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NEWS RELEASE

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FOR RELEASE _____ February 15, 2008

Auditor of State David A. Vaudt today released a report on a special investigation of the City of Rathbun. The report covers the period July 1, 2003 through November 30, 2007. The special investigation was requested by the Mayor as a result of concerns raised regarding the City's financial condition.

Vaudt reported the procedures identified \$10,623.29 of Road Use Tax (RUT) funds not received by the City because the former City Clerk, Brenda Anderson, did not submit budgets for fiscal years 2006 and 2007. Vaudt also reported the City spent \$6,975.99 of RUT funds received for unallowable purposes. The funds were used for general operating disbursements of the City, such as salaries, fire protection and supplies. RUT funds may only be used for disbursements related to the construction, maintenance and supervision of the public streets.

The City also collected donations for the annual July 4th fireworks display. However, the City did not have sufficient funds for the fireworks display in July 2007. Donations were collected by the former City Clerk who maintained a donations jar in her business where customers could make donations. The former City Clerk did not make any deposits to the City's checking account between October 2, 2006 and June 25, 2007, the date she resigned. Vaudt reported it was not possible to determine if all donations were properly deposited because adequate records were not maintained. However, estimated undeposited collections for the fireworks display are approximately \$900.00 to \$1,500.00.

In addition, the former City Clerk did not maintain adequate records to document if her business paid the City for liquor and cigarette permits. There were no deposits made to the City's checking account near the time period the permits were issued, nor were there any deposits during that time period for the amount of the permits. The undeposited liquor and cigarette permit fees for the former Clerk's business total \$775.00.

The report also includes recommendations to strengthen the City's internal control and overall operations, including improvements in the financial records maintained by the City, preparation and approval of Council minutes and timely submission of required budgets and reports.

A copy of the report has been filed with the Appanoose County Attorney's Office and the Attorney General's Office. 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 RATHBUN
FOR THE PERIOD
JULY 1, 2003 THROUGH NOVEMBER 30, 2007**

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To the Honorable Mayor and
Members of the City Council:

As a result of alleged improprieties regarding certain disbursements and undeposited collections and at the request of the Mayor, we conducted a special investigation of the City of Rathbun. We have applied certain tests and procedures to selected financial transactions of the City for the period July 1, 2003 through November 30, 2007. Based on discussions with City officials 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) Examined City records provided by the Mayor and the current City Clerk.
- (3) Examined bank statements for the City's checking accounts to identify any unusual activity. We also examined copies of redeemed checks, deposit slips and related documents for propriety.
- (4) Scanned all disbursements and examined selected invoices to determine if they were properly approved, were for appropriate purposes and were supported by adequate documentation.
- (5) Examined deposits to the City's bank accounts to determine the source, purpose and propriety of each deposit.
- (6) Confirmed payments to the City by the State of Iowa to determine if they were properly deposited to the City's accounts.
- (7) Examined City records to determine if documentation existed to support the payment of permit fees to the City by area businesses.
- (8) Examined copies of liquor and cigarette permits provided by the former City Clerk and the Alcoholic Beverages Division (ABD), of the Department of Commerce.

These procedures identified \$10,623.29 of Road Use Tax funds not received by the City because the former City Clerk did not submit the required budgets for fiscal years 2006 and 2007. Also, the procedures identified the following:

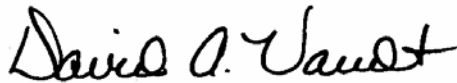
- \$6,975.99 of unallowable disbursements from Road Use Tax funds.
- An estimated \$900.00 to \$1,500.00 of undeposited collections for an annual fireworks display.
- Undeposited liquor and cigarette permit fees totaling \$775.00 for the former City Clerk's business.
- The City has not levied property taxes for the general operations of the City. Instead Road Use Tax funds were used.

We are unable to determine if all donations were properly deposited because adequate records were not maintained. Several internal control weaknesses and items of non-compliance were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Findings A** through **H** of this report.

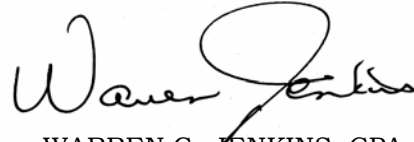
The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Rathbun, other matters might have come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

Copies of this report have been filed with the Appanoose 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 officials and personnel of the City of Rathbun during the course of our investigation.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 23, 2008

City of Rathbun

Investigative Summary

Background Information

The City of Rathbun is located in Appanoose County and has a population of 88. The City has a Mayor, a City Clerk and a Council consisting of 5 members. Prior to January 1, 2008, Joe Todey was the Mayor. Dave Coffin became Mayor on January 1, 2008. Brenda Anderson served as City Clerk from March 2003 until her resignation on June 25, 2007. After Ms. Anderson's resignation, Karen Poolman served as the City Clerk. For purposes of this report, any reference to the Mayor is to former Mayor Joe Todey as he was in office during the period covered by our report.

According to Ms. Poolman, there are no written job description for the City Clerk position or written policies and procedures for the operations of the City. Based on information provided by the current Clerk, the City Clerk's job duties and responsibilities include:

- 1) Receipts – collection, posting to the accounting records and preparing deposits,
- 2) Disbursements – check preparation, signing, distribution, posting to the accounting records and maintaining supporting documentation,
- 3) Payroll – check preparation, distribution and posting to the accounting records,
- 4) Bank accounts – reconciliation of monthly bank statements to accounting records,
- 5) Reporting – preparation of Council minutes and financial reports, including the Annual Financial Report (AFR).

Upon Ms. Anderson's resignation, she turned over the City's records to the Mayor and Ms. Poolman. The records consisted of a folder with some invoices, copies of Annual Financial Reports (AFR) and the check book. There were no bank reconciliations, ledgers or receipt books included in the records provided by the former Clerk. Upon reviewing the information, the Mayor determined the City's accounting records had not been adequately maintained by the former Clerk.

According to the Mayor, the former Clerk routinely told the Council all reports to the State had been filed and bank reconciliations had been prepared. The Council did not require the Clerk to submit monthly financial reports to the Council, nor did the Council review bank reconciliations. The only report provided to the Council was occasionally a verbal report by the former Clerk regarding paid and unpaid bills.

