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NEWS RELEASE

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FOR RELEASE _____ March 17, 2010

Auditor of State David A. Vaudt today released a report on a special investigation of the Rodman Volunteer Fire Department and Park and Recreation Department for the period January 1, 2006 through September 30, 2009. The special investigation was requested by the City of Rodman as a result of concerns identified regarding checks issued for cash and the purchases of fire equipment from a company which employed the former Fire Chief, Paul Hunter. In addition, the City of Rodman identified concerns with Park and Recreation Department disbursements which were overseen by Paul and Anita Hunter.

Vaudt reported the special investigation identified \$5,006.67 of improper and unsupported disbursements. The improper disbursements of \$4,687.80 include \$713.98 of checks issued to cash, a \$300.00 cash withdrawal, \$2,510.23 of equipment and supplies purchased from Alex Air Apparatus, \$159.32 of payments to other vendors and \$1,004.27 of reimbursements to Mr. Hunter. Mr. Hunter was employed by Alex Air Apparatus at the time of the purchases.

The unsupported disbursements of \$318.87 include \$242.31 of reimbursements to Mr. Hunter, a \$16.56 payment to Wal-Mart and a check payable to cash in the amount of \$60.00.

In addition, Mr. Hunter obtained 3 grants to purchase equipment for the Fire Department and made the purchases without Council approval. The 3 grants totaled \$116,119.77 and approximately 86% of the grant proceeds were used for purchases from Mr. Hunter's employer, Alex Air Apparatus. For the \$108,072.54 of purchases the City made from Alex Air Apparatus, Mr. Hunter received \$11,757.43 in commissions. Mr. Hunter deposited a \$2,629.88 commission check to the Fire Department's account, but withheld \$429.88 from the check in cash. It is not known why he deposited his commission payment to the Fire Department's account.

Vaudt reported Fire Department funds were used to purchase \$318.39 of alcoholic beverages which may not meet the test of public purpose.

Vaudt also reported adequate records for receipts were not available to determine if all donations and fundraiser proceeds were properly deposited.

The report also includes recommendations to strengthen the City's internal controls, such as improvements to segregation of duties, reconciliation of bank statements by an independent person and establishing formal accounting records to account for all receipts and disbursements.

Copies of the report have been filed with the Palo Alto Sheriff's Office, the Division of Criminal Investigation, the Palo Alto 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/index.html>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF RODMAN
FOR THE PERIOD
JANUARY 1, 2006 THROUGH SEPTEMBER 30, 2009**

Table of Contents

	<u>Page</u>
Auditor of State's Report	3-4
Investigative Summary:	
Background Information	5-6
Detailed Findings	6-13
Recommended Control Procedures	14-16
Exhibits:	
	<u>Exhibit</u>
Summary of Findings	A 19
Reimbursements to Mr. Hunter	B 20-21
Staff	22
Appendices:	
	<u>Appendix</u>
Copies of Checks Payable to Cash	1 24-25
Copies of Authentic Alex Air Apparatus Invoice and Invoice Submitted by Ms. Hunter	2 26-27
Copy of Cash Withdrawal Document	3 28
Copy of Deposit Slip with Cash Withheld	4 29



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Auditor of State's Report

To the Honorable Mayor and
Members of the City Council:

At your request, we conducted a special investigation of the City of Rodman as a result of concerns regarding certain financial transactions of the Fire Department and Park and Recreation Department. We have applied certain tests and procedures to selected financial transactions of the Departments for the period January 1, 2006 through September 30, 2009. 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) Examined bank statements for the checking and savings accounts of the Fire Department and the Park and Recreation Department to identify any unusual activity, including cash withdrawals and reimbursements. We also examined images of checks to identify any payments to unusual payees or for unusual amounts. In addition, we reviewed images of deposit slips to determine if any cash was withheld from the deposits.
- (3) Examined documentation for certain checks issued from the checking accounts of the Fire Department and the Park and Recreation Department to determine if the payments were appropriate, authorized and properly supported.
- (4) Obtained and compared invoices from Alex Air Apparatus to the payments to the vendor and the related supporting documentation maintained at the Fire Department to determine if the payments were appropriate.
- (5) Obtained invoices from Midwest Sales Company to determine if payments to Midwest Sales from the Park and Recreation Department were appropriate.
- (6) Confirmed payments made to the Fire Department by the State of Iowa and Fern Valley Township to determine if they were properly deposited to the Department's accounts.
- (7) Examined the Fire Department's inventory listing to determine its completeness and accuracy. In addition, compared the inventory listing to Alex Air Apparatus invoices to determine if equipment and supplies purchased were located at the Fire Department.
- (8) Examined all reimbursements to Paul Hunter, the former Fire Chief, and Anita Michelle Hunter, former City Council member, to determine if the amounts disbursed were appropriate and supported by adequate documentation.
- (9) Obtained and reviewed the personal bank statements of Paul and Anita Michelle Hunter to identify the source of certain deposits and payments to certain vendors.

These procedures identified \$5,006.67 of improper and unsupported disbursements for the period January 1, 2006 through September 30, 2009. The \$5,006.67 is composed of the following:

- \$4,687.80 of improper disbursements, including checks payable to cash and improper vendors.
- \$318.87 of unsupported disbursements, including reimbursements to Mr. Hunter and a payment to Wal-Mart.

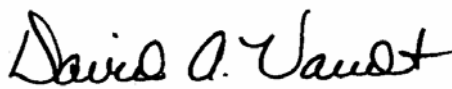
The procedures also identified \$108,072.54 of purchases from Alex Air Apparatus, the employer of the former Fire Chief. The purchases were not approved by the City Council and the invoices were sent directly to the former Fire Chief rather than the City. For the purchases made by the City, the former Fire Chief received \$11,757.43 in commissions. Mr. Hunter deposited a \$2,629.88 commission check to the Fire Department's account, but withheld \$429.88 from the check in cash. We are unable to determine why he deposited his commission payment to the Fire Department's account.

We were also unable to determine if all donations and fundraiser proceeds were properly deposited during this time period because adequate records were not available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibits A** and **B** of this report.

