



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

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FOR RELEASE July 27, 2017

Auditor of State Mary Mosiman today released a reaudit report on the City of Muscatine for the period July 1, 2014 through June 30, 2015. The reaudit also covered items applicable to the year ended June 30, 2016. The reaudit was performed at the request of a City official pursuant to Section 11.6(4)(a)(2) of the *Code of Iowa*.

The reaudit was requested due to concerns regarding certain City officials' and employees' travel to China and the use of City resources for an event held by the Muscatine Symphony Orchestra.

Mosiman recommended the City Council review supporting documentation for expenditures on a periodic basis and ensure required travel forms are completed in accordance with City policy. In addition, the City Council should ensure the public purpose of disbursements, as defined in an Attorney General's opinion dated April 25, 1979 and Section 15A.1 of the *Code of Iowa*, is documented and the disbursements provide a public benefit and are in the best interest of the City.

A copy of the reaudit report is available for review in the City Administrator's Office, on the Auditor of State's website at <https://auditor.iowa.gov/reports/1520-0653-T00Z> and in the Office of Auditor of State.

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CITY OF MUSCATINE
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015

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City of Muscatine

Officials – Fiscal Year 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
DeWayne Hopkins	Mayor	Jan 2016
Phillip Fitzgerald	Council Member	Jan 2016
Jeanette Phillips	Council Member	Jan 2016
Osama Shihadeh	Council Member	Jan 2016
Tom R. Spread	Council Member	Jan 2016
Bob Bynum	Council Member	Jan 2018
Scott Natvig	Council Member	Jan 2018
Michael Rehwaldt	Council Member	Jan 2018
Gregg Mandsager	City Administrator	Indefinite
Matt Brick	City Attorney	Indefinite

Officials – Fiscal Year 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Diana L. Broderson	Mayor	Jan 2018
Bob Bynum	Council Member	Jan 2018
Scott Natvig	Council Member	Jan 2018
Michael Rehwaldt	Council Member	Jan 2018
Phillip Fitzgerald	Council Member	Jan 2020
Allen Harvey	Council Member	Jan 2020
Santos Saucedo	Council Member	Jan 2020
Tom R. Spread	Council Member	Jan 2020
Gregg Mandsager	City Administrator	Indefinite
Matt Brick	City Attorney	Indefinite

City of Muscatine



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Mary Mosiman, CPA
Auditor of State

Auditor of State's Report on Reaudit

To the Honorable Mayor and
Members of the City Council:

We received a request to perform a reaudit of the City of Muscatine in accordance with Section 11.6(4)(a)(2) of the *Code of Iowa*. As a result, we performed a review of the audit report for the year ended June 30, 2015 and the workpapers prepared by the City's Certified Public Accounting firm to determine whether the CPA firm addressed any or all of the specific issues identified in the request for reaudit during the annual audit of the City. Based on this review and our review of the preliminary information available, we determined a partial reaudit was necessary to further investigate specific issues identified in the request for reaudit. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City for the period July 1, 2014 through June 30, 2016.


The procedures we performed are summarized as follows:

1. Obtained an understanding of the relationships between the City and China and the City and the Muscatine Symphony Orchestra.
2. Reviewed the City Council meeting minutes for the period July 1, 2014 through March 3, 2016 to determine whether all travel to China by the former Mayor and certain City employees was approved by the City Council.
3. Reviewed the City's Travel and Credit Card Policies and examined the related transactions for propriety and compliance.
4. Reviewed the itinerary for the City Administrator's and Community Development Director's trip to China in December 2014 to gain an understanding of the purpose of the trip and any meetings and/or other City-related events attended.
5. Obtained a listing of all reimbursements for certain employees and examined the transactions to determine whether the payments met the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 and were properly supported.
6. Examined the City's General Ledger for fiscal year 2015 to identify what expenditures, if any, related to travel to China and determine whether they met the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 and were properly supported.
7. Examined timesheets for certain employees to determine whether the hours worked were allocated to various City functions and the number of hours, if any, related to the China Broadcasting Chinese Orchestra's performance in February 2016.

Based on the performance of these procedures, we identified inadequate documentation of public purpose for certain expenditures and instances of non-compliance with established City policies and have developed various recommendations for the City. The inadequate documentation of public purpose and instances of non-compliance with established City policies and our recommendations are described in the Detailed Findings of this report. 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 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 officials and personnel of the City during the course of the reaudit.


