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NEWS RELEASE

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FOR RELEASE _____ May 1, 2014 _____

Auditor of State Mary Mosiman today released a report on a special investigation of the City of Kinross for the period January 15, 2008 through October 31, 2013. The special investigation was requested by City officials after the former City Clerk admitted she issued unauthorized checks to herself.

Mosiman reported the special investigation identified \$20,316.07 of improper and unsupported disbursements. The improper disbursements of \$19,536.99 include \$16,726.27 of unauthorized payments to Toni Miller, the former City Clerk, for payroll, reimbursements, and mileage. The improper disbursements also include \$200.00 of cash withdrawals and \$2,610.72 of payments to various vendors. The \$779.08 of unsupported disbursements includes reimbursements to Ms. Miller which were approved by the City Council for which supporting documentation was not available.

In addition, it was not possible to determine if collections were properly deposited because adequate records for receipts were not available. However, according to a written statement Ms. Miller provided to the Keokuk County Sheriff's Office, "I have also on two occasions kept cash contributions made to the City of Kinross and failed to deposit these contributions into the City bank account."

Mosiman also reported a \$2,417.00 personal check from Ms. Miller was deposited in a City bank account on February 3, 2010. According to a written statement Ms. Miller provided to the Keokuk County Sheriff's Office, the check was to "pay back" the City.

The report includes recommendations to strengthen the City's internal controls, such as improvements to segregation of duties, reconciling utility billings, collections and delinquent accounts, and ensuring all disbursements are properly supported.

Copies of the report have been filed with the Keokuk County Attorney's Office, the Keokuk County Sheriff's Office, the Attorney General's Office, and the Division of Criminal Investigation. 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/1322-0508-BE00.pdf>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF KINROSS
FOR THE PERIOD
JANUARY 15, 2008 THROUGH OCTOBER 31, 2013**

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Auditor of State's Report

To the Honorable Mayor and
Members of the City Council:

As a result of alleged improprieties regarding certain financial transactions and at your request, we conducted a special investigation of the City of Kinross. We have applied certain tests and procedures to selected financial transactions of the City for the period January 15, 2008 through October 31, 2013. Based on our review of relevant information and discussions with City officials, we performed the following procedures:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Reviewed activity in bank accounts held by the City to identify any unusual activity.
- (3) Examined deposits to the City's bank accounts to determine the source, purpose and propriety of each deposit and determine if deposits were made intact.
- (4) Scanned all disbursements from the City's bank accounts. We also examined documentation for certain disbursements to determine whether they were appropriate, properly approved and properly supported.
- (5) Examined payroll disbursements to all City officials and the former City Clerk, Toni Miller, to determine if the amount and frequency of the payments were reasonable.
- (6) Examined reimbursements to Ms. Miller and City officials to determine if payments were properly approved and supported.
- (7) Confirmed payments to the City by the State of Iowa and Keokuk County to determine if they were properly deposited to the City's bank account in a timely manner.
- (8) Examined utility billing and collection records to determine if collections were properly accounted for and deposited.
- (9) Reviewed reports prepared by Ms. Miller to determine if financial information was accurately reported to the City Council.
- (10) Obtained and reviewed Ms. Miller's personal bank statements to identify the source of certain deposits.

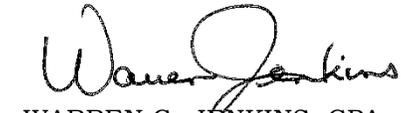
These procedures identified \$20,316.07 of improper and unsupported disbursements. We were unable to determine if collections were properly deposited because adequate records for receipts were not available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibits A** through **E** 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 Kinross, other matters might have come to our attention that would have been reported to you.

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

We would like to acknowledge the assistance extended to us by officials of the City of Kinross during the course of our investigation.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 24, 2014

City of Kinross
Investigative Summary

Background Information

The City of Kinross is located in Keokuk County and has a population of approximately 70. The City employs a City Clerk. The City Clerk and City officials are paid semi-annually. Toni Miller was hired as the City Clerk on October 4, 2005. As the City Clerk, Ms. Miller was responsible for:

- 1) Receipts – collecting, posting to the accounting records and preparing and making bank deposits,
- 2) Disbursements – making purchases, receiving certain goods and services, presenting disbursements to the City Council for approval, maintaining supporting documentation, preparing, signing and distributing checks and posting payments to the accounting records,
- 3) Payroll – calculating, preparing, signing and distributing checks and posting payments to the accounting records,
- 4) Utility billings – preparing and mailing billings, receipting and depositing collections, posting collections to accounting records and preparing and making bank deposits,
- 5) Bank accounts – receiving and reconciling monthly bank statements to accounting records, and
- 6) Reporting – preparing City Council meeting minutes and financial reports, including monthly Clerk register reports and the Annual Financial Report.