The City's primary revenue source is Road Use Tax (RUT) funds from the State of Iowa, Department of Transportation (DOT). According to the Appanoose County Auditor, the City has not levied property taxes to support general operations of the City for at least the last 5 years, even though the City is able to levy property taxes. The Mayor and Council members we spoke with do not recall ever levying for property taxes. The City also is to receive permit fees from 2 businesses for cigarette and liquor permits.

Beginning in fiscal year 2004, the City began collecting donations for an annual July 4th fireworks display. According to the Mayor, he requested the former Clerk track the donations separately from other City receipts which could be done by depositing the funds in a separate account or maintaining separate records. A Council member we spoke with confirmed the Council instructed the former Clerk to keep the fireworks activity separate from other City funds.

All City disbursements are made from an account held in the name of “Town of Rathbun General Fund.” The City did not maintain a separate account for street maintenance or the fireworks. According to the Mayor, all City disbursements are to be made by check. The checks are prepared by the Clerk and are to be approved by the Council. The checks required 1 signature and could be signed by the Clerk, the Mayor or an appointed Council member.

When the current Clerk started her responsibilities on July 21, 2007 and began to reconcile the bank accounts and pay the City’s bills, she discovered the City had not received RUT funds from the State since July 19, 2005. In addition, since the City was making plans for its annual fireworks display, the current Clerk reviewed the bank records to determine the amount of donations deposited to the City’s account. She determined the donations had significantly decreased from previous years. The current Clerk contacted the Mayor with her concerns.

As a result of the decrease in RUT funds and donations, the Mayor became concerned the City would soon be unable to pay its bills. **Table 1** lists the balance in the City’s bank account at the end of each fiscal year during which Ms. Anderson was City Clerk. As illustrated by the **Table**, the cash balance decreased each year and the deposits decreased significantly during fiscal years 2006 and 2007.

Table 1

Fiscal Year	Deposits	Disbursements	Cash Balance At June 30
2003	^	^	\$ 13,212.29
2004	\$ 7,719.29	(11,083.67)	9,847.91
2005	7,845.39	(10,234.74)	7,458.56
2006	2,883.17	(8,068.42)	2,273.31
2007	565.00	(2,756.13)	82.18

^ - Not included during the period of our investigation.

During this 4 year period, the City’s cash balance decreased over 99%, from \$13,212.29 to \$82.18.

As a result of these concerns, the Mayor contacted the Office of Auditor of State to request an investigation. As a result of that request and using records provided by the Mayor and the current Clerk, we performed the procedures detailed in the Auditor of State’s Report for the period July 1, 2003 through November 30, 2007.

Detailed Findings

These procedures identified \$10,623.29 of RUT funds not received by the City because the former Clerk did not submit the required budgets for fiscal years 2006 and 2007. Also, the procedures identified \$6,975.99 in unallowable disbursements from RUT funds for the period July 1, 2003 through June 30, 2007. The funds were used for the general operations of the City, which is not an allowable use per the *Code of Iowa*.

Because the former Clerk did not maintain adequate accounting records for the City, we are unable to determine if all donations and fees were properly deposited. We have estimated approximately \$900.00 to \$1,500.00 of donations for the fireworks display and \$875.00 of liquor and cigarette permit fees for the former Clerk’s business were not deposited to the City’s account.

Financial Reporting

Certified Budgets – Cities are required to submit an annual approved budget to the County for certification by March 15 of each year. Once certified by the County Auditor, the County submits copies of the certified budget to the State of Iowa, Department of Management (DOM). During the 2005 legislative session, several changes were made to Chapter 384 of the *Code of Iowa* affecting city budgets. Section 384.16(7) of the *Code* now states, in part, “A city that does not submit a budget in compliance with this section shall have all state funds withheld.” For fiscal years beginning with 2006, any City failing to submit a budget to the DOM will not receive State funds.

The City did not submit a budget to Appanoose County by the required deadline for fiscal years 2006 and 2007. As a result, the County could not certify the budget and submit it to the DOM. Because the City failed to submit the approved budget to the County and the State, the City did not receive funding from the State for fiscal years 2006 and 2007. According to DOM, because the former Clerk did not submit the budgets for these 2 years, the City did not receive \$10,623.29 of RUT funds. According to discussions with DOM and the Appanoose County Auditor, the City of Rathbun had not submitted the required budget for several years.

The current City Clerk contacted the DOM to resolve the issues for the fiscal year 2008 budget. She was informed by a representative from DOM the State would allow the City to receive RUT funds for fiscal year 2008 if the required budget was submitted. On October 9, 2007, DOM issued a letter stating “The City of Rathbun has submitted a budget for FY 2008. The City is in compliance with Iowa Code 384.16 and funds currently held and payable for the fiscal year by the Treasurer of State may be released.”

The City did not request a property tax levy for fiscal year 2008. According to the Appanoose County Auditor, the City has not levied for property taxes for the general operations of the City for at least the last 5 years. According to the County Auditor, the City would be able to levy property taxes for fiscal year 2009 if a budget and tax levy is approved by the Council and the budget is submitted to the County by March 15, 2008 in order to be certified. Using the most recent certified tax rates from the DOM, the City would have been eligible to receive approximately \$13,050.00 for fiscal years 2007 and 2008 combined. Property tax collections could have been used to fund the general operations of the City.

Annual Financial Report (AFR) – Section 384.22 of the *Code of Iowa* requires “not later than December 1 of each year, a city shall publish an annual report.” The section further states “a copy of the report shall be prepared on forms and pursuant to instructions prescribed by the Auditor of State. A copy of this report is to be filed with the State Auditor no later than December 1 of each year”.

The AFRs submitted by the former Clerk for fiscal years 2004, 2005 and 2006 were submitted after the December 1 deadline. The fiscal year 2007 report prepared by the current Clerk was submitted prior to the December 1 deadline.

As communicated in correspondence from the Auditor of State’s Office to the City, there were several problems and errors identified regarding the fiscal years 2005 and 2006 AFRs, including the failure to segregate general fund activity from RUT activity. Without this segregation, it was not possible to readily determine if the City spent RUT funds for allowable purposes. The letters from the Auditor of State’s Office are included in **Appendix 1**. As shown by the letters, a request for information on the fiscal year 2005 AFR was made on June 20, 2006. The former Clerk sent some information on July 17, 2006,

but additional information was requested on August 7 and October 11, 2006. The information was eventually provided by the former Clerk, but not in a timely manner and not in the necessary detail. The Auditor of State's Office also requested additional information for the fiscal year 2006 AFR. Some of the requested information was received from the former Clerk and additional information was later received from the current Clerk. The Auditor of State's letter dated January 16, 2007 informed the City that failure to file an amended AFR would result in the City not receiving RUT funds. When we asked the former Clerk about the AFRs and the letters from the Auditor of State's Office, she stated she did not receive the letters.

