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NEWS RELEASE

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Auditor of State David A. Vaudt today released a report on a special investigation of the City of Scarville for the period January 1, 2006 through March 31, 2011. The special investigation was requested by City officials as a result of concerns regarding unauthorized payments to the former City Clerk, Jolene Carter.

Vaudt reported the special investigation identified \$37,069.42 of improper and unsupported disbursements and undeposited collections. This amount includes \$21,387.74 of improper disbursements, \$12,881.68 of unsupported disbursements and \$2,800.00 of undeposited collections. The improper disbursements include unauthorized payroll checks issued to Ms. Carter which total \$7,447.78 and other checks issued to Ms. Carter which total \$4,708.61. The improper disbursements also include \$7,028.54 of cash withdrawn from the City's bank accounts by the City's Mayor, Michelle Hermanson. Vaudt also reported Ms. Hermanson withheld \$2,000.00 of cash from a deposit to a City bank account and did not deposit \$800.00 of cash received from the sale of the City's tractor. The cash withdrawn and withheld from deposit by Ms. Hermanson total \$9,828.54. In addition, Ms. Hermanson admitted she and her son made personal fuel purchases which were charged to the City. The improper fuel purchases identified total \$248.43.

The \$12,881.68 of unsupported disbursements identified include \$1,551.27 of payments to Ms. Hermanson and her family members and \$6,389.26 paid to vendors for which support was not available to determine if the purchases were for City operations or were personal in nature.

Vaudt reported the \$24,187.74 of improper disbursements and undeposited collections identified, \$14,110.77 and \$10,076.97 were attributable to actions taken by Ms. Carter and Ms. Hermanson, respectively. However, Ms. Hermanson redeposited \$300.00 of the cash she improperly withdrew from the City's bank accounts.

Vaudt also reported it was not possible to determine if additional amounts were improperly disbursed or if additional collections were not properly deposited because adequate records for receipts and disbursements were not available.

Copies of this report have been filed with the Division of Criminal Investigation, the Winnebago County Attorney's Office and the Attorney General's Office. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1022-0916-BE00.pdf>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF SCARVILLE
FOR THE PERIOD
JANUARY 1, 2006 THROUGH MARCH 31, 2011**

Table of Contents

	<u>Page</u>
Auditor of State’s Report	3
Investigative Summary:	
Background Information	4
Detailed Findings	5-21
Recommended Control Procedures	21-23
Exhibits:	
	<u>Exhibit</u>
Summary of Findings	A 25
Payroll Checks to Jolene Carter	B 26-27
Payroll Checks to Michelle Hermanson	C 28
IPERS Late Fees and Interest Charges	D 29
Other Payments to Jolene Carter	E 30-31
Other Payments to Michelle Hermanson and Family Members	F 32-33
Payments to Don’s Motor Mart	G 34-35
Payments to Singlestad Hardware	H 36
Payments to Lake Mills Motor Sports	I 37
Payment to Individuals Providing Mowing Services	J 39
Payments to Other Vendors	K 40-41
Late Fees and Penalties	L 42
Staff	43
Appendix:	
Copy of Excerpt from a Grant Progress Report	<u>Appendix</u> 1 45-46



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Auditor of State's Report

To the Mayor and Members
of the City Council:

As a result of alleged improprieties regarding certain disbursements and at your request, we conducted a special investigation of the City of Scarville. We have applied certain tests and procedures to selected financial transactions of the City for the period January 1, 2006 through March 31, 2011. Based on a review of relevant information and discussions with City officials and personnel, we performed the following procedures:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Reviewed activity in the bank accounts held by the City to identify any unusual activity.
- (3) Scanned all checks issued from the City's checking account for reasonableness. We examined certain disbursements to determine if they were properly approved and supported by adequate documentation.
- (4) Examined deposits to the City's bank accounts to determine the source, purpose and propriety of certain deposits and to determine whether deposits were made intact.
- (5) Reviewed payroll disbursements and other payments to the former City Clerk and the Mayor to determine the propriety of the payments.
- (6) With a Division of Criminal Investigation agent, separately interviewed the Mayor and former City Clerk on April 3, 2012.

These procedures identified \$37,069.42 of improper and unsupported disbursements and undeposited collections. We were unable to determine if additional amounts were improperly disbursed or if additional collections were not properly deposited because adequate records for receipts and disbursements were not available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibits A** through **L** of this report.

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

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

We would like to acknowledge the assistance extended to us by personnel of the City of Scarville and the Division of Criminal Investigation during the course of our investigation.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 11, 2012

City of Scarville
Investigative Summary

Background Information

The City of Scarville is located in Winnebago County and has a population of approximately 75 according to the 2010 census. Michelle Hermanson became the Mayor in 2004. Jolene Carter became the City Clerk on January 1, 2006. According to Ms. Hermanson, Ms. Carter was hired because she was going to school to obtain an accounting degree at the time she was appointed as City Clerk.

According to Ms. Hermanson, Ms. Carter earned a degree in nursing while she was employed as City Clerk. After she obtained a full time job in the health field, she verbally gave the City Council her resignation in August 2010. She stated she would remain the City Clerk until the end of 2010 to see "that things got cleaned up." Her last day of employment with the City was December 31, 2010.

As the City Clerk, Ms. Carter was responsible for the following functions:

- 1) Receipts - opening mail, preparing deposits and entering information into the accounting system,
- 2) Disbursements - preparing checks, approving supporting documents, entering information into the accounting system and maintaining custody of unused checks,
- 3) Payroll - preparing payroll checks and entering information into the accounting system and
- 4) Reports - preparing the City's annual financial report and budget and preparing periodic reports for the City Council.

The City's primary revenue sources include local option sales tax and road use tax from the State of Iowa and property tax collected by Winnebago County and remitted to the City. Revenue is also received throughout the year from dues for fire protection from Logan and Norway Townships, mowing services from Five Star Co-op and rent for a building owned by the City.

According to Ms. Hermanson, all City disbursements, including payroll, are to be made by check. The checks are to be signed by both the City Clerk and the Mayor. All disbursements are to be supported by invoices or other documentation obtained by or submitted to the City Clerk. Supporting documentation is to be placed in vendor files. Each month, the City Clerk is to prepare the checks to be counter signed by the Mayor. However, Ms. Hermanson also stated she signed blank checks for the City Clerk to have on hand.

Collections are deposited to and disbursements are made from a checking account held by the City at Manufacturers Bank and Trust Company in Lake Mills, Iowa. A very limited number of deposits and disbursements were also made from 2 money market accounts held by the City. Monthly statements for the City's bank accounts are mailed directly to City Hall where they are opened by the City Clerk. According to the Mayor, bank statements and check images were to be reviewed by the City's Treasurer. However, Ms. Carter discontinued providing the bank statements to the Treasurer during 2010.

Ms. Hermanson contacted the Office of Auditor of State on April 28, 2011 with concerns regarding payments made by the former City Clerk. According to Ms. Hermanson, the new City Clerk had identified some transactions which concerned her.

As a result of the concerns identified, City officials requested the Office of Auditor of State review the City's financial transactions. We performed the procedures detailed in the Auditor of State's report for the period January 1, 2006 through March 31, 2011.

Detailed Findings

The procedures performed identified \$37,069.42 of improper and unsupported disbursements and undeposited collections. Of the \$24,187.74 of improper disbursements and undeposited collections identified, \$14,110.77 and \$10,076.97 were attributable to actions taken by Ms. Carter and Ms. Hermanson, respectively. However, Ms. Hermanson redeposited \$300.00 of the cash she improperly withdrew from the City's bank accounts. It was not possible to determine if additional amounts were improperly disbursed or if additional collections were not properly deposited because adequate records for receipts and disbursements were not available. If sufficient records had been readily available, additional improper disbursements or undeposited collections may have been identified. All findings are summarized in **Exhibit A** and a detailed explanation of each finding follows.

As previously stated, payment of City obligations should have been made with a check and City business should not have been conducted in cash. We reviewed bank statement activity from the City's bank accounts for the period January 1, 2006 through March 31, 2011 and identified a number of unusual disbursements.

Supporting documentation was not available for some of the disbursements from the City's bank accounts. As a result, we discussed the disbursements which were unusual in nature with City officials to determine if they were appropriate. In addition, we obtained information directly from a vendor to whom payments were made.

With a Division of Criminal Investigation (DCI) agent, we interviewed Ms. Carter and Ms. Hermanson separately on April 3, 2012. During the interviews, both Ms. Carter and Ms. Hermanson admitted they had independently improperly disbursed City funds. During her interview, Ms. Carter also initially stated she resigned as City Clerk because she struggled to complete the City's financial reports and budgets on time and she didn't feel she was doing a good enough job. Later during the interview, she stated she also felt she needed to resign because she had improperly disbursed City funds. The improper and unsupported disbursements and undeposited collections identified are explained in more detail in the following sections of this report.

Payroll Checks to Jolene Carter – According to the Ms. Hermanson, Ms. Carter's authorized gross pay was \$450.00 per quarter. Based on our review of the checks issued to Ms. Carter, the net amount she received each quarter after withholdings for FICA and IPERS was approximately \$398.00. However, using the FICA and IPERS rates in effect for the employee's withholdings and contributions between 2006 and 2010, we determined Ms. Carter's net authorized pay should have ranged from \$395.78 and \$398.93. When the rate of the employee's share of IPERS contributions increased each year from fiscal years 2007 through 2011, Ms. Carter did not increase the amount of contributions withheld from her pay.

We were unable to locate payroll records in the City's files or on the City's computer. However, during our review of checks issued from the City's checking account, we identified a number of checks to Ms. Carter which appeared to be payroll payments. A number of the checks were for approximately \$398.00, which is roughly the net amount of Ms. Carter's authorized quarterly payroll amounts. Other checks identified were for \$450.00, the authorized gross amount of her quarterly payroll, or included a description in the memo portion of the check which indicated the payment was related to payroll. During the April 3, 2012 interview, Ms. Carter stated she changed the amount of her paychecks from \$398.00 to \$450.00. She said she "didn't go through the tax part" and she knew better. **Exhibit B** lists the checks identified.

As illustrated by the **Exhibit**, the 40 payroll checks Ms. Carter received during her tenure as City Clerk total \$15,397.58. However, she was authorized to receive only 20 payroll checks during this period. Using the IPERS and FICA employee contribution rates effective for 2006 through 2010, we determined the net amount of Ms. Carter's 20 authorized checks should have totaled \$7,949.80. As a result, Ms. Carter received \$7,447.78 more than authorized. **Table 1** summarizes the amount of unauthorized payments Ms. Carter received each year.

Table 1

Calendar Year	Number of Checks Issued	Amount of Checks Issued	Authorized Amount*	Unauthorized Amount
2006	4	\$ 1,595.58	1,595.72	(.14)
2007	5	1,990.00	1,593.92	396.08
2008	9	2,380.00	1,590.32	789.68
2009	8	3,236.00	1,586.72	1,649.28
2010	14	6,196.00	1,583.12	4,612.88
Total	40	\$ 15,397.58	7,949.80	7,447.78

* - Decreases resulted from .2% increase in IPERS employee contribution rates effective each July 1 from 2007 through 2010.

