



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

Contact: David A. Vaudt
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE _____ October 8, 2007 _____

Auditor of State David A. Vaudt today released a report on a special investigation of the City of Gravity. The special investigation was requested by the City Council as a result of alleged misappropriation of City funds by the former City Clerk, Robin Lock.

Vaudt reported the special investigation identified \$7,858.11 of improper disbursements, \$588.60 of additional payroll related costs to be paid by the City and \$5,148.78 of estimated undeposited collections. The improper disbursements included \$5,638.37 of payroll payments and \$2,219.74 of unauthorized expense and travel reimbursements to Ms. Lock. For the time period January 1, 2003 through February 15, 2007, Ms. Lock was authorized to receive salary payments totaling \$13,713.98. However, payroll checks issued to her for this time period totaled \$19,352.35, which was \$5,638.37 more than authorized. The \$588.60 of additional payroll related costs consists of Ms. Lock's share of IPERS contributions which she did not withhold from her authorized payroll, late fees and interest due to IPERS. The estimated undeposited collections of \$5,148.78 consist of garbage fees.

Vaudt also reported adequate records for receipts and disbursements were not available to determine whether all City collections were properly deposited and all disbursements were proper.

The report also includes recommendations to strengthen the City's internal controls and overall operations.

Copies of the report have been filed with the Taylor County Sheriff's Office, the Division of Criminal Investigation, the Taylor 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/specials.htm>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF GRAVITY
FOR THE PERIOD
JANUARY 1, 2003 THROUGH FEBRUARY 15, 2007**

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Auditor of State's Report

To the Honorable 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 Gravity. We have applied certain tests and procedures to selected financial transactions of the City for the period January 1, 2003 through February 15, 2007. Based on discussions with City personnel and a review of relevant information, we performed the following procedures.

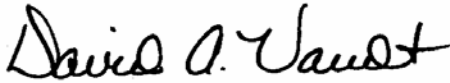
- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Scanned images of checks redeemed from the City's checking account for the period November 1, 2004 through February 15, 2007 to identify and examine any checks issued to unusual payees or for unusual amounts. We also examined images of certain disbursements made prior to November 1, 2004.
- (3) Examined documentation for certain checks issued from the City's checking account to determine if they were appropriate and properly supported.
- (4) Compared the approved bill listing included in the Council meeting minutes to images of checks issued from the City's checking account to determine if the payments were approved.
- (5) Examined payroll disbursements to the former City Clerk to determine if the appropriate number of payroll disbursements had been made, to determine whether the amount paid was appropriate and to identify any improper or unsupported disbursements.
- (6) Examined City records obtained during a search warrant served on the former Clerk's personal residence.
- (7) Confirmed payments made to the City by the State of Iowa and Taylor County to determine whether they were properly deposited to the City's accounts.
- (8) Examined the available garbage billing and collection records to determine if collections were properly accounted for and deposited.

These procedures identified \$7,858.11 of improper disbursements, \$588.60 of additional payroll related costs to be paid by the City and \$5,148.78 of estimated undeposited collections. Because we were unable to examine images of all checks issued from the City's checking account, we were unable to determine whether additional improper disbursements occurred from January 1, 2003 through October 31, 2004. In addition, we were unable to determine whether additional collections were undeposited during the period of our review because adequate records were not available for all receipts. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibits A** through **C** of this report.

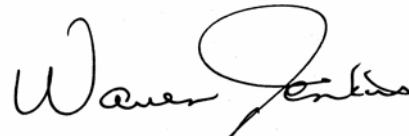
The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Gravity, other matters might have come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

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

We would like to acknowledge the assistance and many courtesies extended to us by the personnel of the City of Gravity, the Taylor County Sheriff's Office 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

September 12, 2007

City of Gravity
Investigative Summary

Background Information

Robin Lock began employment as the City Clerk for the City of Gravity on a part-time basis in December 2002. In January 2003, Ms. Lock became the full-time Clerk for the City. As the City Clerk, Ms. Lock was responsible for:

- 1) Disbursements – check preparation, check signing, distribution and posting to the accounting records.
- 2) Payroll – check preparation, check signing and posting.
- 3) Garbage billings – preparation and mailing of billings, receipt and deposit of collections and posting of payments to the customer accounts.
- 4) Other receipts – collection, posting to the accounting records and deposit preparation.
- 5) Reporting – preparation of Council minutes, budget-to-actual analysis and preparation of financial reports.

In addition, Ms. Lock sorted mail, composed letters and responded to inquiries on a regular basis. The City's former Mayor allowed Ms. Lock to perform her job duties from her personal residence until approximately July 2005, when Ms. Lock was instructed by current Mayor Charles Ambrose to bring all City property, including a computer, copier and various City records to the Community Center and conduct City business from an office at the Center. However, Ms. Lock continued to work from her personal residence until her resignation on February 12, 2007. According to the Mayor, he instructed Ms. Lock to work from the Community Center on a number of occasions.