The City's primary revenue sources include local option sales tax and road use tax from the State of Iowa and property tax collected by Keokuk County and remitted to the City. Revenue is also received from customers for garbage service. The City receives payments from the State and County electronically. All other payments are collected through the mail, in person or in the utility collection box located at City Hall. Ms. Miller did not prepare receipts for all collections or record the collections on an initial receipts listing.

All City disbursements, including payroll, are to be made by check. All disbursements are to be supported by invoices or other documentation obtained by or submitted to the City Clerk. Each month, the City Clerk is to prepare a listing of bills and provide the listing to the City Council for approval. After the City Council approves the bills, the City Clerk is to prepare and sign the checks. The checks are to be counter-signed by the Mayor.

The City maintains a checking account and 2 savings accounts at a bank in South English, Iowa. Monthly statements for the City's checking account and savings accounts are mailed directly to the City Clerk's home. Bank statements and check images are not periodically reviewed by members of the City Council. The bank statements were not reconciled to the City's accounting system.

According to the Mayor, Ms. Miller was not required to maintain regular office hours. He also stated Ms. Miller often worked from home and believed she used her home computer to maintain the City's accounting system and track utility information. A computer was also located in City Hall, but City accounting records were not found on it. After Ms. Miller's resignation, she returned a number of City records which had been located at her home.

On October 17, 2013, the Mayor received a call from the City's bank regarding a check issued to Ms. Miller in the amount of \$1,000.00, with a notation of "personal loan" in the memo line. A copy of the check is included in **Appendix 1**. City officials discussed the check with Ms. Miller the following day. According to Ms. Miller, it was a mistake after she ran into some financial problems. Ms. Miller promised to repay the amount and indicated it was the first time she had improperly issued herself a check from the City's checking account. However, Ms. Miller provided a written statement to the Keokuk County Sheriff's Office later that day which stated she began writing checks to herself from the City's bank account in 2009. In the written statement, she also said she had written checks to a convenience store and had kept cash contributions made to the City. A copy of Ms. Miller's handwritten voluntary statement is included in **Appendix 2**.

The City Council accepted Ms. Miller's resignation on October 19, 2013. She turned over the keys to City Hall and City records to City officials when she resigned.

As a result of Ms. Miller's admissions, City officials requested the Office of Auditor of State review the City's financial transactions. We performed the procedures detailed in the Auditor of State's Report for the period January 15, 2008 through October 31, 2013.

Detailed Findings

The procedures performed identified \$20,316.07 of improper and unsupported disbursements. The improper disbursements of \$19,536.99 identified include \$16,726.27 of unauthorized payments to Ms. Miller for payroll, reimbursements, and mileage. The improper disbursements also include \$200.00 for a cash withdrawal and \$2,610.72 for payments to vendors.

The \$779.08 of unsupported disbursements identified included checks issued to Ms. Miller which the City Council approved but for which supporting documentation was not available. We were unable to determine if collections were properly deposited because adequate records for receipts were not available. All findings are summarized in **Exhibit A** and a detailed explanation of each finding follows.

IMPROPER AND UNSUPPORTED DISBURSEMENTS

We reviewed all disbursements from the City's checking account for the period January 15, 2008 through October 31, 2013. In addition, we reviewed any available documentation related to the payments to determine if they were appropriate and discussed all disbursements which were unusual in nature with City officials. We also reviewed copies of City Council meeting minutes which included approved disbursement listings.

Based on our review of the available supporting documentation, the vendor, the frequency and amount of payments, and discussion with the Mayor, we classified the payments as improper or unsupported. Payments were classified as improper if they appeared to be personal in nature or were not reasonable for the City's operations. Payments were classified as unsupported if the City Council approved the payment but appropriate documentation was not available or if it was not possible to determine if the payment was related to City operations or was personal in nature.

The improper and unsupported disbursements we identified were issued by Ms. Miller to herself and certain vendors and are explained in detail in the following sections of the report.

Checks Issued to Toni Miller – During our review of the City’s bank statements and check images, we identified 58 payments Ms. Miller issued to herself for payroll, mileage, and other reimbursements between January 15, 2008 and October 19, 2013. The checks total \$20,481.28.

Supporting documentation could not be located for the 58 checks. As a result, we reviewed copies of City Council meeting minutes to determine if the City Council approved the 58 checks issued to Ms. Miller and we discussed the 58 checks with City officials to determine the propriety of the payments. City officials we spoke with identified 5 checks issued to Ms. Miller which contained their name as the countersignature; however, they stated they did not sign the 5 checks.

