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November 14, 2008

The Honorable Doyle Sorenson
Mayor, City of Ivanhoe
P.O. Box 54
Ivanhoe, Minnesota 56142-0054

Dear Mayor Sorenson:

The Office of the State Auditor ("OSA") was notified in late April 2008 of concerns regarding the use of a credit card issued by the City of Ivanhoe ("City") to the City's Clerk-Treasurer. The City's audit for the year ended December 31, 2007, raised additional concerns regarding the use of the City's credit cards. As a result, the OSA conducted a further review of the City's use of credit cards and the City's claims approval process.

In order to review these issues, the OSA obtained information and documentation regarding the City's credit cards and employee expense reimbursements. Specifically, the OSA reviewed City credit card statements and documents for charges from November 28, 2006 through April 28, 2008, and documents related to expense reimbursements paid to the Clerk-Treasurer from January 1, 2007, through May 14, 2008. The OSA also communicated with various individuals and obtained other related City documents.¹ This letter provides the City with the results of our review, as well as our recommendations.

Our review disclosed that:

- The Clerk-Treasurer violated the City's credit card policy by failing to obtain and retain receipts from City employees, and by failing to reconcile the receipts to the credit card statements.
- The City credit card issued to the Clerk-Treasurer was used to purchase personal and questionable items totaling \$208.41 during the time period July 2007 through March 2008.² We determined that the Clerk-Treasurer later reimbursed the City for \$111.65 of these expenditures.

¹ The OSA has not discussed its findings with the Clerk-Treasurer pending review by the Lincoln County Attorney.

² We reviewed and conducted additional follow-up for some of the credit card charges made by other City employees where receipts or other supporting documentation were lacking. Based upon our review, the



- Expense reimbursement claims were not consistently included on the list of bills submitted to the City Council for approval.³
- Mileage reimbursements totaling \$235.42 paid to the Clerk-Treasurer during the time period March 2007 through March 2008 were questionable because gas was charged on the Clerk-Treasurer's City credit card during the same time period.

March 2008 Check for Lodging

Concerns about the use of City credit cards arose in March 2008, when the Clerk-Treasurer attended the Minnesota Clerks and Finance Officers ("MCFOA") conference in Alexandria, Minnesota. We were informed that, when the Clerk-Treasurer attempted to charge her lodging for the conference, her City credit card was over the limit set for the card because public works charges had been applied to her card. It is our understanding that the Clerk-Treasurer contacted a City Council Member at City Hall, and asked to have a City check issued to cover the hotel costs.⁴ The Council Member prepared City check number 23355 for \$309.93, made payable to the Clerk-Treasurer and dated March 12, 2008, to cover the hotel room charge. The Council Member signed the check, obtained a second authorized signature, and deposited it into the Clerk-Treasurer's personal account to cover the hotel costs.⁵

The Council Member informed the OSA that the Clerk-Treasurer's City credit card and the \$309.93 check were discussed during a City Council meeting. However, our review of City Council meeting minutes for the March 24, 2008, and the April 12, 2008, City Council meetings disclosed no reference to such a discussion.⁶ In addition, the check was not included on the list of disbursements reviewed and approved by the City Council at those meetings.⁷

charges by other City employees did not appear questionable, except for those discussed on page 6 of this letter.

³ The list of bills to be approved by the City Council was the "Account Payable Preliminary Check Run."

⁴ We were informed that the Council Member fills in, on a limited basis, for the Clerk-Treasurer when the Clerk-Treasurer is unavailable.

⁵ We were informed that the second Council Member signatory works close to City Hall.

⁶ The March 24, 2008 meeting minutes were prepared by the Council Member who fills in for the Clerk-Treasurer and prepared the check.

⁷ The support for the \$309.93 disbursement was a City claim form that included a copy of the hotel bill. The City claim form included the vendor name and number, amount requested, date, invoice number, account number, and check number.