The **Table** illustrates the total of the checks Ms. Carter issued to herself each year ranged from \$1,595.58 to \$6,196.00 and increased each year. The **Table** and **Exhibit B** also illustrate the number of checks Ms. Carter issued to herself increased from 4 in 2006 to 14 in 2010. Specifically, the **Exhibit** illustrates the following:

- Ms. Carter prepared 4 quarterly payroll checks for herself in 2006. However, as illustrated by **Table 1**, Ms. Carter received 14 cents less than authorized in 2006. A portion of this small variance is because the 1st check issued to Ms. Carter was 11 cents less than the amount we calculated. The remaining 3 checks issued to Ms. Carter in 2006 were rounded differently than the amount we calculated, resulting in the 1 cent variance for each of the 3 checks.
- Ms. Carter prepared 5 quarterly payroll checks for herself in 2007. The checks dated March 16, 2007 and June 4, 2007 were both described in the memo portion of the checks as payments for the 2nd quarter.
- Ms. Carter prepared 9 checks for herself in 2008. Of the 9 payments, 4 were described in the memo portion as advances. The checks issued to Ms. Carter after the initial 2 advances were for the remaining balance of Ms. Carter's net quarterly payroll amount of \$398.00. The remaining 2 payments described as advances totaled Ms. Carter's net quarterly \$398.00 payroll amount. In addition, she received a full quarterly payment following the advances.
- Ms. Carter prepared 8 checks for herself in 2009. Of the 8 checks, 2 were described in the memo portion as payments for the 2nd quarter, 2 were described as payments for the 4th quarter and 2 did not have a description. The remaining 2 checks were described as the 1st and 3rd quarter payments. In addition, 1 of the checks described as for the 4th quarter was for Ms. Carter's \$450.00 gross authorized pay amount rather than the net amount of her authorized pay.
- Ms. Carter prepared 14 checks for herself in 2010. Only 2 of the 14 checks were for Ms. Carter's \$398.00 net payroll amount. The remaining 12 checks were for the \$450.00 gross amount. The 1st check issued in 2010 was dated January 14, 2010 and described simply as "payroll." There were 4 additional checks during 2010 which were also described only as payroll without specifying a particular quarter. Of the 14 checks, 2 specified they were for the 1st and 4th quarters. The check dated March 10, 2010 specified it was for the 2nd quarter, but a check dated March 25, 2010 included a notation in the memo portion which indicated the payment was an advance on the 2nd quarter. On August 26, 2010, another check was issued which included a notation it was for the 2nd quarter. None of the checks issued specified they were for the 3rd quarter and 4 of the checks did not include any notations at all.

Each of the 40 checks listed in **Exhibit B** were signed by both Ms. Carter and Ms. Hermanson. During the April 3, 2012 interview, Ms. Carter initially stated she issued herself an extra check for 1 year. She later admitted she issued herself an extra paycheck in 2007, 2 extra in 2008, 4 extra in 2009 and 10 extra in 2010. The \$7,447.78 of unauthorized payroll checks summarized in **Table 1** is included in **Exhibit A** as improper disbursements.

Payroll Checks to Michelle Hermanson – Ms. Hermanson’s authorized gross pay was \$300.00 per quarter. Based on our review of the checks issued to Ms. Hermanson, the net amount she received each quarter after withholdings for FICA and IPERS was approximately \$265.00. However, using the FICA and IPERS rates in effect for the employee’s withholdings and contributions between 2006 and 2010, we determined Ms. Hermanson’s net authorized pay should have ranged from \$263.55 to \$265.95. Based on our recalculations, Ms. Carter properly determined Ms. Hermanson’s IPERS contributions during fiscal years 2006 and 2007. She also calculated the correct amount of employee contributions when the contribution rate increased for fiscal year 2008. However, Ms. Carter did not calculate the correct IPERS contributions for Ms. Hermanson for fiscal years 2009 through 2011.

We were unable to locate any payroll records in the City’s files or on the City’s computer. However, during our review of checks issued from the City’s checking account, we identified a number of checks to Ms. Hermanson which appeared to be payroll payments. **Exhibit C** lists each check identified.

As illustrated by the **Exhibit**, Ms. Hermanson received 23 payroll checks between January 1, 2006 and January 19, 2011 which total \$6,107.85. However, Ms. Hermanson was authorized to receive only 22 quarterly payroll checks, including a check for the quarter ended December 31, 2005. Using the IPERS and FICA employee contribution rates effective for January 1, 2006 through March 31, 2011, we determined the net amount of Ms. Hermanson’s 22 authorized checks totaled \$5,829.30. As a result, Ms. Hermanson received \$278.55 more than authorized. **Table 2** summarizes the amount of unauthorized payments Ms. Hermanson received each year.

Table 2

Calendar Year	Amount of Checks Issued	Authorized Amount#	Unauthorized Amount Due to	
			Miscalculated IPERS	Additional Check
2006	\$ 1,329.75	1,329.75 [^]	-	-
2007	1,062.60	1,062.60	-	-
2008	1,327.35	1,060.20	1.20	265.95
2009	1,061.40	1,057.80	3.60	-
2010	1,061.40	1,055.40	6.00	-
2011	265.55	263.55 [*]	1.80	-
Total	\$ 6,107.85	5,829.30	12.60	265.95

[^] - Includes payment for quarter ended 12/31/05.

^{*} - For the quarter ended 03/31/11.

[#] - Decreases resulted from .2% increase in IPERS employee contribution rates effective each July 1 from 2007 through 2010.

The **Table** illustrates \$12.60 of the unauthorized payments to Ms. Hermanson was a result of Ms. Carter miscalculating the amount of IPERS to be withheld from Ms. Hermanson’s gross pay. This amount should have been contributed to IPERS instead of being paid to Ms. Hermanson. The remaining \$265.59 of unauthorized payments to Ms. Hermanson includes 1 check improperly issued to Ms. Hermanson.

As illustrated by **Exhibit C**, Ms. Hermanson received some payments prior to the end of the quarter. The **Exhibit** also illustrates she received 5 checks in 2008 instead of the 4 authorized.

Check number 2974 was issued to Ms. Hermanson on October 11, 2008 for \$265.95, which was the authorized net amount of her quarterly pay prior to the IPERS contribution rate increase which was effective July 1, 2007. As illustrated by the **Exhibit**, the other payroll checks issued to Ms. Hermanson in 2008 were for \$265.35.

When we asked Ms. Hermanson about the additional check, she stated she was not aware she had received 5 checks in 2008. Using the correct IPERS contribution rate, Ms. Hermanson's authorized net pay was \$265.35 from July 1 2007 through June 30, 2008. Because check number 2974 was not included in the report submitted to IPERS, the City did not incur any additional costs for the employer's share of required contributions. In addition, the City did not incur the employer's share of FICA costs for the payment.

The \$278.55 of unauthorized payroll summarized in **Table 2** is included in **Exhibit A** as improper disbursements.

IPERS Late Fees and Interest Charges – We obtained reports from IPERS which summarized the covered wages reported for the City for the period January 1, 2006 through March 31, 2011. During our review of the reports, we identified the following regarding the amount of wages reported and the contributions remitted to IPERS by the City:

- Ms. Carter did not report any covered wages to IPERS for 4 quarters and the City did not pay the related employer or the employee shares of required contributions. **Table 3** summarizes the covered wages not reported and the related contributions not remitted to IPERS.

Table 3

Quarter Ended	Unreported Wages	Unpaid Contributions		Total
		Employer's Share	Employee's Share	
12/31/06	\$ 750.00	27.75	43.12	70.87
03/31/07	750.00	27.75	43.12	70.87
03/31/08	750.00	29.25	45.37	74.62
06/30/08	750.00	29.25	45.37	74.62
Total	\$ 3,000.00	114.00	176.98	290.98

After Ms. Carter's resignation, a representative of IPERS worked with City officials to ensure appropriate corrections were made and all contributions were subsequently remitted to IPERS. As a result, no obligations have been included in **Exhibit A**.

- We also identified several late fees and interest charges paid by the City. The late fees and interest charges were incurred because Ms. Carter did not submit payments to IPERS in a timely manner.

The individual late fees and interest charges paid by the City are listed in **Exhibit D**, including the late fees and interest related to the contributions listed in **Table 3**. The \$769.29 total is included in **Exhibit A** as improper disbursements.

During the April 3, 2012 interview, Ms. Carter stated she had a difficult time completing financial reports for the City in a timely manner.

Payroll Taxes, Penalties and Interest – We were unable to locate a payroll register which documents the amounts Ms. Carter withheld from the gross payroll amounts for herself and Ms. Hermanson. However, we were able to recalculate Ms. Carter's and Ms. Hermanson's authorized net payroll amounts using Ms. Carter's and Ms. Hermanson's authorized gross payroll amounts and the required withholding rates for FICA and contribution rates for IPERS. We were also able to tie the correct withholding amounts into various Internal Revenue Service (IRS) forms, such as W-2s and W-3s, located in the City's records. However, during our review of the IRS forms, we identified the following:

- We reviewed Ms. Carter’s W-2s for 2007 through 2010. The 2006 W-2 could not be located. Ms. Carter reported her authorized annual gross pay on the W-2s for 2007 through 2009. She reported \$1,733.40 as gross wages for 2010 instead of the correct total of \$1,800.00. We were unable to determine why Ms. Carter underreported the amount of her authorized gross wages for 2010.

The amounts Ms. Carter reported on her W-2 were also incorrect for the employee’s share of FICA for 2008 and 2010. **Table 4** compares the amounts recorded on the W-2 located at the City to the amounts withheld from her authorized pay.

Table 4

Employee’s Share of FICA			
Description	Amount Reported	Amount Withheld from Ms. Carter’s Pay	Difference
2008 W-2 form	\$ 387.00	137.70	249.30
2010 W-2 form	355.80	137.70	218.10
Total	\$ 742.80	275.40	467.40

We are unable to determine if the W-2s located in the City’s records agreed with the W-2s actually submitted to the IRS for Ms. Carter for 2008 and 2010. However, we were able to determine the amounts recorded on the 2008 W-2 found for Ms. Carter did not agree with the Employer’s Annual Federal Tax Return (944 report) submitted to the IRS by the City which summarized both Ms. Carter’s and Ms. Hermanson’s payroll amounts. The 944 report included the total authorized gross salary amounts for Ms. Carter and Ms. Hermanson and the correct related withholding amounts for the employer’s and employees’ shares of FICA. This amount totaled \$459.00. We traced the FICA withholding amounts reported on the 944 report to a \$459.00 check issued from the City’s checking account to the IRS.

We were not able to locate 944 reports for any other year. However, the authorized salary amounts and the FICA rates did not change during the period of our review. We observed checks issued to the IRS for \$459.00 which appear to be for the 2006, 2007, 2008 and 2009 proper FICA withholdings.

It appears the City did not incur any additional costs for the incorrect amounts reported on the 2008 and 2010 W-2s located for Ms. Carter. As a result, the \$467.40 difference summarized in **Table 4** is not included in **Exhibit A**.

- In October 2011, the City received a notification from the IRS regarding unpaid taxes for 2009. The notification specified \$128.62 was owed for past due taxes and \$5.54 was owed for interest. The City paid the IRS \$134.16 for the past due taxes and interest in November 2011. However, because the City properly paid \$459.00 of payroll taxes for the authorized salary amounts in 2009, the \$134.16 of additional taxes and interest appears to be for unauthorized salary amounts. As a result, the \$134.16 is an improper disbursement.