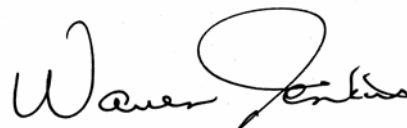
The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Rodman, other matters might have come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

Copies of this report have been filed with the Palo Alto County Sheriff's Office, the Division of Criminal Investigation, the Palo Alto 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 Rodman, the Palo Alto 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

January 5, 2010

City of Rodman
Investigative Summary

Background Information

The City of Rodman is located in Palo Alto County and has a population of 56. The Rodman Fire Department is a volunteer Department serving the City of Rodman and Fern Valley Township. The Fire Department is part of the City but has a separate 3 member Board of Trustees who are elected by the members of the Department. The Trustees are responsible for reviewing and approving disbursements and providing fire safety to the community. Meetings for Fire Department members are held the 1st Tuesday of each month.

Paul and Anita Michelle Hunter became members of the Fire Department in 2004. In February 2006, Ms. Hunter became Secretary/Treasurer for the Fire Department. As the Secretary/Treasurer, Ms. Hunter was responsible for:

- 1) Disbursements – check preparation, check signing, distribution and posting to the accounting records,
- 2) Receipts – collection, posting to the accounting records, deposit preparation and making deposits,
- 3) Reporting – preparation of Fire Department meeting minutes and preparation of financial reports, including bank reconciliations.

In addition to being the Secretary/Treasurer for the Fire Department, Ms. Hunter was a City Council member for the City of Rodman. In January 2007, Mr. Hunter became the Fire Chief while Ms. Hunter remained the Secretary/Treasurer.

The Fire Department's primary revenue sources are collections from the State of Iowa and Fern Valley Township. The Fire Department also receives periodic donations and proceeds from fundraisers. All collections are to be deposited in the Fire Department's bank accounts.

The Fire Department has a checking account and a savings account. All collections are to be deposited into the checking account and all disbursements are to be paid by check. The checks only require 1 signature. The authorized signers included Ms. Hunter, Mr. Hunter and the Assistant Fire Chief.

Ms. Hunter collected and opened the Fire Department's mail which was sent to her home address. Ms. Hunter reviewed any invoices or collections received and prepared payments or deposits, as necessary. According to the current Fire Chief, the members occasionally saw the invoices, depending on the purchase, prior to Ms. Hunter becoming Secretary/Treasurer. However, the members never saw invoices or any financial reports when Ms. Hunter was responsible for them.

Mr. Hunter was employed as a salesman by Alex Air Apparatus, which is a company which sells fire equipment and supplies. He was paid by Alex Air Apparatus on a commission basis. Several payments were made by the Fire Department to Alex Air Apparatus while Mr. Hunter was Fire Chief.

In addition to being the Fire Chief, Mr. Hunter volunteered to assist in improving the City's park. According to the Mayor, the school district wanted a centralized location to pick up all the children instead of going to each individual house. As a result, Mr. Hunter approached the City Council members and asked for approval to apply for a grant to build a shelter house and update the playground equipment. The City Council approved Mr. Hunter applying for the grant; however, no other decisions were made regarding who would be responsible for the Park. The City Council was not informed of any subsequent action about the grant.

In March 2007, Mr. and Ms. Hunter applied for a grant from the Palo Alto County Gaming Development Corporation. The grant request was for new play equipment at the City's park. A grant in the amount of \$13,200.00 was awarded to the City and was received in 2 payments of \$6,600.00 each. Upon receipt of the first grant check, Mr. and Ms. Hunter opened a bank account in the name of City of Rodman Park and Recreation. The first grant check was deposited to this account on March 13, 2007 and the second grant check was deposited to the account on August 16, 2007. However, according to the Mayor, Mr. and Ms. Hunter did not have authorization to open this account. Instead, the funds should have been deposited to the City's checking account.

As of June 1, 2008, Ms. Hunter no longer served as the Fire Department's Secretary/Treasurer. The Department's financial records were turned over to an interim Treasurer. In January 2009, Mr. Hunter was not re-elected by the members of the Fire Department to be Fire Chief, but he remained on the Fire Department as the Assistant Chief.

On September 9, 2009, the Mayor contacted the Division of Criminal Investigation regarding concerns, including checks issued for cash from the Fire Department's checking account and purchases of fire equipment from Alex Air Apparatus. These transactions occurred during the period Mr. Hunter was Fire Chief or Assistant Fire Chief and Ms. Hunter was responsible for the Fire Department's bank accounts.

In September 2009, Mr. Hunter resigned his position with the Fire Department. Also, while Ms. Hunter's Council term did not expire until December 2009, according to the Mayor, she stopped attending Council meetings in September 2009.

On September 21, 2009, the Mayor requested the Office of Auditor of State conduct an investigation of the Fire Department and the Park and Recreation Department. As a result of that request, we performed the procedures detailed in the Auditor of State's report for the period January 1, 2006 through September 30, 2009.

Detailed Findings

These procedures identified \$5,006.67 of improper and unsupported disbursements for the period January 1, 2006 through September 30, 2009. The \$5,006.67 is composed of the following:

- \$4,687.80 of improper disbursements, including checks payable to cash and improper vendors.
- \$318.87 of unsupported disbursements, including payments to cash, Wal-Mart and reimbursements to Mr. Hunter.

The procedures also identified \$429.88 was withheld from a deposit to the Fire Department's account by Mr. Hunter. The deposit consisted of a \$4,874.70 check from West Iowa Bank and a \$2,629.88 check to Mr. Hunter from Alex Air Apparatus. Based on documentation obtained from Alex Air Apparatus, the check was issued to Mr. Hunter for commissions. We are unable to determine why he deposited his commission payment to the Fire Department's account.

We were unable to determine if all donations and fundraiser proceeds were properly deposited during this time period because adequate records were not available. All findings are summarized in **Exhibit A** and a detailed explanation of each finding follows.