Ms. Lock resigned from her position as City Clerk at the Council meeting held on February 12, 2007. According to a resignation letter dated February 12, 2007, her resignation was "do to health reasons". A copy of the resignation letter is included in **Appendix 1**.

After the Council meeting at which the former Clerk submitted her resignation, the Mayor searched the office located in the Community Center and discovered a letter from the Internal Revenue Service indicating quarterly tax returns had not been filed for 2004, the second and third quarters of 2005 and the second quarter of 2006. A copy of the letter is included in **Appendix 2**. As a result, the Mayor called an emergency Council meeting on Tuesday, February 13, 2007 where, after much discussion, a decision was made to contact the Office of Auditor of State and the Taylor County Sheriff's Office, who requested an investigation by the Division of Criminal Investigation (DCI). Following the emergency Council meeting, several Council Members went to the former Clerk's residence to collect her keys to the Community Center and all City records in her possession. The Council Members secured the keys and several City documents.

On February 14, 2007, the Mayor contacted the City's bank to confirm the balances Ms. Lock reported to the Council during the February 12 meeting. Ms. Lock reported a bank balance of \$54,188.74 during the meeting, but the date of the balance was not specified in her report. A copy of the report provided to the Council is included in **Appendix 3**. According to the Mayor, he assumed the balance reported was as of the end of January 2007. According to the Mayor's inquiry, the bank balance on February 14, 2007 was only \$42,567.51, a difference of \$11,621.23. There was not sufficient bank account activity between the end of January and February 14 to account for the difference. The bank balance at January 31, 2007 was \$41,931.50.

Representatives of the Taylor County Sheriff's Office subsequently executed a search warrant of Ms. Lock's residence and recovered the City's computer, copier and several additional documents believed to be the property of the City. All items obtained as a result of the search warrant were provided to our office for our review. We performed the procedures detailed in the Auditor of State's Report for the period January 1, 2003 through February 15, 2007.

Detailed Findings

These procedures identified \$7,858.11 of improper disbursements, \$588.60 of additional payroll related costs to be paid by the City and \$5,148.78 of estimated undeposited collections for the period January 1, 2003 through February 15, 2007. Because we were unable to examine images of all checks issued from the City's checking account, we were unable to determine whether additional improper disbursements occurred from January 1, 2003 through October 31, 2004. In addition, we were unable to determine whether additional collections were undeposited during the period of our review because adequate records were not available for all receipts. All improper disbursements, additional payroll related costs to be paid by the City and estimated undeposited collections are summarized in **Exhibit A** and a detailed explanation of each finding follows.

FINANCIAL REPORTING

The City Clerk is responsible for preparation of periodic financial reports. As stated previously, the financial report provided to the Council on February 12, 2007 by Ms. Lock showed the City held \$54,188.74 in its checking account. Also as previously stated, the Mayor assumed the balance was as of the end of January 2007. According to a bank inquiry by the Mayor, the balance of the City's checking account on February 14, 2007 was \$42,567.51.

For 2003 through 2006, we compared the June 30 bank balances of the City's checking account to the Annual Financial Reports submitted by Ms. Lock to the State of Iowa and the financial reports she submitted to the Council. An Annual Financial Report was not submitted to the State of Iowa for the fiscal year ended June 30, 2004. As illustrated by **Table 1**, the balances reported for June 30 of each year were more than the amounts actually in the City's checking account on those dates.

Table 1 also includes the balances reported to Council by Ms. Lock during June of each year. The reports by Ms. Lock to Council did not specify the date of the balances reported. The current Clerk reports the bank balance as of the date of the Council meeting. However, we are unable to determine what dates Ms. Lock used for reporting information to Council, although the Mayor assumed the balance reported was at the end of the previous month. There was not sufficient bank account activity between the end of May and mid-June to account for the differences.

Table 1

Fiscal Year Ended June 30,	Bank Balance	Annual Financial Report	Report to Council during June
2003	\$ 31,657.93	34,198.00	32,429.19
2004	43,801.18	*	49,492.74
2005	48,827.30	56,830.00	59,548.75
2006	27,840.41	71,759.00 ^	43,322.20

* - Not submitted to the State of Iowa

^ - Amount reported on the Annual Financial Report contained mathematical errors.
The correct mathematical total was \$42,092.

In addition, Ms. Lock prepared the Fiscal Year 2006 City Streets Financial Report. The report submitted to the Department of Transportation showed the City's unexpended Road Use Tax monies at June 30, 2006 were \$38,543.00. However, as illustrated by **Table 1**, the City's bank balance at June 30, 2006 was only \$27,840.41.

