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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

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FOR RELEASE November 2, 2005

Auditor of State David A. Vaudt today released a reaudit report on the City of Perry for the period July 1, 2002 through June 30, 2003. The reaudit also covered certain items to determine practices applicable to the year ended June 30, 2002 and the year ended June 30, 2004. The reaudit was performed at the request of citizens of the City.

Vaudt recommended the City improve policies and procedures related to salary payments, City-owned credit cards and charge accounts, and travel reimbursement documentation requirements. Vaudt also recommended the City review certain matters to determine whether all tax obligations have been properly reported and accounted for and to ensure compliance with the Code of Iowa. The City responded favorably to the recommendations contained in the reaudit report.

A copy of the reaudit report is available for review in the Office of Auditor of State and in the City Clerk's office. The report is also available on the Auditor of State's web site at: http://auditor.iowa.gov/reports/reports.htm.

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CITY OF PERRY

AUDITOR OF STATE'S REPORT ON REAUDIT

FOR THE PERIOD
JULY 1, 2002 THROUGH JUNE 30, 2003

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City of Perry

Officials

Name	Title	Term Expires
Alan Shirley	Mayor	Jan 2004
Rusty Martin	Council Member	Jan 2006
Carolyn McNeill	Council Member	Jan 2006
Jay Pattee	Council Member	Jan 2004
Paul Mayhugh	Council Member	Jan 2004
Frank Eiteman	Council Member	Jan 2004
Jon Morrison	Administrator	December 31, 2003
Jeanette Peddicord	Clerk/Treasurer	Indefinite
Susie Moorhead	Finance Officer	Indefinite
DuWayne Dalen	Attorney	Indefinite

City of Perry

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David A. Vaudt, 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 Perry under Chapter 11.6(4) of the Code of Iowa. As a result, we reviewed the audit report and workpapers of the City's independent auditing firm for the fiscal year ended June 30, 2003. We determined a partial reaudit was necessary to further investigate specific issues identified in the request for reaudit or through our preliminary review. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Perry for the period July 1, 2002 through June 30, 2003. We also inquired and performed procedures for certain items to determine practices applicable to the year ended June 30, 2002 and the year ended June 30, 2004. The procedures we performed are summarized as follows:

1. We reviewed the City's local option sales tax resolution and the City's records for compliance with the resolution for the fiscal year ended June 30, 2004. We reviewed selected local option sales tax receipts for proper recording and allocation in accordance with the resolution and related disbursements for compliance.

2. We reviewed the separation agreement between the City and former City Administrator Jon Morrison. We reviewed payments to the former City Administrator made after the date of his resignation.

3. We reviewed the City's personnel policies for accumulating, using and recording compensatory time. We also reviewed policies regarding payout for unused vacation and separation provisions.

4. We reviewed payroll records for former City Administrator Jon Morrison for the period July 1, 2001 through June 30, 2003, prior to the separation date of his employment with the City.

5. We inquired whether the City had a policy regarding use of City-owned credit cards. We reviewed certain charges to those cards for propriety and proper supporting documentation. We reviewed selected credit card charges paid from City funds made for or by former City Administrator Jon Morrison.

6. We reviewed selected transactions of the administrative department for possible unallowable or personal purchases made by or on behalf of former City Administrator Jon Morrison.

7. We reviewed the City's policy for travel reimbursements and the travel reimbursements made to former City Administrator Jon Morrison.

8. We inquired whether the City had a policy for personal use of vehicles and City owned equipment.

9. We reviewed City records for compliance with certain statutory compliance requirements.

Based on the performance of the procedures described above, we have various recommendations for the City. Our recommendations and the instances of non-compliance are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, no other items of non-compliance were noted during the performance of the specific procedures listed above.

The procedures described above are substantially less in scope than an audit of financial statements made in accordance with U.S. generally accepted auditing standards, the objective of which is the expression of an opinion on financial statements. Accordingly, we do not express an opinion. Had we performed additional procedures or had we performed an audit of the City of Perry, 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 personnel of the City of Perry. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

David A. Vaudt

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 9, 2005

Detailed Findings

(A) Local Option Sales and Services Tax (LOSST) – The one-percent local option sales and services tax authorized by the voters in 1998 for the period January 1, 1999 through December 31, 2003 allocated 90% of the revenues for streets and sewers and the remaining 10% for building maintenance. The City records the receipt of LOSST in two separate special revenue accounts.

