



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

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FOR RELEASE _____ March 18, 2010

Auditor of State David A. Vaudt today released a report on a special investigation of Oran Township in Fayette County for the period January 1, 2003 through September 22, 2009. The procedures were performed at the request of Township officials after the former Clerk, Anne McClain, resigned and admitted to Township Trustees she had embezzled funds from the Township. The former Clerk also provided \$1,500.00 in cash to the Trustees to replace the funds she took. Ms. McClain's resignation was effective September 22, 2009.

Vaudt reported the special investigation identified \$3,296.18 of improper disbursements and \$391.05 of disbursements which may not meet the test of public purpose. Vaudt also reported it was not possible to determine if there were additional disbursements which were improper or did not meet the test of public purpose or undeposited collections because limited records were available.

Vaudt reported Ms. McClain issued 25 checks to herself during her tenure as Clerk. Of the 25 checks, 7 were not recorded in the Township's check register, 2 were recorded as if they were issued to someone other than the former Clerk and 2 were recorded as "Void" even though they were actually issued to the former Clerk.

Vaudt also reported 21 of the 25 checks included a notation which indicated the payment was for "bookkeeping" or a portion of Ms. McClain's annual salary. The checks she issued to herself for bookkeeping services exceeded her authorized annual salary by \$2,655.00. Ms. McClain also issued 3 reimbursement checks to herself or her husband which were not approved by the Board and were not supported by appropriate documentation. The 3 checks total \$393.79.

In addition, Vaudt reported Ms. McClain issued a \$247.39 check to Sam's Club in July 2007. The payment was not supported by documentation and a Trustee was unable to identify any purchases Ms. McClain would have made at Sam's Club on behalf of the Township. The check memo indicated the payment was for office supplies, but this explanation did not appear reasonable to the Trustee.

Vaudt also reported it was not possible to determine if all collections for the rental of the Community Center were properly deposited by Ms. McClain because detailed receipts were not prepared and a centralized listing or calendar which summarized the dates the Community Center was rented was not kept.

The report also includes recommendations to strengthen the Township's controls over financial transactions, such as improvements to segregation of duties, performing bank reconciliations on a monthly basis, review of bank statements by an independent person and maintaining documentation of all disbursements.

Copies of the report have been filed with the Fayette County Sheriff's Office, the Division of Criminal Investigation, the Fayette 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
ORAN TOWNSHIP
FOR THE PERIOD
JANUARY 1, 2003 THROUGH SEPTEMBER 22, 2009**

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Auditor of State's Report

To the Members of
the Board of Trustees:

As a result of possible improprieties regarding certain disbursements and at your request, we have applied certain tests and procedures to selected financial transactions of Oran Township for the period January 1, 2003 through September 22, 2009, or as otherwise noted. Based on discussions with a Trustee 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) Reviewed the activity in the Township's checking account to identify any unusual activity and examined images of redeemed checks for propriety.
- (3) Reviewed payroll disbursements to the former Clerk to determine if all disbursements were authorized.
- (4) Examined all reimbursements made to the former Clerk to determine if payments were properly approved and supported.
- (5) Examined the check register prepared by the former Clerk and compared it to actual disbursements from the Township's checking account to identify any discrepancies.
- (6) Confirmed payments to the Township by Fayette County to determine whether they were properly deposited to the Township's accounts.

These procedures identified \$3,296.18 of improper disbursements and \$391.05 of disbursements which may not meet the test of public purpose. Because adequate records were not available, we were unable to determine if additional disbursements which were improper or did not meet the test of public purpose or undeposited collections occurred during this period. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary of this report.

The procedures we performed 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 Oran Township, other matters might have come to our attention that would have been reported to you.

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

We would like to acknowledge the assistance and many courtesies extended to us by officials and staff of Oran Township during the course of our investigation.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 18, 2009

Oran Township

Investigative Summary

Background Information

Oran Township covers approximately 35 square miles in Fayette County. The Township has a Community Center and several cemeteries. The Township also provides public safety services to its citizens through agreements with surrounding fire and rescue organizations. The Township is governed by a 3 member Board of Trustees, which employs a Township Clerk.

The Township hired Anne McClain as Clerk in January 2003. As the Clerk, Ms. McClain was responsible for:

- Receipts – collections, posting to the accounting records, deposit preparation and depositing of the receipts,
- Disbursements – making purchases, receiving certain goods and services, presentation of proposed disbursements to the Board of Trustees, maintaining supporting documentation, check preparation and signing, distribution and posting to the accounting records,
- Payroll – calculation, check preparation and signing, distribution and posting to the accounting records and
- Reporting – preparation of minutes for Board meetings and financial reports.