While we determined \$459.00 checks were issued to the IRS for payroll taxes for tax years 2006, 2007, 2008 and 2009, respectively, we did not identify a check issued in 2011 for tax year 2010. In addition, we confirmed with the current City Clerk the amount owed for 2010 has not been remitted. As a result, it is likely certain penalties and interest will be charged to the City. However, at the time of this report, the amount owed cannot be determined.

- We also identified \$168.34 of penalties paid by the City to the IRS which were incurred because Ms. Carter did not make payments in a timely manner. The payments identified are listed in **Table 5**.

Table 5

Date	Check Number	Amount
05/10/06	2149	\$ 12.72
01/29/09	2995	106.22
06/01/09	3037	49.40
Total		\$ 168.34

The 3 checks which total \$168.34 are improper disbursements.

- On January 23, 2008, Ms. Carter manually prepared a \$150.00 check to the Internal Revenue Service. The memo portion of the check included the City’s taxpayer identification number. Coding on the back of the check also included the City’s taxpayer identification number. However, we are unable to determine what the payment was for. Because we determined the City’s obligations for payroll taxes incurred prior to January 23, 2008 were paid, it appears the check is for some type of penalty incurred by the City. As a result, the \$150.00 is an improper disbursement.

The 5 improper payments of payroll taxes, penalties and interest which total \$452.50 are included in **Exhibit A** as improper disbursements.

Other Payments to Jolene Carter – According to Ms. Hermanson, because the City does not mail monthly statements to households for utility services, such as water or garbage, the City does not need a large amount of office supplies. Supplies needed by the City include a limited number of printer cartridges, envelopes, stamps and some cleaning supplies for the Community Hall. She also stated Ms. Carter periodically purchased the limited amount of supplies needed and then wrote herself a reimbursement check for purchases she made on behalf of the City.

The checks issued to Ms. Carter from the City’s checking account which do not appear to be related to payroll are listed in **Exhibit E**. We were not able to locate supporting documentation for any of the payments listed in the **Exhibit**. As illustrated by the **Exhibit**, 17 of the 49 checks identified were for even dollar amounts and ranged from \$25.00 to \$234.00. It is not likely purchases made on behalf of the City would total even dollar amounts.

We also determined the checks issued to Ms. Carter which appear to be reimbursements were issued on an unusually frequent basis. For example, 4 sequentially numbered checks were issued to Ms. Carter between April 1, 2010 and April 29, 2010. Of the 4 checks, 3 were even dollar amounts, including a \$233.00 check issued on April 10, 2010 and a \$234.00 check issued on April 23, 2010. In addition, 3 of the 4 checks did not include any description. Similarly, Ms. Carter issued herself a \$175.00 check on October 13, 2010 which was described as “Office Supplies” and a \$150.00 check the next day which was described as “computer supplies.”

Table 6 illustrates the number and dollar amount of the reimbursement checks Ms. Carter issued herself increased dramatically from 2006 to 2010. As stated previously, the number of improper payroll checks Ms. Carter issued herself each year also increased between 2006 and 2010.

Table 6

Calendar Year	Number of Checks Issued	Amount of Checks Issued
2006	2	\$ 75.00
2007	7	291.17
2008	9	690.80
2009	11	912.33
2010*	20	2,738.77
Total	49	\$ 4,708.61

* - Includes check issued on 01/03/11.

The memo portion of a number of the checks Ms. Carter issued to herself included a description of the purchases she purportedly made. During our review of the checks, we identified the following:

- In January, April and July of 2008, the memo portion of the checks Ms. Carter prepared for herself indicated envelopes and/or ink or toner were purchased. Of the 3 checks, 1 was for \$35.00. Based on the amount of printing and mailing necessary for the City's operations, this appears to be an unusually large amount of purchases of these supplies.
- Of the checks Ms. Carter prepared for herself, 3 include a reference to *Quickbooks®* in the memo portion. Of the 3 checks, 1 was issued in 2008 and 2 were issued just 3 months apart from each other in 2010. However, the *Quickbooks®* installed on the City's computer at the time of our fieldwork was the 2006 version of the software. During our review of checks issued from the City's checking account, we identified a payment to Best Buy on February 17, 2006 which was described as the purchase of *Quickbooks®*. As a result, it appears the 3 checks issued to Ms. Carter in 2008 and 2010 were not for *Quickbooks®* software installed on the City's computer.
- Based on information provided by Ms. Hermanson, Ms. Carter resigned in August 2010 with an effective date of December 31, 2010. However, based on our review of checks from the City's checking account, Ms. Carter prepared 2 checks during the first week of January 2011. Of the 2 checks, 1 was to a local vendor and 1 was to herself for \$73.86. The check to Ms. Carter did not include a description in the memo portion and the payment was not supported by documentation.

Because Ms. Carter had the ability to pay vendors directly with City funds, there was no reason for her to personally pay for purchases made on behalf of the City, especially large purchases, and then be reimbursed by the City. During our review of checks issued from the City's checking account, we identified payments made directly to Staples, Menards, Wal-Mart and Best Buy for supplies for the City's operations. As a result, it appears Ms. Carter made those purchases with City funds rather than her own.

During the April 3, 2012 interview, Ms. Carter reviewed the disbursements listed in **Exhibit E**. She stated some of the payments were reimbursements for purchases she made on behalf of the City, but she stated she didn't know how to pinpoint those reimbursements. She also stated all of the payments in 2010 were improper, approximately 75% of the disbursements in 2009 were improper and probably 50% of the disbursements in 2006 through 2008 were improper. She also stated the dates of some of the checks were too close together to be legitimate.

During the interview, Ms. Carter agreed to provide her personal bank statements to the DCI agent to support any purchases she made with her debit card. However, she did not provide the statements prior to issuance of this report.

Because the checks issued to Ms. Carter were not supported in any way, we are unable to identify any business purpose for the payments. In addition, Ms. Carter admitted a number of the checks were improper. As a result, the \$4,708.61 is included in **Exhibit A** as improper disbursements.

Other Payments to Michelle Hermanson and Family Members – During our review of the City’s bank statements and check images, we identified several payments to Ms. Hermanson, her husband, Pat Hermanson, and her son, Brandon Hermanson. The 17 checks issued to Michelle, Pat and Brandon Hermanson are included in **Exhibit F**. Of the 17 checks, only 2 were supported and appeared reasonable for City operations. The remaining 15 checks are described as follows:

- 5 checks totaling \$423.92 were written to Michelle Hermanson for which supporting documentation could not be located. The memo portion of the checks include descriptions such as supplies and spraying, mosquito spraying, spraying and CH supplies.
- 8 checks totaling \$1,023.35 were written to Pat Hermanson for which supporting documentation could not be located. The memo portion of the checks included descriptions such as plumbing townhall, miscellaneous repairs, lawn mower blades and maintenance.
- 2 checks totaling \$104.00 were written to Brandon Hermanson for which supporting documentation could not be located. The memo portion of the checks included descriptions such as for cleaning and C.H. operations.

During the April 3, 2012 interview, Ms. Hermanson acknowledged documentation to support the payments was not submitted to the City. She also reviewed the disbursements listed in **Exhibit F** but could not provide any additional information about the specific payments. She stated the amounts paid to her husband for various services were determined by calling local vendors for estimates, then charging the City approximately half that value. We also discussed the payments to Ms. Hermanson and her family members with Ms. Carter on April 3, 2012. She stated work was performed for the payments made to Ms. Hermanson and her family members.

In addition to Ms. Carter’s statements, we were able to identify additional information for some of the payments to Ms. Hermanson and her family members. For example, Mr. Hermanson was paid \$90.00 on January 23, 2008 for installing a water heater. We observed a receipt for the purchase of a water heater on January 8, 2008 and identified no payment for its installation. We also did not identify any payments to other parties for services such as mosquito spraying and sharpening lawn mower blades. As a result, the payments do not appear unreasonable.

However, because sufficient documentation was not available for the 15 checks, we were not able to determine the propriety of the payments. As a result, the \$1,551.27 is included in **Exhibit A** as unsupported disbursements.

Cash Withheld from Deposits and Cash Withdrawals – During our review of the City’s bank statements and images of bank documents, we identified an instance in which cash was withheld from a deposit. We also identified an instance in which cash was withdrawn and 6 counter checks were used to withdraw cash from the City’s bank accounts. In each case, the cash withheld from deposit or the amount withdrawn appears to be related to specific funds deposited to the City’s bank accounts. Also in each case, Ms. Hermanson’s name is included on the bank document. She signed for the cash withheld from deposit and withdrawn from the City’s bank accounts. Of the 6 counter checks identified, 3 were payable to cash, 2 were payable to Ms. Hermanson and 1 was payable to “Michelle Hermanson (cash)”. Each counter check was signed by Ms. Hermanson and redeemed at the bank for cash.

When asked about the cash transactions, Ms. Hermanson initially stated various equipment and supplies for the City were purchased with the cash. She also stated some of the purchases were related to projects such as improvements made at the City’s park. However, she was not able to provide any detailed information regarding the equipment and supply purchases purportedly made. None of the receipts located in the City’s records showed purchases were made with cash. As previously stated, during our review of disbursements from the City’s checking account, we identified checks issued to vendors such as Staples, Menards and Best Buy for supplies and equipment for the City, but didn’t find any purchases from vendors related to the projects

specified. Because City disbursements should have been made by check, it is not clear why it would have been necessary for Ms. Hermanson to withdraw cash from the City's bank accounts for the purchases. Each cash transaction identified is described as follows:

- On June 29, 2007, a \$4,500.00 check was taken to the bank for deposit in 1 of the City's money market accounts, but \$2,000.00 cash was withheld from the check prior to deposit, so only \$2,500.00 was deposited to the City's bank account. Ms. Hermanson signed the related bank document.

The check was a grant from the Hanson Foundation. According to a representative of the Hanson Foundation, the City was awarded the grant to help restore the tennis and basketball courts. The City was not required to submit a progress report once repairs and equipment were purchased.

On July 11, 2007, Ms. Hermanson withdrew \$500.00 of cash from a City bank account. The related bank document included Ms. Hermanson's signature, but it did not include any type of notation regarding the nature of the withdrawal. Because there were no additional deposits to the City's bank account between the \$2,500.00 deposit on June 29, 2007 and the \$500.00 cash withdrawal, it appears the \$500.00 withdrawn was a portion of the grant proceeds.

On July 21, 2007, \$2,000.00 was deposited to the same money market account. The deposit slip does not document who made the deposit, but describes the proceeds as "Comm. Foundation." The deposit was a grant from the Community Foundation of Waterloo/Cedar Falls and Northeast Iowa. According to the progress report related to the grant prepared by Ms. Hermanson, the project was for tennis court renovation. The report also documents the City purchased 2 *Life Time* basketball hoops for \$1,700.00 and cement, paint and other supplies from a hardware store for \$300.00. A number of volunteers removed old poles and dug holes for new poles. A copy of an excerpt from the progress report is included in **Appendix 1**. Receipts for the purchases were not required to be submitted to the Community Foundation. We reviewed the bank statements for the City and did not identify any checks to vendors for basketball hoops, hardware or supplies.