Based on our review of the City Council meeting minutes, 6 of the 58 checks issued to Ms. Miller were approved by the City Council. They were described in the memo portion as reimbursements for petty cash, Computer Express, and Kmart. The 6 checks, which are listed in **Table 1**, appear reasonable based on the vendor, amount, and frequency of payment. As illustrated by the **Table**, the checks described as petty cash were not even dollar amounts and were issued infrequently. According to a City Council member we spoke with, the \$135.00 check with the “Computer Express” notation was for the repair of the computer in City Hall. The City Council member also recalled an authorized purchase from Kmart, but could not recall any specific information about the items purchased. Because supporting documentation was not available to determine if the disbursements were for City operations or were personal in nature, the \$779.08 total is included in **Exhibit A** as unsupported disbursements.

Table 1

Check Date	Check Number	Amount	Memo Line
05/06/08	2611	\$ 62.66	Petty Cash
05/05/09	2731	51.74	Petty cash
02/02/10	2835	135.00	Computer Express
12/07/10	2936	337.23	Kmart.com
02/01/11	2951	96.56	Petty cash
03/06/12	3080	95.89	Petty cash
Total		<u>\$ 779.08</u>	

Payroll disbursements were approved by the City Council for 11 months during the period of our review; however, check numbers, names, and amounts approved for payroll were not included in the disbursement listing approved by the City Council. Payroll, mileage, and other reimbursements are discussed in detail in the following paragraphs.

Payroll – The City did not have any resolutions or other documents to establish Ms. Miller’s authorized salary. In addition, payroll registers were not available. We reviewed Iowa Public Employees’ Retirement System (IPERS) reports and W-2 forms (Wage and Tax Statements) to determine the gross wages Ms. Miller reported for herself for the period prior and subsequent to June 2009. As a result, we determined Ms. Miller received \$250.00 semi-annually prior to June 2009 and \$300.00 semi-annually subsequent to June 2009.

According to the Mayor, Ms. Miller was authorized to receive \$300.00 semi-annually at the time of her resignation. However, the minutes of the May 7, 2013 City Council meeting document the City Council approved a \$100 per meeting raise to Ms. Miller’s salary, effective July 1, 2013.

The minutes also document the Mayor was not at the meeting, a City Council member acted as Mayor Pro-tem and did not vote on the raise and the 4 remaining City Council members unanimously approved the raise. According to the City Council member acting as Mayor Pro-tem and another City Council member, they do not recall approving a raise for Ms. Miller. In addition,

they stated the raise would have doubled Ms. Miller's salary and the City did not have the funds available to pay this amount for a City Clerk. However, according to another City Council member, he remembered motioning for a pay increase but could not remember the amount. The 2 remaining City Council members currently reside in a foreign country and were not available to discuss this issue with them.

As previously stated, Ms. Miller was responsible for preparing minutes of City Council meetings. According to 3 City Council members we spoke with, none of them read the minutes, but they relied on Ms. Miller to read the minutes aloud to the City Council members during the subsequent meeting. They then voted to accept the minutes based on what she read aloud to them. Because Ms. Miller was responsible for preparing the minutes and reading them to the City Council members and the minutes were approved without actual review by the City Council members, she had the opportunity to have the minutes reflect what she wished. As a result, we are unable to confirm the pay increase shown in the City Council minutes was approved and we have not included the pay raise as part of Ms. Miller's authorized salary.

Because a payroll register was not available, we determined the maximum amount of Ms. Miller's authorized net pay for the period January 2008 through October 2013 by calculating the amount of IPERS and FICA which should have been withheld from her authorized monthly salary. The calculation of Ms. Miller's maximum authorized net pay for the period of her employment is summarized in **Table 2**.

Table 2

Period	Authorized Gross Semi-Annual Salary	IPERS Contributions	FICA Withholdings	Maximum Semi-Annual Net Pay
01/01/08 – 06/30/08	\$ 250.00	9.75	19.13	221.12
07/01/08 – 12/31/08	250.00	10.25	19.13	220.62
01/01/09 – 06/30/09	300.00	12.30	22.95	264.75
07/01/09 – 12/31/09	300.00	12.90	22.95	264.15
01/01/10 – 06/30/10	300.00	12.90	22.95	264.15
07/01/10 – 12/31/10	300.00	13.50	22.95	263.55
01/01/11 – 06/30/11	300.00	13.50	22.95	263.55
07/01/11 – 12/31/11	300.00	16.14	22.95	260.91
01/01/12 – 06/30/12	300.00	16.14	22.95	260.91
07/01/12 – 12/31/12	300.00	17.34	22.95	259.71
01/01/13 – 06/30/13	300.00	17.34	22.95	259.71
07/01/13 – 10/31/13*	200.00	11.90	15.30	172.80
Total	\$ 3,400.00	163.96	260.11	2,975.93

* - Includes prorated pay for July 2013 through October 2013, the month of Ms. Miller's resignation.