Effective January 1, 2004, the previously authorized tax was replaced by a one-percent local sales and services tax for school infrastructure which had been approved by the voters. Prior to approval of this tax by the voters, the City and the Perry Community School District entered into a 28E agreement which stipulated the School District would share one-half of the tax collections with the City if the tax was approved by the voters. The City was required to enter into 28E agreements with the Cities of Bouton and Dawson to share a portion of the proceeds received by the City from the tax. In accordance with Section 422E.4 of the Code of Iowa, the City could use the remainder of the tax collections for any valid purpose authorized by the City Council. A Council resolution dated June 28, 2004 states revenues from the tax are to be allocated 10% for building maintenance, 1.741% to the City of Bouton, 1.956% to the City of Dawson and 86.303% to the City of Perry for general fund relief. The City maintains separate funds for each purpose set forth in the resolution.

From July 3, 2003 through February 24, 2004 a total of $559,907 of LOSST receipts were collected and distributed to the City which were subject to the 1998 ballot requirements. From March 10, 2004 through February 9, 2005 a total of $518,905 was collected and distributed to the City which was subject to the 2004 resolution allocation and distribution requirements. We noted no exceptions as to the City's accounting for the distribution of the local option sales and services tax revenues in accordance with the applicable requirements.

We reviewed certain claims paid from the City's LOSST subsidiary streets and sewer fund which were subject to the limitations of the 1998 LOSST resolution. One disbursement of $633 was for a radio and antenna installed in a City garbage department truck rather than a street department vehicle. This charge to the City's LOSST subsidiary streets and sewer fund was not in accordance with the 1998 LOSST resolution. We also reviewed certain claims paid from the City's LOSST subsidiary building maintenance fund which were subject to the limitations of the LOSST 2003 resolution and noted no exceptions.

Recommendation – The City should investigate the questioned LOSST disbursement for proper disposition, including a corrective transfer for $633.

Response – The Finance Officer investigated the $633 data entry error finding a radio and antenna for a garbage truck was mistakenly charged to the Local Option Sales Tax Streets and Sewer (subsidiary fund). Following her investigation, the City Clerk prepared a resolution providing for a transfer of $633 from the General Fund to the Local Option Sales Tax Streets and Sewer (subsidiary fund) to correct this error. This resolution was unanimously approved by the Perry City Council at the August 15, 2005 Regular Perry City Council Meeting. Therefore, corrective measures have already been implemented to correct this finding.

Conclusion – Response accepted.

(B) Former City Administrator Separation Payments – A separation agreement entered into December 15, 2003 between the City of Perry and former City Administrator Jon Morrison specified the final date of employment as December 31, 2003. According to the separation agreement, the City agreed to pay the current salary for sixty days after the last date of employment. The City also agreed to pay out accrued vacation and sick leave as of the last date of employment. The following items were noted regarding compliance with the separation agreement:

1. The former City Administrator was to be provided payout of accrued vacation and sick leave in six equal installments beginning on March 17, 2004 and continuing each two weeks after that until May 26, 2004. However, installments were paid beginning March 11, 2004, with payments on March 17, 2004 and March 19, 2004. A lump sum final payment was made on March 31, 2004. Although the total of the payments was the same amount as specified, the payment schedule was revised without the formal approval of the City Council.

2. Although there is no formal City policy requiring timesheets, City employees complete a timesheet to record the hours worked for each payroll period, including vacation and sick leave hours used. The City maintains a record of leave earned and used. The payment of accrued vacation and 25% of an employee's sick leave upon termination is provided for in the City's personnel manual. The former City Administrator generally completed a timesheet; however, timesheets were not maintained for nine pay periods during the period July 10, 2002 through December 31, 2003, the final date of employment. The City's payroll records indicate sixteen hours of vacation were used during these nine pay periods. Due to the lack of nine timesheets during the period, there is reduced assurance regarding the accuracy of the accrued leave balance for payout.

Recommendation – The City should adhere to the provisions within the agreements entered into on behalf of the City and require formal approval of the City Council prior to making modifications to those provisions. Timesheets/cards should be required for all City employees to support hours worked. Timesheets/cards should be reviewed and approved by the employee's supervisor or by an independent official who is not involved in the payroll.

Response – The former City Administrator was paid out his separation monies early after his requests had been reviewed by the City of Perry Personnel Committee, which is a standing committee of the Perry City Council. The former City Administrator made multiple requests to have his payments early due to his difficulty in securing another place of employment. The City Clerk and Finance Officer will make sure that in the future the entire Council votes on changes in contractual agreements made by the City prior to any changes being enacted.

In addressing the nine missing time sheets of the City Administrator, the Finance Officer and City Clerk will in the future make sure that all time cards are accounted for prior to issuance of a pay check. Salaried employees' time sheets are reviewed at the end of each pay period by the current City Administrator and the City Administrator submits his time sheets bi-weekly to the City Clerk for review and filing. Thus, this finding has also been corrected.

Conclusion – Response accepted.