In accordance with section 359.47 of the *Code of Iowa*, the Clerk while engaged in official business is to be compensated an hourly rate established by the County Board of Supervisors. The compensation is to be paid by the county rather than the township. In accordance with section 360.2 of the *Code*, Clerks of townships which levy a tax for a Township Hall are also authorized to receive compensation from the township for handling the levied tax, but the compensation is limited to 1% of the tax collected.

The Township's primary revenue source is property tax collected by Fayette County and remitted to the Township. The Township also collects fees for Community Center rentals. All disbursements are to be made by checks and are to be authorized by the Board. The Township's checks required only Ms. McClain's signature. Bank statements and check images were not periodically reviewed by members of the Board.

According to a Trustee we spoke with, after the Board of Trustees' meeting on September 22, 2009, Ms. McClain announced she was resigning as of that night. She also admitted she had taken \$1,500.00 out of the Township's checking account and provided a personal reason for doing so. In addition, Ms. McClain provided \$1,490.00 cash to the Trustee. The next day she provided an additional \$10.00 cash and Township records which she had at her home.

On October 1, 2009, a representative of the Fayette County Sheriff's Office contacted the Office of Auditor of State regarding Ms. McClain's resignation and admission. As a result of the concerns identified, the Office of Auditor of State performed the procedures detailed in the Auditor of State's Report for the period January 1, 2003 through September 22, 2009.

Detailed Findings

These procedures identified \$3,296.18 of improper disbursements and \$391.05 of disbursements which may not meet the test of public purpose. Because adequate records were not available, we were unable to determine if additional improper disbursements, disbursements which may not meet the test of public purpose or undeposited collections occurred during this period. **Table 1** summarizes the disbursements we identified as improper or which may not meet the test of public purpose. Each of the findings are described in detail in the following paragraphs.

Table 1		
Description	Finding	Amount
Improper Disbursements:		
Unauthorized salary payments	1	\$ 2,655.00
Reimbursements	2	393.79
Payment to Sam's Club	3	247.39
Total improper disbursements		3,296.18
Less: Repayments	1	(1,500.00)
Net improper disbursements		1,796.18
Disbursements which may not meet the test of public purpose	4	391.05
Total		\$ 2,187.23

- 1) **Unauthorized Salary Payments** – According to a Trustee we spoke with, Ms. McClain's authorized salary was \$300.00 per fiscal year. The Trustee stated Ms. McClain was also eligible for reimbursement of any expenses she incurred on behalf of the Township.

Ms. McClain became the Clerk in January 2003. A primary duty of the Clerk is preparation of financial transactions, including preparing and depositing collections and preparing and issuing disbursements.

As previously stated, according to a Trustee we spoke with, after the Board of Trustees' meeting on September 22, 2009, Ms. McClain announced she was resigning as of that night. She also admitted she had taken \$1,500.00 out of the Township's checking account and provided a personal reason for doing so. In addition, Ms. McClain provided \$1,490.00 cash to the Trustee. The next day she provided an additional \$10.00 cash and Township records which she had at her home.

By reviewing the checks issued from the Township's checking account, we identified 25 checks Ms. McClain issued to herself. Each check contained a description of the payment in the memo portion of the check. The checks are listed in **Table 2** and categorized based on the description. As illustrated by the **Table**, check number 2043 was described as "tele bill 2006 Q-West." However, the bill was for \$150.00, which is the same amount as a number of the other checks Ms. McClain described as "bookkeeping."

According to the Trustee we spoke with, she was not aware of any reimbursements to Ms. McClain for telephone expenses she incurred on behalf of the Township. As a result, we have included the \$150.00 payment associated with check number 2043 in the amount paid to Ms. McClain for bookkeeping.