As illustrated by the **Table**, Ms. Miller was authorized to receive 12 checks totaling \$2,975.93 for the period January 1, 2008 through October 31, 2013. However, we identified 16 of the 58 checks issued to Ms. Miller were payroll related. The 16 checks totaling \$6,269.50 are listed in **Exhibit B**. As illustrated by the **Exhibit**, the memo portion of 3 checks indicated they were a bonus. Based on our review of City Council minutes, the City Council did not approve or authorize any bonuses for Ms. Miller or other City officials.

We compared the authorized maximum semi-annual net pay amounts calculated in **Table 2** to the 16 checks listed in **Exhibit B** to determine if Ms. Miller issued herself the proper payroll amounts. Of the 16 checks, only 3 agreed with the maximum amounts calculated. The 3 checks

are dated June 3, 2008, December 2, 2008 and April 29, 2010. Each of the remaining 13 checks exceeded the maximum amount of Ms. Miller's authorized net pay.

Although two of the checks listed in **Exhibit B** reportedly include mileage, Ms. Miller was not authorized to travel and receive mileage reimbursements, as described in a subsequent section of this report. As a result, **Table 3** compares the amount paid to Ms. Miller to her authorized maximum net pay. Ms. Miller received \$3,293.57 more than authorized, as illustrated by the **Table**. The \$3,293.57 is included in **Exhibit A** as improper disbursements.

Table 3

Period	Actual Payments	Maximum Semi-Annual Net Pay	Excess Payments
01/01/08 – 06/30/08	\$ 221.12	221.12	-
07/01/08 – 12/31/08	220.62	220.62	-
01/01/09 – 06/30/09	298.75	264.75	34.00
07/01/09 – 12/31/09	364.75	264.15	100.60
01/01/10 – 06/30/10	764.15	264.15	500.00
07/01/10 – 12/31/10	840.60	263.55	577.05
01/01/11 – 06/30/11	540.60	263.55	277.05
07/01/11 – 12/31/11	737.96	260.91	477.05
01/01/12 – 06/30/12	266.91	260.91	6.00
07/01/12 – 12/31/12	732.62	259.71	472.91
01/01/13 – 06/30/13	531.42	259.71	271.71
07/01/13 – 10/31/13*	750.00	172.80	577.20
Total	\$ 6,269.50	2,975.93	3,293.57

* - Includes prorated pay for July 2013 through October 2013, the month of Ms. Miller's resignation.

Mileage and Other Reimbursements – Supporting documentation was not available for the remaining 36 checks. As a result, we reviewed the checks for reasonableness by considering the vendor, frequency, and the amount of the payments. We also discussed the 36 checks with City officials to determine the propriety of the checks based on the notations in the memo line.

Of the 36 checks, the memo lines indicated 7 were for mileage, 7 were reimbursements for purchases made at a specific vendor, 2 were personal loans, and 2 were related to Hogtober Fest. In addition, 14 of the checks did not include a notation in the memo line. The memo notations do not appear to be an accurate description of the payments based on the following:

- City officials we spoke with stated Ms. Miller never submitted any mileage reimbursement requests to the City Council for approval and could not determine a reason for Ms. Miller to travel.
- City officials we spoke with stated Ms. Miller often worked from home and believed she used her home computer to maintain the City's accounting system and track utility information. According to City officials, Ms. Miller was not authorized to purchase a computer because a computer was located at City Hall.
- City officials we spoke with stated Ms. Miller's only involvement with Hogtober Fest was collecting donations. Ms. Miller was not responsible for purchasing supplies for the event.

- Cities do not grant personal loans to employees.
- Most of the payments which were not described in the memo line as payroll were for even dollar amounts. Reimbursements of mileage and any other costs incurred on behalf of the City are not usually in even dollar amounts.

In addition, according to Ms. Miller's voluntary statement, "In 2009, I began writing checks from the City bank account ... to myself and depositing into my own personal checking account." As previously stated, a copy of Ms. Miller's voluntary statement is included in **Appendix 2**.

Exhibit C lists the 36 checks Ms. Miller issued to herself with notations in the memo line such as mileage, reimbursements, and other miscellaneous items. The \$13,432.70 total of the 36 checks is included in **Exhibit A** as improper disbursements.

Cash Withdrawal – As previously stated, all City disbursements are to be made by check and are to be supported by invoices or other documentation obtained by or submitted to the City Clerk. During our review, we identified a counter check dated August 1, 2009 issued to "Cash" in the amount of \$200.00 and signed by Ms. Miller. There was no supporting documentation for the withdrawal. According to the Mayor, he was unable to determine a reason Ms. Miller would need to withdraw cash. As a result, we have included the \$200.00 in **Exhibit A** as an improper disbursement.