(C) Advance Pay – Payroll for City employees is paid every two weeks throughout the year, generally one day following the end of each pay period. During the period July 1, 2002 through March 3, 2004, former City Administrator Jon Morrison received salary payments in advance of the City's normal payroll payment date on seven separate occasions. Payments in advance of the City's normal payroll process were made on August 28, 2002, December 10, 2002, December 20, 2002, September 19, 2003, December 9, 2003, December 19, 2003, and December 24, 2004. The advance payments ranged from one to eleven days early. In addition, timesheets were missing for four of the pay periods advance payments were made. None of the advance payroll payments were formally approved by the City Council.

According to the employment agreement between the City and former City Administrator Jon Morrison entered into August 16, 2000, the City agreed to provide a lump sum payment in the amount of $2,000 at the end of three years of employment as longevity pay. The City minutes record of December 12, 2002 indicates the Council approved a motion to allow the former City Administrator to borrow against his contract longevity bonus of $2,000. Then, if the former City Administrator was not employed by the City on September 1, 2003, he would be required to repay the $2,000 out of unpaid earned income. City records indicate $2,000 was paid to the former City Administrator on December 12, 2002 and recorded in the City records in account number 610 Sewer Operations. The amount was not recorded in the payroll history report when loaned or when the amount was earned in September 2003. The longevity pay was not reported as taxable earnings to the former City Administrator.

Recommendation – Salaries should not be paid in advance of wages being earned. The City should consult legal counsel and review its records for the proper reporting of the longevity payment provided to the former City Administrator, including whether all tax obligations have been properly accounted for and reported.

Response – The seven occasions on which the City Administrator received his pay early were upon his request and the payments were issued by the Finance Officer. With the fact that the City Administrator was salaried, it did not appear to be a problem as his salary was a constant amount. No payroll advancements will be made unless Council approval is obtained for the advance payments.

Upon review of this finding, the City Clerk wrote letters to all employees receiving pay by ACH deposit notifying them of a change in the date that the ACH will be received in their individual accounts. The manner in which ACH payroll was made would appear to also be a payroll advance. Therefore, the policy has been changed so that ACH deposits are received into individual accounts on the morning following the end of the payroll period. This portion of the finding has been corrected.

The City Attorney reviewed the advance payment of $2,000 longevity pay and has determined that this payment should have been run through payroll with taxes being taken from the longevity payment. The Finance Officer will amend payroll and pay the proper taxes on the City of Perry side of payroll taxes while amending the former City Administrator's W2 in the amount of the $2,000 longevity advance in 2002. This portion of the finding is currently being corrected.

Conclusion – Response accepted.

(D) IPERS Repayment Agreement – Former City Administrator Jon Morrison initially participated in a Wells Fargo Financial retirement plan and chose to switch to IPERS during the fiscal year ended June 30, 2003. The conversion to IPERS required an additional investment of $3,260. On June 19, 2003, the City entered into an IPERS Repayment Agreement with the former City Administrator and made an advance payment totaling $3,260 to IPERS for the retirement benefit on behalf of the former City Administrator. In accordance with the agreement, the City deducted $31 per paycheck from former City Administrator Jon Morrison's salary to repay the advance. The payments reduced the balance the former City Administrator owed to the City.

This agreement also stipulated if the employment of the former City Administrator was terminated prior to repayment of the funds, he agreed to repay the City of Perry prior to his departure. According to the separation agreement entered into December 15, 2003 between the City and the former City Administrator, the City did not require the former City Administrator to reimburse the City for the $2,857 remaining unpaid balance. The amount provided on behalf of the former City Administrator not required to be repaid was not included or reported as taxable earnings for the former City Administrator.

Recommendation – The City should consult legal counsel and review this matter to determine whether all tax obligations have been properly accounted for and reported.

Response – The tax implications regarding the $2,857 that was owed by the City Administrator for IPERS repayment and forgiven through the separation agreement has been reviewed by the City Attorney. The City Attorney has instructed the Finance Officer, to prepare an amended 1099 for $2,857 for year ending 2003 to cover the tax implications. The finding is currently being corrected by the Finance Officer.

Conclusion – Response accepted.

(E) Travel Reimbursements of Former City Administrator – According to the employment agreement between the City and the former City Administrator entered into August 16, 2000, the City agreed to establish an automobile allowance to reimburse the former City Administrator for the use of his personal vehicle on City business other than travel to and from work. The rate of reimbursement was to be consistent with City policy for all employees. We reviewed the monthly travel reimbursement claims during the period August 2002 through December 2003 and found the charges complied with City policy regarding reimbursement rates and supporting documentation was maintained.

The supporting documentation in the form of mileage reimbursement request forms included a listing of specific dates, destinations, purpose and mileage incurred. However, the request forms also included one line which claimed an amount for "miscellaneous" that reported a cumulative number of days during the claim period at twelve or fifteen miles per day. This line item amount was not itemized to clearly show the basis of the claim amount, whether commuting mileage was excluded, and the specific days the mileage was incurred.