Table 2

Check Number	Date	Check Memo Description	Amount	
			Bookkeeping	Telephone
1932	07/17/03	bookkeeping	\$ 150.00	-
2014	12/05/03	bookkeeping	150.00	-
2033	06/05/04	bookkeeping	300.00	-
2035	06/08/04	tele-calls 12-1-03 6-8-04	-	132.00
2102	12/08/04	bookkeeping	300.00	-
2105	12/30/04	bookkeeping	150.00	-
2112	^ 01/10/05	bookkeeping	150.00	-
2138	07/28/05	bookkeeping	150.00	-
2139	^ 08/30/05	1st 1/2	150.00	-
2140	^ 08/31/05	bookkeeping - Aug	100.00	-
2145	09/30/05	2004 - 2005 tele	-	127.43
2146	^ 10/07/05	bookkeeping Sept & Oct	300.00	-
2152	^ 12/06/05	2nd 1/2	150.00	-
2210	05/01/06	bookkeeping	150.00	-
2227	# 08/20/06	June, July, Aug. Sept. bookkeeping	180.00	-
2225	# 09/12/06	2006 bookkeeping	300.00	-
2240	12/09/06	1/2 bookkeeping	150.00	-
2043	01/29/07	tele bill 2006 Q-West	150.00	-
2061	07/01/07	1/2 bookkeeping	150.00	-
2069	10/01/07	bookkeeping 1/2	150.00	-
2073	* 12/01/07	08 bookkeeping	300.00	-
2076	^ 12/06/07	1/2 2007 bookkeeping	300.00	-
2079	* 12/17/07	1/2 bookkeeping	350.00	-
2172	05/20/08	none	150.00	-
2241	^ 03/17/09	bookkeeping full year	300.00	-
Total			\$ 4,680.00	259.43

^ - Check was not included in the Township's check register.

* - Check was recorded in the check register as if it was issued to someone other than Ms. McClain.

- Check was recorded in the check register as "Void."

Table 3 summarizes Ms. McClain's authorized salary for January 2003 through September 2009. In addition, the **Table** also compares the salary the Trustees authorized for Ms. McClain to the total of the checks she issued to herself for "bookkeeping" and includes the amount Ms. McClain has repaid the Township. The \$2,655.00 of unauthorized payments Ms. McClain issued to herself and the \$1,500.00 of repayments are included in the summary in **Table 1**.

Table 3

Description	Amount
Total of checks issued to Ms. McClain for "bookkeeping"	\$ 4,680.00
Less: Salary authorized by Trustees	
01/01/03 – 06/30/03	150.00
07/01/03 – 06/30/04	300.00
07/01/04 – 06/30/05	300.00
07/01/05 – 06/30/06	300.00
07/01/06 – 06/30/07	300.00
07/01/07 – 06/30/08	300.00
07/01/08 – 06/30/09	300.00
07/01/09 – 09/30/09	75.00
	2,025.00
Overpayment	2,655.00
Less: Repayment	(1,500.00)
Net overpayment	\$ 1,155.00

As illustrated by **Table 2**, 7 of the checks to Ms. McClain for bookkeeping services were not recorded in the check register she maintained for the Township and 2 were recorded as "void" even though they were issued to Ms. McClain. In addition, 2 checks were recorded in the check register as if they had been issued to someone other than Ms. McClain. The information recorded in the check register is listed below:

- Check number 2073 was recorded as a \$300.00 payment to "Consolidate Energy."
- Check number 2079 was recorded as a \$350.00 payment to "Kelly & Miller Ins.– comp."

The annual salary authorized by the Board was to compensate Ms. McClain for all Township duties, including preparation of financial transactions, reporting and duties associated with the Community Center. However, as previously stated, in accordance with section 359.47 of the *Code of Iowa*, Ms. McClain was to be compensated an hourly rate established by the County Board of Supervisors for the time she spent conducting official business of the Township. The compensation should have been paid to Ms. McClain by Fayette County rather than the Township. However, the Board did not file a claim with the County for the compensation.

According to a County official, the hourly rate of compensation established by the Fayette County Board of Supervisors for Township Trustees and Clerks is currently \$7.25 per hour and \$20.00 per meeting. However, because Ms. McClain did not maintain records documenting the number of hours she worked for the Township, we are unable to determine the amount of compensation the Board should have requested for her. While we are unable to determine the amount of time Ms. McClain spent preparing financial transactions and reporting activities of the Township, it appears the amount would be minimal. The Board did not meet on a routine basis and the number of financial transactions recorded in the Township's bank account was typically less than 10 per month.

Also as previously stated, in accordance with section 360.2 of the *Code*, Clerks of Townships which levy a tax for a Township Hall are also authorized to receive compensation from the Township for handling the levied tax, but the compensation is limited to 1% of the tax collected. Because Oran Township has levied a tax for the Community Center, Ms. McClain was eligible to receive compensation paid by the Township. **Table 4** lists the amounts of tax the Township collected for the Community Center for fiscal years 2003 through 2009 and for a portion of fiscal year 2010. The **Table** also includes the 1% maximum Ms. McClain should have been paid by the Township for the same period.