IMPROPER DISBURSEMENTS

During our investigation, we scanned all checks redeemed from the City's checking account on or after November 1, 2004. Images of all checks redeemed from the account were included with the City's monthly bank statements beginning with the November 2004 bank statement. Prior to November 1, 2004, images of the checks redeemed from the account were not provided by the bank. As a result, we requested images of certain checks redeemed from the City's account between January 1, 2003 and October 31, 2004. We were unable to review images of all checks because we determined it was cost prohibitive.

Using bank statements, images of certain checks prior to November 1, 2004 and images of all checks on or after November 1, 2004, we identified 73 payments from the City's checking account to Ms. Lock between January 1, 2003 and February 15, 2007 which total \$21,631.70. Based on the amounts of the checks and/or descriptions of the payments appearing in the memo portion of the check, we classified each payment or portion of each payment as a payroll amount or a reimbursement to Ms. Lock.

Unauthorized Payroll to Robin Lock – Ms. Lock began employment with the City of Gravity on a part-time basis in December 2002. During December, Ms. Lock shared responsibilities with the previous Clerk.

Beginning in January 2003, Ms. Lock became the City's full-time Clerk. As the Clerk, she was responsible for preparation of all checks, including her own payroll checks. When Ms. Lock became the City's full-time Clerk, the Council authorized a monthly salary of \$300.00 for her position. From each month's gross salary, Ms. Lock should have withheld FICA payroll taxes and \$11.10 for her contribution to IPERS. However, she only withheld \$22.95 for FICA payroll tax and calculated her net monthly salary to be \$277.05.

By examining monthly bank statements from January 1, 2003 through October 31, 2004, we identified 24 checks which were redeemed for \$277.05 or \$377.05. Because some of the checks were issued more than 4 years ago, images were not readily available from the City's bank for 14 of the 24 checks. However, the 14 checks were each redeemed for \$277.05 and appear to have been issued to Ms. Lock for payroll based on the timing and amount of the payment. By examining images of the remaining 10 checks redeemed during this period, we identified 4 payments to Ms. Lock which were for the net payroll amount she calculated and 6 payments for \$100.00 more.

For the period November 1, 2004 through February 15, 2007, we identified 41 payroll checks payable to Ms. Lock. With the exception of 2 checks, each contained a notation in the memo portion of the check which indicated the payment was for Ms. Lock's wages. The 2 checks without a notation in the memo were for the \$277.05 net pay calculated by Ms. Lock. Of the 41 payroll checks identified, 4 included a notation on the check that a portion of the payment was a reimbursement to Ms. Lock.

The 65 payroll checks identified for Ms. Lock total \$19,352.35 and are listed in **Exhibit B**. To determine if any of the payroll checks issued to Ms. Lock were unauthorized, we compared the authorized amount of Ms. Lock's salary to the amount she actually was paid between January 1, 2003 and February 15, 2007. As illustrated in **Table 2**, Ms. Lock received \$5,638.37 more than her authorized salary amount. The \$5,638.37 of unauthorized payroll has been included in **Exhibit A**. There was no documentation or Council approval to support the excess salary payments.

Table 2

Description	Amount
Authorized gross monthly salary	\$ 300.00
Less: FICA withholdings	(22.95)
Net authorized salary payment*	\$ 277.05
X number of months employed	49.5
Total authorized salary payments	\$ 13,713.98
Total payroll checks issued to Ms. Lock	19,352.35
Payroll Overpayment	\$ 5,638.37

* - Ms. Lock should have withheld an additional \$11.10 (3.7%) of her gross pay for the employee share of IPERS from her payroll checks.

Because we did not examine images of all checks redeemed prior to November 1, 2004, we are not able to determine whether additional payments were made to Ms. Lock. Copies of several checks issued to Ms. Lock have been included in **Appendix 4**.

All of Ms. Lock's payroll checks were to contain 2 signatures. Beginning in January 2003, authorized signers on the City's checking account were Ms. Lock and the Mayor. Of the 65 payroll checks identified, we did not obtain the image for 14 checks. As illustrated by **Exhibit B**, only 38 of the remaining 51 checks contain the required dual signatures. Of the 13 checks with only 1 signature, 11 contain Ms. Lock's signature and 2 contain the former Mayor's signature.

Unauthorized Reimbursements to Robin Lock - In addition to payroll payments, Ms. Lock received 12 reimbursement payments totaling \$2,292.40. The reimbursement payments have been listed in **Exhibit C**. As illustrated by the **Exhibit**, 4 of the 12 reimbursements were made with a check which also contained a payroll payment. As also illustrated by the **Exhibit**, 2 of the 12 reimbursements were approved by the Council and were listed in the Council minutes. The remaining 10 reimbursements total \$2,219.74 and were not authorized by the Council. We discussed the reimbursements with the Mayor. The Mayor indicated all reimbursements should be approved by the Council prior to payment. Supporting documentation was not available for any of the reimbursements. As illustrated by the **Exhibit**, 5 of the 12 reimbursements were for an even dollar amount, which would be unusual when actual expenses are reimbursed.