The amount of funds actually received and disbursed each year should be reported on the AFR. **Table 2** compares the amounts reported on the AFR's prepared by the former Clerk to the actual activity we compiled from the records provided by the City. The 2007 AFR was submitted prior to the December 1 deadline by the current Clerk. We reviewed the 2007 AFR and the amounts reported agreed to the City's records.

Table 2

	2004		2005		2006	
	AFR	Actual	AFR	Actual	AFR	Actual
Receipts:						
Road use tax	\$ 9,324	6,113	6,024	5,230	-	395
Permits	1,005	390	1,005	390	1,005	390
Contributions	-	1,217	-	2,225	-	2,098
Total	\$ 10,329	7,720	7,029	7,845	1,005	2,883
Disbursements:						
Public safety	\$ 600	71	600	71	-	2,071
Public works	9,729	7,344	6,429	6,358	1,005	2,068
Cultural	-	1,000	-	1,700	-	2,014
General government	-	2,669	-	2,106	-	1,916
Total	\$ 10,329	11,084	7,029	10,235	1,005	8,069

As illustrated by **Table 2**, the AFRs prepared by the former Clerk did not report the City's actual receipts and disbursements. The amounts are not correct in total or by classification. The **Table** also shows RUT funds were not reported correctly even though those are electronically deposited to the City's account and the amounts are identifiable in the City's bank records. In addition, the former Clerk reported permits of \$1,005 each year as shown in the **Table**. The City only had 2 businesses with permits, the former Clerk's business and MAPO's, a restaurant. MAPO's had a liquor permit which, starting in fiscal year 2004, was paid directly to the State. The State then electronically deposited the City's share to the City's bank account. The permits by year for both businesses would not have exceeded \$565.00.

Local Financial Reporting - There is no evidence the bank statements were reconciled or City financial reports were prepared by the former Clerk. According to the Mayor, there was no requirement reports be submitted to the Council. The Council did request a verbal report on the status of funds and bills paid and outstanding. We were unable to determine

if the verbal reports provided information necessary for the Council to make informed decisions because minutes of the meetings were not maintained.

Road Use Tax (RUT) Funds

Section 312.6 of the *Code of Iowa* allows RUT funds to be used for expenditures directly related to the “construction, maintenance and supervision of the public streets”. Since RUT funds are restricted for specific purposes, the City should account for the funds separately from the City’s general operations. Section 312.11 of the *Code* states “each city shall keep accounts showing the amount spent on street construction and reconstruction on extensions of rural systems and city streets. The amount shall be shown on the annual street report required by section 312.14.” The Department of Transportation (DOT) has provided instructions requiring cities to maintain separate ledgers to account for the expenditures related to road construction, reconstruction and maintenance.

Based on the records available and the AFRs, the City has not accounted for RUT funds separately from the City’s general operations and the former Clerk did not maintain documentation of how RUT funds were used.

The City received \$11,738.00 in RUT funds from the State of Iowa between July 1, 2003 and July 19, 2005. The payment received on July 19, 2005 was the final fiscal year 2005 RUT payment. The City did not receive its RUT allocation for fiscal years 2006 and 2007, as mentioned previously in this report.

In order to determine if RUT funds were used for allowable purposes, we reviewed all available records and determined the purpose of the City’s disbursements. In addition, we determined the source of the City’s cash balance at July 1, 2003. According to the City’s bank statements, the City had a cash balance of \$13,212.29 on July 1, 2003.

Based on discussions with the Mayor and a review of available records, we determined the majority of the funds received by the City have been RUT funds. As mentioned previously, the City has not levied property taxes. The Appanoose County Auditor confirmed the City had not requested or received property taxes for at least the past 5 years. In addition, the only other sources of funds have been fees for permits and donations for fireworks.

The City began collecting donations for fireworks during fiscal year 2004 and the City had its first fireworks display on July 4, 2004. According to the Mayor, any donations not spent for the current year’s fireworks were to be held for future years’ fireworks displays. Because the City did not receive donations for fireworks prior to July 1, 2003 and the limited amount of permit fees received were used for general operations, the cash balance at July 1, 2003 is likely only RUT funds.

From our review of disbursements and deposits, we were able to identify the disbursements by purpose as shown in **Table 3**. As illustrated by the **Table**, the City used RUT funds and donations for the general operations of the City because other funding sources were not available. The City used RUT funds for road maintenance, salaries and other general operating disbursements, such as postage and fire protection. Salaries, fire protection and other general operating disbursements for the operation of the City are not allowable uses of RUT funds.

As illustrated by the **Table**, general operating disbursements exceeded available funding by \$7,794.34 during the period July 1, 2003 through June 30, 2007. As a result, the City used fireworks donations of \$818.35 and \$6,975.99 of RUT funds to pay for the City’s general operations. As of June 30, 2007, the City’s cash balance was \$82.18. All of this amount was composed of RUT funds.

Table 3

	Road Use Tax	Fireworks (1)	General Operations	Cash Balance
Beginning cash Balance per bank @ 7/1/03	\$ 13,212.29	-	-	13,212.29
FY 2004 Deposits	6,112.61	1,216.68	390.00	
FY 2004 Disbursements	(7,344.45)	(1,000.00)	(2,739.22)	
FY 2005 Deposits	5,230.39	2,225.00	390.00	
FY 2005 Disbursements	(6,357.68)	(1,700.00)	(2,177.06)	
FY 2006 Deposits	395.00	2,098.17	390.00	
FY 2006 Disbursements	(2,067.71)	(2,000.00)	(4,000.71)	
FY 2007 Deposits	-	100.00	465.00	
FY 2007 Disbursements	(2,122.28)	(121.50)	(512.35)	
Cash balance at 6/30/07	\$ 7,058.17	818.35	(7,794.34)	82.18

(1) – Fireworks’ deposits include deposits which could not be identified as RUT funds or permit fees.

Exhibit A provides a summary by fiscal year of the receipts and disbursements of the City. We prepared the **Exhibit** using activity shown on the City’s bank statements, available documentation and explanations from the current City Clerk.