MARY MOSIMAN, CPA
Auditor of State

March 3, 2017

Detailed Findings

City of Muscatine

Detailed Findings

July 1, 2014 through June 30, 2016

We received a written request to conduct a reaudit of the City for fiscal year 2015. The request detailed specific concerns, including:

- The purpose of trip(s) taken to China by the former Mayor, the City Administrator, the City Community Development Director, and their spouses and what, if any, travel expenses were incurred by the City.
- If gifts exchanged between the City and China and parties and events planned with delegations from China were funded by the City.
- The use of public funds for private ventures when the China Orchestra performed on February 24, 2016. Specifically, it was alleged the City Administrator “loaned” 2 full-time City employees to the Muscatine Symphony Orchestra to work solely on promoting this event, including planning, marketing, and registration.
- Formation of the Muscatine Mayor’s China Initiative Task Force by the former Mayor without City Council approval.

As a result of the request, we performed a review of the City’s audit report and workpapers prepared by the City’s independent auditors to determine whether a complete or partial reaudit of the City should be performed. As a result of this review, we determined it was necessary to perform reaudit procedures for the concerns presented. Except as included in this report, no additional findings were identified related to the specific concerns presented with the reaudit request. While the reaudit procedures performed addressed the concerns presented, additional procedures were not performed. Had we performed additional procedures, additional matters might have been identified and included in this report.

- (A) Public Purpose – Based on the supporting documentation provided by the City and discussions with City officials, the City has a long-standing Sister City relationship with a city in China and has also leveraged its unique relationship with the President of China to encourage capital investment in economic development by Chinese investors. As a result, the former Mayor, the City Administrator, and the City Director of Community Development have traveled to China for various purposes.

We reviewed all reimbursements issued to the former Mayor, the City Administrator, and the City Director of Community Development for fiscal year 2015 to determine what, if any, expenses were reimbursed for travel to China. We did not identify any reimbursements to the former Mayor as a result of that review. In addition, we examined the City’s General Ledger to identify any other expenses incurred by the City as a result of the relationship with China. We also reviewed the itinerary for the December 2014 trip taken to China by the City Administrator and City Director of Community Development. As a result, we identified the following:

- The City Council was informed about the December 2014 trip through the “City Administrator’s Report to the Mayor and City Council,” which is informally reviewed by the City Council and also posted to the City’s website. However, based on a review of City Council meeting minutes, no formal discussions regarding travel to China were held during City Council meetings, and no formal City Council approval was documented in the City Council meeting minutes. As a result, there was no opportunity for public input and there was no documentation of the public purpose of the travel.
- We identified 16 expenditures totaling \$4,192.69 recorded in the City’s General Ledger related to the December 2014 trip to China. Of those, 14 were recorded

City of Muscatine

Detailed Findings

July 1, 2014 through June 30, 2016

under Advertising and Publications, an expenditure was recorded under the City Administrator, and an expenditure was recorded under Community Development. The 14 expenditures recorded under Advertising and Publications were initially recorded under Actual Travel Expenses. However, according to City personnel, the expenditures were moved to Advertising and Publications to allow tracking of all expenditures related to China. Although it is reasonable to record all expenditures related to China under the same account code, it is misleading to the citizens to record these expenditures under Advertising and Publications.

The 16 expenditures identified are summarized in **Schedule 1**. Based on a review of the supporting documentation, we identified the following:

- 7 expenditures for miscellaneous items, such as photos, photo books, and brochures, totaling \$1,318.25 did not have sufficient explanation documented to determine the public purpose.
- 5 direct travel expenditures for airfare and meals totaling \$2,403.44 did not have sufficient documentation to determine the public purpose based on a review of the itinerary provided. In April 2017, the City obtained and provided a list of the various individuals with whom the City Administrator and the City Director of Community Development met while on the December 2014 trip. This information was not included on the itinerary dated November 2014 provided by the City during fieldwork and there was no other documentation on hand showing the meetings attended or the attendees.

According to City officials, the purpose of the trip was to encourage economic development within the City by investors from China, which serves a public purpose as defined in section 15A.1 of the *Code of Iowa*. However, the majority of the trip, based on the itinerary provided, involved cultural and sightseeing experiences. There was a visit to a company and a meeting with Chinese entrepreneurs in Beijing; however, there is no documentation of the results of these meetings to determine if the trip complied with section 15A.1 of the *Code*.

Recommendation – The City Council should pre-approve all travel to China and document the public purpose served by expenditures related to travel and other items for China and ensure they meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 and section 15A.1 of the *Code of Iowa*. In addition, the City should implement procedures to ensure expenditures are coded in such a manner to allow transparency to its citizens.

Response – First of all, as discussed in the exit meeting on April 10th, the 2nd paragraph of this report states “Except as included in this report, no additional findings were identified related to the specific concerns presented with the reaudit request.” This statement pertains to the four bullet points in the first section of the Detailed Findings report which were allegations made by Mayor Diana Broderson and were the basis for the re-audit. As discussed in the exit meeting, your office found no substance to the allegations that (1) any spouse travel expenses were incurred, (2) there was inappropriate use of staff time for the Chinese Orchestra event, and (3) the former Mayor’s China Initiatives Task Force was formed in violation of the City Code. The sentence noted above does not clearly state that these allegations were determined by the State Auditor’s office to have no merit and were unfounded allegations.