On July 23, 2007, a \$2,000.00 counter check payable to cash was issued from the money market account by Ms. Hermanson. The memo portion of the counter check states "tennis court equip." Ms. Hermanson also issued a counter check for \$2,000.00 payable to cash on July 25, 2007. There was no information provided in the memo line of the counter check. We cannot determine which grant proceeds were withdrawn on July 23 and which grant proceeds were withdrawn on July 25. However, of the \$6,500.00 total grant proceeds received by the City for the 2 grants, \$2,000.00 of cash was withheld from the original deposit and the remaining \$4,500.00 was withdrawn in cash from the money market account by Ms. Hermanson.

Documentation is not available to support how the cash Ms. Hermanson withdrew from the money market account was spent. Although the City has tennis and basketball courts, they do not appear to have been improved recently. During our review of disbursements from the City's checking account, we did not identify any payments associated with the improvements. It would be unusual for the improvements to cost exactly \$6,500.00.

During the April 3, 2012 interview, Ms. Hermanson stated she kept the \$6,500.00 of cash related to the 2 grants and used it for personal bills. She also stated the projects were not completed. Because the projects were not completed, the report Ms. Hermanson submitted to the Community Foundation was falsified.

- On December 12, 2007, a \$1,273.54 check was deposited to the City's checking account. The check was from the Scarville Booster Club.

Also on December 12, 2007, Ms. Hermanson issued a \$1,273.54 counter check payable to herself from the City's checking account. During the April 3, 2012 interview, Ms. Hermanson stated the funds were used to buy supplies to remodel the bathroom in the park. According to Ms. Hermanson, the supplies included 2 toilets, 2 sinks, miscellaneous plumbing supplies, paint and plexiglass for the windows. She was not able to provide any receipts or other documentation to support the amount of cash withdrawn from the City's checking account.

Ms. Hermanson also stated her husband provided the labor for installing the improvements. However, she stated the improvements were made in the spring. According to Ms. Hermanson, she bought the supplies shortly after cashing the check, then stored the materials until they were installed in the spring. The check was cashed in December 2007. However, we identified a check issued to Menards on March 30, 2007 for which the memo portion includes a notation of "toilet." It is possible the supplies for the improvements were purchased during the spring of 2007 and the costs were submitted to the Boosters later in 2007 for reimbursement.

We spoke with a current officer of the Scarville Booster Club. She was not able to locate any receipts for the project in the Booster Club's records. However, she stated the amount of the check appeared to be a reimbursement rather than funds provided to the City prior to purchase of the supplies.

- At 11:40 a.m. on January 20, 2010, a \$655.00 check from the Iowa Association of Municipal Utilities was deposited to the City's checking account. Also on January 20, 2010, Ms. Hermanson issued a \$655.00 counter check payable to cash from the City's checking account. The counter check was redeemed at 11:41 a.m. The memo portion of the counter check did not include a notation. When we initially asked Ms. Hermanson about the withdrawal, she stated she could not recall what the funds were used for and the amount withdrawn should have been redeposited. We were unable to locate any cash redeposited to the City's checking account.

However during the April 3, 2012 interview, Ms. Hermanson stated she kept the cash and used it to pay personal bills.

- On August 21, 2010, a \$900.00 check from Five Star Co-op was deposited to the City's checking account. According to Ms. Hermanson, payments were received from Five Star Co-op for mowing services performed by the City for the business.

Also on August 21, 2010, Ms. Hermanson issued a \$300.00 counter check payable to herself from the City's checking account. The counter check was redeemed for cash at the bank the same day. The memo portion of the counter check states "cash-printer/supplies." When we initially asked Ms. Hermanson about the transaction, she was going to buy a printer and office supplies with the cash, but the entire amount should have been redeposited at a later time. We were unable to locate any cash redeposited to the City's checking account during the remainder of 2010.

During the April 3, 2012 interview, Ms. Hermanson again stated she intended to use the cash to purchase a printer and other supplies for the City. Prior to August 2010, the City had been using Ms. Carter's personal printer. Because Ms. Carter resigned in August, Ms. Hermanson thought she needed to buy a printer for the City. During the interview, she also stated the cash was redeposited near the time a new printer was purchased from Wal-Mart. She also stated the deposit slip specified the cash being deposited was for the printer.

We reviewed the City's bank statements and related documents through May 31, 2011 and found check number 3240 was issued from the City's checking account to Wal-Mart on March 4, 2011. The related receipt shows a printer, ink and other office supplies were purchased.

We also located a \$300.00 cash deposit on April 30, 2011. The related deposit slip did not include the notation described by Ms. Hermanson. According to the current City Clerk, she became the City Clerk in March 2011. However, she did not make the \$300.00 deposit. She also stated she identified the deposit while reconciling the City's bank statement to the accounting records she maintained. She did not know what the deposit was for and had asked the Mayor for an explanation, but did not receive one. She also stated the \$300.00 was deposited around the time she had identified other improper transactions in the City's records which she had brought to the Mayor's attention.

- On January 18, 2011, a \$518.00 check from the Iowa Association of Municipal Utilities was deposited to 1 of the City's money market accounts. On January 19, 2011, Ms. Hermanson issued a \$300.00 counter check payable to "Michelle Hermanson(cash)" from the account. The counter check was redeemed for cash at the bank the same day. While the counter check includes Ms. Hermanson's signature, it does not include a notation in the memo portion. During the April 3, 2012 interview, Ms. Hermanson stated she kept the \$300.00 cash.

The transactions identified are summarized in **Table 7**. As previously stated, Ms. Hermanson's signature was on the bank document associated with each transaction. She confirmed it was her signature on the bank documents.

Table 7

Date	Account	Cash	
		Withheld from Deposit	Withdrawals
06/29/07	Money market #1	\$ 2,000.00	-
07/11/07	Money market #1	-	500.00
07/23/07	Money market #1	-	2,000.00
07/25/07	Money market #1	-	2,000.00
12/12/07	Checking account	-	1,273.54
01/20/10	Checking account	-	655.00
08/21/10	Checking account	-	300.00
01/19/11	Money market #2	-	300.00
Total		\$ 2,000.00	7,028.54

The \$2,000.00 cash withheld from deposit and \$7,028.54 of cash withdrawals are included in **Exhibit A** as undeposited collections and improper disbursements, respectively. The \$300.00 cash redeposited on April 30, 2011 is also included in **Exhibit A** as a reduction of the total loss to the City.

Payments to Vendors – As previously stated, supporting documentation was not available for some of the disbursements from the City's checking account. As a result, we discussed the disbursements which were unusual in nature with City officials to determine if they were appropriate. We also obtained information directly from a vendor to whom payments were made. The improper and unsupported disbursements identified are explained in more detail in the following paragraphs.

- **Don's Motor Mart** – Don's Motor Mart is a convenience store located in Lake Mills, Iowa where fuel and other items can be purchased. The City maintains a charge account at the store and receives monthly invoices which summarize recent purchases. Fuel purchases are made from the vendor for use in the City's mower and a truck used to pull a mosquito sprayer. Fuel is also needed to operate the sprayer. In addition, the Fire Department purchases fuel for the fire trucks from the vendor. Based on the receipts we reviewed, purchases were made by members of the Fire Department, the individual who provided mowing services and Ms. Hermanson.

According to Ms. Hermanson, the City owns 4 five-gallon gas cans which are kept in the City shed and filled up when 3 of the 4 gas cans are empty. The gas cans are used to fill up both the mower and the sprayer.

Prior to Ms. Hermanson's tenure as Mayor, a man provided mowing services using his personal mower. He submitted handwritten summaries of the locations of where he mowed and the amount of time spent, for which he was compensated at an hourly rate. However, support was not located for all payments to him. When Ms. Hermanson was elected Mayor, her son also periodically mowed for the City. He used a mower purchased by the City. The Mayor's son, as well as others, were paid an hourly rate for time reported for mowing. The City's charge account at Don's Motor Mart was used to purchase gas for the mower both prior to and after Ms. Hermanson became Mayor.

We spoke with the owner of Don's Motor Mart who stated she had a discussion with Ms. Hermanson several years ago when she noticed she was filling up her personal vehicle and charging the purchase to the City's charge account. She asked Ms. Hermanson to stop charging personal purchases to the City's account, but Ms. Hermanson continued to do so. During the April 3, 2012 interview, Ms. Hermanson confirmed her son had purchased fuel at the vendor for his personal vehicle and charged it to the City. However, she also stated she deducted the cost of the fuel from his next mowing payment.

We did not identify any deductions taken from her son's pay. When asked about the time period of the personal purchases, Mrs. Hermanson stated it was likely between November or December of 2008 and the "summerish" period of 2009. Based on our review of disbursements from the City's checking account, Ms. Hermanson's son did not receive any mowing payments between August 2008 and September 2009.

Ms. Hermanson also stated during the interview she periodically put \$30.00 to \$40.00 of fuel in her truck at the vendor and the fuel was used for "running here and there."

We reviewed all City checks issued to the vendor and all invoices from the vendor located in the City's records. A list of the checks issued to Don's Motor Mart is included in **Exhibit G**. As illustrated by the **Exhibit**, each payment has been classified as improper, unsupported or supported for City operations. Payments were classified as improper if the related purchases were made during winter months and were not made by members of the Fire Department. Purchases were classified as unsupported if sufficient support was not available to determine if the purchase was for City operations or was personal in nature. All remaining purchases were classified as supported.

The charge slips available for our review included the name of the individual who made each purchase. During our review of the available charge slips, we determined who made each purchase. Most charge slips were signed by either City employees or volunteer fire fighters. Purchases by the volunteer fire fighters consisted mostly of diesel, but occasionally included ethanol purchases. When we discussed the purchases with Ms. Hermanson, she stated she believed the newer trucks owned by the Fire Department took diesel but the older trucks may use ethanol. In addition, we

compared purchases made by volunteer fire fighters to call logs maintained by the Fire Department and identified purchases of fuel around the time the Fire Department responded to calls or participated in parades to ensure the purchases were appropriate.

When we reviewed receipts signed by City employees, we identified purchases of regular and ethanol fuel. We determined the individual who previously provided mowing services also purchased ethanol fuel. The City typically mows from late spring to early fall. According to Ms. Hermanson, she also sprays for mosquitos once or twice per year during the summer months. The fuel used during the spraying is paid for by the City.

We determined the receipts listed in **Table 8** were signed by the Mayor. As illustrated by the **Table**, the purchases were not made during the summer months. Because the Mayor would not have a reason to purchase fuel for City operations during the winter months, the purchases have been classified as improper in **Exhibit G**.

Date	Description	Amount
01/01/09	Unleaded 13.671	\$ 22.00
01/12/09	Unleaded	27.50
10/11/09	Unleaded 12.505	29.50
11/06/09	Unleaded 13.802	36.01
12/06/09	Unleaded 11.911	30.00
12/20/09	Unleaded 12.033	30.07
01/03/10	Unleaded 11.635	30.01
01/15/10	Unleaded 14.659	40.00
Total		<u>\$ 245.09</u>

We also identified additional receipts signed by the Mayor during the summer months when she may have purchased fuel to provide mosquito spraying.