Payments to Vendors – As previously stated, the City has a checking account and 2 savings accounts. We reviewed all disbursements from the City's checking account and savings accounts.

We identified 42 disbursements totaling \$2,610.72 which are listed in **Exhibit D**. Because supporting documentation could not be located for the disbursements, we attempted to obtain invoices or receipts from the vendor. However, the invoices and/or receipts from Menards were no longer available. As a result, we discussed certain disbursements with the Mayor.

As illustrated by the **Exhibit**, 40 of the 42 disbursements were to Casey's General Store. Of the 40 disbursements, 14 were electronic withdrawals and 26 were checks. According to the Mayor, the City does not own or maintain any vehicles. In addition, the individual hired to provide mowing service for the City is responsible for purchasing fuel and a payment is issued to the individual. According to the Mayor, Ms. Miller did not provide any mowing service. In addition, City officials we spoke with stated Ms. Miller did not travel and was not approved for travel.

Also, according to Ms. Miller's voluntary statement, she admitted to having "written checks from the City account to Casey's in Wellman on several occasions." A copy of Ms. Miller's voluntary statement is included in **Appendix 2**. During our review of Ms. Miller's personal bank account, we identified Ms. Miller received compensation from Casey's through electronic deposits beginning in September 2011 and continuing through October 31, 2013. As illustrated by **Exhibit D**, disbursements to Casey's began in August 2009 and continued through October 2013.

The remaining 2 disbursements were electronic withdrawals from the City's checking account to Menards. According to the Mayor, he purchased items at Menards for the City but he used his personal credit card and received reimbursement from the City. In addition, the Mayor stated issuing reimbursements would be normal practice for City operations. However, according to the Mayor, he could not recall any large purchases for any City projects during that time.

The \$2,610.72 of payments to vendors identified are included in **Exhibit A** as improper disbursements.

COLLECTIONS

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

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

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

Garbage Fees – Garbage service is provided to each household. Each household is billed each month for service. Monthly reconciliations of the amounts billed, collected, deposited and delinquent amounts are not prepared. In addition, sufficient records were not maintained to determine who paid and who was delinquent. Also, some households pay for more than 1 month’s service at a time. During our review of deposits, we determined most payments are made in cash. We compared what should have been collected, based on the number of households served, to the amount deposited. As a result of this comparison, we determined the amounts billed and deposited appeared reasonable based on the number of households served and the rates established by the City Council.

In addition, we reviewed the information recorded in the City’s records for Ms. Miller’s garbage fees to determine if she properly remitted payments to the City for the service provided. The records available indicate she paid the City for the service, but we are unable to verify the accuracy of the information she recorded. Sufficient records are not available from the City to trace recorded payments to collections deposited to the City’s bank accounts. As a result, we are unable to verify Ms. Miller remitted the proper amounts for garbage fees. However, according to a City representative, Ms. Miller has not paid her garbage fees since she resigned from the City. As a result, Ms. Miller has an outstanding obligation to the City in the amount of \$30.00 for the period of November 1, 2013 through January 31, 2014.

Miscellaneous Revenues – According to a City official, the City has an annual festival called Hogtober Fest for which Ms. Miller is responsible for collecting and depositing donations for the City. During our review of available supporting documentation, we were unable to locate any receipts which supported Hogtober Fest collections by the City. In addition, City officials were unable to determine an amount of possible collections by the City. Because we were unable to determine the source of cash collections during our review of City deposits, we were unable to determine how much was deposited by the City for Hogtober Fest. However, according to Ms. Miller’s voluntary statement, she stated she kept cash contributions made to the City on 2 occasions and did not properly deposit the collections to the City’s bank account. A copy of Ms. Miller’s voluntary statement is included in **Appendix 2**. Because adequate supporting documentation was not available, we are unable to identify an amount of undeposited collections.

Repayment – According to Ms. Miller’s voluntary statement, “I did pay back approximately \$2,400.00 in 2009, writing a personal check to the City of Kinross and depositing this into the City account.” We reviewed the City deposits and identified a deposit on February 3, 2010 in the amount of \$2,655.23. The deposit included a \$2,417.00 check from Ms. Miller dated February 1, 2010. A copy of Ms. Miller’s check is included in **Appendix 3**. The \$2,417.00 is also included in **Exhibit A** as a repayment by Toni Miller.