The **Exhibit** shows the majority of the City’s disbursements for fiscal years 2004 and 2005 were for road maintenance, snow removal and street lighting. In fiscal year 2006, the majority of disbursements were for general operations of the City, such as salaries and fire protection, as well as the fireworks display.

During each of fiscal years 2004 through 2006, the City spent \$1,800 on salaries for the Council, Mayor and Clerk. The annual salaries were \$180 for each Council member, \$300 for the Mayor and \$600 for the Clerk. The amount paid to Council members was not dependent on the number of meetings attended. RUT funds were used to pay these costs. In fiscal year 2007, salaries were not paid to City officials due to the lack of funds. In fiscal year 2006, the City paid \$2,000 for the fire protection contract with the City of Centerville.

As previously stated, the City is required to submit an annual street report to the DOT. The reports are to summarize the disbursements from RUT funds and other funds used for street and road repairs. The reports are due by December 31 each year. According to DOT personnel we spoke with, the City submitted the required reports for the 4 years included in our investigation. However, based on our review of the reports, we determined the City did not accurately report RUT activity to DOT for the 3 years completed by the former Clerk. The activity from the 3 reports submitted by the former Clerk is summarized in **Table 4**.

Table 4

	Amounts Reported to DOT		
	FY 2004	FY 2005	FY 2006
<u>Receipts</u>			
Road use tax	\$ 7,329.00	5,230.00	5,082.00
Miscellaneous	2,366.00	1,113.00	-
Total Receipts	\$ 9,695.00	6,343.00	5,082.00
<u>Disbursements</u>			
Roadway maintenance	\$ 5,200.00	2,140.00	-
Snow and ice removal	1,200.00	800.00	-
Administration	1,495.00	1,495.00	-
Street lighting	1,800.00	1,908.00	-
Total Disbursements	\$ 9,695.00	6,343.00	-

The fiscal years 2004 and 2005 reports included the donations for fireworks as miscellaneous receipts in the “other road funds” column of the report. The reports also included administration expenditures of \$1,495.00 for fiscal years 2004 and 2005. According to the instructions for the report, administration should only include costs related to the administration of the roads, not salaries for the City’s regular operations. Any time spent by the Clerk or other City officials on the administration of the roads would be minimal and would have been significantly less than the \$1,495.00 reported by the former Clerk.

The information reported to DOT does not agree with the information the former Clerk reported on the AFRs. As illustrated by comparing **Table 4** to **Table 2**, the amount of RUT funds received from the State were reported at different amounts for fiscal years 2004 through 2006.

Fireworks

The City began collecting donations for a July 4th fireworks display during fiscal year 2004. According to the Mayor, the former Clerk suggested having an annual fireworks display and the Council agreed. According to the Mayor, the former Clerk was instructed by the Council to keep the fireworks donations separate from other City funds. The Mayor indicated the former Clerk placed a jar on the counter of her business, “Tackle This,” to collect donations. Customers at the store donated funds for the fireworks display.

The former Clerk did not establish a separate bank account as instructed. Rather, she deposited the donations to the City’s existing bank account. She also did not keep a listing of donations received. According to the Mayor and confirmed by the former Clerk, most of the donations received were cash, with only a few donations made by check. The former Clerk indicated she did not make deposits on a regular basis, but would make deposits whenever she felt it was necessary. The deposit slips prepared by the former Clerk did not

identify the source of the funds being deposited and did not consistently distinguish the amount of cash and checks deposited.

As previously stated, the City received State funds and permit fees for MAPO's by electronic transfer. The only other sources of deposits for the City were donations and permit fees for the former Clerk's business. Unless documentation existed to support the source or purpose, deposits appear to be donations for the City's fireworks display and have been reported as such.

Table 5 summarizes donations deposited for the annual fireworks display as well as the payments made to the vendor from whom fireworks were purchased. The **Table** also shows the amount of unused donations that should have been available for the following year's display.

Table 5

Fiscal Year	Deposits	Payments	Excess (Deficit) for Year	Remaining Balance
2004	\$ 1,216.68	1,000.00	216.68	216.68
2005	2,225.00	1,700.00	525.00	741.68
2006	2,098.17	2,000.00	98.17	839.85
2007	175.00	121.50	(21.50)	818.35

Deposits made during fiscal years 2004 through 2006 were sufficient to pay for the year's fireworks. According to the Mayor, during several Council meetings, the former Clerk informed the Council the City had sufficient donations for the July 4, 2007 fireworks display. According to a Council member we spoke with, they were told by the former Clerk they had some funds available for the 2007 fireworks, but needed to collect additional funds.

The excess balances in each fiscal year were used for the City's general operations and were not kept for future fireworks displays as the former Clerk was instructed to do. After her resignation in June 2007, the Mayor and current Clerk determined funds were not available for the July 4, 2007 fireworks. In addition, they determined no deposits had been made since October 2, 2006.

Table 6 shows all deposits made by the former Clerk to the City's bank account during the period of our investigation. Where possible, we identified the deposit by cash or check. Not all the deposit slips were available from the City. For those with insufficient detail to determine the break out between cash and checks, we included the deposit as cash based on the statements from the former Clerk and Mayor that most of the deposits were cash.

Table 6

Deposit Date per Bank Statements	Cash	Check	Total
07/25/03	\$ -	390.00 X	390.00
12/10/03	1,216.68	-	1,216.68
07/27/04	1,038.00	-	1,038.00
08/20/04	550.00	-	550.00
09/08/04	597.00	40.00	637.00
09/13/05	125.00	35.00	160.00
11/14/05	650.00	28.00	678.00
01/19/06	-	5.17	5.17
04/24/06	417.00	-	417.00
05/16/06	608.00	230.00	838.00
09/06/06	75.00	-	75.00
10/02/06	-	100.00 @	100.00
Total	\$ 5,276.68	828.17	6,104.85

X – MAPO’s liquor permit fee.

@ - Check from a company for a fireworks donation.

According to the Mayor and current Clerk, the jar used for collections had been on the counter in the former Clerk’s business during fiscal year 2007 until the business was sold. However, according to the former Clerk, she stopped taking donations after the July 4, 2006 display. She also indicated her business was closed from October 2006 to March 2007 and she did not collect any donations from the time the business was reopened in March 2007 until the time the business was sold in June 2007. The Mayor and a Council member confirmed the business was closed from November 2006 until late March 2007. The former Clerk and her husband sold the business on June 18, 2007.