In addition to fuel purchases, we determined a receipt dated September 17, 2010 included \$20.00 of fuel, Funyuns, Lipton Tea and chicken. The purchase totaled \$23.34. The receipt did not include the name of the individual making the purchase. It only stated "Town of Scarville." Because there would not be a reason to purchase the non-fuel items for City operations, the \$3.34 total is classified as improper in **Exhibit G**.

The \$248.43 of improper purchases and the \$3,476.64 of unsupported purchases listed in **Exhibit G** are included in **Exhibit A**.

- **Singlestad Hardware** – According to Ms. Hermanson and based on the receipts available for our review, office supplies, such as keys, paint supplies, light bulbs, ice melt and pipes, are purchased from Singlestad Do It Best Hardware in Lake Mills, Iowa. The City has a charge account at the vendor and receives invoices each month along with individual receipts.

Exhibit H includes a list of payments made by the City to the vendor. We reviewed each check and all statements and receipts available in the City's records for propriety. We determined purchases which total \$644.06 were not supported by appropriate documentation. The \$644.06 of unsupported disbursements are included in **Exhibit A**.

Based on the statements we reviewed, we also determined \$7.10 of finance charges were incurred because payments were not made to the vendor in a timely manner. According to the statements available, finance charges ranged from \$.25 to \$.93 from January 2008 through October 2010. Because additional statements were not available, we were unable to determine if additional finance charges were incurred. The \$7.10 of finance charges identified are not included in **Exhibit A** because we are unable to determine if they were paid by the City.

- **Lake Mills Motor Sports** – According to Ms. Hermanson, supplies for the mower and mosquito sprayer are purchased from Lake Mills Motor Sports in Lake Mills, Iowa. Based on the receipts available for our review, supplies and equipment, such as oil filters, oil, air filters and a Cub Cadet, were purchased from Lake Mills Motor Sports. The City has a charge account at the vendor and receives invoices each month along with individual receipts. In addition to selling mowers, the vendor sells all-terrain vehicles (ATVs), dirt bikes, snowmobiles and street bikes.

Exhibit I includes a list of payments made by the City to the vendor. We reviewed each check and all receipts and statements available in the City's records for propriety. We determined purchases which total \$347.36 were not supported by appropriate documentation.

During the April 3, 2012 interview, we reviewed the list of unsupported payments with Ms. Hermanson, but she did not provide any additional information. Ms. Carter subsequently told us Ms. Hermanson's parents own Lake Mills Motor Sports. Ms. Hermanson's father is listed on Lake Mills Motor Sports' website as an owner.

During our review of checks and invoices, we determined check numbers 3070 and 3085 appear to be for the same purchase. On August 31, 2009, \$10.70 of oil was purchased from the vendor. A bill was sent to the City and check number 3070, dated September 9, 2009, was issued. The check was redeemed on September 21, 2009.

However, on October 1, 2009, the vendor billed the City for the oil purchase again, along with a \$1.00 finance charge. Check number 3085, dated October 29, 2009, was issued to the vendor. Ms. Carter should not have issued the second payment. The \$11.70 duplicate payment is included in **Exhibit A** as an improper disbursement.

Based on the statements we reviewed, we also determined an additional \$1.00 finance charge was incurred in December 2007. Because additional invoices are not available, we were unable to determine if additional finance charges were incurred. The \$1.00 finance charge identified is not included in **Exhibit A** because we are unable to determine if it was paid by the City.

The \$347.36 of unsupported disbursements are also included in **Exhibit A**.

- **Individuals providing mowing services** – As stated previously, Ms. Hermanson's son was periodically paid for mowing services after she became the Mayor. We also identified payments to other individuals which were described as for mowing. In total, we identified 16 checks issued to 6 individuals for mowing services between January 1, 2006 and December 31, 2010. The checks identified are listed in **Exhibit J**.

We reviewed the City's records to determine if any of the payments were supported by some type of documentation. We found supporting documentation for 6 of the 16 checks, including handwritten notations of the number of hours worked along with an hourly rate or the total amount due. However, we were unable to locate supporting documentation for the remaining 10 payments. **Table 9** summarizes the payments by calendar year.

Table 9

Calendar Year	Amount
2006	\$ 1,506.00
2007	1,459.38
2008	1,096.15
2009	1,076.00
2010	852.00
Total	<u>\$ 5,989.53</u>

As illustrated by the **Table**, the amounts paid by the City for mowing appear to have decreased over the period of our review. The \$4,941.15 of unsupported disbursements listed in **Exhibit J** for mowing are included in **Exhibit A**.

- **Other vendors** – The City purchases other supplies from various vendors. We scanned images of the checks issued from the City’s checking account for purchases from unusual vendors or for unusual amounts and reviewed supporting documentation available in the City’s records. **Exhibit K** includes a list of 23 payments we reviewed. Many of the purchases reviewed were not supported by adequate documentation.

Supporting documentation was available for 11 of the 23 payments reviewed and items purchased were determined to be appropriate for City operations. As a result, the 11 payments were classified as supported. Supporting documentation was not available for 2 additional payments which were also determined to be appropriate for City operations. Based on the vendor, amount of the check and additional information obtained from City officials or the vendor, we determined the 2 payments were reasonable. They are classified as unsupported but reasonable in **Exhibit K**.

Payments were classified as unsupported if supporting documentation could not be located and, based on the vendor and/or amount of the check, the purchase could have been used for City operations or may have been for personal use. Payments would have been classified as improper if, based on supporting documentation or the vendor, it was determined the purchase appeared personal in nature or did not appear reasonable for City operations. However, we did not identify any payments to other vendors which appeared improper.

As illustrated by **Exhibit K**, we identified \$1,921.20 of unsupported disbursements, which includes purchases from Menards, Wal-Mart and Pamida. The \$1,921.20 of unsupported disbursements identified are included in **Exhibit A**.

- **Late Fees and Penalties** – We scanned the invoices included in the City’s vendor files and identified late fees and penalties paid by the City to the IRS, the Winnebago County Treasurer, Randall Ready Mix and Farm & City Insurance Services. **Exhibit L** includes a list of late fees and penalties identified, which total \$442.34. This amount is included in **Exhibit A** as improper disbursements.

UNDEPOSITED COLLECTIONS

As previously stated, the City’s primary revenue sources include taxes from the State of Iowa and Winnebago County. In addition, the City receives revenue for providing sewer and garbage services to residents. We reviewed documentation related to these revenue sources to determine if collections were properly deposited.

Taxes from the State of Iowa – The majority of revenues received from the State of Iowa are road use tax and local option sales tax. We confirmed all payments to the City by the State of Iowa to determine if they were properly deposited to the City’s bank accounts. We determined all payments from the State of Iowa were properly deposited to the City’s checking account.

Taxes from Winnebago County – We confirmed all payments to the City by Winnebago County were properly deposited to the City’s checking account.

Sewer and Garbage Fees – Sewer and garbage services are provided to each household. Each household is to pay an annual fee of \$175.00 for the services. During our review of deposits to the City’s bank accounts, we identified a number of \$75.00 deposits which were not described in any manner on the related bank documents. We were also unable to locate any records in City Hall which supported the amounts deposited.

According to the current City Clerk, the payments were for sewer and garbage services. She also stated a number of households do not pay the \$175.00 annual fee in 1 payment, but split the annual fee into several smaller payments. We were unable to locate any records at City Hall which showed the annual amounts were billed to each household, when the amounts were paid and any unpaid amounts. As a result, we were unable to determine if all fees were properly billed, collected and subsequently deposited to the City’s bank accounts.

Sale of City Tractor – During the interview on April 3, 2012, Ms. Hermanson admitted she kept cash withdrawn from the City’s checking account and to other improper transactions. After making these admissions, Ms. Hermanson was asked if the City had owned a tractor and she confirmed the City did.

When asked what happened to the tractor, Ms. Hermanson said it had been sold and, when asked what happened to the proceeds of the sale, she said she kept the cash proceeds from the tractor sale. Upon further questioning, she said the tractor had been sold in July 2011 to a local resident for \$800.00 cash. A DCI agent contacted the resident and confirmed the amount Ms. Hermanson reported.

The \$800.00 of proceeds are included in **Exhibit A** as undeposited collections.

ADMINISTRATIVE RESPONSIBILITIES

During our investigation, we determined Ms. Carter did not properly carry out a number of her responsibilities. Specifically, we identified the following:

- There was no evidence monthly financial reports were provided to the City Council detailing receipts, disbursements, fund and account balances with comparisons to budget.
- There was no evidence bill listings were provided to and approved by the City Council. The minutes of City Council meetings did not include documentation disbursements were approved. It was Ms. Carter’s responsibility to ensure all disbursements were presented to the City Council for approval.
- Pre-numbered receipts were not issued for collections.
- There was no evidence bank reconciliations were performed to ensure all transactions were properly recorded in the City’s records.
- The amount of collections deposited to the City’s bank accounts for fiscal year 2010 exceeded the amount reported by Ms. Carter on the City’s Annual Financial Report by more than \$10,000.00.

If Ms. Carter had been preparing bank reconciliations, she should have identified the cash Ms. Hermanson improperly withheld from a deposit and withdrew from the City’s checking account. In addition to the City Clerk, the Mayor and City Council members have a fiduciary responsibility to ensure the City’s funds are used in a proper manner. While Ms. Carter did not prepare the financial information necessary for monitoring the City’s transactions, the Mayor and City Council members should have taken action to require Ms. Carter to provide monthly information. If Ms. Carter was unable or unwilling to provide the information, the Mayor and City Council members should have taken action to ascertain the propriety of financial transactions and the financial health of the City.

SUMMARY

Table 10 summarizes the improper disbursements and undeposited collections attributable to actions taken by Ms. Carter and Ms. Hermanson.

Table 10			
Description	Exhibit/Table/ Page Number	Jolene Carter	Michelle Hermanson
Improper disbursements:			
Payroll checks to Jolene Carter	Table 1	\$ 7,447.78	-
Payroll checks to Michelle Hermanson*	Table 2	278.55	-
IPERS late fees and interest charges	Exhibit D	769.29	-
Payroll taxes, penalties and interest	Page 10	452.50	-
Other payments to Jolene Carter	Exhibit E	4,708.61	-
Cash withdrawals	Table 7	-	7,028.54
Payments to vendors:			
Don's Motor Mart	Exhibit G	-	248.43
Lake Mills Motor Sports	Page 18	11.70	-
Late fees and penalties	Exhibit L	442.34	-
Subtotal		14,110.77	7,276.97
Undeposited collections:			
Cash withheld from deposit	Table 7	-	2,000.00
Proceeds from sale of City tractor	Page 20	-	800.00
Subtotal		-	2,800.00
Total		\$ 14,110.77	10,076.97
Less: Redeposited collections	Pages 14 and 15	-	(300.00)
Net total		\$ 14,110.77	9,776.97

* - Attributable to Ms. Carter because Ms. Hermanson was not aware of the additional payment.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the City of Scarville to process receipts, disbursements and payroll. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the City's internal controls.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The former City Clerk had control over each of the following areas for the City:
1. Receipts – opening mail, preparing deposits and recording transactions.
 2. Disbursements – preparing checks, approving supporting documentation and recording transactions.
 3. Payroll – preparing checks and recording transactions.
 4. Reports – preparing the City's Annual Financial Report and budget.