IMPROPER AND UNSUPPORTED DISBURSEMENTS

As stated previously, checks issued from the Fire Department's checking account required only 1 signature. The authorized check signers were Ms. Hunter, former Secretary/Treasurer, Mr. Hunter, former Fire Chief, and Danny Hutchison, former Assistant Fire Chief and now the current Fire Chief. We reviewed selected disbursements from the Fire Department's checking

and savings accounts. In addition, we reviewed all disbursements from the Park and Recreation Department checking account established by Mr. and Ms. Hunter. Supporting documentation for disbursements was to be maintained by Ms. Hunter and should have consisted of invoices and receipts from vendors for both Departments. Supporting documentation was not available for some of the disbursements. As a result, we discussed those disbursements with the current Fire Chief or Mayor to determine if they were appropriate. We also confirmed certain disbursements with vendors, when possible.

All disbursements for the Fire Department were to be included on a monthly bill listing presented to the Trustees for approval. In addition, the current Fire Chief stated all Fire Department payments should be by check to the vendor and there should be no payments made in cash. According to the current Fire Chief, the only time cash was needed was when the annual Fire Department fundraiser was held at the end of June. Cash would be withdrawn to be used as a change fund at the fundraiser. Based on our discussion with the current Fire Chief, a check was to be written to the bank for withdrawal of cash and was to be approved by the Trustees. According to the Mayor, the City Council authorized the Fire Department to have an annual fundraiser the last Saturday in June. All the proceeds received from the fundraiser were to be deposited to the Fire Department's checking account.

As previously stated, the Council was unaware the Hunters had opened a bank account for the Park and Recreation Department. According to the Mayor, all disbursements were to be approved by the City Council. In addition, all Park and Recreation Department activity was to be paid from the City's checking account and all collections deposited into the City's checking account.

During the course of our investigation, we identified several improper disbursements. Each of the improper disbursements is discussed in this section of the report.

Checks Payable to Cash – We identified 7 checks from the Fire Department's checking account payable to cash. Check number 1257 was issued to cash for \$600.00 on June 22, 2006. According to the current Fire Chief, the proceeds of this check would have been used as a change fund for the Department's annual fundraiser in late June. The remaining 6 checks total \$773.98 and are listed in **Table 1**.

Table 1

Check Date	Check Number	Check Memo	Improper	Unsupported	Total
05/18/07	1366	Pumper school	\$ 125.00	-	125.00
06/14/07	1388	Reimburse	58.34	-	58.34
07/20/07	1175	Reimburse exp	87.75	-	87.75
08/17/07	1190	Hurst hoses equip & fittings disc	325.72	-	325.72
10/10/07	1191	Reimburse Halloween, fuel new truck	117.17	-	117.17
11/15/07	1401	Instructor conf Ames	-	60.00	60.00
		Total	\$ 713.98	60.00	773.98

Of the 6 checks listed in the **Table**, 5 were signed by Ms. Hunter and 1 was signed by Danny Hutchison, the current Fire Chief. According to the current Fire Chief, a fundraiser was not held at the time these cash withdrawals were made and no payments or reimbursements should have been made with cash. According to the current Fire Chief, payments to cash were not authorized by the Trustees.

In addition to the current Fire Chief, we also discussed the disbursements with the Mayor. Because adequate documentation was not available and no business purpose could be identified

for 5 of the checks shown in the **Table**, they are considered improper. Copies of these 5 checks are included in **Appendix 1**. The total of \$713.98 is included in **Exhibit A** as improper disbursements.

There was no documentation to support 4 of the improper disbursements. However, during our review of available supporting documentation from the City, we identified an invoice from Alex Air Apparatus in the amount of \$325.72 as support for the August 17, 2007 payment identified in **Table 1**. As previously stated, Alex Air Apparatus is Mr. Hunter's employer and sells fire equipment and supplies. A copy of the invoice is included in **Appendix 2**.

We subsequently obtained copies of invoices directly from Alex Air Apparatus for all purchases made from the vendor by the City. These invoices are discussed in further detail in a later section of this report. A copy of 1 of the invoices is also included in **Appendix 2**. The invoices obtained directly from the vendor did not include a \$325.72 purchase.

As illustrated by the **Appendix**, it is apparent the designs on the invoice submitted by Ms. Hunter does not resemble those on the invoices obtained directly from the vendor. Because the invoice submitted does not appear to have been issued from the vendor, we believe it was created to support the August 17 check written to cash.

The remaining check included in **Table 1** was issued on November 15, 2007 in the amount of \$60.00 and was signed by Mr. Hutchison. According to the current Fire Chief, he and Mr. Hunter attended the Fire Training conference in Ames for the Fire Fighters I & II and Fire Chief's training. However, we were unable to locate supporting documentation for the training. Mr. Hutchison also stated the cash was used for 2 registrations.

We reviewed the Fire Service Training Bureau's webpage and determined such training is provided and there are several conferences held in Ames throughout the year. According to Mr. Hutchison, the current Fire Chief, he could not remember why the check was payable to cash but he stated the attendees should have been reimbursed after training was completed. Because he was able to explain the purpose of the payment, we have not included it as improper. However, because the payment was not properly supported, the \$60.00 payment to cash is included in **Exhibit A** as an unsupported disbursement.

We did not identify any checks payable to cash from the Park and Recreation Department checking account.

Cash Withdrawals – We identified 2 cash withdrawals from the Fire Department's checking account. Of the 2 withdrawals, 1 was 2 days prior to the Fire Department's annual fundraiser. According to the current Fire Chief, it is likely the cash was used as change for the fundraiser.

However, the second withdrawal identified was made on July 28, 2006. The withdrawal was made by Ms. Hunter for \$300.00. According to the current Fire Chief, the annual fundraiser was held prior to July 28; therefore, the withdrawal is considered improper. As a result, the \$300.00 withdrawal is included in **Exhibit A**. A copy of the withdrawal slip is included in **Appendix 3**.

Payments to Vendors - We identified 4 payments to vendors which do not appear to be for Fire Department business. The 4 payments are listed in **Table 2**.