According to the new owners of "Tackle This", they remember seeing the jar for donations on the counter when they were looking at purchasing the business in either April or May 2007. When they took possession of the store, the jar had been removed. Beginning in late June 2007, the new owners started receiving calls and comments from citizens wondering why there was not going to be a fireworks display. According to the Mayor, he received numerous inquiries from citizens regarding the July 4, 2007 fireworks. According to the Mayor, he informed the citizens the fireworks had been cancelled as a result of insufficient funds.

Based on our discussions with City officials, the former Clerk and the current owners of “Tackle This” and complaints from citizens, it appears some donations for the 2007 fireworks were collected at the former Clerk’s business. The Mayor and Council expected at least some funds to be available for the fireworks. As previously stated, the former Clerk had not made a deposit since October 2, 2006. While we are unable to determine the exact amount collected but not deposited, we estimate undeposited collections range from approximately \$900 to \$1,500. This amount is less than actually collected in previous

years because the former Clerk's business was closed for several months when it had not been in previous years. As a result, we would expect collections during fiscal year 2007 to be less than in prior years.

Permit Fees

City officials also voiced concerns regarding whether the former Clerk had paid the required permit fees to the City for the liquor and cigarette permits for her business during the time she was the City Clerk. The former Clerk's business held both a liquor and cigarette permit during the period of our investigation.

Liquor Permit – The former Clerk and her husband were joint owners of “Tackle This” in the City until the business was sold on June 18, 2007. “Tackle This” had a liquor permit to sell beer. According to the Alcoholic Beverages Division (ABD) of the Department of Commerce, there are several types of liquor permits depending on the type of alcohol, the population of the city, duration of the license and whether it is “on-sale, off-sale or both”.

According to ABD personnel we spoke with, the liquor permit fee for the former Clerk's business is currently \$120.00 per year. The State receives \$20.00 of the fee for a Sunday sales permit, while the City receives the remaining \$100.00. The fee should be received by the City prior to the Council approving the liquor permit. Once the permit is approved, the signed application or renewal form is sent to ABD. The \$20 payment to the State can be sent directly to ABD by the business or the business may remit the total fee to the City. If the total fee is remitted to the City, the City should send the \$20 fee with the application/renewal form. Once ABD receives the fee and approves the application, it issues the permit to the business.

In some instances, a business may remit the total fee, including the City's share, to the State. When this occurs, the State will write a warrant or electronically transfer (EFT) the City's share. For permits effective after July 1, 2006, the payments are required to be completed on-line for the full amount of the permit fee. The State then remits the City's share by warrant or EFT.

According to ABD personnel we spoke with, the \$20 fee for “Tackle This” was remitted by the business to the State each year along with the renewal form. By signing the renewal form and submitting the \$20.00 fee to the State, the business owners certified the renewal form was true and accurate and the fee had been paid to the City. According to the former Clerk, she wrote a check to the State for the \$20 and would put the \$100 owed to the City in a box labeled “Town of Rathbun” that she kept in a safe at her business. She also indicated she would pay the City's portion in cash. None of the deposit slips showed a deposit specifically from the former Clerk for the permit. The former Clerk also indicated she did not prepare a receipt for payment of the fees.

Table 7 shows the effective dates for each of the liquor permits for “Tackle This” and the fee which should have been paid to the City. **Table 6** lists the deposits made by the former Clerk. When comparing the date the permit was issued to deposits made to the City's account, we were not able to identify a deposit to the City near the date of the permit or in the amount of the fee. Initially, the business had a “Beer off-sale” permit and then switched to a “Beer – on/off sale” permit which has a higher fee of \$120.00. The fee for the “off-sale” permit was \$90.00.

Table 7

Permit Number	Effective Date	Expiration Date	Status	Fee to City	Fee to State
BC0027639	03/08/02	03/06/03	Initial Permit	\$ 75.00	15.00
BC0027639 (1)	03/07/03	03/07/04	Cancelled on 3/7/03 (2)	75.00	15.00
BB0029092	03/07/03	03/06/04	Renewal	100.00	20.00
BB0029092	03/07/04	03/06/05	Renewal	100.00	20.00
BC0029092	03/07/05	03/06/06	Renewal	100.00	20.00
BB0029092	03/07/06	03/06/07	Renewal	100.00	20.00
BB0030581 (3)	04/01/07	03/31/08	Business sold on June 18, 2007 (4)	100.00	20.00
	Total Fees			650.00	
	Amount remitted by ABD (3)			(100.00)	
	Refund Due			(75.00)	(15.00)
	Net Amount			\$ 475.00	

- (1) The application was cancelled and replaced with an on/off sale permit.
- (2) The business did not request a refund from the State for the cancelled license.
- (3) This payment was required to be sent to ABD under the new rules for licensing. ABD remitted the City's share to it on July 18, 2007.
- (4) Since the business was sold on June 18, 2007, a request was made to the State for a refund. A similar request was not made to the City.

As shown in the **Table**, the City should have received \$475.00 from the former Clerk's business for liquor permits since the business' initial permit was issued. Based on our review of the available records, it does not appear the City received payment for these permits.

Because the former Clerk sold her business on June 18, 2007, the business was entitled to a refund from the State and the City for the permit effective April 1, 2007. The former Clerk submitted a request to the State and received a \$15 refund. **Appendix 2** shows the letter from ABD indicating the former Clerk would need to request a refund for the City's portion from the City. The former Clerk stated she did not plan to make a request for the refund from the City. Because the former Clerk is entitled to a refund for the last permit, we have deducted \$75.00 from the total. The undeposited liquor permit fees total \$475.00.

Cigarette Permit – "Tackle This" also had a permit to sell cigarettes. The fee for the cigarette permit is \$75.00 per year. A permit runs from July 1 to June 30. The total permit fee is to be deposited to the City. The permit is printed by the City Clerk from a website maintained by the Department of Commerce. Once printed after the fee has been

collected, the permit is to be signed by the Mayor. A permit should not be issued until the fee is collected.

Table 8 shows the cigarette permits held by the former Clerk’s business, “Tackle This”. The City should have received \$300 for cigarette permit fees from the former Clerk for the period of our investigation.