City of Muscatine

Detailed Findings

July 1, 2014 through June 30, 2016

As also discussed at the meeting on April 10th, the weekly “City Administrator’s Report to the Mayor and City Council” included information about the City Administrator’s and Community Development Director’s travel to China on several occasions. This is a public document posted regularly to the City’s website and is available for anyone to access. Individuals can also request to be automatically notified when these items are posted to the website through the “notify me” section on the City’s website. We would also like to note that City Council may respond with questions on any item in the update and they may request any item be placed on a future agenda for discussion.

The purpose of the City Administrator’s and Community Development Director’s trip was economic development and marketing the community and that is why the China trip expenditures were all coded to “Advertising and Publications”. We will be changing the account title to “Advertising, Publications, and Marketing” going forward. We strongly disagree, however, that “it is misleading to the citizens to record these expenditures under Advertising and Publications”. Having the expenses in one account makes the total cost of the trip readily available rather than having the expenses scattered across multiple accounts in the Economic Development activity budget.

The first paragraph under Section (A) Public Purpose describes the City of Muscatine’s involvement with China noting in part that the City has worked to leverage its unique relationship with China and the President of China to “...encourage capital investment in economic development...”. This paragraph conflicts with the later statement on page 9 that the “majority of the trip involved cultural and sightseeing experiences...”, which is not an accurate statement. This statement was not reviewed with the Audit Committee members and staff at the exit meeting on April 10. Additional information on specific meetings was sent to Jennifer Campbell of the State Auditor’s office following the exit meeting. Additionally, Page 18 of the pamphlet “Mayor’s Report on the Muscatine-China Initiative 2012-2014” that was provided to the State Auditor’s staff included a paragraph that the City Administrator and Community Development Director visit to China was “...to lay a foundation for doing business in Muscatine now and into the future”. There has been a significant amount of Chinese investment in developments in the City and this is expected to continue as a result of community and City efforts made in 2012-2014 and that are ongoing.

Historical and cultural visits were certainly part of the visit as having a better understanding of these topics is important to better understanding the people of China and how they do business. However, the main purpose of this trip was economic development - to learn of Chinese business culture, visit local businesses and related groups, to gain a better understanding of doing business with China and the Chinese and to start laying the foundations for opportunities to come. There has been a significant amount of Chinese investment locally and this is expected to continue as a result of these community efforts. There is a very clear public purpose to the activities reviewed in the report and we strongly disagree with the statement in the report that there was insufficient documentation of public purpose for the City Administrator’s and Community Development Director’s trip to China.

Please see the following list of some of the businesses and officials that the City Administrator and Community Development Director met with:

Beijing, China:

- Software Company Xiao, CEO Luo Xu
- Tsinghua University, Project Planning Workshop/Discussion
- Tsinghua Real Estate Group “Chamber of Commerce” Event

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Yiwu, China (Yiwu is famous in China and the world as a commodities center):

- Toured Meiliangongmao, a jewelry manufacturer
- Toured Bonas, a clothing manufacturer
- Meeting with local business representatives and officials, including: Zhang Feng de, Executive Deputy Director of Yiwu Economic and Technological Development Zone, Zhang Yue Ai, Zhejiang Meilian Ornaments (Jewelry) Company, Huang Yun Ge and his wife, Zhejiang Beittis Knitwear Company, Sun Xian Hua, Zhejiang Baoguang Trading Company, Hong Lily, Zhejiang Bonas Socks (Clothing/Hosiery) Company
- Visited Import/Export Center

Kaihua, China:

- Jinxi Real Estate Group, visited a multi-family and single family development
- Kaihua RCC (Bank)

Shanghai, China:

- Shendong Communication Company

Zhengding, Hebei, China:

- Sister City Visit

Additionally, the following is a link to the Des Moines Register article Timeline: Terry Branstad's long relationship with China: (<http://www.desmoinesregister.com/story/news/politics/2016/12/07/timeline-terry-branstads-long-relationship-china/95089312/>).

This article provides a brief summary of the relationship between Iowa and China. A search of state or local media (or even a Google search) will return a significant number of results related to China, the State of Iowa, Governor Branstad, the long-standing Sister State and Sister City relationships as well as activities related to economic development and specifically at least five trade missions lead by Governor Branstad to China. The state's activities are evidence of public purpose and relate directly to Muscatine's efforts.