The \$2,219.74 of unauthorized reimbursements have been included in **Exhibit A**.

Payments to Mayor and Council Members - The Mayor is to receive an annual salary of \$125.00. We determined the former Mayor was paid \$133.89 in excess of his annual salary of \$125.00 during fiscal year 2005. According to the former Mayor, he was paid for minor repair services to City equipment. However, documentation was not available to support the additional amount paid to the former Mayor.

In addition, Council members are to receive \$10.00 for each Council meeting attended. There was no documentation, such as detailed attendance records, to support the amounts paid to the Council members. Accordingly, we reviewed Council minutes in an attempt to identify Council member attendance. However, because the meeting minutes did not always document which Council members were present, we were unable to determine the number of meetings each Council member attended. As a result, we were unable to determine the amounts which should have been paid to each Council member. For fiscal year 2006, individual Council member earnings ranged from \$70.00 to \$120.00.

Social security taxes were withheld from each Mayor and Council member payment. However, IPERS contributions were not withheld from any payments issued to the Mayor or Council members. We confirmed with a representative of IPERS that contributions had not been remitted on their behalf. Waivers were not provided to the Mayor or Council members to document which individuals, if any, declined to participate in IPERS.

Other City Payments – The City’s bills are routinely approved by Council members during the Council meetings. However, we identified 26 checks totaling \$5,339.89 issued from the City’s checking account between November 2004 and February 2007 which we could not trace to Council approval. Of the 26 checks without Council approval, 5 contained only the signature of the former Clerk. We discussed several of the disbursements with the Mayor, including the 5 which contained only the signature of Ms. Lock, and determined they were reasonable for City operations. However, while many of the disbursements appear to be reasonable, none were approved by the Council. We also identified occasions where the approved payment amount varied from the amount of the actual check issued.

On several occasions, bills were hand-written on the approved bills listing, not typed in the usual manner. We were unable to determine if the hand-written notes were added after Council approval of the bills.

In addition, we were unable to examine supporting documentation for most City disbursements because supporting documentation was not retained in an orderly manner.

Also, City bills were not always paid in a timely manner by the Clerk.

ADDITIONAL PAYROLL RELATED COSTS

As stated previously, Ms. Lock did not withhold the employee’s share of IPERS contributions from her payroll checks. Also, Ms. Lock did not consistently file wage reports with IPERS or remit payments for contributions. For the time period Ms. Lock was City Clerk, we identified 2 payments issued to IPERS which were for the 2nd and 3rd quarters of 2003. The payments included both employer and employee portions but the employee’s share totaling \$66.60 was not withheld from Ms. Lock’s payroll. In addition, a \$10.00 late fee was applied to the amount due for the 3rd quarter 2003 payment.

According to a representative of IPERS we spoke with, the City is responsible for payment of both the employer and employee share of past-due IPERS remittances for Ms. Lock’s authorized salary. The City may collect the employee’s share from Ms. Lock. As of September 5, 2007, IPERS calculated the City owes \$1,265.54 to bring contributions current for Ms. Lock’s IPERS account. The total amount due includes \$484.88 for Ms. Lock’s employee share and \$27.12 of accumulated interest charges.

Table 3 summarizes the improper charges incurred by the City for Ms. Lock’s share of IPERS contributions and the interest and late fees incurred because payments were not made to IPERS by Ms. Lock in a timely manner. We have included the \$588.60 in **Exhibit A**.

Description	Amount
Employee’s share of IPERS contribution for 2 nd and 3 rd quarters of 2003	\$ 66.60
Late fee for 3 rd quarter 2003 payment	10.00
Unpaid employee’s share of IPERS contribution for Ms. Lock’s authorized salary	484.88
Interest on unpaid contribution	27.12
Total	<u>\$ 588.60</u>

In addition, although appropriate FICA payroll tax was withheld from Ms. Lock's authorized payroll checks, she did not file the required reports or remit the withholdings to the Internal Revenue Service for all of 2004, the second and third quarters of 2005 and the second quarter of 2006. According to the Mayor, the FICA reports which were prepared and submitted to the IRS were not accurate. The Mayor also stated Ms. Lock did not file annual W-2 documents with the IRS. We confirmed with a representative of the IRS in March 2007 that the City owed approximately \$2,200 for delinquent payroll taxes and interest. However, we were unable to readily obtain from the IRS what portion of the pending payment was tax, penalties and interest. As a result, we have not included an amount in **Exhibit A**.

UNDEPOSITED COLLECTIONS

Garbage Collections – Garbage billings and collections were the responsibility of the former Clerk. Collection rates for the period January 1, 2003 through June 30, 2006 were \$13.00 per household. Rates increased to \$14.00 per household effective July 1, 2006. **Table 4** summarizes by year the amounts deposited to the City's checking account for garbage collections.