City's Audit for the Year Ended December 31, 2007

During the year ended December 31, 2007 audit, the City's auditors reviewed the credit card activity for five City credit cards.⁸ The City's auditors reviewed the City's credit card statements, supporting documentation, and the City's credit card use policy. The City's auditors identified the following deficiencies:

- Twenty-seven percent of the credit card transactions (58 out of the 214 transactions) had no supporting documentation attached to the statement, in violation of the City's credit card policy.⁹
- Four questionable credit card transactions were identified.
- Possible fuel charges on the Clerk-Treasurer's credit card totaled \$841.33 between January 1, 2007, and February 28, 2008, although many of the charges lacked documentation.¹⁰

On April 23, 2008, the City's auditors asked the Clerk-Treasurer for the March 2008 credit card statements. The Clerk-Treasurer told the auditors that she did not have the March 2008 statement. However, the auditors later determined that the March 2008 statement was paid with City check number 23455, dated April 17, 2008, which was posted to the City's credit card account on April 22, 2008.

The City's auditors presented their findings to the City Council on May 29, 2008. They recommended that the City Council monitor credit card activity to ensure that all credit card purchases are appropriate, approved by the Council, and comply with the City's credit card policy. They also recommended that the City reimburse employees for mileage, rather than allowing employees to charge the City for gas used in personal vehicles. The auditors recommended that the City use mileage logs listing the date, miles, and purpose of trips for any mileage reimbursement requests.

⁸ During the time period covered by our review, the City had issued six credit cards. The cards were issued to the Clerk-Treasurer, the former Liquor Store Manager, the current Liquor Store Manager, the Library Director, the former Police Chief, and the Public Works Director.

⁹ Six transactions had documentation that was not considered adequate by the City's auditors because it did not provide detail about the charges. The City's credit card policy states: "Bills from credit card companies do not contain the detail necessary to satisfy the requirement that claims presented to the City for payment must be in writing and itemized. Therefore, invoices and receipts for all items charged must be retained. . . Supporting documents and/or invoices will be submitted to the City Clerk's office to be reconciled with the credit card statement and attached to the claim for payment processing."

¹⁰ The Clerk-Treasurer explained to the City's auditors "that the fuel charges reimbursed for errands when her personal car was used for errands to and from the post office, attorney's office, liquor store, and locating the maintenance worker."

OSA's Review and Findings

Failure to Comply with City Credit Card Policy

Our review disclosed that the Clerk-Treasurer violated the City's credit card policy by failing to obtain and retain receipts from City employees, and by failing to reconcile the receipts to the credit card statements.

The City had a credit card policy during the time period covered by our review. The policy stated that invoices and receipts for all items charged must be retained since the credit card bills do not contain sufficient information to satisfy the claims requirement.¹¹ In addition, the policy required that a list of all credit card charges be included with monthly expenditures for City Council review and approval. The policy further stated that "[n]o employee will intentionally use a City credit card for personal purchases."

The City credit card policy also required the Clerk's office to receive supporting documents and/or invoices, to reconcile the supporting documents to the credit card statement, and to attach the support to the claim for payment processing. Finally, the policy required that employees authorized to use City credit cards "receive, sign, and file an acknowledgement form regarding credit card use."

We obtained copies of the signed and dated credit card policy acknowledgment forms. The Clerk-Treasurer's form was signed and dated August 3, 2005. By signing the form, the employee agreed to abide by the City's credit card policy. The form stated that personal use of the city credit card may be grounds for discipline. It further stated that receipts and invoices for each credit card use must be signed and submitted in a timely manner to the Clerk's office for processing.

We found that supporting documentation was not consistently maintained for purchases made with the City's credit cards. During our period of review, we identified over 230 credit card charges and fees, totaling over \$14,000, on the City's credit cards.¹² About 64 charges, totaling over \$4,000, did not have supporting receipts. About 38 of the 64 charges without receipts (about 60%) were on the Clerk-Treasurer's City credit card, totaling approximately \$2,400. The remaining charges without receipts were spread among four other City employees.

Contrary to the City's credit card policy, we found that the list of bills provided to the City Council for review and approval did not contain a list of all credit card charges.¹³

¹¹ The City's policy is in compliance with recommendations contained in the Office of the State Auditor's Statement of Position on Credit Card Use and Policies, which is available on our website at: http://www.osa.state.mn.us/other/Statements/creditcardusepolicies_0703_statement.pdf.

¹² Approximately 64 out of 232 charges were on the Clerk-Treasurer's credit card, for a total of \$4,071.89.

¹³ The list of bills presented to the City Council simply showed credit card charges by account code.