Check Date	Check Number	Vendor Name	Amount
04/07/06	1238	Dell Commercial Credit	\$ 29.00
11/17/06	1291	Michelle Hunter	40.00
02/14/07	-	Dell Online	38.00
06/18/07	1392	Spencer Trophy	52.32
		Total	<u>\$ 159.32</u>

As illustrated by the **Table**, a payment to Michelle Hunter in the amount of \$40.00 was made on November 17, 2006. Michelle is Ms. Hunter's middle name. The check was signed by Ms. Hunter and the check memo indicated it was a reimbursement. Also, the check was not approved by the Board of Trustees. According to the current Fire Chief, Ms. Hunter would not have a reason to be reimbursed because she was not authorized to purchase supplies for the Fire Department.

In addition to the payment to Ms. Hunter, a check was issued to Spencer Trophy for \$52.32. According to the current Fire Chief, Mr. Hunter told the members of the Fire Department all trophies were going to be donated for the annual fundraiser and there would be no cost to the Fire Department.

We also identified 2 payments from the Fire Department's checking account to Dell Commercial Credit and Dell Online. The payment to Dell Commercial Credit was made by check in the amount of \$29.00 and the payment to Dell Online was an electronic payment for \$38.00. Due to the lack of available supporting documentation, we obtained the Dell Commercial Credit monthly statements directly from Dell. By reviewing the statements, we determined the line of credit was established in the name of the Rodman Fire Department. However, the City Council and the Fire Department Board of Trustees were not aware of the credit line and did not authorize opening the account.

In addition, according to the current Fire Chief, the Fire Department did not receive any merchandise from Dell other than a computer which Mr. Hunter paid for with his personal credit card and was then reimbursed by the Fire Department. This computer was not purchased on the Dell account. **Table 3** illustrates the total amount of purchases and payments made on the account. As shown by the **Table**, purchases totaled \$3,687.53. In addition, finance charges and late fees totaled \$361.89. Payments totaling \$4,049.42 were made on the account. However, only \$67.00 of this amount was made from the Fire Department's checking account. By reviewing the Hunters' personal bank statements, we determined the remaining \$3,982.42 was paid from their personal account. Because the majority of the payments were made from the Hunters' personal account, it is likely they purchased a computer for personal use. Because the Fire Department did not receive any goods or services for the \$67.00 payment, it is considered improper.

Description	Amount
Purchases	\$ 3,687.53
Finance charges	274.89
Late fees	87.00
Total	4,049.42
Payments by the Fire Department	(67.00)
Payments from the Hunter's personal account	\$ 3,982.42

The 4 improper payments listed in **Table 2** total \$159.32. This amount is included in **Exhibit A** as improper disbursements.

In addition to the 4 improper payments, we identified a \$16.56 payment to Wal-Mart which was not supported by documentation. Because supporting documentation was not available, we were unable to determine if the payment was appropriate. The \$16.56 is included in **Exhibit A** as an unsupported disbursement.

We also identified a \$28.59 payment to Fareway for the purchase of alcohol for a meeting with area fire departments. According to the current Fire Chief, meetings are held once a month for which all fire departments in the surrounding area gather and have training. While it is not

unusual for a volunteer fire department to occasionally purchase alcoholic beverages, the Fire Department does not have written policies for when the purchase of alcoholic beverages is appropriate.

The purchase of alcoholic beverages does not meet the requirement of public purpose as defined in an Attorney General's Opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. According to the Opinion, it is possible for disbursements for food and beverages to meet the test of serving a public purpose under certain circumstances, although such times will certainly be subject to a deserved close scrutiny.

Payments to Alex Air Apparatus – During our review of the Fire Department's bank statements, we identified 11 payments totaling \$108,072.54 to Alex Air Apparatus. As previously stated, Mr. Hunter was employed by Alex Air Apparatus as a salesman during his tenure as the Fire Chief.

We reviewed all purchases made by the Fire Department from Alex Air Apparatus to determine their propriety. As previously stated, we obtained all invoices directly from Alex Air Apparatus. **Table 4** summarizes all payments made to Alex Air Apparatus.

Check Date	Check Number	Amount
12/26/06	1310	\$ 1,700.00
03/11/07	1345	8,348.00
05/25/07	1377	8,348.00
07/04/07	1174	3,000.00
12/21/07	1204	2,628.88
12/28/07	1206	45,000.00
01/31/08	1414	8,000.00
03/09/08	1417	2,755.00
04/08/08	1427	14,000.00
07/22/08	1463	13,783.77
12/23/08	1469	508.89
Total		<u>\$ 108,072.54</u>

As part of our investigation, we discussed the purchases from Alex Air Apparatus with the current Fire Chief, who was the Assistant Fire Chief at the time of the purchases, and compared the items purchased according to the invoices to the Fire Department's inventory listing completed in July 2009.

Based on our review, we identified an invoice for the purchase of 2 ladders; however, only 1 ladder was observed and included on the inventory listing. According to the current Fire Chief, Mr. Hunter was to return the other ladder because it was broken and the Fire Department was to receive a refund for \$500.00. However, the current Fire Chief believes Mr. Hunter did not request a refund. Therefore, we have included the cost of the ladder as an improper disbursement because the Fire Department should have been issued a refund for the defective equipment.

Also, based on discussions with the current Fire Chief, 2 volunteer fire fighters and our review of Alex Air Apparatus invoices, we identified the following items were missing from the Fire Department:

- 2 storage cylinders costing \$600.00,
- Boots purchased for Mr. Hunter. According to individuals we spoke with, Mr. Hunter took the boots with him when he left the Fire Department. However, boots and other equipment are to be left at the Fire Department upon departure. If an individual would like to take their boots or equipment, a reimbursement is to be issued to the Fire Department for the cost of the equipment. Mr. Hunter did not reimburse the Fire Department for the boots, which cost \$175.00.
- High pressure hose, one-way valve, t-fittings with pigtails and fill hose with fitting. According to the current Fire Chief, Mr. Hunter said these items were not the Fire Department's. However, they were purchased with Fire Department funds at a cost of \$310.00.
- Cascade drip torch costing \$148.00 plus shipping costs of \$14.08.
- Mr. Hunter told the members cartridges for the masks would be provided free of cost. However, the Fire Department was billed \$356.40 plus shipping of \$6.75.
- Mr. Hunter was to provide service to repair the Hurst power unit and said there would be no charge because it was part of his training. However, the Fire Department was billed \$400.00 by Alex Air Apparatus for the repair.