Table 4

Time Period	Recorded Collections
01/01/03 – 12/31/03	\$ 10,852.55
01/01/04 – 12/31/04	12,202.97
01/01/05 – 12/31/05	11,771.95
01/01/06 – 12/31/06	12,251.74
Total	<u>\$ 47,079.21</u>

According to discussions with the Mayor, the former Clerk stated the City billed approximately 72 households for garbage services. However, according to the current City Clerk, from March to July 2007 the City had between 81 and 84 monthly garbage pick-ups to be billed to residents of the City. Assuming 81 households were routinely billed and all households paid their garbage collection fees in a timely manner, we would expect approximately \$51,030.00 of collections for the period January 2003 through December 2006.

Table 5 compares the calculated billing amounts to the bank deposits made between January 1, 2003 and December 31, 2006. While we calculated the billings which should have been made during this time period, we cannot determine if Ms. Lock billed each of the accounts properly. Because a subsidiary ledger was not available, we are unable to determine the specific amounts she billed to each address or if there are any delinquent accounts. It is possible a portion of the amount that should have been billed was not collected.

Table 5

Description	Amount
Total calculated billings	\$ 51,030.00
Less bank deposits	47,079.21
Calculated billings in excess of deposits	<u>\$ 5,246.30</u>

The current Clerk has been preparing the monthly billings and tracking the amounts paid by account. According to the current Clerk, between March and July 2007, the City collected \$5,246.30 of garbage fees and approximately 12 to 16 households did not pay their monthly

garbage fees in a timely manner. However, other households made additional payments to make up for earlier delinquencies. Using the information from the current Clerk, we determined an average delinquency rate of 8.6%.

We applied the 8.6% average delinquency rate to the calculated December 2006 billing amount of \$1,134.00 and estimated the amount of delinquencies at the end of the period analyzed would have been approximately \$97.52. The collection of any delinquencies due to the City for December 2002 billings would increase the collections for the period we reviewed. However, because the rate of delinquencies may have increased during Ms. Lock's employment, we cannot readily determine the amount of delinquencies due at January 1, 2003.

Table 6 reduces the billings in excess of deposits calculated in **Table 5** by the estimated delinquencies at the end of the period. The estimated undeposited collections of \$5,148.78 have been included in **Exhibit A**.

Description	Amount
Calculated billings in excess of deposits	\$ 5,246.30
Adjustment for estimated delinquencies	97.52
Estimated undeposited garbage collections	<u>\$ 5,148.78</u>

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the City of Gravity to process receipts, disbursements and payroll. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from errors or 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 individuals to prevent one person from handling duties which are incompatible. The City Clerk had control over each of the following areas for the City:
- 1) Disbursements – check preparation, check signing, distribution and posting to the accounting records.
 - 2) Payroll – check preparation, check signing and posting.
 - 3) Garbage billings – preparation, payment collection, posting in the customer ledgers and deposit preparation.
 - 4) Other receipts – collection, posting to the accounting records and deposit preparation.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of various reviews should be indicated by initials of the independent reviewer and the date of the review.

- (B) Financial Accounting Records – Very limited financial records were maintained by the City for the period of our investigation. Official records of the City were not maintained in an orderly manner.

Receipts and disbursements were not journalized and disbursements were not supported by invoices or other appropriate documentation. Specifically, a number of disbursements paid to the former Clerk were not supported by invoices or other documentation.

Also, pre-numbered receipts were not issued for collections.

In addition, monthly financial reports detailing bank balances submitted during Council meetings were not supported by the bank statements.

Recommendation – The City should establish formal accounting records to account for the City's receipts and disbursements. All records of the City should be kept in an orderly manner. In addition, all disbursements should be approved prior to payment and documented in the minutes and all payments should be supported by invoices or other appropriate documentation.

- (C) Road Use Tax Monies – The Fiscal Year 2006 City Street Financial Report filed with the Department of Transportation does not accurately reflect the balance of the City's remaining road use tax monies.

Recommendation – The City should work with a representative of the Department of Transportation to determine the appropriate amount of road use tax monies the City has available.

- (D) Council Minutes – Council minutes were not signed by the former Clerk or Mayor for the period of our review. In addition, all Council minutes were not available for our inspection.

Recommendation – The City should keep a written record of all Council meetings held. The minutes should include all actions taken at the meeting, including a detailed listing of all individual bills approved. Also, the minutes should indicate members in attendance and be signed by the Mayor or another responsible individual to attest to the actions taken.

- (E) IPERS Withholdings – The employee's share of IPERS contributions was not withheld from the former Clerk's payroll checks. We confirmed with an IPERS representative payment has not been received from the City since November 14, 2003.

In addition, the City has not documented which Council members, if any, have elected not to participate in IPERS.

Recommendation – The City should consult IPERS officials to determine what action is necessary to comply with IPERS regulations. The City should implement procedures to ensure required deductions are made from employee pay and tax forms are completed and filed as required.