Questionable Charges

Our review disclosed that the Clerk-Treasurer's City credit card was used to make \$208.41 in personal and questionable purchases during the time period July 2007 through March 2008. It appears that the purchases were also inappropriately coded by the Clerk-Treasurer in the City's general ledger. These personal and questionable purchases are the following:

- A Dish Network charge for \$81.60 on July 10, 2007, was previously identified by the City's auditors as a questionable item. We confirmed that the charge did not have a supporting receipt/invoice. As a result, the OSA contacted Dish Network and was informed that the payment was made for a dish located at what appears to be the Clerk-Treasurer's residence. The charge was coded in the City's general ledger to the Clerk's office supplies account.¹⁴ We found that the Clerk-Treasurer reimbursed the City \$81.65 on June 27, 2008.
- The OSA identified a \$26.90 Oriental Trading Company charge on February 26, 2008, that did not have a supporting receipt. We contacted the Oriental Trading Company and received information that the charge was for a personalized graduation banner for the Clerk-Treasurer's son who graduated from high school in the spring of 2008. The charge was coded in the City's general ledger to the "Community Ctr. Sup./Maint." account.¹⁵ We found that the Clerk-Treasurer reimbursed the City \$30.00 on September 11, 2008.
- The OSA identified a \$93.43 Herbergers charge in Alexandria, Minnesota, on March 11, 2008, that did not have a supporting receipt. We contacted Herbergers and received a copy of the receipt. We found that the charge was for a digital picture frame and an item of women's clothing. We learned that the digital frame, costing \$69.99, was used as a silent auction item, donated by the Clerk-Treasurer, at the March 2008 MCFOA conference held in Alexandria, Minnesota.¹⁶ The women's clothing item costing \$20.12 (\$18.89 cost + \$1.23 tax) was not provided as a silent auction item. The charge was coded in the City's general ledger to the "Other Expense-Clerk/Treas" account.¹⁷
- The OSA identified a \$17.79 charge at a restaurant in Alexandria on March 11, 2008 at 12:31 p.m. for two guests that had a supporting receipt identifying one food item and two alcoholic beverages. The cost of the alcoholic beverages was approximately \$6.48.¹⁸ The charge was coded in the City's general ledger to the "Training/Travel/Education" account.¹⁹

¹⁴ The account code is 101-150-03-4140.

¹⁵ The account code is 101-000-03-4194.

¹⁶ The OSA questions the public purpose of City funds used for a silent auction item.

¹⁷ The account code is 101-150-03-4150.

¹⁸ The OSA has long maintained that the purchase of alcoholic beverages by a city does not serve a public purpose.

¹⁹ The account code is 101-150-03-4144.

Employee Expense Reimbursements

Our review disclosed that employee training, travel, and education expense reimbursement claims were not consistently included on the list of bills submitted to the City Council for approval.²⁰

The City did not have a written policy regarding employee expense reimbursements. When City employees used their personal vehicles for business purposes, at times gas was charged on the City's credit cards, and at other times employees were reimbursed for gas at the mileage rate set by the Internal Revenue Service.²¹

We requested documentation for expense reimbursements paid to the Clerk-Treasurer from January 1, 2007, through May 14, 2008. We were provided with six expense reimbursements paid to the Clerk-Treasurer for a total reimbursement amount of \$718.36.²² Of that amount, \$387.24 was paid for mileage reimbursements.²³

During our review of expense reimbursements for all City employees, we found 14 reimbursements made to individuals in 2007 for training, travel, or education. Five of the 14 travel reimbursements in 2007 were not on the list of bills to be approved by the City Council. The Clerk-Treasurer had three travel reimbursements in 2007 -- none of them were included on the list of bills submitted for City Council approval.²⁴ We found that five travel reimbursements were made to individuals in 2008, as of May 15, 2008. The two travel reimbursement requests paid to the Clerk-Treasurer were not on the list of bills submitted to the Council for approval, as of May 15, 2008.

²⁰ Information was obtained from the general ledger expenditure code 4144 (Training/Travel/Education) for all funds. The list of bills to be approved by the City Council was the "Account Payable Preliminary Check Run."

²¹ Between December 1, 2006, and April 28, 2008, the OSA found approximately \$1,982.44 in gas charges on the City credit cards. Those charges were distributed among City employees as follows: approximately \$1,034.96 on the Clerk-Treasurer's card; \$643.70 on the former Police Chief's card; \$117.01 on the Public Works Director's card; \$93.77 on the former Liquor Store Manager's card; and \$93.00 on the current Liquor Store Manager's card. The City had a contract with a vendor to provide gas for City-owned vehicles; therefore the City credit card charges would have been for travel in personal vehicles.