Period	Tax Collected	1% Limit
07/01/02 – 06/30/03	\$ 2,120.21	21.20
07/01/03 – 06/30/04	3,970.83	39.71
07/01/04 – 06/30/05	4,061.60	40.62
07/01/05 – 06/30/06	3,970.83	39.71
07/01/06 – 06/30/07	3,998.15	39.98
07/01/07 – 06/30/08	4,038.16	40.38
07/01/08 – 06/30/09	4,370.11	43.70
07/01/09 – 02/10/10	2,601.93	26.02
Total	\$29,131.82	291.32

Table 4 includes information before and after the period of our investigation because of the manner in which it was provided to us by the Fayette County Treasurer's Office.

Because the \$2,655.00 of payments Ms. McClain issued to herself in excess of the Board authorized amount has already been included in **Table 1**, the \$291.32 shown in **Table 4** has not been included.

- 2) **Improper Reimbursements** – As illustrated by **Table 2**, Ms. McClain issued 3 checks to herself which were described in the memo portion of the checks as reimbursement of telephone expenses. As previously stated, the Trustee we spoke with stated Ms. McClain would have been eligible for reimbursement of any expenses she incurred on behalf of the Township. However, she was not aware of any reimbursements to Ms. McClain for telephone expenses she incurred on behalf of the Township. In addition, the disbursements were not included in the minutes of the Trustee meetings as approved by the Board and support for the disbursements could not be located. It is unclear if any support was provided to the Board at the time of the payments.

Also as previously stated, because check number 2043 was for \$150.00, which is the same amount as a number of the other checks Ms. McClain described as “bookkeeping,” we included the \$150.00 payment in the amount paid to Ms. McClain for bookkeeping.

In addition, during our review of checks issued from the Township's checking account, we determined check number 2171 was issued to Ms. McClain's husband, Bill McClain. The check cleared the bank on March 11, 2008 and was dated March 7, 2008. According to the notation in the memo portion of the check, the payment was reimbursement for new locks. We discussed this payment with a Trustee who did not recall authorizing the payment to Mr. McClain. In addition, she did not recall the locks being changed in 2008.

According to minutes of the March 13, 2006 Board meeting, the Trustees authorized changing the locks. However, according to the Trustee we spoke with, a local vendor likely did that work. We found a \$24.60 check issued to the vendor which cleared the bank on

April 21, 2006. Because we are unable to determine why the payment was made to Mr. McClain, it has been included in **Table 5**. The **Table** includes the improper reimbursements we identified.

Table 5

Check Date	Check Number	Payee	Memo	Amount
2035	06/08/04	Anne McClain	tele-calls 12-1-03 6-8-04	\$ 132.00
2145	09/30/05	Anne McClain	2004 – 2005 tele	127.43
2205	04/21/06	Bill McClain	Repymt of new locks	134.36
Total				<u>\$ 393.79</u>

- 3) **Payment to Sam’s Club** – During our review of disbursements, we identified a \$247.39 payment to Sam’s Club. The payment was made on July 12, 2007 with check number 2066. The memo portion of the check states “office supplies.” There was no support for the payment in the Township’s records.

The payment appeared unusual because we did not identify any other payments to Sam’s Club or similar vendors. We also did not identify any other payments described as “office supplies” during the period of our investigation. In addition, the check was for a relatively large amount.

We discussed the payment with a Trustee who was unable to provide any explanation for a purchase of this amount from Sam’s Club or any purchases Ms. McClain would have made on behalf of the Township at Sam’s Club. The Trustee also did not think the explanation of “office supplies” sounded reasonable for the amount of the check or for the Township’s needs. As a result, we determined the payment was improper.

- 4) **Public Purpose** - During our review of disbursements, we identified 3 payments for items such as memorials and flowers which were paid for from the Township’s checking account. The 3 payments total \$316.05.

We also identified a \$75.00 check issued to Westgate Tap on December 18, 2007. According to a Trustee we spoke with, the Board discussed some type of recognition for a Trustee who was departing the Board at the end of December 2007. As a form of recognition, the departing Trustee (who was Ms. McClain’s mother-in-law), the 2 remaining Trustees and all 3 respective spouses went out for dinner at the Westside Tap. The bill was paid from the Township’s checking account. Of the 2 remaining Trustees, 1 still currently serves on the Board and the third was Ms. McClain’s husband.