OTHER ADMINISTRATIVE ISSUES

Improperly Reported Balances – As previously stated, Ms. Miller was responsible for preparing reports for the City Council. The reports were to include the current bank balance for each account held by the City. We determined the balance reported by Ms. Miller for the checking account held by the City did not agree with the balance shown on the related bank statement. Ms. Miller reported balances larger than the actual balance in the accounts for 44 of the 69 monthly reports available for our review. The differences are listed by account in **Exhibit E** for each month. As illustrated by the **Exhibit**, the largest differences were in the City’s checking account and varied from \$0.26 to approximately \$13,800.00.

Annual Financial Reports (AFRs) – As previously stated, Ms. Miller was responsible for preparing the City’s Annual Financial Reports (AFRs). We compared the cash balance reported to the City’s bank account to determine if reported balances were accurate.

Table 4 compares the cash balances included on the AFRs prepared by Ms. Miller to the actual bank balances obtained from the bank statements.

Description	2008	2009	2010	2011	2012
<u>Annual Financial Report:</u>					
Cash and Investments	\$ 9,206.00	4,274.00	17,102.00	16,831.00	3,600.00
<u>Bank Statement:</u>					
White State Bank	17,455.77	6,347.03	18,545.40	14,680.84	13,376.95
Variance	\$ (8,249.77)	(2,073.03)	(1,443.40)	2,150.16	(9,776.95)

In addition, we determined the beginning fund balance reported by Ms. Miller for each AFR reviewed did not agree to the ending fund balance reported on the prior year’s report.

Department of Transportation (DOT) City Street Financial Reports – As previously stated, Ms. Miller was responsible for preparing the City’s Street Financial Reports (DOT Report). We compared the receipts and disbursements reported to the City’s disbursements in the checking account to determine if receipts and disbursements were accurate. In addition, we reviewed all City street related disbursements to determine if Ms. Miller properly reported all allowable street related disbursements.

As a result, we determined Ms. Miller properly reported receipts and disbursements on the City’s DOT Report. However, we identified Ms. Miller did not properly report the costs incurred by the City for street lights. Based on our review of the City’s checking account for the period February 1, 2008 through June 30, 2013, we identified \$16,748.55 of electric bills for the street lights. Because Ms. Miller did not properly report all allowable disbursements, the City’s DOT Report does not accurately reflect the costs incurred by the City for street lights.

The City’s DOT report for fiscal year 2013 shows an ending balance of \$59,841.00. However, the actual ending balance should be \$43,092.00 to accurately reflect the electric bills for street lights during the period of our review. We are unable to determine if the City reported electric bills for street lights prior to fiscal year 2009 because DOT Reports prior to fiscal year 2009 were not available for review.

Section 312.6 of the *Code of Iowa* allows road use tax funds to be used for expenditures directly related to the “construction, maintenance, and supervision of the public streets.” Since road use tax 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.”

As of November 6, 2013, the City had approximately \$12,000.00 in its checking account. As a result, it appears the City used road use tax funds for items other than the allowable uses of construction, maintenance, and supervision of the public streets. In addition, separate accounts were not maintained for the funds. Because the funds are commingled and the ending fund balance of the road use tax fund exceeds the bank balance, road use tax funds were used to satisfy obligations of other funds.

Recommended Control Procedures

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

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The former City Clerk had control over each of the following areas for the City:
- (1) Receipts – collecting, posting to the accounting records and preparing and making bank deposits,
 - (2) Disbursements – making purchases, receiving certain goods and services, presenting disbursements to the City Council for approval, maintaining supporting documentation, preparing, signing, and distributing checks and posting payments to the accounting records,
 - (3) Payroll – calculating, preparing, signing and distributing checks, and posting payments to the accounting records,
 - (4) Utility billings – preparing and mailing billings, receipting and depositing collections, posting collections to customer accounts and accounting records, and preparing and making bank deposits,
 - (5) Bank accounts – receiving and reconciling monthly bank statements to accounting records, and
 - (6) Reporting – preparing City Council meeting minutes and financial reports, including monthly Clerk register reports and the Annual Financial Report.

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

In addition, bank statements should be delivered to and reviewed by an official, such as a City Council member, the Mayor, or an appointed individual, who does not collect or disburse City funds. Bank reconciliations should be performed on a monthly basis.

- B. Garbage Service – During our review of garbage fees, we identified the following:
- The City did not properly track collections for garbage service,
 - Billings were not completed or properly maintained and
 - Reconciliations between billings, collections, and delinquent accounts were not performed for garbage service.

Recommendation – Procedures should be established to ensure garbage billings are reconciled to subsequent collections and delinquent accounts for each billing period. The City Council, or an independent individual designated by the City Council, should review the reconciliations and monitor delinquent accounts. Their review should be documented by signing or initialing and dating the reconciliation. Delinquent accounts should not be written off without City Council approval. In addition, procedures should be implemented

to ensure a tracking mechanism is in place to track the number of customers receiving service each month, the monthly rate charged and the collections received from customers.