²² Five of the six reimbursements were for training, travel, or education.

²³ The remaining reimbursements were \$309.93 for a hotel stay (coded to Training/Travel/Education) and \$21.19 for a cordless telephone battery (coded to office supplies).

²⁴ The two remaining travel reimbursements in 2007 that did not appear on the list of bills for Council were for the former Liquor Store Manager.

Mileage Reimbursements

We identified four instances during the time period March 2007 through March 2008 where the Clerk-Treasurer requested and was paid for mileage reimbursements, but also charged gas to the City's credit card during the same time period. The four instances, totaling \$235.42, were the following:

- The Clerk-Treasurer requested, and was paid, reimbursement for 290 miles, totaling \$140.66, for round-trip travel from March 6, 2007 through March 9, 2007, for the MCFOA conference in Alexandria.²⁵ However, on March 9, 2007, there was also a charge on the Clerk-Treasurer's City credit card at Casey's General Store in Alexandria for gas totaling \$31.00. Both the reimbursement and the gas charge were coded to a general ledger account titled Training/Travel/Education.
- The Clerk-Treasurer requested, and was paid, reimbursement for 120 miles, totaling \$58.20, for "Census Mtg." (no meeting location was provided) on September 17, 2007, which was a Monday. However, on Friday, September 14, 2007, there was a \$48.00 charge on the Clerk-Treasurer's City credit card at Dino's Diner & Truckstop in Ivanhoe. The receipt for the credit card purchase was not provided, but the Clerk-Treasurer coded the reimbursement and the credit card charge to a general ledger account titled Training/Travel/Education.
- The Clerk-Treasurer was reimbursed \$24.25 on September 26, 2007, for 50 miles for a PERA meeting in Marshall. However, on September 27, 2007, there was a \$25.00 charge on the Clerk-Treasurer's City credit card at Dino's Diner & Truckstop in Ivanhoe. The receipt for the credit card purchase was not provided, but the Clerk-Treasurer coded the reimbursement and the credit card charge to a general ledger account titled Training/Travel/Education.
- On an expense form dated March 10, 2008, the Clerk-Treasurer requested reimbursement for 325 miles, totaling \$164.13, for the MCFOA conference in Alexandria held from March 11 through March 14, 2008. The request for reimbursement and the reimbursement check were dated prior to the travel.²⁶ In addition, on March 10, 2008, there was a \$54.50 charge on the Clerk-Treasurer's City credit card at Amoco Oil in Ivanhoe for gas. Both the reimbursement and the gas charge were coded to a general ledger account titled Training/Travel/Education.

We found that the Clerk-Treasurer did not use the City's "Employee Expense Reports" forms for three of the six expense reimbursement requests provided to us. In addition, none of the Clerk-Treasurer's employee expense reimbursement requests contained a supervisor signature indicating review and approval.

²⁵ The employee expense form was dated March 5, 2007, which was prior to the conference date.

²⁶ The employee expense form and the City check appear to be dated March 10, 2008, before the conference began.

OSA Recommendations

The City Council is responsible for protecting public assets by implementing proper internal control procedures. While the City had a sound credit card policy, the policy was not being followed. We recommend that the City:

- Review and enforce its credit card policy.²⁷
- Adopt a written expense reimbursement policy.
- Prohibit employees from using the City credit cards for the purchase of gas for personal vehicles.
- Require employees to submit detailed mileage reimbursements claims.²⁸
- Monitor its internal control policies and procedures on a regular basis for compliance, and take appropriate action for non-compliance.

Allowing one person control over all parts of financial transactions compromises the integrity of the accounting system. We recommend that the City Council identify ways to provide oversight procedures. For example, statements from the City's financial institutions could be sent to a City Council Member for review. The City Council Member could then compare all checks issued with the list of claims approved by the City Council. Any discrepancies should be promptly investigated.

Minnesota law requires that the City Council approve all itemized claims for goods and services.²⁹ Furthermore, all disbursements should be supported by detailed/itemized invoices or receipts. The City Council was not approving all claims as required by law.³⁰ The list of bills provided to the City Council for review and approval did not include all City disbursements, and did not provide a detailed description of the items/services purchased, the purpose of the expenditure, or the check number for the payment. In

²⁷ It is our understanding that two Council Members met with department heads on July 2, 2008. The results from the meeting included that the Clerk-Treasurer would provide each department head with credit card statements. Each department head would then review all credit card statements, attach an invoice and/or other documentation explaining each charge made for their department, and either recommend or deny approval for payment. The statements would then be returned to the City Clerk-Treasurer no later than the Friday before the next Council meeting to be approved by the City Council.