- (F) Payroll Records – Payroll tax returns were not completed and filed with the IRS for 2004, the second and third quarters of 2005 and the second quarter of 2006.

Recommendation – Payroll withholdings should be remitted to the proper authorities in a timely manner to avoid interest and penalties. The Mayor or another responsible official should periodically review the payroll records. Evidence of this review should be indicated by initials of the independent reviewer and the date of the review.

In addition, the City should work with appropriate representatives of the IRS to resolve outstanding reports and taxes due.

- (G) Reconciliation of Garbage Billings – We are unable to determine if garbage collections were properly deposited. There was no documentation collections were reconciled to customer accounts.

Recommendation – Procedures should be established to reconcile garbage billings, collections and delinquencies for each billing period. The Council should review the reconciliation and monitor delinquencies.

City of Gravity

Report on Special Investigation of the
City of GravitySummary of Findings
For the period January 1, 2003 through February 15, 2007

Description	Exhibit/ Table	Amount
Improper disbursements:		
Payroll payments	Table 2	\$ 5,638.37
Unauthorized reimbursements	Exhibit C	2,219.74
Total improper disbursements		<u>7,858.11</u>
Additional payroll related costs:		
Employee share of IPERS, late fees and interest	Table 3	588.60
Undeposited collections:		
Estimated undeposited garbage collections	Table 6	<u>5,148.78</u>
Total		<u><u>\$ 13,595.49</u></u>

Report on Special Investigation of the
City of Gravity

Payments to Robin Lock for Payroll
For the period January 1, 2003 through February 15, 2007

Check Number	Date Issued	Bank Date	Memo	Check Signer	Payroll
2104	^	01/16/03	<i>Unavailable</i>	<i>Unavailable</i>	\$ 277.05
2115	^	02/13/03	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2123	^	03/13/03	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2133	^	04/18/03	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2143	^	05/16/03	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2160	^	06/12/03	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2173	^	07/17/03	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2185	^	08/14/03	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2194	^	09/11/03	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2204	^	10/28/03	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2219	^	11/13/03	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2234	^	12/09/03	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2246	01/12/04	01/15/04	Dec wages	TS/RL	377.05
2267	02/09/04	02/12/04	Jan wages	TS/RL	377.05
2270	<i>Illegible</i>	03/26/04	Feb wages	TS	377.05
2274	03/29/04	04/01/04	March wages	TS/RL	377.05
2279	04/12/04	04/15/04	April wages	TS/RL	377.05
2300	^	05/17/04	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2310	06/14/04	06/21/04	Wages	TS/RL	377.05
2322	^	07/19/04	<i>Unavailable</i>	<i>Unavailable</i>	277.05
2336	07/02/04	08/04/04	July wages	TS/RL	277.05
2346	08/09/04	08/13/04	Wages	TS/RL	277.05
2362	09/13/04	09/16/04	Wages	TS/RL	277.05
2377	10/04/04	10/08/04	Wages	TS/RL	277.05
2382	11/08/04	11/12/04	Nov wages	RL	377.05
2388	11/08/04	11/18/04	<i>None</i>	TS/RL	277.05
2406	12/14/04	12/21/04	Wages	TS/RL	277.05
2415	01/03/05	01/05/05	Wages Jan.	TS/RL	277.05
2431	01/28/05	02/01/05	Feb. Wages	RL	277.05
2435	02/07/05	02/15/05	Wages	RL	277.05
2444	02/21/05	02/24/05	Wages	TS/RL	277.05
2451	03/07/05	03/14/05	March Wage & School	RL	277.05 @
2458	03/14/05	03/17/05	Wages	TS/RL	277.05
2468	04/11/05	04/18/05	Wages	TS/RL	277.05
2475	05/09/05	05/12/05	Wages	RL	277.05
2479	04/22/05	04/26/05	May Wages	RL	377.05
2487	05/23/05	05/26/05	Wages	TS/RL	277.05
2499	06/13/05	06/16/05	Wages	TS/RL	277.05
2508	09/06/05	09/08/05	Sept + Oct Wages	TS/RL	544.10

Report on Special Investigation of the
City of Gravity

Payments to Robin Lock for Payroll
For the period January 1, 2003 through February 15, 2007