Effective Date/Date Signed by Mayor	Expiration Date	Fee owed to City
07/01/03	06/30/04	\$ 75.00
07/01/04	06/30/05	75.00
07/01/05	06/30/06	75.00
07/01/06	06/30/07	75.00
Total		<u>\$ 300.00</u>

As with the liquor permits, none of the City’s deposit slips showed a deposit specifically from the former Clerk for the cigarette permits. As shown in **Table 6**, there were no deposits on or near the date the permits were issued, nor were there any deposits around the effective dates for the amount of the permit. According to the Mayor, the former Clerk told him she had paid the fee when she brought him the permits to sign.

According to the former Clerk, she “paid the fees each year in cash”. She also stated she did not issue a receipt to show payment of the fee. She indicated she never issued receipts. She further stated she would drop the money into a box she kept at the safe at her business labeled “Town of Rathbun”. She also stated she did not make City deposits on a regular basis. According to Ms. Anderson, sometimes several months would pass between deposits.

According to the Mayor and the current Clerk, the new owners of “Tackle This” indicated the former Clerk told them she would take care of their cigarette permit and they would not have to pay a fee to the City. When we spoke to the new owners, they confirmed this and also indicated the former Clerk had issued them a cigarette permit effective July 6, 2007. The permit was signed by the Mayor. According to the Mayor, the former Clerk told him the new owners had paid the required permit fee. When the current Clerk was reviewing the City’s records, she identified no fee had been paid for the permit. She approached the owners, who told her the former Clerk had told them she would take care of the fee. The new owners subsequently paid the \$75.00 fee and a new permit was issued.

Based on our review of the available records and the statements the former Clerk made to the new owners of “Tackle This”, it does not appear the City received payment for the cigarette permits issued to the former Clerk for her business. The undeposited cigarette permit fees total \$300.00.

Minutes

Section 372.13(5) of the *Code of Iowa* states “a council shall determine its own rules and maintain records of its proceedings. City records and documents, or accurate reproductions, shall be kept for five years”. According to discussions with the Mayor, a Council member and the current City Clerk, minutes were not prepared or maintained by the former Clerk. Since minutes are the official record of the City’s proceedings, the

minutes should be maintained and reviewed and approved at the next Council meeting. Also, the minutes should be signed by the Mayor and the City Clerk to indicate the minutes are an accurate reflection of the proceedings.

In addition, the City Clerk should provide a listing of individual bills to be approved by the Council at each meeting. The listing should be maintained with the minutes. Listings of approved payments were either not available or were never submitted. Also, the Council did not require or receive monthly financial reports from the City Clerk.

November 2007 Election

According to the Mayor, it was brought to his attention individuals who were not citizens of the City may have been allowed to vote in the November 2007 City election. The current Clerk provided us a copy of an article which appeared in the Ad Express, a newspaper in Centerville, on Wednesday, November 14, 2007. The article identified concerns regarding who was allowed to vote and issues surrounding the town's boundaries. The Mayor stated the concerns brought to his attention included:

- Individuals who live outside City limits and may have voted and,
- Individuals who owned property in Rathbun but lived in another city in Iowa who may have voted.

We determined these issues were outside the scope of our investigation and we recommended the City contact the County Attorney and the Secretary of State regarding the concerns identified.

Salary Payments

The Mayor, Council members and City Clerk are all paid an annual salary. According to the Mayor, the salary amounts were approved by the City Council several years ago. According to the Mayor, the Council members are paid annually regardless of the number of meetings the members attend. Because minutes have not been maintained, we were unable to verify the rates approved by the Council. During fiscal year 2007, no city personnel or officials received a salary as a result of the City's financial situation. In addition, the current Clerk has not received any compensation for her time and services.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the City of Rathbun to process receipts and disbursements. An important aspect of internal control is to establish procedures which 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 – One important aspect of internal control is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. During the period of our investigation, the City Clerk has control over each of the following areas:
- (1) Cash – receipt of the bank statements, preparation of bank account reconciliations, recording cash transactions and custody.
 - (2) Receipts – collecting, depositing and posting.
 - (3) Disbursements – check preparation, check signing, distribution and posting.
 - (4) Financial reporting – preparation and distribution.

According to the new Mayor, he now prepares all checks for the City's obligations and the monthly utility bill is sent directly to his home. A second signature is not required on the checks.

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. The duties within each function listed above, including disbursements, should be segregated between the City Clerk, Mayor and City Council Members. Checks should contain dual signatures. In addition, the City Council should review financial records, reconciliations and supporting documentation on a periodic basis. Evidence of review of reconciliations 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. The following conditions were identified:
- (1) No ledger was maintained.
 - (2) Receipts and disbursements were not posted.
 - (3) Disbursements were not always supported by invoices or other appropriate documentation.
 - (4) Pre-numbered receipts were not issued for funds received for liquor/cigarette permit fees.
 - (5) Disbursements were not approved or documented in the minutes of City Council meetings.
 - (6) Monthly bank account reconciliations were not completed.
 - (7) Deposits were not made on a timely basis.

Recommendation – The City should establish formal accounting records to properly account for the City's receipts and disbursements. Disbursements should be

approved by the Council prior to payment and documented in the minutes. All payments should be supported by invoices or other supporting documentation.

All checks should be prepared and signed by the City Clerk and reviewed and countersigned by the Mayor or a Council Member. The review should include comparing invoices and supporting documentation to the check.

The City should use pre-numbered receipts for collections. In addition, monthly bank to book reconciliations should be prepared. In addition, deposits should be made intact and in a timely manner.

- (C) Road Use Tax Funds - Section 312.6 of the *Code of Iowa* allows Road Use Tax (RUT) funds to be used for expenditures directly related to the “construction, maintenance and supervision of the public streets”. The City used \$6,975.90 of RUT funds for the general operations of the City, such as salaries of the Mayor, Clerk and Council members, as well as fire protection and postage.

In addition, RUT funds are to be accounted for separately from the City’s general operating funds. The City did not keep separate records for the disbursement of RUT funds. The annual reports submitted to the Department of Transportation (DOT) also were not accurate.

Recommendation – The City should account for RUT funds in such a manner to ensure they are not used for general operating purposes. Records should be maintained to show the use of RUT funds. The City should also ensure reports submitted to DOT agree with the accounting records maintained for RUT funds.

The City should consult with DOT to determine the resolution of the unallowable uses of RUT funds.