In addition, bank balances were not reconciled to the City's accounting records and redeemed checks were not compared to recorded disbursements by a party independent of check preparation.

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

In addition, bank statements should be delivered to an official who does not collect or disburse City funds. Bank reconciliations should be performed monthly and should be reviewed by someone independent of other financial responsibilities.

- B. Administrative – During our review of City operations, we determined Ms. Carter failed to carry out a number of her responsibilities, including:
1. Preparing monthly financial reports for City Council review, including a detail of receipts, disbursements, fund and account balances and budget to actual comparison.
 2. Preparing a listing of bills, including supporting documentation, for City Council approval.
 3. Using pre-numbered receipts for all collections.
 4. Tracking billings and payments for garbage services.
 5. Preparing monthly bank reconciliations for City Council review and approval.

In addition, the Mayor and the City Council members did not take action to require Ms. Carter to provide monthly financial information.

Recommendation – The City Council should develop policies and procedures to ensure all reports are prepared and submitted monthly for approval. The City Council should also require the use of pre-numbered receipts.

- C. Disbursements – During our review of the City's disbursements, we determined the City's Mayor withdrew cash from the City's bank accounts on 7 occasions. During an interview on April 3, 2012, the Mayor admitted she kept some of the cash to pay her personal bills. Of the cash she kept, \$6,500.00 was grant proceeds for which the Mayor stated the related projects were not completed.

The Mayor also stated she pre-signed checks for the former City Clerk. We also determined supporting documentation was not maintained for a number of the disbursements. Because the minutes of the City Council meetings were not signed and a disbursement list was not included with the minutes, we were unable to determine if the City Council reviewed and approved the disbursements.

Recommendation – Cash withdrawals should not be made from the City's bank accounts. All disbursements should be made by check. In addition, checks should only be signed after review and approval of the related documentation.

The City Council should consult legal counsel to determine appropriate action to be taken for the grants for which the proceeds were not used to complete the approved projects.

The City Council should also implement procedures which require all purchases made be properly supported with invoices, receipts or other appropriate documentation. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next meeting for its review and approval.

- D. Store Charge Accounts – The City maintains a charge account at Don's Motor Mart and Singlestad Hardware in Lake Mills. The charge slips and invoices were not maintained

by the former City Clerk. In addition, we determined the City incurred finance charges and late payment fees because the former City Clerk did not pay the balance on the accounts each month or did not make payments in a timely manner.

Recommendation – The City should develop a written policy requiring the charge slips and additional support be maintained and the support include a description of each charge. In addition, the City Council should document allowable uses for the charge accounts and approved dollar limits. The City Council should periodically review the charge account statements to ensure charges appear appropriate and payments are made in a timely manner.

- E. Sewer and Garbage Fees – Each household is to pay an annual fee of \$175.00 for sewer and garbage services. We were unable to locate any records at City Hall which showed the annual amounts were billed to each household, when the amounts were paid and any unpaid amounts. As a result, we were unable to determine if all the amounts were properly billed, collected and subsequently deposited to the City’s bank accounts.

Recommendation – The City should develop procedures to ensure sewer and garbage fees are properly billed, collected and subsequently deposited to the City’s bank accounts in a timely manner. The procedures should address whether amounts are to be paid in full when billed or if households have the option of making installment payments. In addition, the procedures should include periodic review of the billing and collection records by someone independent of their preparation.

- F. Meeting Minutes – Chapter 21 of the *Code of Iowa* requires minutes to be kept of all meeting of governmental bodies. During our review of minutes, we determined:

1. The minutes were not properly signed by the City Clerk or the Mayor to authenticate the record as required by section 380.7(4) of the *Code*.
2. Not all disbursements were presented to the City Council for approval.

Recommendation – The City should implement procedures to ensure the City Clerk and the Mayor sign all meeting minutes and the minutes are reviewed so any errors can be identified and corrected. In addition, the City Council should ensure all City obligations are presented to the City Council for approval prior to payment.

In addition, the City Council should ensure all minutes, including bill listings approved by the City Council, are maintained at City Hall and an official copy is kept in the City Council meeting book.

- G. Receipts – During our review of the City’s deposit slips, we identified several deposit slips which included notations referring to a detailed deposit listing. However, a detailed deposit listing could not be located to determine the individual collections included in the deposit. Because the City did not maintain a detailed deposit listing, we were unable to determine if collections were properly deposited to the City’s bank accounts.

Recommendation – The City should maintain a detailed listing of all deposits and the City Council, or other independent individual designated by the City Council, should review the deposits to ensure all collections are properly deposited.

- H. Separately Maintained Accounts – The Volunteer Fire Department’s operating receipts and disbursements are deposited to and paid from the City’s checking account maintained by the City Clerk. The Volunteer Fire Department maintains a checking account separate from the checking account maintained by the City Clerk. Donations and fundraising proceeds are deposited to the checking account maintained by the Volunteer Fire Department. The funds are used at the discretion of the members of the Volunteer Fire Department. However, grant funds received by the City’s Fire Department have also been deposited to the checking account maintained by the Volunteer Fire Department.

Recommendation – Grant funds received by the City’s Fire Department should be deposited to and disbursed from the checking account maintained by the City Clerk.

Exhibits

Report on Special Investigation of the
City of Scarville

Summary of Findings
For the Period January 1, 2006 through March 31, 2011

Description	Exhibit/Table/ Page Number	Improper	Unsupported	Total
Improper and unsupported disbursements:				
Payroll checks to Jolene Carter	Table 1	\$ 7,447.78	-	7,447.78
Payroll checks to Michelle Hermanson	Table 2	278.55	-	278.55
IPERS late fees and interest charges	Exhibit D	769.29	-	769.29
Payroll taxes, penalties and interest	Page 10	452.50	-	452.50
Other payments to Jolene Carter	Exhibit E	4,708.61	-	4,708.61
Other payments to Michelle Hermanson and family members	Exhibit F	-	1,551.27	1,551.27
Cash withdrawals	Table 7	7,028.54	-	7,028.54
Payments to vendors:				
Don's Motor Mart	Exhibit G	248.43	3,476.64	3,725.07
Singlestad Hardware	Pages 17 and 18	-	644.06	644.06
Lake Mills Motor Sports	Page 18	11.70	347.36	359.06
Individuals providing mowing services	Exhibit J	-	4,941.15	4,941.15
Other vendors	Exhibit K	-	1,921.20	1,921.20
Late fees and penalties	Exhibit L	442.34	-	442.34
Total improper and unsupported disbursements		<u>21,387.74</u>	<u>12,881.68</u>	<u>34,269.42</u>
Undeposited collections:				
Cash withheld from deposit	Table 7	2,000.00	-	2,000.00
Proceeds from sale of City tractor	Page 20	800.00	-	800.00
Total undeposited collections		<u>2,800.00</u>	<u>-</u>	<u>2,800.00</u>
Total		24,187.74	12,881.68	37,069.42
Less: Redeposited collections	Pages 14 and 15	(300.00)	-	(300.00)
Net total		<u>\$ 23,887.74</u>	<u>12,881.68</u>	<u>36,769.42</u>

Note: Of the \$24,187.74 of undeposited collections and improper disbursements identified, \$14,110.77 is attributable to actions taken by Jolene Carter and \$10,076.97 is attributable to actions taken by Michelle Hermanson.

Exhibit BReport on Special Investigation of the
City of ScarvillePayroll Checks to Jolene Carter
For the Period January 1, 2006 through March 31, 2011

Per Check			
Check Date	Check Number	Memo	Amount
01/09/06	2625	Q-1 Payroll	\$ 398.82
04/26/06	2647	Q2 Payroll	398.92
07/10/06	2672	Qtr 3 Payroll	398.92
09/12/06	2698	Qtr4 payroll	398.92
Subtotal for calendar year 2006			<u>1,595.58</u>
12/06/06	2724	Qtr 1 2007	398.00
03/16/07	2755	Qtr 2 payroll	398.00
06/04/07	2778	Qtr 2 Payroll	398.00
08/07/07	2816	Qtr 3 payroll	398.00
12/13/07	2863	Qtr 4 payroll	398.00
Subtotal for calendar year 2007			<u>1,990.00</u>
01/11/08	2878	advancement Qtr 1 2008	100.00
02/08/08	2892	Qtr 1 - (100 advancement)	298.00
04/02/08	2902	Qtr 2 advance	250.00
03/05/08	2903	Qtr 2 payroll (after advancement)	148.00
06/28/08	2934	Qtr 3 payroll	398.00
07/17/08	2938	payroll advance	190.00
08/01/08	2942	payoll advance Qtr 4	200.00
09/25/08	2969	Qtr 4	398.00
12/01/08	2982	None	398.00
Subtotal for calendar year 2008			<u>2,380.00</u>
02/16/09	3015	Qtr 1 payroll	398.00
04/09/09	3024	Qtr 2 payroll	398.00
05/04/09	3036	QTR 2	398.00
07/25/09	3060	3rd quarter payroll	398.00
08/22/09	3063	QTR 4	398.00
09/26/09	3076	None	398.00
11/05/09	3091	None	398.00
11/27/09	3102	QTR 4	450.00
Subtotal for calendar year 2009			<u>3,236.00</u>

Report on Special Investigation of the
City of Scarville

Payroll Checks to Jolene Carter
For the Period January 1, 2006 through March 31, 2011

Per Check			
Check Date	Check Number	Memo	Amount
01/14/10	3113	payroll	398.00
02/10/10	3115	PAYROLL QTR 1	450.00
03/10/10	3124	2nd quarter	450.00
03/25/10	3136	2nd qtr advance	450.00
05/21/10	3148	payroll	450.00
05/28/10	3149	payroll	450.00
07/07/10	3167	<i>None</i>	450.00
08/14/10	3188	<i>None</i>	398.00
08/26/10	3191	Payroll qtr 2	450.00
09/09/10	3193	<i>None</i>	450.00
09/28/10	3195	<i>None</i>	450.00
10/30/10	3201	payroll	450.00
11/11/10	3204	payroll	450.00
12/03/10	3213	payroll 4th Qtr	450.00
Subtotal for calendar year 2010			<u>6,196.00</u>
Total			<u><u>\$ 15,397.58</u></u>

Exhibit CReport on Special Investigation of the
City of ScarvillePayroll Checks to Michelle Hermanson
For the Period January 1, 2006 through March 31, 2011

Per Check			
Check Date	Check Number	Memo	Amount
01/09/06	2624	Q1 Payroll	\$ 265.95
04/27/06	2646	Q2 Payroll	265.95
07/10/06	2671	3rd Qt payroll	265.95
09/11/06	2695	4th Qtr Payroll	265.95
12/28/06	2733	Qtr1 2007 payroll	265.95
Subtotal for calendar year 2006			<u>1,329.75</u>
03/14/07	2748	payroll Qtr 1	265.95
06/04/07	2777	Qtr 2 Payroll	265.95
09/11/07	2830	Qtr 3 payroll	265.35
12/15/07	2865	Qtr 4 payroll	265.35
Subtotal for calendar year 2007			<u>1,062.60</u>
02/23/08	2900	Qt 1 2008	265.35
04/26/08	2912	Qtr 2 payroll	265.35
07/15/08	2937	Qtr 3 payroll	265.35
10/11/08	2974	Qtr 4 payroll	265.95
12/01/08	2981	Qtr 4	265.35
Subtotal for calendar year 2008			<u>1,327.35</u>
03/05/09	3016	Qtr 1 2009	265.35
05/04/09	3035	QTR 2	265.35
08/13/09	3062	QTR	265.35
11/27/09	3103	QTR 4	265.35
Subtotal for calendar year 2009			<u>1,061.40</u>
03/23/10	3128	qtr 1 payroll	265.35
06/04/10	3158	payroll	265.35
08/17/10	3189	Payroll	265.35
10/22/10	3200	payroll	265.35
Subtotal for calendar year 2010			<u>1,061.40</u>
01/19/11	3230	1st qt. payroll	265.35
Subtotal for calendar year 2011#			<u>265.35</u>
Total			<u><u>\$ 6,107.85</u></u>

- Through March 31, 2011.