The following are a few examples of local outcomes of the efforts by the City Administrator, Community Development Director, former Mayor DeWayne Hopkins, the local committee on Chinese initiatives, local industry and numerous community volunteers:

- The Merrill Hotel, Muscatine, Iowa (minority investors)
- Sino-US Friendship House, Muscatine, Iowa
- Muscatine Visitors Center, Jinan, China
- Travel Agency, Muscatine, Iowa
- America Window - Muscatine Center (Muscatine and Business Center), Yiwu, China
- Sino-US Friendship Center Announced, Muscatine, Iowa
- Two Visits by Chinese National Symphonies

In addition to the above efforts, the City received the following delegation on April 30th, 2017:

- Sheng Qiuping, Mayor of Yiwu City
- Yu Xingui, the Secretary of Fotang Town of Yiwu (of the CPC)
- Huang Weiyong, Chairman of Yiwu Foreign Routine Office
- Zhang Fengde, the Executive Deputy Director of Yiwu Economic and Technological Development Zone
- Ye Yuzhi, Chief of International Communication Section in Yiwu Foreign Routine office
- Zhou Fuyun, Chairman of Hc Semitek Corporation
- Jiang Yongzhong, Chairman of Chamber of Commerce in Wenzhou City (for Yiwu city)

City of Muscatine

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The incidental expenses for brochures, photo books, photos, etc. are a customary part of international exchanges as well as marketing efforts. The City provided your office with copies of the City's economic development (Community Profile) brochure which was translated into Chinese, printed and distributed throughout the trip. As with the travel expenses, there is a very clear public purpose for these expenses and strongly disagree with the statement in the report that there was insufficient documentation of public purpose.

Again, there is a clear public purpose for these expenditures, no "formal discussions regarding travel to China" are required, and the City Administrator has the authority to expend these funds under the City Code, the City Administrator's employment agreement and the City's Financial Policies without further approval.

In summary, City Council was fully aware and supported the trip to China and the related expenses. The public purpose for the trip was economic development and marketing and this was understood by City Council.

City Attorney Matthew Brick provided the following opinion:

"There is no case law directly on point but there is language in the Iowa Code related to whether the City of Muscatine's trip to China is a public purpose for which the City may provide financial assistance or funds.

Pursuant to Iowa Code 15A.1, economic development is a public purpose for which the City may provide grants, loans, guarantees, tax incentives or other financial assistance—this is true even if the assistance is to or for the benefit of private persons. For the purpose of that Code Section, "economic development" means private or joint public and private investment involving the creation of new jobs and income or the retention of existing jobs and income that would otherwise be lost.

Iowa Code 15A.1(2)(b-c) expressly states that in determining whether funds should be dispensed, the City shall consider, among other things: whether dispensing of the funds attract, retain, or expand businesses that produce exports or import substitutes or which generate tourism-related activities; and/or if dispensing or use of the funds is targeted toward businesses that generate public gains and benefits, whether the gains and benefits are warranted in comparison to the amount of the funds dispensed.

Based on the amount expended by the City verses the benefits and gains to the City, it seems clear that the benefits obtained and gained for the citizens of Muscatine far outweigh the money spent. Additionally, this trip certainly fosters a relationship that can help generate tourism-related activities in the City of the Muscatine."

Conclusion – This report summarizes all concerns presented with the reaudit request and includes any findings identified related to those concerns.

While the "City Administrator's Report to the Mayor and City Council" is available to the public through the City's website, that document does not, in itself, substantiate the public purpose of the December 2014 trip. Travel of that nature should be pre-approved by the City Council, and the City Council should ensure the public purpose served by any related expenditures is documented and meets the requirements as defined in an Attorney General's opinion dated April 25, 1979 and section 15A.1 of the *Code of Iowa*.

City of Muscatine

Detailed Findings

July 1, 2014 through June 30, 2016

As previously stated, although it is reasonable to record all expenditures related to China under the same account code, the title “Advertising and Publications” does not adequately describe the expenditures which were recorded under that code. As the City stated in its response, it is changing the account title to “Advertising, Publications, and Marketing.” However, this account title is still not transparent as it is not clear travel expenditures will be recorded under this code, nor does it specify the expenditures recorded are related to China.

Although the reaudit report acknowledges the relationship between the City and China, this relationship does not, in itself, substantiate the public purpose of all trips taken to China. Based on the itinerary provided during our fieldwork, the majority of the specific trip reviewed involved cultural and sightseeing experiences. A list of individuals with whom the City Administrator and the City Director of Community Development met was not provided until April 2017. However, beyond the list of names, no additional supporting documentation was provided to verify the meetings held or the content of those meetings. The finding does not state there was no public purpose for the trip or the related incidental expenses. Rather, the finding states there was insufficient documentation of the public purpose served. The City Council should ensure public purpose is sufficiently documented when that purpose is not explicitly clear.

In its response, the City states, in part, “the City Administrator has the authority to expend [sic] these funds under the City Code, the City Administrator’s employment agreement and the City’s Financial Policies without further approval.” However, the City Council has the fiduciary responsibility to ensure all City funds are spent appropriately and for a public benefit. Although the City Administrator’s employment agreement states the City agrees to budget and pay for travel expenses, this statement does not give blanket approval for any travel taken by the City Administrator with no further consideration by the City Council.