- (D) Donations – The City received donations for an annual fireworks display. According to City officials, the donations were to be used only for the annual fireworks display and any excess funds were to be carried forward to for the next year’s display. Excess funds were used for the general operating disbursements of the City.

In addition, since the funds are restricted by the Council for a specific purpose, the City should account for these separately from other City funds. The City did not keep any records of donations received.

Recommendation – The City should account for fireworks donations separately from other City operations. Accounting records should be maintained to show donations received and the use of those donations to ensure they are used for the purpose intended.

- (E) Council Minutes – Section 21.3 of the *Code of Iowa* states, in part, “Each governmental body shall keep minutes of all its meetings showing the date, time and place, the members present, and the action taken at each meeting. The minutes shall show the results of each vote taken and information sufficient to indicate the vote of each member present. The vote of each member present shall be made public at the open session. The minutes shall be public records open to public inspection.” The following were identified:

- No minutes were maintained for any of the City Council meetings for the period July 1, 2003 through June 30, 2007. Therefore, the minutes were not signed by the Mayor and City Clerk to authenticate the record as required by section 380.7(3) of the *Code*.
- A detailed listing of bills was not presented to the Council for approval.
- Monthly financial reports were not submitted to the City Council.

Recommendation – Adequate minutes of meetings should be prepared and provided to the Council for its review and approval during the subsequent meeting. The Council should ensure the minutes:

- include an adequate description of all actions taken and discussions held at the meetings, including a detailed listing of all individual bills approved,
- include monthly financial reports and
- the minutes are signed and maintained in a secure location.

- (F) Submission of Certified Budgets – The City did not submit a certified budget to the State of Iowa, Department of Management for the fiscal years ended June 30, 2005, 2006 and 2007. In addition, the City did not certify a budget to the Appanoose County Auditor for the fiscal years ended June 30, 2005, 2006 and 2007 by the deadline required. Submission of a certified budget in a timely manner is required to receive State funding and to levy local property taxes. Because the City did not submit budgets to the State, the City will not receive \$10,623.29 in Road Use Tax funds.

Recommendation – The Council should establish a procedure to ensure the budget is submitted to the State and the County in a timely manner for each fiscal year in order to receive State funds and local property tax.

- (G) Annual Financial Reports (AFR) – Section 384.22 of the *Code of Iowa* requires “not later than December 1 of each year, a city shall publish an annual report.” The *Code* section further states “a copy of the report shall be prepared on forms and pursuant to instructions prescribed by the Auditor of State. A copy of this report is to be filed with the State Auditor no later than December 1 of each year”. The City did not complete the required AFR’s for fiscal years 2004 through 2006 in a timely manner and did not report receipts and expenditures in accordance with the instructions for completing the AFR’s

Recommendation – The Council should establish procedures to ensure the AFR is submitted to the State in a timely manner and the report is prepared in accordance with the requirements set forth in the instructions.

- (H) Salary Payments to the City Clerk, Mayor and Council Members – The City Clerk receives an annual salary of \$600, the Mayor receives an annual salary of \$300 and the City Council Members receive an annual salary of \$180. The Council members receive their salary regardless of the number of meetings attended. However, the salaries were not paid in fiscal year 2007 due to insufficient funds. The salaries paid during other fiscal years in our investigation were primarily paid from Road Use Tax funds.

There were no Council minutes to document approval of the wages to the Clerk and City officials.

Recommendation – The Council should establish salaries for all City officials in amounts deemed appropriate in accordance with section 372.13(8) of the *Code of Iowa*. The Council should consider whether salaries for Council members should be based on meetings attended and if the Clerk should receive an annual salary or hourly wage.

Before establishing salaries, the Council should determine if the City has the necessary resources to pay salaries of City officials and, if deemed necessary, consider levying property tax to pay the City’s general operating costs.

Exhibits

Report on Special Investigation of the
City of Rathbun

Receipts and Disbursements for Fiscal Years 2004 through 2007

	Fiscal Year			
	2004	2005	2006	2007
Receipts:				
Road use tax	\$ 6,112.61	5,230.39	395.00	-
Permit	390.00	390.00	390.00	390.00
Miscellaneous	1,216.68	2,225.00	2,098.17	175.00
Total Receipts	\$ 7,719.29	7,845.39	2,883.17	565.00
Disbursements:				
General:				
Salaries	\$ 1,800.00	1,800.00	1,800.00	-
Raffle	-	259.51	-	-
Fire Protection	-	-	2,000.00	400.00
Election Costs	318.82	-	116.06	-
Advertising	-	10.15	14.25	-
Mowing	550.00	-	-	-
Haz Mat Fee	70.40	70.40	70.40	70.40
Bank /Speedpay Fee	-	-	-	41.95
Postage	-	37.00	-	-
Fireworks	1,000.00	1,700.00	2,000.00	121.50
Subtotal - General	3,739.22	3,877.06	6,000.71	633.85
Road Use Tax:				
Street Lights	1,512.96	1,858.40	1,930.82	1,969.10
Snow Removal	1,500.00	-	-	-
Culverts	218.99	-	-	-
Road Maintenance	4,112.50	4,236.28	-	26.24
Rock	-	263.00	136.89	126.94
Subtotal - Road Use	7,344.45	6,357.68	2,067.71	2,122.28
Total Disbursements	\$ 11,083.67	10,234.74	8,068.42	2,756.13

Note: Unallowable RUT funds are calculated as follows:

Total permit and miscellaneous receipts	\$ 7,274.85
Less general disbursements	<u>14,250.84</u>
RUT funds used for general operations	<u>\$ 6,975.99</u>

Report on Special Investigation of the
City of Rathbun

Staff

The special investigation was performed by:

Annette K. Campbell, CPA, Director
James S. Cunningham, CPA, Senior Auditor II



Tamera S. Kusian, CPA
Deputy Auditor of State

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

Appendices

Report on Special Investigation of the
City of Rathbun

Copies of Letters from the Office of Auditor of State



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

June 20, 2006

City Hall
400 Main Street
Rathbun, Iowa 52544

To the Honorable Mayor and
Members of the City Council:

This is in regard to the City's Annual Financial Report (AFR) for the year ended June 30, 2005. We have reviewed the report including the publication/posting page as well as the supporting pages. The AFR reflects two sources of revenue including \$1,005 in licenses and permits and \$6,024 in state road use tax. The summary page did not reflect the \$6,024 in intergovernmental receipts, however, this amount was listed on page 3 of the report. The disbursements reflected \$600 for fire department operation, \$4,057 for roads, bridges and sidewalks, \$1,872 for street lighting and \$500 for snow removal. The report also reflects zero balances at July 1, 2004 and June 30, 2005.