- C. Disbursements – During our review of the City’s disbursements, we determined supporting documentation was not maintained for many disbursements. The invoices available were not properly marked paid to prevent duplicate payment. In addition, we identified City disbursements were made with a debit card.

Recommendation – All disbursements should be supported by invoices or other supporting documentation and should be reviewed and approved by the City Council. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next meeting for its review and approval. The City Council should cancel the debit card to ensure City disbursements are only made by check.

To further strengthen controls, all paid invoices should be properly marked or stamped paid with the date of payment to aid in preventing duplicate payment of invoices.

- D. Payroll – During our review of payroll, we were unable to locate documentation of the City Council’s approval of the former City Clerk’s authorized pay amount or the amount to be paid to City Council members and the Mayor for attending City Council meetings. In addition, we were unable to locate a payroll register which documented gross wages, withholdings, and net pay.

Recommendation – The City should implement procedures to ensure appropriate payroll records are maintained. City officials should periodically review payroll records to ensure payroll is calculated properly. In addition, the City Council should review and approve the City Clerk’s authorized pay on an annual basis. The approved pay should be documented in a resolution which documents the annual amount to be paid and pay dates.

- E. Receipts – We were unable to locate any receipts issued for collections for garbage fees and donations. As a result, we were unable to determine if all collections were properly deposited.

Recommendation – Prenumbered receipts should be issued for all collections at the time of collection to provide additional control over the proper collection and recording of all money. In addition, a periodic comparison should be performed to ensure all collections are properly deposited to the City’s bank accounts.

- F. Annual Financial Reports – The cash balances were not properly reported in the City’s Annual Financial Report.

Recommendation – The Annual Financial Reports should be accurately prepared and presented to the City Council for approval. Annual Financial Reports should include cash and investment balances supported by bank reconciliations.

- G. DOT City Street Financial Reports – During our review of DOT Reports, we determined the former City Clerk did not report all allowable disbursements, such as electric bills for street lights. Because all allowable disbursements were not properly reported, the City’s ending Special Revenue, Road Use Tax Fund balance was overstated in the DOT reports. We determined the proper ending balance for the Special Revenue, Road Use Tax Fund at June 30, 2013 should have been \$43,092.00 if the City’s electric bills for street lights had been properly reported during the period of our review.

Section 312.6 of the *Code of Iowa* allows road use tax funds to be used for expenditures directly related to the “construction, maintenance, and supervision of the public streets”.

Also, separate accounts were not maintained for road use tax funds in accordance with section 312.11 of the *Code* and the funds were commingled with other City funds.

Because the calculated ending fund balance of the Special Revenue, Road Use Tax Fund exceeds the City's bank balance as of November 6, 2013, it is apparent road use tax funds were used to satisfy other City obligations.

Recommendation – The City Council should ensure allowable road use tax disbursements are properly reported on DOT Reports. In addition, the City Council should review and approve all DOT Reports prior to submission to ensure the accuracy of the reports.

In addition, the City should consult with DOT officials to resolve the issue with the balance of the road use tax fund.

- H. City Council Meeting Minutes – During our review of City Council meeting minutes, we determined not all disbursements were presented to the City Council for approval. In addition, we determined the balances reported by the former City Clerk for the checking account held by the City did not agree with the balances shown on the related bank statement.

Recommendation – The City Council should ensure all City obligations are presented to the City Council for approval prior to payment. In addition, the City should ensure all balances reported by the City Clerk for the City's checking account agree with the balance shown on the related bank statement.

- I. City Records – All City records were maintained at the former City Clerk's residence and on the former City Clerk's personal computer.

Recommendation – The City should ensure all City records are maintained on the City's computer and the records are kept at City Hall.

Exhibits

Report on Special Investigation of the
City of Kinross

Summary of Findings
For the Period January 15, 2008 through October 31, 2013

Description	Exhibit/ Table/Page	Amount		Total
		Improper	Unsupported	
Improper and unsupported disbursements:				
Checks issued to Toni Miller:				
Payroll	Table 3	\$ 3,293.57	-	3,293.57
Mileage and reimbursements	Exhibit C/Table 3	13,432.70	779.08	14,211.78
Cash withdrawal	Page 10	200.00	-	200.00
Payments to vendors	Exhibit D	2,610.72	-	2,610.72
Total improper and unsupported disbursements		<u>\$ 19,536.99</u>	<u>779.08</u>	20,316.07
Less: Repayment by Toni Miller	Page 11			(2,417.00)
Net amount				<u>\$ 17,899.07</u>

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

Report on Special Investigation of the
City of Kinross

Payroll Checks Issued to Toni Miller
For the period January 15, 2008 through October 31, 2013