Although the City Council was fully aware of and supported the trip and the public purpose was understood by the City Council, as previously stated, the finding does not state there was no public purpose for the trip. Rather, the finding states there was insufficient documentation of the public purpose served. In addition, as stated in the opinion provided by the City’s attorney, “Iowa Code 15A.1(2)(b-c) expressly states that in determining whether funds should be dispensed, the City shall consider...whether dispensing of the funds attract, retain, or expand businesses that produce exports or import substitutes or which generate tourism-related activities; and/or if dispensing or use of the fund is targeted toward businesses that generate public gains and benefits...” As previously stated, the City Council should document the public purpose served by expenditures related to travel and other items for China to demonstrate they meet the requirements of section 15A.1 of the *Code of Iowa*.

(B) Expenditures – During our review of certain expenditures, we identified the following concerns:

- According to discussions with City officials and personnel, although the City Council approves the monthly claims listing at City Council meetings, individual expenditures are not selected for comparison to supporting documentation. Currently, a Council member reviews the monthly claims listing prior to City Council meetings and asks questions about specific expenditures. However, there is not a formalized process.
- In accordance with the City’s Travel Policy, Travel Authorization Forms are to be completed and signed by the Department Head and the City Administrator at least a week prior to travel for all out-of-state-travel. However, no Travel Authorization Forms were completed for the trip to China.

City of Muscatine

Detailed Findings

July 1, 2014 through June 30, 2016

- In accordance with the City's Travel Policy, Travel Report Forms are to be submitted within 2 weeks of returning. As previously stated, we identified 5 expenditures, totaling \$2,403.44, directly related to travel to China. The expenditures identified were processed using the City's credit card; however, the City's Credit Card Policy states the City's Travel Policy applies to all travel expenses processed on a City credit card. Of the 5 expenditures identified, 4, totaling \$2,389.47, were not included on a Travel Report Form. The remaining transaction, totaling \$13.97, was included on a Travel Report Form; however, the form was not submitted within 2 weeks of returning, as required.
- An expenditure, totaling \$5.67, was reimbursed to the City Administrator through petty cash rather than through the normal reimbursement process. The purpose of petty cash is usually to make change and pay for items for which it is not reasonable to issue a check or when payment is due immediately, such as postage. Disbursements for meals and other travel-related expenditures are normally done through a reimbursement process. The process requires employees to submit a request for reimbursement along with the supporting documentation and the reason why the expense was incurred. After being reviewed by the appropriate supervisory personnel and approved, a reimbursement check is issued to the employee.

Recommendation – The City Council should implement formal procedures to periodically select and compare individual expenditures to the supporting documentation. In addition, the City should implement procedures to ensure all expenditures and employee reimbursements comply with established City policies. Employee reimbursements, including meals and travel expenses, should be processed through the normal disbursement process and include adequate supporting documentation to support the reimbursement.

Response – In the first bullet point for section (B) Expenditures and in the Recommendation section it appears you are stating that City Council members need to look at individual expenditures and travel reports and compare supporting documentation and take the further step to adopt formal procedures. As part of the agenda for every regular meeting, the City Council receives a detailed list of all invoices (regular accounts payable as well as travel expenses) requested to be approved for payment. This list is also attached to the City Council agenda and can be accessed by anyone looking at an agenda. All agendas are available to the public on the City's website. City Council members can ask for more information about any purchases (Please see example previously provided and attached. [Included in **Appendix 1**] Please also note, that this is just one example as council members have on numerous occasions asked questions related to city expenses) and can look at any invoices or travel reports at any time. For travel reports, the City's policies provide multiple levels of approval including employees signing their travel reports and attaching all receipts, approval by the respective department heads, and review by the Account Clerk in the Finance department. Any questions by the Account Clerk are brought to the attention of the Finance Director and additional information is requested from departments and adjustments made to the travel report if warranted. The Finance Director approves travel reports submitted by the City Administrator. His travel expenses are reflected on the bill listings with the City Council agendas. Separate approval of his travel expenses is not required according to the provisions of his Employment Agreement with the City.

The firm that prepares the City's annual audit tested the City Administrator's credit card statements and travel reports over the last two years and did not have any concerns from either a compliance or an internal control standpoint.

The City processes over 28,000 invoices each year and internal control processes in place include requiring purchase orders for purchases of \$100 or more, department director approval of all purchases, review by Finance staff of all invoices with any questioned items brought to the attention of the Finance Director, and the Finance Secretary matching check copies to the backup invoices for each check. With the volume of invoices and checks and the reviews in place, City Council member review of individual invoices has never been a recommendation by our current or any of our prior auditors. While any and all Council members can request to review any invoices or travel expense reports, your recommendation that a review be done periodically by a selected Council member is not required by policy or by law. With the compensating controls in place, this does not seem to be a practical recommendation for a city the size of Muscatine with our volume of transactions being processed.