This is to request a detailed listing of the receipts and disbursements in each of the categories, as noted above. Please provide copies of your ledger(s) listing individual receipts and disbursements including the date of each transaction and source of receipt and/or nature of the disbursement. In addition, please provide a copy of the June 30, 2004 and June 30, 2005 bank statement and reconciliation.

Your response on or before July 12, 2006 is appreciated. If you have any questions, please contact Susan Battani at 515-281-5464.

Sincerely,

A handwritten signature in cursive script that reads "Andrew E. Nielsen".

Andrew E. Nielsen, CPA
Deputy Auditor of State

Report on Special Investigation of the
City of Rathbun

Copies of Letters from the Office of Auditor of State



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

August 7, 2006

City Hall
400 Main Street
Rathbun, Iowa 52544

To the Honorable Mayor and
Members of the City Council:

Andy Nielsen asked me to contact you regarding our request for information dated June 20, 2006. On July 17, 2006, we received a three page handwritten listing of income and expenses from Brenda Anderson. While we appreciate this information we also requested copies of your ledger(s) listing individual receipts and disbursements including the date of each transaction and source of receipt and/or nature of the disbursement and copies of the June 30, 2004 and June 30, 2005 bank statement and reconciliation. We did not receive copies of your ledger(s) or bank statements and reconciliations, as requested. If you do not maintain receipt and/or disbursement ledgers, please provide us with a copy of the bank statements for each month during the period June 2003 through July 2005 including the bank reconciliations for the years ended June 30, 2004 and June 30, 2005.

Also, the following check numbers were not listed in the disbursements detail provided by Ms. Anderson. Please provide the details (payee, purpose and date paid) pertaining to check numbers:

1033, 1034, 1043, 1045, 1046, 1048, 1051, 1052, 1069, 1071, 1072, 1078-1084 and 1086.

Please provide this additional information on or before August 28, 2006. If you have any questions, please contact me at 515-281-5464.

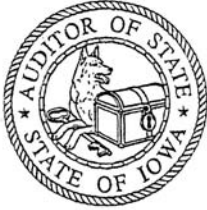
Sincerely,

Handwritten signature of Susan D. Battani in cursive.

Susan D. Battani, CPA
Director

Report on Special Investigation of the
City of Rathbun

Copies of Letters from the Office of Auditor of State



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

David A. Vaudt, CPA
Auditor of State

October 11, 2006

Joe Todey
Rathbun, Iowa 52544

Dear Mr. Todey:

Andy Nielsen asked me to contact you as Mayor of Rathbun, regarding our request for information dated June 20, 2006 and August 7, 2006. I have enclosed copies of this correspondence as well as the response from Brenda Anderson received on July 17, 2006.

In my letter dated August 7, 2006, we requested your response with the additional information from the City on or before August 28, 2006. As of today, we have not received additional information or heard from the City. We would appreciate your response and/or assistance in obtaining the additional information requested.

Please respond on or before October 30, 2006 or contact me at 515-281-5464, if you have any questions about this. I will be out of the Office the week of October 16, 2006 and will return the following week. Thank you for your attention to this.

Sincerely,

Susan D. Battani

Susan D. Battani, CPA
Director

Enclosure

Report on Special Investigation of the
City of Rathbun

Copies of Letters from the Office of Auditor of State



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

David A. Vaudt, CPA
Auditor of State

January 16, 2007

City Hall
400 Main Street
Rathbun, Iowa 52544

To the Honorable Mayor
and Members of the City Council:

Thank you for your response to our request for financial information. We have reviewed the documentation you provided including the City's fiscal 2006 Annual Financial Report, (AFR), required to be filed with our Office pursuant to Chapter 384.22 of the Code of Iowa.

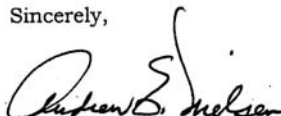
The City's primary source of revenue appears to be road use tax funds from the State of Iowa. Chapter 312.6 of the Code of Iowa states "Funds received by municipal corporations from the road use tax fund shall be used for any purpose relating to the construction, maintenance, and supervision of the public streets."

The City's fiscal 2006 AFR does not segregate the general fund activity from the road use tax fund activity. This segregation is necessary in order to demonstrate compliance with the statutory requirements of Chapter 312.6 of the Code of Iowa. In addition, based upon the documentation provided, the City has a substantial balance, which has not been reported on the AFR at July 1, 2005 or June 30, 2006.

The City should revise the fiscal 2006 AFR to segregate the general fund and road use tax fund and to include the balances on hand as of July 1, 2005 and June 30, 2006. The amended report should be posted, as required. We have enclosed a new set of forms, in case you need these. If you have any questions or need assistance in filing an amended report, please contact Susan Battani at 515-281-5464.

As you know, the Annual Financial Report must be completed and filed with our Office prior to the City's budget certification. Failure to file an amended AFR will preclude the City from receiving road use tax funds until the amended report is received because the AFR has not been prepared pursuant to instructions prescribed by the Auditor of State as required by Chapter 384.22 of the Code of Iowa. Thank you for your attention to this.

Sincerely,

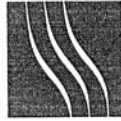

Andrew E. Nielsen, CPA
Deputy Auditor of State

Enclosure

Cc: Tammi Bell, Department of Transportation
Steve Ford, Department of Management

Report on Special Investigation of the
City of Rathbun

Copy of Letter from Alcoholic Beverages Division



ALCOHOLIC
BEVERAGES
DIVISION
State of Iowa

Copy

Chester J. Culver *Governor of Iowa*
Patty Judge *Lieutenant Governor*

Lynn M. Walding *Administrator*

August 6th, 2007

Tackle This, Inc
307 Elm St
Rathbun, Iowa 52544

RE: License/Permit No. BB0030581

Dear Licensee:

Enclosed is a state warrant in the amount of \$15.00 which was issued in payment of a refund on your Class B Beer Permit.

Please apply to your local authority for their portion of the refund in the amount of \$75.00.

Sincerely,

Karen Freund

Karen Freund
Administrative Assistant

Cc: Local Authority