These 4 disbursements, which total \$391.05, may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979. According to the Opinion, it is possible for certain expenditures 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. The Board did not document the public purpose served by these disbursements.

- 5) **Township Collections** – As Clerk, Ms. McClain was responsible for the proper deposit of all Township collections. The primary revenue sources for the Township include property tax collected by Fayette County and remitted to the Township and rental fees from the Community Center. We confirmed payments to the Township by Fayette County to determine if they were properly deposited to the Township’s account. We determined all

payments from the County were properly deposited to the Township's checking account. However, because detailed receipts were not prepared and a centralized listing or calendar was not kept which summarized the dates the Community Center was rented, we were unable to determine if all collections were properly deposited.

RECOMMENDED CONTROL PROCEDURES

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

- A) Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The former Clerk had control over each of the following areas:
- (1) Receipts – collecting, posting, deposit preparation and depositing.
 - (2) Disbursements – check preparation, signing, posting and distribution.
 - (3) Payroll – check preparation, signing, posting and distribution.
 - (4) Reporting – preparation of monthly Clerk's report and Board minutes.

In addition, the former Clerk was responsible for reconciling the Township's financial records to the monthly bank statements.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the functions listed above should be segregated between the Clerk and Trustees. In addition, Trustees should review financial records, perform reconciliations and examine supporting documentation for accounting records on a periodic basis.

In addition, the monthly bank statement should be mailed directly to someone who is independent of other financial responsibilities. This individual should review the statements in a timely manner and investigate any unusual transactions. The individual reviewing the bank statements should also ensure all payments to the Clerk (or anyone issuing checks from the Township's account) are properly supported and approved by the Board.

The Board should also ensure appropriate documentation is maintained which records the dates the Community Center is rented and the related fees collected. The documentation should periodically be compared by an independent person to deposits made to the checking account.

- B) Board Minutes – Chapter 21 of the *Code of Iowa* requires minutes be kept of all meetings of governmental bodies. During our review of minutes, we determined:
- (1) The minutes were not always properly signed by the former Clerk or a Trustee to authenticate the record.
 - (2) Not all disbursements were presented to the Board for its approval.

Recommendation – The Board should ensure the Clerk and a Trustee sign all meeting minutes and the signed copy of the minutes is maintained in the minute book. The Board should also ensure all obligations are presented to Board for its approval.

- C) Disbursements – During our review of the Township’s financial activity, we identified disbursements made directly to vendors and reimbursements to the former Clerk without supporting documentation.

Recommendation - The Board should implement procedures to ensure payments to all vendors are supported by documentation which is sufficient to determine specifically what they are paying for and to ensure each payment is an appropriate use of Township funds. In addition, the documentation should be reviewed prior to payment to ensure only appropriate or reasonable items are paid.

- D) Public Purpose – We identified 4 disbursements that may not meet the requirements 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 opinion under certain circumstances, although such items will certainly be subject to a deserved closed scrutiny. The line to be drawn between proper and an improper purpose is very thin.

Recommendation – The Board should determine and document the public purpose served by these disbursements. If the Board continues to purchase items, such as flowers and meals, the Board should establish written policies and procedures, including the requirement for documentation of public purpose served.

- E) Trustees’ and Clerk’s Pay – During our investigation, we determined the Clerk was paid with Township funds. In accordance with the *Code of Iowa*, the Trustees and Clerk should be paid by the County for official business conducted on behalf of the Township. Specifically, sections 359.46 and 359.47 of the *Code* provide the County Board of Supervisors shall set compensation at an hourly rate or a minimum daily rate and the compensation shall be paid by the County.

In addition, section 360.2 of the *Code* allows the Township to compensate the Clerk up to 1% of the tax collected for and remitted to the Township by the County for the Community Center.

Recommendation – The Board should implement procedures to ensure compensation paid to the Trustees and the Clerk is paid by the County in accordance with sections 359.46, 356.47 and 360.2 of the *Code of Iowa*.

- F) Community Center – During our review of the Township’s Community Center collections, the following conditions were identified:

- (1) Pre-numbered receipts were not utilized.
- (2) A listing or calendar which summarized the dates the Community Center was rented was not maintained.
- (3) A listing of all cash and checks received was not prepared prior to deposit.

Recommendation – Pre-numbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all funds collected. The Township should develop written procedures for the rental of the Community Center, including requiring documentation of the dates the Community Center is rented.

Report on Special Investigation of
Oran Township

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
Kurt D. Goldsmith, Assistant Auditor



Tamera S. Kusian, CPA
Deputy Auditor of State