

The City Council hired Sara Land as Deputy Clerk (Deputy) on December 28, 2005. As Deputy Clerk, her main responsibility was the collection of the utility receipts, entering into the computer, prepare the bank deposits and take to the bank. She also assisted with disbursements, payroll and sales tax under the supervision of the City Clerk. In addition, she provided assistance to the City Clerk as requested.

The City's primary revenue sources include local option sales tax and road use tax from the State of Iowa and property taxes collected by Bremer County and Fayette County and remitted to the City. Revenue is also received throughout the year from utility collections for water, sewer fees, and sanitation assessed to each household and business.

The City and the Sumner Municipal Light Plant (Light Plant) use the same utility billing software and combine their utility billings into one invoice. Utility collections are then deposited into the City's four utility accounts and into the Light Plant's account.

Utility statements are mailed to households and businesses around the first of the month and are due on the 20th of the month. While utility collections are received daily, there generally are more collections received around the 20th of the month.

On Monday, June 23, 2008, the City Clerk noticed Friday's (June 20) deposit was not made. As she tried to reconcile the cash to the utility packet, she was short \$1,437.08. The Deputy was on vacation that day so she pointed it out to the Mayor. They decided to confront the Deputy when she returned on Tuesday. When confronted, she denied any knowledge of the shortage. The Mayor then contacted myself and explained what had taken place. I contacted the State Auditor's Office. The Mayor, City Clerk and myself then met with the Sumner Police Department. Due to conflict of interest, it was decided to turn it over to the Iowa Division of Criminal Investigation (DCI).

Upon the suggestion of the State Auditor's Office and with the permission of the DCI and the Mayor, I was to look at the City's utility records for any irregularities. On Tuesday, July 1, 2008, after testing some of the utility records, I identified utility fees collected that were not deposited in a timely matter. This discovery was discussed with the City Clerk, Mayor, Light Plant officials and the State Auditor's Office. On July 7, 2008, I had prepared a brief summary of my findings and faxed it to the DCI.

While waiting for the DCI to investigate, an accounting change was made. All deposits were to be reviewed by and taken to the bank by the City Clerk.

On July 10, the DCI interviewed the Deputy Clerk and she admitted taking the money. She provided personal bank statements to the DCI which corresponds to delayed deposits made by the City. The Mayor was informed of the DCI findings and instructed the City Clerk to suspend Mrs. Land immediately without pay pending further investigation. On July 21, Mrs. Land resigned her position as Deputy Clerk. Council held a special meeting on July 24 to accept her resignation.

Upon doing analytical review procedures, it was noticed that garbage sticker sales were down 29 percent or \$1,600 from the prior year. Upon further investigation, several problems were noted involving the sale of garbage stickers resulting in approximately \$1,377.20 of cash not being deposited to the City's checking account.

Detailed Findings

The procedures listed in the Auditor's Report on the Special Investigation identified utility fees collected were not deposited in a timely matter and cash from the sale of garbage stickers were not deposited in the City's checking account. Specifically, utility fees paid in cash were not deposited for several days. In the case of the garbage stickers, pages were removed from the garbage sticker control book and the cash and/or stickers were taken.

Receipts

Utilities

Utility billings for Water, Sewer, Sewer Flat Charge, Garbage and Electricity are all combined on a single statement. Utility collections are received in the City Hall. Most payments also include a payment voucher. If a payment voucher is not presented with the payment, one is filled out by hand to assure credit to the customer's account. While the payment voucher was not date stamped when received, it is now being stamped.

The payment vouchers are entered into the computer within a packet generated by the software. The packet summary breaks down the makeup of the deposit, instructing either the City Clerk or Deputy Clerk as to how to make out the deposit slips. A deposit slip for each utility is then made out that totals that packet's cash and checks and is taken to the bank for deposit.

For the most part, deposits are made on a daily basis. On days with little activity, two or more days may be combined. On days with heavy receipts, the receipts may be split into two packets to make it easier to reconcile.

According to **Exhibit A**, the first packet that was delayed in getting to the bank occurred on November 9, 2007 which was deposited on November 20, 2007, eleven days late. Eight packets were identified as being deposited late, including that last two packets that were not taken to the bank like they should have been. The City Clerk noticed that Friday's deposit was not taken to the bank. Upon further review, she found the checks in the Deputy Clerk's desk drawer with most of the cash missing. City policy requires cash and checks on hand to be kept in the safe after business hours.

Garbage Stickers

Several years ago, to encourage its citizens to recycle and reduce its waste, the city would collect only one garbage bag per week per household. If more bags were to be picked up, they had to have a garbage sticker on them.

The garbage stickers can be purchased at City Hall for \$1.25 each. They are pre-numbered and are recorded in a control book in order to account for and reconcile the sale of them.

Several pages of the garbage sticker control book were missing, including the page dated June 30, 2007 that was looked at during the prior year's audit. Because of the pre-numbering of the stickers, I was able to reconcile the number of stickers either sold or taken during the year as presented in **Exhibit B**.