The 2nd and 3rd bullet points under section (B) reference travel authorization and report forms. Section 8 of the City Administrator's Employment Agreement with the City includes the provision below and no further Travel Authorization forms are required for the City Administrator. That portion of the agreement is as follows:

"SECTION 8: GENERAL BUSINESS EXPENSES

1. Employer agrees to budget for and to pay for professional dues and subscriptions of the Employee necessary for continuation and full participation in national, regional, state, and local associations, and organizations necessary and desirable for the Employee's continued professional participation, growth, and advancement, and for the good of the Employer.
2. Employer agrees to budget for and to pay for travel and subsistence expenses of Employee for professional and official travel, meetings, and occasions to adequately continue the professional development of Employee and to pursue necessary official functions for Employer, including but not limited to the ICMA Annual Conference, the state league of municipalities, and such other national, regional, state, and local governmental groups and committees in which Employee serves as a member.
3. Employer also agrees to budget for and to pay for travel and subsistence expenses of Employee for short courses, institutes, and seminars that are necessary for the Employee's professional development and for the good of the Employer.
4. Employer recognizes that certain expenses of a non-personal but job related nature are incurred by Employee, and agrees to reimburse or to pay said general expenses. The finance director is authorized to disburse such monies upon receipt of duly executed expense or petty cash vouchers, receipts, statements or personal affidavits.
5. The Employer shall provide Employee with a cell phone required for the Employee to perform the job and to maintain communication that shall be paid for by the City of Muscatine."

Again, according to the provisions of the City Administrator's Employment Agreement no travel authorization forms are required to be submitted by the City Administrator.

For the 3rd bullet point in section B - the City's Travel Report is generally used when daily expenses (hotels, meals, etc.) are involved in travel. In the case of the City Administrator and Community Development Director, travel expenses for the China trip only involved airfare/luggage fees and incidental food purchases at one airport. There were no daily expenses during their trip. The airfare was paid by credit card when the flight was booked. While the incidental meal reimbursement requests were submitted more than 14 days after they returned, these expenses were appropriate to submit for reimbursement. The City's

policy does not state that employees will not be reimbursed for expenses over 14 days old. While we do not recall the specific reasons for the delay (as reimbursements are typically filed on time), it may simply be due to catching up with work upon return, the holidays and being in the middle of preparing the budget, but at this time we are only speculating.

For the last bullet point in section B - the City of Muscatine's Petty Cash Policy is attached. [Included in **Appendix 2**] Our Petty Cash Policy does not prohibit incidental meal reimbursements if that is the only expense being submitted. This is often used for "day trips" when only a meal is requested to be reimbursed. The State Auditor's staff did not request a copy of our Petty Cash Policy and the wording in this paragraph stating your definition of the purpose of petty cash does not correspond to our policy. This does not seem to be an appropriate recommendation based on our policy.

In summary, while any City Council member can at any time request information or view any invoice or travel report, designating a specific Council member to perform this function on a regular basis does not seem practical in a City our size, with our levels of internal controls, and with our volume of transactions. This has also never been a recommendation of our current or any prior auditors. The City follows its own Petty Cash Policy which allows for making incidental meal reimbursements from petty cash. Backup receipts are attached to the Petty Cash slips. The Finance Director reviews all petty cash disbursements.

Conclusion – We concur with the City's understanding of the first bullet point. We recommend the City Council formalize the process currently in place to ensure the practice is continued by future City Council members. Although the City has strong internal controls in this area, the City Council has the fiduciary responsibility to ensure all City funds are spent appropriately and for a public benefit. In addition, as previously stated, although the City Administrator's employment agreement states the City agrees to budget and pay for travel expenses, this statement does not give blanket approval for any travel taken by the City Administrator with no further consideration by the City Council.

The City's response states, in part, "...your recommendation that a review be done periodically by a selected Council member is not required by policy or by law. With the compensating controls in place, this does not seem to be a practical recommendation for a city the size of Muscatine with our volume of transactions being processed." While the recommendation is not required by law, we recommend the City Council implement a policy to periodically select and compare individual expenditures to the supporting documentation. The City response states this is not practical for a city the size of Muscatine; however, the City has also provided documentation to demonstrate this practice is already in place. Our recommendation is only to formalize that which is already being done. In addition, the practice of periodically selecting expenditures for comparison to supporting documentation is performed by other cities and is recommended as a strong internal control regardless of the size of the city.

Based on a review of "Section 8: General Business Expenses" of the City Administrator's Employment Agreement, the City agrees to budget for and to pay for travel and subsistence expenses for professional and official travel, as well as short courses, institutes, and seminars necessary for the City Administrator's professional development. However, none of the provisions in that section exempt the City Administrator from completing the forms required by the City's Travel Policy.