Report on Special Investigation of the
City of Scarville

IPERS Late Fees and Interest Charges
For the Period January 1, 2006 through March 31, 2011

Date	Late Fees	Interest	Total
08/01/08	\$ 20.00	-	20.00
10/21/08	-	1.20	1.20
10/31/08	20.00	20.00	40.00
12/01/08	20.00	-	20.00
03/31/09	20.50	-	20.50
04/30/09	20.50	20.00	40.50
05/31/09	-	20.00	20.00
06/30/09	20.50	20.00	40.50
07/31/09	20.50	20.00	40.50
08/31/09	-	20.00	20.00
09/30/09	20.50	20.00	40.50
10/31/09	20.50	20.00	40.50
11/30/09	-	20.00	20.00
12/31/09	20.50	20.00	40.50
03/31/10	20.50	-	20.50
04/30/10	20.50	20.00	40.50
05/31/10	20.50	20.00	40.50
06/30/10	20.50	20.00	40.50
07/31/10	-	20.00	20.00
08/31/10	20.50	20.00	40.50
09/30/10	20.50	20.00	40.50
10/31/10	20.50	20.00	40.50
11/30/10	20.50	20.00	40.50
12/31/10	20.50	20.00	40.50
03/17/11	-	0.09	0.09
Total	\$ 388.00	381.29	769.29

Exhibit EReport on Special Investigation of the
City of ScarvilleOther Payments to Jolene Carter
For the Period January 1, 2006 through March 31, 2011

Per Check			
Check Date	Check Number	Memo	Amount
08/01/06	2686	supplies	\$ 25.00
12/10/06	2723	supplies	50.00
Subtotal for calendar year 2006			<u>75.00</u>
04/02/07	2757	supplies	67.53
04/18/07	2759	antivirus and supplies	75.00
07/19/07	2814	office supplies	25.00
08/15/07	2828	supplies - garbage file folders	20.83
09/05/07	2829	stamps	41.00
09/23/07	2838	misc office supplies	8.57
11/15/07	2854	discs, jumpdrives	53.78
Subtotal for calendar year 2007			<u>291.71</u>
01/08/08	2872	supplies: ink, paper, envelopes	35.00
03/22/08	2901	office supplies	45.00
04/15/08	2911	envelopes, ink, paper	43.83
07/01/08	2933	printer toner, stamps, gas 4 lighting fire	84.56
08/29/08	2957	supplies - office	64.00
09/18/08	2964	quickbook checks, stamps, supplies	129.00
09/23/08	2965	microsoft office 2007 program	194.00
10/15/08	2976	CH supplies	37.78
12/20/08	2992	back up disks - CH supplies	57.63
Subtotal for calendar year 2008			<u>690.80</u>
03/16/09	3022	computer/off supplies	63.82
04/28/09	3028	Computer supplies	63.67
06/21/09	3045	office supplies	38.47
07/31/09	3061	office supplies, printer rec #80537 & #00112302	150.53
09/02/09	3064	office supplies	53.64
09/26/09	3077	office supplies	78.93
10/10/09	3078	envelopes, stamps, office supplies	53.48
11/10/09	3092	CH supplies, office, computer supplies	83.58
11/24/09	3100	<i>None</i>	173.84
12/08/09	3104	CH supplies	63.84
12/23/09	3111	stamps and antivirus	88.53
Subtotal for calendar year 2009			<u>912.33</u>

Report on Special Investigation of the
City of Scarville

Other Payments to Jolene Carter
For the Period January 1, 2006 through March 31, 2011

Per Check			
Check Date	Check Number	Memo	Amount
03/02/10	3123	None	63.50
03/10/10	3127	office supplies	53.84
04/01/10	3137	None	74.00
04/10/10	3138	supplies - Quickbook update, envelopes, stamps	233.00
04/23/10	3139	None	234.00
04/29/10	3140	None	56.78
05/11/10	3145	None	78.53
07/10/10	3168	office supplies	67.98
07/14/10	3170	Quickbook supplies	252.18
07/30/10	3181	virus update, computer supplies	378.33
08/30/10	3192	None	183.59
09/15/10	3194	CH supplies	120.00
10/13/10	3198	Office Supplies	175.00
10/14/10	3199	computer supplies	150.00
11/15/10	3202	None	83.10
11/08/10	3203	None	105.55
11/18/10	3205	Computer supplies	150.67
12/08/10	3214	computer paper	32.00
12/16/10	3216	office supplies, computer supplies	172.86
01/03/11	3218	None	73.86
Subtotal for calendar year 2010^			<u>2,738.77</u>
Total			<u><u>\$ 4,708.61</u></u>

^ - Includes payment made on 01/03/11.

Report on Special Investigation of the
City of Scarville

Other Payments to Michelle Hermanson and Family Members
For the Period January 1, 2006 through March 31, 2011

Per Check				
Check Date	Check Number	Paid To	Memo	Amount
01/02/06	2613	Pat Hermanson	plumbing townhall	\$ 100.00
09/17/06	2699	Michelle Hermanson	<i>None</i>	90.00
03/14/07	2747	Michelle Hermanson	supplies and spraying	46.82
08/11/07	2819	Michelle Hermanson	mosquito spraying	150.00
10/13/07	2848	Michelle Hermanson	spraying	80.00
11/11/07	2851	Pat Hermanson	<i>None</i>	40.00
01/23/08	2882	Pat Hermanson	installing water heater	90.00
03/08/08	2905	Brandon Hermanson	C.H. operations	40.00
09/08/08	2958	Pat Hermanson	<i>None</i>	210.00
10/05/08	2973	Michelle Hermanson	CH supplies	74.37
12/01/08	2978	Brandon Hermanson	cleaning	64.00
01/15/09	2994	Michelle Hermanson	CH supplies	72.73
01/19/09	2993	Pat Hermanson	misc-repairs	269.65
06/21/09	3044	Pat Hermanson	lawn mower blades	40.00
09/16/09	3065	Pat Hermanson	supplies and spraying	203.70
11/26/09	3101	Michelle Hermanson	CH supplies	27.49
07/12/10	3169	Pat Hermanson	maintance (<i>maintenance</i>)	70.00
Total				<u>\$ 1,668.76</u>

Supported	Unsupported
-	100.00
90.00	-
-	46.82
-	150.00
-	80.00
-	40.00
-	90.00
-	40.00
-	210.00
-	74.37
-	64.00
-	72.73
-	269.65
-	40.00
-	203.70
27.49	-
-	70.00
117.49	1,551.27

Exhibit GReport on Special Investigation of the
City of ScarvillePayments to Don's Motor Mart
For the Period January 1, 2006 through March 31, 2011

Check Date	Check Number	Memo	Amount	Supported	Improper	Unsupported
09/17/06	2706	F.D. Truck = mower gas	\$ 322.24	\$ -	-	322.24
11/05/06	2714	Mower	287.00	-	-	287.00
11/16/06	2718	Mower	100.03	-	-	100.03
12/28/06	2727	Fire Dept	73.00	73.00	-	-
Subtotal for calendar year 2006			<u>782.27</u>	<u>73.00</u>	-	<u>709.27</u>
04/15/07	2752	Fire Dept	14.00	14.00	-	-
05/01/07	2768	Fire Dept	38.42	38.42	-	-
06/11/07	2788	Mower	185.55	185.55	-	-
07/19/07	2805	Mower	84.53	84.53	-	-
08/14/07	2827	Fire Dept	202.00	202.00	-	-
09/20/07	2834	Fire Dept/Mower	122.08	122.08	-	-
10/08/07	2845	Mower	79.72	79.72	-	-
12/03/07	2860	Fire Dept	167.29	167.29	-	-
Subtotal for calendar year 2007			<u>893.59</u>	<u>893.59</u>	-	-
05/30/08	2922	Mower	129.62	129.62	-	-
06/10/08	2927	Mower	189.93	-	-	189.93
08/12/08	2952	Town of Scarville	456.35	-	-	456.35
09/08/08	2962	Fire Dept	99.25	-	-	99.25
10/03/08	2968	Mower	77.37	-	-	77.37
12/14/08	2986	Mower	27.50	-	-	27.50
Subtotal for calendar year 2008			<u>980.02</u>	<u>129.62</u>	-	<u>850.40</u>
02/12/09	3013	None	49.50	-	49.50	-
06/08/09	3041	Fire Dept	21.28	21.28	-	-
07/14/09	3054	None	285.91	285.91	-	-
09/09/09	3066	None	125.00	-	-	125.00
10/10/09	3080	None	45.00	45.00	-	-
10/29/09	3088	Mower	40.89	40.89	-	-
11/15/09	3090	None	52.00	-	-	52.00
11/10/09	3093	Gas	42.85	13.35	29.50	-
11/12/09	3099	Gas	35.00	-	-	35.00
12/23/09	3109	None	36.01	-	36.01	-
Subtotal for calendar year 2009			<u>733.44</u>	<u>406.43</u>	<u>115.01</u>	<u>212.00</u>

Report on Special Investigation of the
City of Scarville

Payments to Don's Motor Mart
For the Period January 1, 2006 through March 31, 2011

Check Date	Check Number	Memo	Amount	Supported	Improper	Unsupported
02/10/10	3120	Mower	130.08	-	130.08	-
03/23/10	3129	None	38.10	38.10	-	-
05/13/10	3146	Gas	64.00	-	-	64.00
06/04/10	3151	None	77.08	77.08	-	-
07/21/10	3180	Gas	67.00	-	-	67.00
07/13/10	3177	Mowing	357.02	-	-	357.02
08/10/10	3185	None	225.74	-	-	225.74
11/20/10	3211	None	516.50	-	-	516.50
12/06/10	3215	Gas	45.00	41.66	3.34 ^	-
12/20/10	3217	Gas	45.00	-	-	45.00
Subtotal for calendar year 2010			<u>1,565.52</u>	<u>156.84</u>	<u>133.42</u>	<u>1,275.26</u>
01/06/11	3223	None	45.00	-	-	45.00
02/21/11	3239	Gas	384.71	-	-	384.71
Subtotal for calendar year 2011*			<u>429.71</u>	<u>-</u>	<u>-</u>	<u>429.71</u>
Total			<u>\$ 5,384.55</u>	<u>1,659.48</u>	<u>248.43</u>	<u>3,476.64</u>

^ - Purchase of Funyuns, Lipton Tea and chicken.

* - Through March 31, 2011.