Recommended Control Procedures

As part of my investigation, I reviewed the procedures used by the City to process receipts. 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 that 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 my 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 employees to prevent an individual employee from handling duties which are incompatible. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the City's financial statements. The following conditions were noted:
- (1) The person responsible for collecting, depositing, posting and reconciling daily receipts is also the custodian of the cash and change funds.
 - (2) The responsibilities for maintaining detailed accounts receivable records are not segregated from collections and records postings.

Recommendation - I realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating control procedures to obtain the maximum internal control possible under the circumstances. Current personnel should be utilized to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons to the extent possible and should be evidenced by initials or signature of the reviewer and date of the review.

(B) Receipts - During my review of receipts, the following conditions were identified:

- (1) Utility receipts do not contain a date stamp on the payment voucher with the date payment is received.
- (2) Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.
- (3) Utility receipts were not deposited on a timely basis.
- (4) The pre-numbered garbage stickers are not sold in numerical order. The sale of stickers is not reconciled to the general ledger.
- (5) Pre-numbered receipts are used for most miscellaneous receipts. Blank receipts are used for deposits put on garbage dumpsters.

Recommendation - In order to improve controls over collections, the following procedures should be implemented by the City.

- (1) All utility receipts should contain a date stamp on the payment voucher.
- (2) Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.
- (3) Utility receipts should be deposited on a timely manner and intact.
- (4) The pre-numbered garbage stickers should be used in numerical order. The general ledger should be reconciled to the control book on a monthly basis.
- (5) Pre-numbered receipts should be used for deposits put on garbage dumpsters.

City of Sumner

Summary of Utility Receipts not Deposited in a Timely Manner
For the Period July 1, 2007 through June 30, 2008

Packet Number	Packet Date	Deposit Date	Amount	Days Late to Bank	Amount of Cash in Deposit
1337	11/9/2007	11/20/2007	\$2,307.68	11	\$797.64
1366	12/6/2007	12/13/2007	\$7,043.98	7	\$534.80
1371	12/21/2007	12/28/2007	\$16,315.23	7	\$1,207.54
1477	3/20/2008	4/2/2008	\$1,775.34	13	\$1,174.77
1507	4/22/2008	5/1/2008	\$1,144.20	9	\$1,144.20
1508	4/24/2008	5/1/2008	\$2,012.77	7	\$225.00
1561	6/20/2008	(1) 6/30/2008	\$14,292.65	10	\$203.08
1564	6/20/2008	(1) 6/30/2008	\$1,288.00	10	\$1,288.00

- (1) These packets were the ones that were questioned by the City Clerk and therefore caused the investigation.

City of Sumner

Summary of Garbage Sticker Receipts, Cash Deposits and Undeposited Collections
For the Period July 1, 2007 through June 30, 2008

Deposit Date	Beginning Sticker #	Ending Sticker #	Number of Stickers	Calculated Amount	Deposited	Short
Ealry July 07	Gap in sticker log		37	\$46.25	\$0.00	\$46.25
End July 07	Gap in sticker log		28	\$35.00	\$0.00	\$35.00
7/30/2007	14,068	(2) 14,227	160	\$200.00	\$47.50	\$152.50
8/2/2007	14,228	(2) 14,329	102	\$127.50	\$120.00	\$7.50
Aug 07 - Jan 08	12,801	(2) 12,932	132	\$165.00 \		
Aug 07 - Jan 08	13,978	(2) 14,000	23	\$28.75	\$1,697.75	\$483.50
Aug 07 - Jan 08	14,416	(2) 16,005	1,590	\$1,987.50 /		
Feb & Mar 08	13,245	(2) 13,810	566	\$707.50	\$249.75	\$457.75
5/22/2008	16,172	16,236	65	\$81.25	\$0.00	\$81.25
5/30/2008	16,237	16,414	178	\$222.50	\$162.50	\$60.00
6/20/2008	16,590	16,666	77	\$96.25	\$42.80	\$53.45
Subtotals			2,958	\$3,697.50	\$2,320.30	\$1,377.20
Normal transactions:			1,249	\$1,561.25	\$1,561.25	\$0.00
Totals			4,207	\$5,258.75	\$3,881.55	\$1,377.20
Control	12,619	(1) 16,825	4,207	\$5,258.75	\$3,881.55	\$1,377.20
Balance per General Ledger					<u>\$3,881.55</u>	
Cash short						<u>\$1,377.20</u>

- (1) The page was torn out of the control book. According to last year's audit file, the last garbage sticker sold in the June 30, 2007 fiscal year was 12,618.
- (2) Stickers were not used in numerical order.

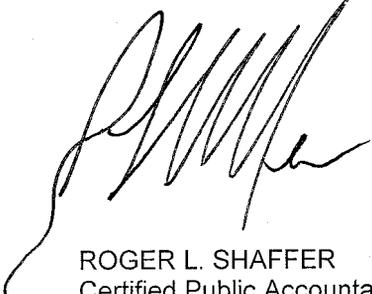
City of Sumner

Staff

This special investigation was performed by:

Roger L. Shaffer, CPA, Owner and Manager of the Firm

SHAFFER COMPANY, PC

A handwritten signature in black ink, appearing to read 'R. Shaffer', is written over the printed name and title.

ROGER L. SHAFFER
Certified Public Accountant