Check Number	Date Issued	Bank Date	Memo	Check Signer	Payroll
2509	07/01/05	07/06/05	July Wages + Comm. Supplies	TS/RL	277.05 @
2518	07/11/05	08/16/05	Wages	TS/RL	277.05
2539	08/08/05	08/15/05	Wages	TS/RL	277.05
2552	09/12/05	09/16/05	Wages	TS/RL	277.05
2566	10/10/05	10/12/05	None	RL	277.05
2571	10/12/05	10/21/05	Wages	TS	277.05
2577	10/31/05	11/15/05	Wages Nov.	TS/RL	277.05
2579	<i>Illegible</i>	10/31/05	Wages	RL	277.05
2580	12/12/05	12/13/05	Wages, Christmas Inc.	RL	277.05 @
2591	11/27/05	11/29/05	Dec + Jan Wages	TS/RL	554.10
2614	12/12/05	12/20/05	Wages, Supplies, Comm Center & Office	RL	277.05 @
2626	<i>Illegible</i>	12/27/05	Wages	RL	277.05
2631	01/09/06	01/19/06	Wages Jan.	CA/RL	277.05
2638	02/13/06	02/16/06	Wages	CA/RL	277.05
2660	03/13/06	03/16/06	Wages	CA/RL	277.05
2672	04/10/06	04/13/06	Wages (Apr.)	CA/RL	277.05
2696	05/08/06	05/11/06	Wages	CA/RL	277.05
2703	06/12/06	06/22/06	Wages	CA/RL	277.05
2730	07/10/06	07/13/06	Wages	CA/RL	277.05
2738	08/14/06	08/17/06	Wages	CA/RL	277.05
2755	09/11/06	09/13/06	Wages	CA/RL	277.05
2769	10/09/06	10/13/06	Wages	CA/RL	277.05
2776	11/13/06	11/16/06	Nov. Wages	CA/RL	277.05
2788	12/11/06	12/15/06	Wages	CA/RL	277.05
2805	01/08/07	01/12/07	Wages	CA/RL	277.05
2826	02/12/07	02/15/07	Wages	CA/RL	277.05
Total					\$ 19,352.35

^ - Copy of check was not readily available from the City's bank. Identified to be a payroll payment issued to Ms. Lock based on the amount of the check and the date it was redeemed.

@ - Based on the description in the memo, the check appears to include a reimbursement to Ms. Lock. The amount of payroll was determined based on previous and subsequent payroll payments. The remaining portion was determined to be amount of reimbursement and is included in **Exhibit C**.

Check Signers: RL - Robin Lock
TS - Former Mayor Terry Snyder
CA - Current Mayor Charles Ambrose

Report on Special Investigation of the
City of Gravity

Reimbursement Payments to Robin Lock
For the period January 1, 2003 through February 15, 2007

Check Number	Date Issued	Bank Date	Memo
2135	06/09/03	10/15/03	Cert, Garbage, Letters, office supplies/office equip
2221	11/10/03	11/21/03	Fax machine, printer, file cabinet
2256	01/12/04	01/23/04	Printer cartridges, software
2437	02/14/05	02/23/05	Workshop
@ 2451	03/07/05	03/14/05	March Wage & School
2463	03/14/05	03/16/05	Office Supplies-Phone Bill
2503	06/13/05	06/16/05	Flowers + Supplies
@ 2509	07/01/05	07/06/05	July Wages + Comm. Supplies
@ 2580	12/12/05	12/13/05	Wages, Christmas Inc.
2593	<i>Illegible</i>	12/01/05	Internet, Supplies, Ink for Coping
@ 2614	12/12/05	12/20/05	Wages, Supplies, Comm Center & Office
	02/13/06	02/17/06	Stamps
			Total

@ - Based on the description included in the memo portion of the check, the payment also includes payroll. The amount of payroll was determined based on previous and subsequent payroll payments and has been included in **Exhibit B**.

Check Signers: RL - Robin Lock
TS - Former Mayor Terry Snyder
CA - Current Mayor Charles Ambrose


Check Signer	Amount	Approved by	
		Council	Unauthorized
TS/RL	\$ 236.09	-	236.09
TS	366.89	-	366.89
TS/RL	412.96	-	412.96
RL	250.00	-	250.00
RL	197.95	-	197.95
RL	326.00	-	326.00
TS/RL	53.16	53.16	-
TS/RL	100.00	-	100.00
RL	85.00	-	85.00
TS/RL	182.90	-	182.90
RL	61.95	-	61.95
CA/RL	19.50	19.50	-
	<u>\$ 2,292.40</u>	<u>72.66</u>	<u>2,219.74</u>

Report on Special Investigation of the
City of Gravity

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
Melissa Wellhausen, CPA, Staff Auditor
Corinne M. Johnson, CPA, Senior Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

City of Gravity

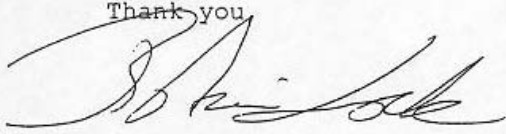
Report on Special Investigation of the
City of Gravity

Copy of Ms. Lock's Resignation Letter

02/12/07

I Robin Lock resign from my duties as Gravity City Clerk do to ~~the~~
*re*alth reasons. I will stay until council finds someone.

Thank you

A handwritten signature in cursive script, appearing to read "Robin Lock".