As illustrated by **Table 5**, these items total \$2,510.23. Because the Fire Department did not receive the goods described or was charged for services which were to be at no cost, we have included the \$2,510.23 total in **Exhibit A** as improper disbursements.

Description	Amount
Ladder	\$ 500.00
2 storage cylinders	600.00
Boots	175.00
High pressure hose and related accessories	310.00
Cascade drip torch and shipping costs	162.08
Cartridges and shipping costs	363.15
Repair to Hurst power unit	400.00
Total	\$ 2,510.23

During Mr. Hunter's tenure as Fire Chief, he applied for grants to obtain funding for the purchase of fire equipment. The Fire Department received 3 grants totaling \$116,119.00 during the time Mr. Hunter was Fire Chief. For each grant, the majority of funds were used to purchase items from Alex Air Apparatus. Of the \$116,119.00 of grant funds received, \$100,234.76, or 86%, was used for purchases from Mr. Hunter's employer. These purchases were made by Mr. Hunter and were not approved by the Board of Trustees or the City Council. The invoices for the purchases were sent directly to Mr. Hunter and were not received by the City. **Table 6** lists all the grants Mr. Hunter applied for and received on behalf of the Fire Department and the corresponding payments made to Alex Air Apparatus with the grant funds.

Table 6

Grant Description	Date Received	Palo Alto Gaming Development Corp.	FEMA	Palo Alto Gaming Development Corp.	Total
Safety equipment and gear	03/09/07	\$ 8,348.00	-	-	8,348.00
Safety equipment and gear	05/25/07	8,348.00	-	-	8,348.00
Safety equipment	12/26/07	-	62,358.00	-	62,358.00
Truck extrication equipment and protective gear	04/07/08 07/19/08	- -	- -	18,532.89 18,532.88	18,532.89 18,532.88
Total grants received		\$ 16,696.00	62,358.00	37,065.77	116,119.77
Payments to Alex Air Apparatus		16,696.00	55,755.00	27,783.76	100,234.76
Payments to other vendors		\$ -	6,603.00	9,282.01	15,885.01
Percentage of grant spent with Alex Air Apparatus		100%	89%	75%	86%

As illustrated by **Table 4**, the City made purchases totaling \$108,072.54 from Alex Air Apparatus, most of which were from grant proceeds. As a result of the \$108,072.54 of purchases from Alex Air Apparatus, Mr. Hunter received \$11,757.43 in commissions. In addition, according to the current Fire Chief and Mayor, Mr. Hunter did not discuss any purchases from Alex Air Apparatus with the Board of Trustees, City Council or the Mayor. Also, the purchase order forms were not completed in accordance with City policies and the City did not receive any invoices from Alex Air Apparatus. Instead, the invoices were sent directly to Mr. Hunter's personal residence.

Of the \$11,757.43 of commissions Mr. Hunter received, a check for \$2,629.88 was deposited to the Fire Department's account, from which Mr. Hunter withheld \$429.88 in cash. We are unable to determine why Mr. Hunter deposited a portion of his commission payments to the Fire Department's account.

Reimbursements to Mr. Hunter – We identified 10 payments from the Fire Department and 3 payments from the Park and Recreation Department issued to Mr. Hunter totaling \$1,676.85. Based on discussions with the current Fire Chief, it is possible Mr. Hunter received reimbursement for the purchase of supplies, such as parade candy or gas.

Exhibit B lists the reimbursements to Mr. Hunter. Supporting documentation was available for some of the reimbursements. We reviewed available supporting documentation and discussed all reimbursements with the current Fire Chief to determine their propriety. In addition, in some instances, the check memos provided additional explanation for the reimbursement.

As illustrated by the **Exhibit**, reimbursements totaling \$1,004.27 were identified as improper. Of the 11 reimbursements identified as improper, 10 were not supported by any documentation. The check memos for these checks indicated the reimbursements were for items such as stamps, printing, gas and miscellaneous expenses. Of these 10 checks, 4 were for even dollar amounts, which would be unusual for reimbursement of expenses.

The remaining reimbursement identified as improper was related to the purchase of trophies for the annual fundraiser. According to the current Fire Chief and 2 other members of the volunteer Fire Department, Mr. Hunter told the members of the Fire Department the trophies for the annual fundraiser were going to be donated. Therefore, the Fire Department would not incur any costs. However, Mr. Hunter was reimbursed \$65.20 for the purchase of trophies.

In addition to the improper payments, we identified 3 reimbursements which were unsupported and total \$242.31. As illustrated in **Exhibit B**, the 3 unsupported payments were explained only by handwritten notations and not by receipts or invoices from vendors. We are unable to ensure the handwritten notations are accurate descriptions of the reimbursements.

We also identified a reimbursement for the purchase of beer for the annual fundraiser in the amount of \$289.80. According to the Mayor and current Fire Chief, the Fire Department operates a beer stand at the event. As previously stated, it is not unusual for a volunteer fire department to occasionally purchase alcoholic beverages. However, the Department does not have written policies to determine when the purchase of alcoholic beverages is appropriate. The purchase of alcoholic beverages does not meet the requirement of public purpose as defined in an Attorney General's Opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. According to the Opinion, it is possible for disbursements for food and beverages to meet the test of serving a public purpose under certain circumstances, although such times will certainly be subject to a deserved close scrutiny.

UNDEPOSITED COLLECTIONS

As stated previously, the primary revenue sources for the Fire Department are the State of Iowa and Fern Valley Township. In addition, the Fire Department receives funds from donations and fundraisers. The primary revenue sources for the Park and Recreation Department are grants and donations.

Cash Withheld from Deposit – During our review of the Fire Department's bank statements, we identified 1 deposit from which cash was withheld. According to the current Fire Chief, all collections received are to be deposited intact to the Department's checking account.