Recommendation – The City should review and revise its policies regarding the specific documentation required for travel reimbursement and for monitoring the efficient administration of governmental operations.

Response – The travel reimbursement claim forms will no longer be accepted by either the Finance Officer or City Clerk with miscellaneous mileage listed on them. If specific information is not provided regarding mileage reimbursement requests, payment will not be made. The form currently used requires that odometer reading be used when applying for mileage reimbursement. This finding is now corrected.

Conclusion – Response accepted.

(F) Credit Cards – We reviewed transactions charged on account at specific vendors, such as Home Depot and Sears, and found no charges that appeared to be for personal use. However, the City does not have a written credit card policy to regulate the use of City-owned credit cards or vendor charge accounts and to establish procedures for the proper accounting of credit charges.

Recommendation – The City should adopt a formal written policy regulating the use of City-owned credit cards and charge accounts at local retailers. The policy, at a minimum, should address who controls credit cards, the individual(s) authorized to use the City's credit accounts and for what purpose, as well as the types of supporting documentation required to substantiate charges. The accounts should be used only for City business and all charges should be scrutinized, reviewed and approved by the Council prior to payment.

Response – The Finance Officer has prepared a credit card policy that is currently being reviewed by City Council Members and will be presented to the full Council for approval at the first regular Council meeting in September. With the approval of this policy, the finding is corrected.

Conclusion – Response accepted.

(G) Other Statutory Requirements – As part of our reaudit procedures, we reviewed compliance with certain statutory requirements. We determined the following:

1. The City's minutes publication did not include the purpose of the claims with the list of claims published as required by Chapter 372.13(6) of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

2. During fiscal year 2003, the Mayor's and Council Members' wages were increased by 3%. The City did not have documentation of an ordinance supporting the 3% wage increases, as required by Chapter 372.13(8) of the Code of Iowa.

3. The City did not hold a public hearing regarding the intent to issue a loan agreement for the purchase of three vehicles, as required by Chapter 384.24A of the Code of Iowa.

4. The City did not publish a notice of public hearing and bid letting on the Lucinda Street sewer reconstruction project as required by Chapter 384.96 of the Code of Iowa. The City is required to advertise for sealed bids when the estimated total cost of a public improvement project exceeds $25,000. During November and December 2004, the City disbursed $52,017 for the street sanitary sewer project.

Recommendation – The City's minutes record should include the purpose of the claims with the list of claims published. The City should consult legal counsel regarding the propriety of the wage increases for the Mayor and Council Members. The City should consult legal counsel regarding the propriety of the loan agreements. The City should ensure all public improvement projects estimated to exceed $25,000 in total cost are subject to a competitive bid process.

Response –

1. We appreciate your review of this requirement. However, we are in disagreement with this finding. It is our belief that Chapter 372.13(6) is interpretive for communities under 150,000 people. The publication costs for a descriptive line in claims publication is exorbitant for the medium size communities. The CMS software that is used by many central Iowa cities has an automatic publication program which does not include a description line. When there are statutory changes CMS notifies their users of any changes and they have not changed their software or notified us of such changes. Queries, of other communities, including the City of Ames indicate that due to publication costs many Iowa communities do not publish a description with their claims list. In the past eight annual audits of the City of Perry,

Pollard and Company, P.C. has never had a finding for not having descriptions on the publication lists.

2. This error occurred when the salaries of the Mayor and Council were placed on the Annual Salary Resolution and inadvertently were raised along with all of the other employees working for the City of Perry. An ordinance to raise the Mayor and Council salaries by 3% was presented to Perry City Council at their regular Council meeting on August 15, 2005 and the ordinance failed to pass its first consideration. The salary for Council and Mayor have been corrected by changing the amounts they will be paid but it is not possible for the City to receive money back from any members who are not currently on the Council. This finding is corrected by changing the current wage amounts and making sure more attention is paid to the information posted on the Annual Wage Resolution.

3. The vehicles in question were leased through GMAC and have already been paid off and the Finance Officer and City Clerk will follow the correct procedure in the future.

4. It was determined that because this project would be completed in phases and the work would be completed by separate local contractors that each phase would be considered separately but when the phases were added together the disbursements were more that the sealed bid public improvement limit. In the future, City of Perry reconstruction projects will be in accordance with Chapter 384.96 of the Code of Iowa.

Conclusion – Responses acknowledged. Chapter 372.13(6) of the Code of Iowa and an Attorney General's opinion dated April 12, 1978 appear to require publication of the purpose of the claims. The City should include the purpose of the claims with the list of claims published, if the purpose is not otherwise readily apparent.

City of Perry

Staff

This reaudit was performed by:

Susan D. Battani, CPA, Director
Ronald D. Swanson, CPA, Manager
Gina L. Cunningham, CPA, Senior Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State