Robin Lock

Report on Special Investigation of the
City of Gravity

Copy of IRS Delinquency Notice

Internal Revenue Service
7215 ONTARIO ST.
STOP 5117 WOM
OMAHA, NE 68124

Department of the Treasury

Date: 01/09/2007

CITY OF GRAVITY
PO BOX 186
GRAVITY, IA 50848-0186

Social Security or
Employer Identification Number:

Person to Contact:
PATRICK G ELLSWORTH
Employee Identification Number:

Contact Telephone Number:
(402)361-0250

X

Dear CITY OF GRAVITY:

We have no record of receiving the tax return(s) listed on the following page(s) of this letter. If you have filed, or if you are not required to file, please give us the information requested in the space **beneath** the listed return(s).

If you are required to file, please attach the returns to this letter and send them to us within the next few days. Include your payment for any tax due, plus interest as provided by law.

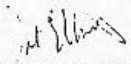
The law also provides for penalty charges for filing returns late, paying taxes late, and making deposits late, unless there is reasonable cause for delay. If you believe you have reasonable cause for not filing and paying on time, please explain in a separate statement attached to each return. It will help us determine whether you can be excused from paying penalties.

If your address as shown above is incorrect, please change it so we can update our records. We have enclosed a self-addressed envelope for your convenience and a copy of this letter for your records.

If you have any questions, please contact the person whose name and telephone number are shown above.

Thank you for your cooperation.

Sincerely yours,


PATRICK G ELLSWORTH
REVENUE OFFICER

Enclosures:
Envelope
Copy of this letter

Report on Special Investigation of the
City of Gravity

Copy of IRS Delinquency Notice

Date of this letter: 01/09/2007
Taxpayer Identification Number: [REDACTED]

Form Number	Form Title	Tax Period Ended
941	Employer's Quarterly Federal Tax Return Taxpayer's Reply:	03/31/2004
941	Employer's Quarterly Federal Tax Return Taxpayer's Reply:	06/30/2004
941	Employer's Quarterly Federal Tax Return Taxpayer's Reply:	09/30/2004
941	Employer's Quarterly Federal Tax Return Taxpayer's Reply:	12/31/2004
941	Employer's Quarterly Federal Tax Return Taxpayer's Reply:	06/30/2005
941	Employer's Quarterly Federal Tax Return Taxpayer's Reply:	09/30/2005
941	Employer's Quarterly Federal Tax Return Taxpayer's Reply:	06/30/2006

If you have filed the returns listed, please give us the name, address, and employer identification or social security number shown on each return filed. Also, please tell us the date each was filed, and the amount paid with each.

If you are not required to file the returns, please give us the reason and the date you were no longer liable. If you are required to file these returns, please tell us so we can continue sending them to you.

Signature and Title of Taxpayer	Date	Telephone No.
---------------------------------	------	---------------

Appendix 3

Report on Special Investigation of the
City of Gravity

Copy of February 2007 Report to Council

CITY OF GRAVITY FINANCE REPORT FOR FEBRUARY 2007						
FUNDS	PREVIOUS BALANCE	SOURCE RECEIVED	AMOUNT	DISBURSED TO	AMOUNT	BALANCE
GENERAL	\$10,278.87	Interest from bank	\$9.28	Robin Lock (wages)	(\$277.05)	
		Local Option Tax	\$552.98	Post Office(stamps)	(\$117.00)	
				Times Press (publicatio	(\$65.65)	
				Gravity Rescue(Dues)	(\$200.00)	
				IPERS	(\$85.05)	
				IRS(4th qrt report)	(\$175.95)	
General Fund Total	\$10,278.87		\$562.26		(\$870.70)	\$9,970.43
Betterment Fund	\$0.00					
Christmas Lights	\$209.20	Popcans	\$0.00			
Bingo	\$148.39		0			
Betterment Fund Total	\$287.59		\$0.00			\$287.59
Road Use Tax	\$37,465.79	Road Use Tax	\$1,252.72	Mid American	(\$378.13)	
				Mid American (Building)	(\$10.00)	
				Duane Lyons(Grading)	(\$132.98)	
				Daryl Brown (Snow Ren	(\$22.00)	
Road Use Tax Total	\$37,465.79		\$1,252.72		(\$543.11)	\$38,175.40
Community Center	\$271.03	Mas		SIRWA	(\$33.00)	
		Rental	\$90.00	Mid American Energy	(\$71.27)	
Comm Center Total	\$271.03			Iowa Tele(internet,phon	(\$78.84)	\$177.92
Park	\$195.78			SIRWA	(\$16.00)	
Park Total	\$195.78					\$179.78
Sanitation	\$11,935.16	Receipts	\$1,215.00	Christensen Sanitation	(\$977.70)	
Sanitation Total	\$11,935.16		\$1,215.00			\$12,172.46
Ending Totals	\$54,188.74		\$3,119.98		(\$2,663.71)	\$54,718.10

Report on Special Investigation of the
City of Gravity

Copies of Selected Checks Issued to Ms. Lock