The deposit was dated December 21, 2007 and consisted of a check from West Iowa Bank in the amount of \$4,874.70 and a check from Alex Air Apparatus in the amount of \$2,629.88. The 2 checks totaled \$7,504.58. The cash withheld from the deposit totaled \$429.88. Mr. Hunter signed the deposit slip, a copy of which is included in **Appendix 4**.

Based on documentation obtained from Alex Air Apparatus, the \$2,629.88 check was issued to Mr. Hunter for commissions. As previously stated, we are unable to determine why Mr. Hunter would deposit his commission payment to the Fire Department's account. As a result, the \$429.88 of cash withheld from the deposit is not included in the total of **Exhibit A** but is disclosed as a footnote.

State of Iowa – We obtained confirmation of all payments made to the Fire Department by the State of Iowa for the period January 1, 2006 through September 30, 2009. We determined all payments from the State were properly deposited in the Fire Department's checking account.

Township Collections – We obtained confirmation of all payments made to the Fire Department by Fern Valley Township for the period January 1, 2006 through September 30, 2009. We determined all payments from the Township were properly deposited in the Fire Department's checking account.

Donations and Fundraisers – The Fire Department receives donations and proceeds from fundraisers sponsored by the Fire Department. We were unable to determine if all donations and fundraiser proceeds were deposited because detailed records of donations collected were not available.

FINANCIAL REPORTING

According to the current Fire Chief, Mr. Hunter documented actions taken at Fire Department meetings in a notebook, but formal written notes were not maintained. In addition, Mr. Hunter's

notes could not be located. Also, bill listings were not prepared or presented to the Board of Trustees or City Council for approval. Therefore, we were unable to determine if bills were approved and we were unable to identify any significant actions taken during meetings.

In addition, invoices and/or receipts were not presented to the Board of Trustees or members, so no one reviewed bills prior to payment by Ms. Hunter. Also, all bank statements, invoices and/or receipts were directly received by Mr. and Ms. Hunter, so an independent review could not be performed to ensure propriety of disbursements.

Because invoices and/or receipts were not presented to the City Council, Council approval was not provided prior to payments. In addition, Mr. and Ms. Hunter opened a bank account without prior approval and all bank statements were sent directly to Mr. and Ms. Hunter's personal residence so an independent review was not performed.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the Rodman Volunteer Fire Department and Park and Recreation Department to process receipts and disbursements. 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 Department'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 Secretary/Treasurer had control over each of the following areas for the Fire Department:
- 1) Disbursements – check preparation, check signing, distribution and posting to the accounting records.
 - 2) Receipts – collection, posting to the accounting records, deposit preparation and making deposits.
 - 3) Reporting - preparation of Fire Department meeting minutes and preparation of financial reports, including bank reconciliations.

In addition, Mr. and Ms. Hunter had control over the disbursements and receipts for the Park and Recreation Department. Also, independent bank reconciliations were not performed for the Fire Department and the Park and Recreation Department.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the City Council and Fire Department should review their 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.

In addition, bank statements should be independently reviewed by a designated member of the City Council or Fire Department who does not have the ability to issue checks or make deposits. Bank reconciliations should be performed on a monthly basis.

- (B) Financial Accounting Records and Financial Reports – Limited financial records were maintained by the Fire Department and Park and Recreation Department for the period of our investigation. Specifically, records for donations and fundraisers did not exist. Also, invoices/receipts were not maintained for all disbursements. In addition,

financial reports were not prepared by Ms. Hunter for the Fire Department and financial information was not prepared or maintained by the Hunters for the Park and Recreation Department.

Recommendation – The Fire Department and Park and Recreation Department should establish formal accounting records to account for all receipts and disbursements. All disbursements should be approved prior to payment and documented in the financial reports or minutes. All payments should be supported by invoices or other appropriate documentation. Collections should be recorded on the financial reports and the Department should use pre-numbered receipts. In addition, financial reports should be prepared periodically and presented to members of the Fire Department and the City Council for approval.

- (C) Minutes – Official signed copies of minutes from the Trustees’ meetings and related financial reports were not available at the Fire Department. In addition, all minutes for the period of our investigation could not be located at the Fire Department.

Recommendation – The minutes and financial reports should be signed by a responsible designated official of the City Council or Fire Department to attest to the accuracy of the documents. The minutes should include all actions taken at the meeting. The financial reports should include a detailed listing of bills approved for payment and be supported by receipts and disbursements posted to the Fire Department and the Park and Recreation Department’s bank accounts. Also, all minutes should be maintained for the public to review.

- (D) Disbursements – We identified disbursements which were not approved by the Fire Department Board of Trustees or the City Council. In addition, supporting documentation was not available for all disbursements made directly to vendors and reimbursements to members of the Fire Department.

During our review of disbursements, we identified payments issued to cash and a number of payments to the former Fire Chief’s employer, Alex Air Apparatus. According to City and Fire Department officials we spoke with, the City was not made aware of the purchases from Alex Air Apparatus. As a result, the purchases were not formally approved by the Fire Department Board of Trustees or the City Council.

In addition, the City did not receive invoices from Alex Air Apparatus. According to City officials, it appears the invoices were sent directly to the former Fire Chief. Based on documentation received from Alex Air Apparatus, the former Fire Chief received \$11,757.43 in commissions from the sale of equipment to the City’s Fire Department. Of the \$11,757.43, Mr. Hunter deposited a \$2,629.88 commission check to the Fire Department’s account but withheld \$429.88 from the check in cash. We are unable to determine why he deposited his commission payment to the Fire Department’s account.

Because City officials or members of the Board of Trustees did not approve the purchases or have the opportunity to review the invoices prior to their payment, it appears Mr. Hunter may have had a conflict of interest by making the purchases from his employer for which he received a commission.

Recommendation – The City Council should implement procedures to ensure all disbursements are approved and supporting documentation is properly maintained. In addition, the City should implement procedures to ensure, whenever possible, purchases are made directly from the vendor rather than purchased by an employee and paid on a reimbursement basis.