The City's Travel Policy requires Travel Report Forms be submitted within 2 weeks of returning. However, the City's Travel Policy does not limit the requirement for these forms to only daily expenses. Therefore, the forms should have been completed and submitted as required by the City's Travel Policy.

Based on a review the City's Petty Cash Policy, the finding and recommendation remain as stated. Disbursements for meals and other travel-related expenditures should be processed through the City's reimbursement process and not paid through petty cash.

City of Muscatine

Schedule

City of Muscatine

Selected Expenditures Reviewed for Public Purpose

July 1, 2014 through June 30, 2015

Date	Description per the City's Accounting System	Amount	Description per Supporting Documentation
11/04/14	Bancard IA CRA China's Visa	\$ 12.00	Iowa County Recorders Association Service Fee for a visa for China
11/04/14	Bancard Swift Passport (Gregg Mandsager)	210.00	Passport
11/04/14	Bancard Swift Passport (David Gobin)	210.00	Passport
11/10/14	Bancard Shipping to China	53.83	Postage and shipping fees to send a letter and CDs to China
11/12/14	Bancard Snapfish Photo Book	137.72	10 5x7 custom cover photo books titled "For me, you are America!" and 50 custom cover photo books - 2 additional pages
11/13/14	Bancard Blurb Chinese Book	389.64	20 softcover books
11/14/14	Muscatine H&I Ctr Packets with Shells	400.00	25 packets with history booklet, shell game, shells, and buttons
11/16/14	Bancard Snapfish Photo Dev	5.17	56 4x6 prints
11/19/14	Sycamore Chinese Brochure	61.89	100 Chinese brochures
11/21/14	Woodland Prints	270.00	6 Joe Barnard - Soaring Together prints
11/24/14	Bancard Apple Adapter Kit	39.00	Apple World Adapter Kit
12/05/14	Gregg Mandsagar Luggage	100.00	^ Delta Air Lines second baggage fee
01/31/15	Bancard China Air Fare (Gregg Mandsager)	1,141.90	^ Delta Air Lines round trip airfare from Moline, IL to Beijing, China
01/31/15	Bancard China Air Fare (David Gobin)	1,141.90	^ Delta Air Lines round trip airfare from Moline, IL to Beijing, China
02/02/15	Breakfast - China Trip	5.67	^ Starbucks Coffee on 12/14/14 at the Detroit International Airport
02/18/15	Reimbursed Meals China Trip for David Gobin	13.97	^ DTW Press on 12/05/14 and Starbucks Coffee on 12/14/14 at the Detroit International Airport
Total		<u>\$4,192.69</u>	

^ - Travel expense related to travel to China.

City of Muscatine

Staff

This reaudit was performed by:

Jennifer Campbell, CPA, Manager
Anthony M. Heibult, CPA, Senior Auditor
Alex D. Dau, Assistant Auditor

A handwritten signature in black ink that reads "Tamera S. Kusian". The signature is written in a cursive style with a large, stylized 'T' and 'K'.

Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

City of Muscatine

Email and Response from City Council Member Natvig
To Finance Director Lueck and City Administrator Mandsager Date 10/21/2016

Email and Response from City Council Member Natvig to Finance Director Lueck and City Administrator
Mandsager Dated 10/21/2016:

From: **Lueck, Nancy** nlueck@muscatineiowa.gov
Subject: **Re: Journal Entries/Receipts Questions**
Date: **October 21, 2016 at 5:41 PM**
To: **Scott Natvig** snatvig@muscatineiowa.gov
Cc: **Gregg Mandsager** gmandsager@muscatineiowa.gov



Hi Scott,
Good questions.

1. The Pearl City Wood Products is for a custom display case at the Art Center. It is being funded from the \$180,000 portion of the Carver Trust grant that was in addition to their \$200,000 contribution for the HVAC project.
2. The Ice Machine was for the Golf Course concessions counter. The old one quit working and it couldn't be fixed. This was an unexpected item so it was not budgeted - we will need to amend the current fiscal year budget and it will be included in this year's Revised Estimate.
3. Kelly Tree Farm - the City (Jon Koch at the WPCP) received a grant from Trees 4 Ever for \$4,400 that funded the \$3,438 in tree purchase and we will use the balance of the grant for additional trees.
4. Control Services - these two items were for spraying for brush control on the levee and riverfront wall. The City is required to maintain the levee and this is an annual budgeted expense (the levee portion was paid from Collection and Drainage and the rest from Park Maintenance.)
5. The Ambulance billing service - Per our contract with PCC we pay them 7.5% of collected ambulance service fees for their billing and collection services. This was the invoice for September based on \$113,053.78 in collected fees.

Let me know if you have any additional questions.

THANKS,
Nancy

On Thu, Oct 20, 2016 at 2:13 PM, Scott Natvig <snatvig@muscatineiowa.gov> wrote:

Hi Nancy,

I have a few questions re the July/August Journal Entries/Receipts -- can you check on the expenditures listed?