²⁸ The reimbursement claims should include the dates and times of travel, beginning and ending destinations, total miles traveled, purpose of the travel, mileage reimbursement rate, total amount to be paid, the employee's signature with an attestation that the request is true and accurate and has not been previously paid, and a supervisor's signature. It is our understanding that the July 2, 2008, department head meeting included a discussion that, if an employee is using their own vehicle for City business, "they need to put in the gas on their own and keep track of mileage and turn in on an expense report for reimbursement."

²⁹ See Minn. Stat. § 471.38 (2007). Salaries and wages that have been previously fixed and that may be paid on a payroll basis are excluded from this statutory requirement.

³⁰ See, e.g., the March 12, 2008, City check for hotel costs at the MCFOA conference in Alexandria discussed on page 2 of this letter, and the Clerk-Treasurer's expense reimbursement checks discussed on page 6 of this letter.

addition, not all disbursements were supported by invoices or receipts.

We recommend that the City Council:

- Review itemized claims.
- Maintain supporting documentation for all disbursements.
- Approve all City disbursements.
- Be provided with a detailed listing of all disbursements by check number.³¹

City clerks must maintain city council meeting minutes that note all proceedings of the city council.³² We were unable to locate the City's mileage reimbursement rate in the City Council meeting minutes.³³ We recommend that the Clerk-Treasurer maintain minutes that are accurate and reflect decisions made by the City Council, including fees and reimbursement rates set by the City Council. We recommend that the City Council review meeting minutes to ensure that they contain a full and accurate record of the Council's actions. A copy of our Statement of Position on Meeting Minutes is enclosed for the City's guidance.

We are concerned that the City Clerk-Treasurer apparently informed the City's auditors that the City had not yet received the March 2008 credit card statement when, in fact, the City had received the statement and had paid the bill six days prior to the auditor's request for the March 2008 statement. It is the City Council's responsibility to develop policies and procedures, and to ensure that they are followed. We recommend that the City require all employees to provide the City's auditors with accurate information and documentation.

We recommend that the City seek any additional reimbursement from the Clerk-Treasurer that the City determines to be appropriate.³⁴

³¹ The City Council would then be better able to review all claims, and identify if any check numbers are missing.

³² See Minn. Stat. 412.151, subd. 1 (2007).

³³ We received information that the City Council sets City fees and the mileage reimbursement rate during the first meeting of the year. However, the fees and reimbursement rate were not documented in the City Council meeting minutes.

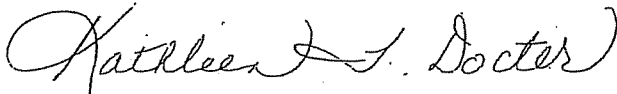
³⁴ As noted previously, the OSA has not interviewed the Clerk-Treasurer about the matters reported in this letter.

Conclusion

We request a corrective action plan that identifies the date on which the recommendations made by the Office of the State Auditor and by the City's auditors will be implemented.

As required by Minn. Stat. § 6.51, a copy of this letter is being provided to the Lincoln County Attorney and the Lincoln County Auditor. If you have any questions, please feel free to call me at 651-282-2388.

Sincerely,



Kathleen T. Docter, CPA, CFE
Senior Investigative Specialist
Office of the State Auditor
Legal/Special Investigations Division

Enclosure

cc: The Honorable Mary Berns, Ivanhoe City Council Member
The Honorable Joe Drietz, Ivanhoe City Council Member
The Honorable Lea Kruger, Ivanhoe City Council Member
The Honorable Craig Larson, Ivanhoe City Council Member
Ms. Ila Bradley, City Clerk-Treasurer
Mr. Mike Cable, City Attorney
Police Chief Guy Harding, City of Lake Benton
Mr. Matthew Taubert and Ms. Amanda Baarson,
Meulebroeck, Taubert & Co., PLLP, City's Auditors
The Honorable Greg Peterson, Lincoln County Attorney
The Honorable Kathy Schreurs, Lincoln County Auditor