In addition, for any purchases for which a potential conflict of interest may exist, the City should ensure the purchases are properly approved by the Council and the Board of Trustees. Also, the Council should consider the need to obtain bids in situations of this nature.

- (E) Public Purpose – Certain disbursements were identified which may not meet the requirement of public purpose as defined in an Attorney General’s Opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

During our review of disbursements, we identified 2 purchases of alcohol totaling \$318.39. It is not unusual for local fire departments to establish auxiliary organizations which raise funds used to support the department. Proceeds raised by auxiliary organizations are typically from fundraisers and similar events. As a result, the proceeds are not considered public funds and may be maintained separate from the City’s accounts. These funds may be used for purchases the City Council does not deem an appropriate use of City funds or for items which may not meet the test of public purpose.

Recommendation – City officials should determine and document the public purpose served by these expenditures before authorizing any further payments from City accounts or the separate accounts. If these practices continue, City officials should establish written policies and procedures for documenting the public purpose served.

- (F) Park and Recreation Department Bank Account – During our investigation, we identified an unauthorized bank account under the name of the City of Rodman Park and Recreation. The City did not become aware of this account until the bank statement was placed in the Mayor’s mail box instead of Mr. and Ms. Hunter’s mail box. According to the Mayor, Mr. and Ms. Hunter did not have the authorization or approval from the City Council to establish a bank account.

Recommendation – The City Council should approve the establishment of all City bank accounts. Also, all disbursements and revenue activity should run through the City’s accounting system.

Exhibits

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

Report on Special Investigation of the
City of Rodman

Summary of Findings
For the period January 1, 2006 through September 30, 2009

Description	Exhibit/Table	Improper	Unsupported	Total
Improper and unsupported disbursements:				
Checks payable to cash	Table 1	\$ 713.98	60.00	773.98
Cash withdrawals	Page 8	300.00	-	300.00
Payments to vendors	Table 2/Page 9	159.32	16.56	175.88
Payments to Alex Air Apparatus	Table 5	2,510.23	-	2,510.23
Reimbursements to Mr. Hunter	Exhibit B	1,004.27	242.31	1,246.58
Total		\$ 4,687.80	318.87	5,006.67

NOTE: In addition to the improper and unsupported disbursements, we determined \$429.88 was withheld from a deposit to the Fire Department's account by Paul Hunter. (See page 13.) The deposit consisted of a \$4,874.70 check from West Iowa Bank and a \$2,629.88 check to Mr. Hunter from Alex Air Apparatus. Based on documentation obtained from Alex Air Apparatus, the check was issued to Mr. Hunter for commissions. We are unable to determine why he deposited his commission payment to the Fire Department's account.

Report on Special Investigation of the
City of Rodman

Reimbursements to Mr. Hunter
For the period January 1, 2006 through September 30, 2009

Per Check			
Date	Number	Memo	Amount
Fire Department Account:			
02/21/06	1221	gas reimb., supplies	\$ 138.65
04/28/06	1248	Hillbilly days repayment for buying beer	298.00
05/16/06	1251	reimb gas (2) Ames/Sheldon	70.00
07/12/06	1265	reimburse - Hillbilly Days stuff	263.77
08/18/06	1279	reimburse stamps & parts	46.40
12/15/06	1305	Reimburs stamps, prioting, gas	100.00
12/22/06	1308	Reim expenses	64.06
03/15/07	1351	reimb. For <i>(illegible)</i> gen misc	198.21
07/04/07	1173	Reimburse H Day expense	137.81
01/28/08	1410	reimburse xpenses	100.65
			<u>1,417.55</u>
Park and Recreation Department Account:			
04/19/07	1001	(5) reimburse child/play signs	21.30
05/24/07	1007	Misc. expenses	100.00
07/13/07	1013	Reimbursement	<u>138.00</u>
			<u>259.30</u>
Total			<u><u>\$ 1,676.85</u></u>

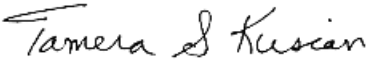
<u>Description per Supporting Documentation</u>	<u>Reasonable</u>	<u>Improper</u>	<u>Unsupported</u>	<u>Public Purpose</u>
<i>None</i>	-	138.65	-	-
<i>Receipt from Food Pride: Budweiser, Coors Light, Natural light totaling 289.80. No receipt for remaining \$8.20.</i>	-	8.20	-	289.80
<i>None</i>	-	70.00	-	-
<i>K-Mart: volleyball, vb net, spinn combo (\$71.63); Wal-Mart: - alum. foil, darts, trays, fishing lure (\$18.09); West Bend Cenex: Gas-14.1 gallons (\$38.00); Menards: Silverware (\$5.35), Spencer Trophys: Hillbilly Days and various trophies (\$65.20); Handwritten note: pop (\$65.50)</i>	133.07	65.20	65.50	-
<i>Bitz Small Engines: Part numbers 692076/493880 (\$7.40); Handwritten note: Roll of stamps (\$39.00)</i>	7.40	-	39.00	-
<i>None</i>	-	100.00	-	-
<i>None</i>	-	64.06	-	-
<i>None</i>	-	198.21	-	-
<i>Per handwritten post-in note: "phone bill long distance calls 2007 FD business, Hillbilly Days, Rodman Park & Rec (\$119.40); soda/plates for hillbilly days (\$18.41)</i>	-	-	137.81	-
<i>None</i>	-	100.65	-	-
	<u>140.47</u>	<u>744.97</u>	<u>242.31</u>	<u>289.80</u>
<i>None</i>	-	21.30	-	-
<i>None</i>	-	100.00	-	-
<i>None</i>	-	138.00	-	-
	-	<u>259.30</u>	-	-
	<u>140.47</u>	<u>1,004.27</u>	<u>242.31</u>	<u>289.80</u>

Report on Special Investigation of the
City of Rodman

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
Melissa J. Knoll-Speer, Senior Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

Report on Special Investigation of the
City of Rodman

Copies of Checks Payable to Cash

RODMAN FIRE DEPARTMENT
WEST BEND, IA 50597

72-2109/738
DATE 5/18/07

1366

PAY TO THE ORDER OF Cash \$125.00

One hundred twenty-five and 00/100 DOLLARS

Iowa Trust & Savings Bank
MEMO Parsons School

Emmetsburg, IA 512-437-3451
Cylinder, IA 512-424-3483
Member FDIC

Rodman Fire Dept.