Exhibit HReport on Special Investigation of the
City of ScarvillePayments to Singelstad Hardware
For the Period January 1, 2006 through March 31, 2011

Per Check						
Check Date	Check Number	Memo	Amount	Supported	Unsupported	
01/09/06	2629	plug and keys	\$ 10.14	-	10.14	
07/16/06	2677	<i>None</i>	7.27	-	7.27	
11/16/06	2719	insect killer	10.49	-	10.49	
12/28/06	2732	CH Supplies	10.80	-	10.80	
05/12/07	2771	supplies	7.13	7.13	-	
07/19/07	2812	supplies	189.42	-	189.42	
10/08/07	2842	concrete mix	69.48	69.48	-	
01/21/08	2881	FD Water Heater	209.99	209.99	-	
02/13/08	2897	supplies	31.34	-	31.34	
04/13/08	2909	CH Supplies	329.97	329.97	-	
06/10/08	2928	CH Supplies	34.90	-	34.90	
09/08/08	2959	<i>None</i>	53.51	-	53.51	
02/12/09	3010	CH Supplies	100.06	100.06	-	
06/08/09	3039	CH Supplies	30.45	30.45	-	
09/09/09	3072	<i>None</i>	13.94	-	13.94	
10/29/09	3081	CH Supplies	40.70	40.70	-	
12/23/09	3106	<i>None</i>	61.91	61.91	-	
02/10/10	3119	<i>None</i>	55.81	55.81	-	
03/23/10	3135	<i>None</i>	8.29	8.29	-	
06/04/10	3156	<i>None</i>	185.67	-	185.67	
07/13/10	3175	supplies	44.53	-	44.53	
08/10/10	3186	<i>None</i>	16.85	-	16.85	
11/20/10	3209	<i>None</i>	35.20	-	35.20	
Total			<u>\$ 1,557.85</u>	<u>913.79</u>	<u>644.06</u>	

Report on Special Investigation of the
City of Scarville

Payments to Lake Mills Motor Sports
For the Period January 1, 2006 through March 31, 2011

Per Check					
Date	Check Number	Memo	Amount	Supported	Unsupported
08/22/06	2690	<i>None</i>	\$ 32.80	-	32.80
12/28/06	2730	new mower	4,530.00	4,530.00	-
06/11/07	2791	mower parts	8.99	8.99	-
08/14/07	2822	oil filter mower	8.64	8.64	-
12/17/07	2867	<i>None</i>	40.00	-	40.00
05/30/08	2921	<i>None</i>	46.00	46.00	-
06/10/08	2926	oil filter	8.98	-	8.98
08/12/08	2953	<i>None</i>	85.77	-	85.77
06/08/09	3038	mower parts	9.41	-	9.41
09/09/09	3070	mower parts	10.70	10.70	-
10/29/09	3085	<i>None</i>	11.70	11.70	-
06/04/10	3153	<i>None</i>	170.40	-	170.40
Total			<u>\$ 4,963.39</u>	<u>4,616.03</u>	<u>347.36</u>

**Report on Special Investigation of the
City of Scarville**

Report on Special Investigation of the
City of Scarville

Payments to Individuals Providing Mowing Services
For the Period January 1, 2006 through March 31, 2011

Per Check					
Date	Check Number	Payee	Amount	Supported	Unsupported
06/14/06	2661	Ole Rosen	\$ 1,506.00	-	1,506.00
06/11/07	2781	Reedie Nelson	141.38	141.38	-
06/11/07	2782	Derek Rosen	396.00	-	396.00
06/11/07	2783	Michael Rosen	396.00	-	396.00
06/11/07	2784	Ole Rosen	396.00	-	396.00
08/07/07	2817	Brandon Hermanson	78.00	78.00	-
10/13/07	2849	Brandon Hermanson	52.00	52.00	-
06/12/08	2930	Brandon Hermanson	66.15	-	66.15
06/14/08	2931	Ole Rosen	952.00	-	952.00
08/15/08	2956	Brandon Hermanson	78.00	-	78.00
04/20/09	3025	Ole Rosen	676.00	-	676.00
09/09/09	3074	Brandon Hermanson	320.00	320.00	-
11/12/09	3098	Brandon Hermanson	80.00	80.00	-
01/14/10	3112	Ole Rosen	377.00	377.00	-
06/17/10	3163	Brandon Hermanson	225.00	-	225.00
08/10/10	3182	Brandon Hermanson	250.00	-	250.00
Total			<u>\$ 5,989.53</u>	<u>1,048.38</u>	<u>4,941.15</u>

Report on Special Investigation of the
City of Scarville

Payments to Other Vendors
For the Period January 1, 2006 through March 31, 2011

Per Check

Check Date	Check Number	Paid To	Memo	Amount
03/15/06	2635	Reedie Nelson	water bill	\$ 60.00
06/02/06	2655	Menards	supplies	137.13
08/22/06	2694	Green Canopy	<i>none</i>	140.00
09/03/06	2696	Walmart	<i>none</i>	85.93
03/30/07	2756	Menards	toilet/garage door	342.40
06/10/07	2779	Menards	<i>none</i>	26.62
08/13/07	2818	Wal Mart	<i>none</i>	64.14
01/22/08	2879	Allied Insurance	BD790584765	225.00
07/17/08	2939	Best Buy	<i>none</i>	28.61
09/18/08	ACH	Software Lacarte Rep	<i>none</i>	65.71
09/19/08	ACH	Software Lacarte Rep	<i>none</i>	29.86
12/16/08	2991	Staples	computer and antivirus	1,091.36
04/28/09	3027	Pamida	CH-supplies-office	87.14
04/28/09	3029	Clarke Mosquito Control	customer #005356	887.24
06/08/09	3042	Turf Trimmers	thatching - culture and rec	45.00
07/06/09	3046	Modern Woodmen of America	<i>none</i>	2,682.00
03/15/10	3127	Pamida	<i>none</i>	49.44
03/11/10	3125	DMACC (NIACC)	Comm. sewer class	100.00
04/29/10	3144	Price is Right Construction	<i>none</i>	15,109.16
05/20/10	3147	Bomgaars	<i>none</i>	577.77
06/10/10	3162	Menards	wood for shelter house construction	174.11
11/20/10	3207	Office World	waterproof security chest	59.15
03/14/11	3240	Walmart	HP Printer	103.64
Total				<u><u>\$ 22,171.41</u></u>

Supported	Unsupported but Reasonable	Unsupported
-	60.00	-
-	-	137.13
140.00	-	-
-	-	85.93
-	-	342.40
-	-	26.62
-	-	64.14
225.00	-	-
-	-	28.61
-	-	65.71
-	-	29.86
-	-	1,091.36
87.14	-	-
887.24	-	-
45.00	-	-
-	2,682.00	-
-	-	49.44
100.00	-	-
15,109.16	-	-
577.77	-	-
174.11	-	-
59.15	-	-
103.64	-	-
17,508.21	2,742.00	1,921.20

Exhibit LReport on Special Investigation of the
City of ScarvilleLate Fees and Penalties
For the Period January 1, 2006 through March 31, 2011

Date of Invoice	Date of Related Transaction	Vendor	Description	Amount
11/05/07	12/31/06	IRS	Tax penalties and interest	\$ 119.01
06/30/08	12/31/07	IRS	Tax penalties and interest	103.34
02/01/08	10/02/07	Winnebago County Treasurer	Interest and costs	2.00
02/01/08	10/02/07	Winnebago County Treasurer	Interest and costs	2.00
02/01/08	10/02/07	Winnebago County Treasurer	Interest and costs	2.00
02/01/08	10/02/07	Winnebago County Treasurer	Interest and costs	2.00
02/01/08	10/02/07	Winnebago County Treasurer	Interest and costs	2.00
02/01/08	10/02/07	Winnebago County Treasurer	Interest and costs	2.00
02/01/08	10/02/07	Winnebago County Treasurer	Interest and costs	2.00
10/31/09	08/01/09	Randall Ready Mix	Finance charge	5.00
08/31/10	^	Farm & City Insurance Services	Service charges	200.99
Total				<u><u>\$ 442.34</u></u>

^ - May 2010 through August 2010

Report on Special Investigation of the
City of Scarville

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
Lara K. Van Wyk, Staff Auditor

A handwritten signature in black ink that reads "Tamera S. Kusian". The signature is written in a cursive style with a prominent horizontal stroke at the beginning of the first name.

Tamera S. Kusian, CPA
Deputy Auditor of State

Appendix

Report on Special Investigation of the
City of Scarville

Copy of Excerpt from a Grant Progress Report



COMMUNITY FOUNDATION

of Waterloo/Cedar Falls and Northeast Iowa

For good. For ever.

Report Form for Community Foundation Grant

REPORTING ON USE OF GRANT: Your organization should provide a report within 6 months of receiving the grant. Your report is a record of what you have achieved and what you have learned in the process. It will help shape future grant making by the Foundation.

Grantee: *City of Scarville*

Date Grant Authorized: *June 11, 2007*

Project Funded: *Tennis Court*

Name of person reporting: *Michelle Hermanson*

Amount Authorized:

\$2000.00

Grant Number: *20080498*

Attach responses to the following:

- Briefly summarize project:
What were your achievements as they relate to the goals and objectives of the project?
If you modified your intended outcomes, indicate the changes.
Have there been any unanticipated outcomes? What are they?
- Number of adult volunteers / Number of youth volunteers that were a part of the project:
- Number of adults served as a result of the project:
- Number of youth served as a result of the project:
- Names of agencies or groups with whom you have collaborated to make this project happen. Tell how they were involved:
- Project budget - include an expense sheet for the project detailing how funds were expended; include a income sheet for the project including donations received from other groups, individuals and organizations, any In kind gifts and services the project received (these are encouraged and it is hoped that the grant will serve as an impetus to receive additional support).
- Future plans for the project.
Do you plan to continue the project? Has the project become self sustaining? Do you think this project could be used by other groups? In what ways? What plans, if any at this time, do you have to disseminate information on the project?
- If there is a balance left at the time of the report, you may make a request for a continuation of time to expend the grant monies. Please indicate how you plan to expend the balance and give a time line.

I certify the accuracy of the attached report for expenditures and usage of grant funds for the above mentioned project and that the resulting balance is accurate.

Michelle Hermanson

Date *10-12-07*

Signature of Chief Executive Officer of Organization

***Please return along with a photo or a copy of any news coverage for potential use in future Community Foundation materials to:**

Community Foundation ♦ P O Box 1176 ♦ Waterloo, Iowa 50704

Report on Special Investigation of the
City of Scarville

Copy of Excerpt from a Grant Progress Report

Report Form for Community Foundation Grant

We purchased two new basketball hoops with hydraulic lift so they are easily adjustable for any child and moved the two older hoops down to a height for the younger children.

There were about 4 youth that volunteered time and muscles to help removed the old poles and dig new holes for the new poles. A couple of adults helped with the supervision and the placement of the new hoops.

A large number of youth and adults will benefit from this project, as this is available at all times for family and friends to use together.

Budget-	Life Time	\$1700.00
	2 basketball hoops	
	Hardware store	\$300.00
	cement,paint,etc.	

This project is not yet completed as our goal it to resurface and replace the old fence with new to surround the entire area. And then to also paint a basketball court lines on the new surface.