) Account 3991-35-3997-73900 Pearl City Wood Products -- custom display case -- \$10,227 -- for MAC -- purpose? and was this a budgeted item?

) Account 5451-25-5451-53220 Webstaurant Store Ice Machine -- \$3325.98 -- Parks and REC -- purpose? and was this a budgeted line item? Maybe doesn't need to be budgeted?

) Account 5660-50-5662-52100 -- \$3438 -- Kelly Tree Farm -- Water Pollution Control Plant? Purpose? and is it a budgeted line item? maybe doesn't need to be?

) Account 5664-40-5664 Control Services -- \$4634.97

) Account 1000-25-1423-6713 Control Services -- \$1487.21

) Account 5811-20-5811-61140 Ambulance Billing September -- \$8479.03

Thanks!
Scott

~~This email is intended as informational only and is not intended to elicit discussion.~~

--
Nancy Lueck
Finance Director
City of Muscatine
215 Sycamore Street
Muscatine, IA 52761

Phone: 563-264-1550 (Ext. 110)
Fax: 563-264-0750

Please note new email address as of 8/11/11:
nlueck@muscatineiowa.gov

City of Muscatine

Petty Cash Section of City of Muscatine Purchasing Manual

Petty Cash Section of City of Muscatine Purchasing Manual

Petty Cash

- a. **Purpose.** Petty cash funds have been established to expedite the miscellaneous small purchases and for paying small bills which need not be handled through regular City purchasing procedures. These funds are to be used by departments for facilitating these types of transactions of the City. These funds are not to be used for the purpose of avoiding or circumventing the centralized purchasing procedures of the City. Petty cash funds should also not be used for purchases from vendors who have been issued blanket purchase orders. If it is found that the same items are being purchased at frequent intervals, the Finance Director shall request the department to investigate the possibility of regular purchases of such items.
- b. **Usage Requirements.** All departments having petty cash funds will be required to follow the procedures and policies outlined in this section. These are the requirements for use of petty cash:
 1. Items purchased that are not ordinarily stocked or purchased by a department;
 2. The vendor requires cash payment on purchases under a specific dollar amount;
 3. The purchase will not exceed \$15;
- c. **Prohibited Items.** The following shall be prohibited from payment out of petty cash:
 1. Items regularly purchased;
 2. Items costing in excess of \$15;
 3. Payment for personal services;
 4. Loans to employees;
 5. Cashing of personal or payroll checks;
 6. Breakfast, lunch or dinner for employees working overtime;
 7. Activities carried out by a department for such things as parties for employees retiring or leaving, sending of flowers to employees, spouses, etc., in the hospital. Should any department decide to carry out those activities, funds would need to come from the employees in that department.
- d. **Procedure.** When an individual is to be reimbursed for a City expense, the following procedures should be followed. A receipt for costs incurred must be presented at the time of reimbursement. The person in charge of the petty cash fund in each department shall fill out the slip, attach the receipt, and have the individual sign the slip. He or she shall then initial the petty cash slip and reimburse the individual.

City of Muscatine

Petty Cash Section of City of Muscatine Purchasing Manual

On the slip, the department refers to the department number according to the Chart of Accounts and the account number refers to the type of expenditure. The item purchased should be briefly described on the purchase line and the signature should be of the individual actually receiving the reimbursement.

- e. **Reconciliation.** When a petty cash fund needs to be replenished, another individual in the department should reconcile the fund, listing:

Balance (Total of Funds)	_____
Less Pay-Outs	(_____)
Total to Be Accounted for	_____
Cash on Hand	_____
Overage (Shortage)	(_____)

- f. **Shortages and Overages.** If a shortage occurs, a slip shall be filled out with the shortage account charged accordingly, accompanied by an explanation of why the shortage occurred. If an overage occurs, the amount will be brought to the Finance Department and a receipt will be issued with the overage account credited. This shall be done at the time the voucher request for reimbursement of the petty cash fund is brought to the Finance Department.

The voucher request must be signed by the department head. The applicable petty cash slips plus the reconciliation sheet must be attached before the fund will be replenished. Instead of processing the petty cash voucher request like other voucher requests, departments will be able to receive the funds from the Finance Department's petty cash fund upon presentation of the above documentation.

- g. **Summary.** In summary, the petty cash procedure is:
1. Individual requesting reimbursement presents receipt;
 2. Person assigned to petty cash fund completes petty cash slips, individual signs and receives reimbursement;
 3. Another individual reconciles petty cash funds, stating balance less pay-outs equal amount to be accounted for minus cash on hand equals shortage or overage;
 4. Voucher request (with attached petty cash slips and reconciliation form) completed and signed by department head, submitted to Finance for replenishment of department petty cash fund.