1366 Arleta Deente

05/21/2007 1366 \$125.00

RODMAN FIRE DEPARTMENT
WEST BEND, IA 50597

72-2109/738
DATE 6/14/07

1388

PAY TO THE ORDER OF Cash \$58.34

Fifty-eight and 34/100 DOLLARS

Iowa Trust & Savings Bank
MEMO Reimburse

Emmetsburg, IA 512-437-3451
Cylinder, IA 512-424-3483
Member FDIC

Rodman Fire Dept.

1388 Arleta Deente

06/14/2007 1388 \$58.34

RODMAN FIRE DEPARTMENT
WEST BEND, IA 50597

72-2109/738
DATE 7/20/07

1175

PAY TO THE ORDER OF CASA \$87.75

Eighty-seven dollar's + 75/100 DOLLARS

Iowa Trust & Savings Bank
MEMO REIMBURSE EXP

Emmetsburg, IA 512-437-3451
Cylinder, IA 512-424-3483
Member FDIC

Rodman Fire Dept.

1175 Arleta Deente

07/24/2007 1175 \$87.75

Report on Special Investigation of the
City of Rodman

Copies of Checks Payable to Cash

RODMAN FIRE DEPARTMENT
WEST BEND, IA 50597

72-2109/739 1190

DATE: 8/17/07

PAY TO THE ORDER OF: Cash \$ 325.72

Three hundred twenty-five and 72/100s

Iowa Trust Savings Bank
Emmetsburg, IA 712-852-3411
Oskaloosa, IA 712-424-3485
Member FDIC

MEMO: HOSES + FITTINGS
Disc

Rodman Fire Dept.

1190 Anita Hunter

8/17/2007 1190 \$325.72

RODMAN FIRE DEPARTMENT
WEST BEND, IA 50597

72-2109/739 1191

DATE: 10/10/07

PAY TO THE ORDER OF: CASH \$ 117.17

ONE HUNDRED SEVENTEEN + 17/100s

Iowa Trust Savings Bank
Emmetsburg, IA 712-852-3411
Oskaloosa, IA 712-424-3485
Member FDIC

MEMO: REIMBURSE HALLWAY
FUEL NEW TRK

Rodman Fire Dept.

1191 Anita Hunter

10/11/2007 1191 \$117.17

RODMAN FIRE DEPARTMENT
WEST BEND, IA 50597

72-2109/739 1401

DATE: 11/15/07

PAY TO THE ORDER OF: CASH \$ 60.00

SIXTY DOLLAR'S + NO 100 DOLLARS

Iowa Trust Savings Bank
Emmetsburg, IA 712-852-3411
Oskaloosa, IA 712-424-3485
Levania, IA 712-541-2588
Member FDIC

MEMO: INSTRUCTORS CONF AHES

Rodman Fire Department

1401 Daney

12/13/2007 1401 \$60.00

Report on Special Investigation of the
City of Rodman

Copies of Authentic Alex Air Apparatus Invoice and
Invoice Submitted by Ms. Hunter

Authentic Invoice



ALEX AIR APPARATUS, INC.
11897 CO. RD. 87 SE
ALEXANDRIA, MN 56308

INVOICE

Date	Invoice #
11/6/2006	11395

Bill To
RODMAN FIRE DEPARTMENT 4TH & RODMAN WEST BEND, IA 50597

Ship To

P.O. NUMBER	TERMS	DUE DATE	Rep
	N 30	12/6/2006	VW

Quantity	Item Code	Description	Price Each	Amount
2	ACC	TRACKER LITES	20.00	40.00
2	ACC	BAGS	30.00	60.00
1	ACC	UK4AA HELMET LITE	15.00	15.00
1	PP	HELMET BRACKET	10.00	10.00
1	FS	RESCUE WRENCH	16.00	16.00

INVOICES NOT PAID WITHIN 30 DAYS ARE SUBJECT TO 1.5% FINANCE CHARGE	Subtotal	\$141.00
	Sales Tax (6.5%)	\$0.00
	Total	\$141.00
	Payments/Credits	\$-141.00
	BALANCE DUE	\$0.00

Phone #	Fax #	E-Mail	Web Site
800-264-2320	320-763-9077	rray@alexairapparatus.com	www.alexairapparatus.com

Report on Special Investigation of the
City of Rodman

Copy of Cash Withdrawal Document

IOWA TRUST & SAVINGS BANK		DDA DEBIT TRANSACTIONS	
DATE	7-28-06	ACCOUNT TITLE	<small>SLIP-34 M 1340758 BERNHARDT SOLUTIONS 953-841-6382</small>
CUSTOMERS NAME	Rodman Fire Dept	TRAN CODE	* 115
	Anita Hunter	ACCOUNT NUMBER	* [REDACTED]
SIGNATURE	<i>Anita Hunter</i>	AMOUNT	\$ 300.00
⑆5555⑆0575⑆			

[REDACTED] 07/28/2006

\$300.00

Report on Special Investigation of the
City of Rodman

Copy of Deposit Slip with Cash Withheld

DEPOSITED WITH		DESCRIPTION	DOLLARS	CENTS
Iowa Trust & Savings Bank		<input checked="" type="checkbox"/> CASH		
CB	ACCOUNT NUMBER	<i>W Sims bank Alex Qui</i>	4874.70	
*	[REDACTED]		2629.88	
For <i>Helman Trec Department</i>		TOTAL FROM OTHER SIDE		
Date <i>12/21/2007</i>		LESS CASH RECEIVED	429.88	
DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL		TOTAL DEPOSIT	\$ 7074.70	
SIGN HERE FOR LESS CASH RECEIVED				
1:5555 0151:				

[REDACTED] 12/21/2007

\$7,074.70