Per Check			
Check Date	Check Number	Memo *	Amount
06/03/08	2623	MC=3.63 SS=15.50 IPERS =9.75	\$ 221.12
12/02/08	2685	<i>none</i>	220.62
06/02/09	2740	MC = 4.35 SS = 18.60 IPERS = 12.30 + mileage	298.75
11/30/09	2794	MC = 4.35 SS = 18.60 IPERS = 12.30	364.75
04/29/10	2844	<i>none</i>	264.15
06/01/10	2867	Payroll + mileage	500.00
11/21/10	2920	SS = 37.20 MC = 8.70 IPERS = 13.50	340.60
12/25/10	2938	bonus	500.00
05/17/11	2980	payroll SS = 37.20 IPERS = 18.50 MC = 8.70	540.60
11/08/11	3045	MC = 8.70 SS = 37.20 IPERS = 16.14	237.96
11/29/11	3047	2011 bonus	500.00 ^
05/01/12	3104	MC = 9.35 SS = 12.60 IPERS = 16.14	266.91 ^
09/25/12	3146	MC = 4.35 SS = 12.60 I = 16.14	466.91
12/04/12	3174	MC = 4.35 SS = 12.60 I = 17.34	265.71
05/28/13	3235	MC = 8.70 SS = 25.20 IPERS = 34.68	531.42
07/09/13	3267	Bonus Pay	750.00
Total			\$ 6,269.50

* MC - Medicare deduction.

SS - Social Security deduction.

IPERS - Iowa Public Employees' Retirement System deduction.

^ - Checks identified by City official which contained their names as the countersignatures; however, they stated they did not sign the checks.

Report on Special Investigation of the
City of Kinross

Other Checks Issued to Toni Miller
For the period January 15, 2008 through October 31, 2013

Per Check			
Check Date	Check Number	Memo	Amount
08/04/09	2765	<i>none</i>	\$ 217.00
09/02/09	2776	<i>none</i>	750.00
10/16/09	2786	<i>none</i>	400.00
12/10/09	2808	mileage	350.00
12/19/09	2809	mileage	350.00
06/24/10	2868	<i>none</i>	150.00
07/01/10	2869	<i>none</i>	300.00
07/21/10	2870	mileage	100.00
08/03/10	2879	mileage	200.00
08/04/10	2888	<i>none</i>	100.00
09/01/10	2889	mileage	200.00
09/28/10	2911	mileage	150.00
10/20/10	2909	mileage	100.00
10/30/10	2908	<i>none</i>	300.00
11/02/10	2919	reimburse Lowe's	850.00
06/02/11	2981	Menards	425.00
06/24/11	2997	<i>none</i>	100.00
07/07/11	3005	Wal-Mart	128.00

Report on Special Investigation of the
City of Kinross

Other Checks Issued to Toni Miller
For the period January 15, 2008 through October 31, 2013

Per Check			
Check Date	Check Number	Memo	Amount
09/06/11	3025	Hogtober Fest Supplies	850.00
08/02/12	3130	Heritage settlement - VISA	526.16
12/11/12	3181	printing	300.00 ^
01/11/13	3192	Menards	150.00
01/25/13	3193	Petty Cash	125.00
02/26/13	3202	<i>none</i>	200.00
03/12/13	3210	Computer - Best Buy	350.00 ^
04/02/13	3220	Personal Loan	900.00 ^
05/03/13	3222	<i>none</i>	150.00
05/07/13	3232	Computer	250.00
05/21/13	3234	<i>none</i>	300.00
06/09/13	3253	Menards	349.79
06/25/13	3255	Walmart.com	276.75
07/30/13	3269	<i>none</i>	735.00
08/06/13	3279	<i>none</i>	450.00
08/27/13	3280	<i>none</i>	750.00
09/20/13	3290	Hogtober Fest	600.00
10/08/13	3301	personal loan	1,000.00
Total			<u><u>\$13,432.70</u></u>

^ - Checks identified by City officials which contained their names as the countersignatures; however, they stated they did not sign the checks.

Report on Special Investigation of the
City of Kinross

Payments to Vendors
For the period January 15, 2008 through October 31, 2013

Trans Date	Per Check				Description per Bank Statement	Amount
	Check Date	Check Number	Payee	Memo		
08/27/09	08/25/09	2767	Casey's	none		\$ 50.00
10/18/10	-	-	-	-	ACH Debit Menards Iowa	390.77
05/16/11	-	-	-	-	ACH Debit Menards	397.63
07/06/11	07/04/11	2998	Casey's	none		58.89
08/09/11	08/05/11	3013	Casey's	none		62.55
08/29/11	08/29/11	3014	Casey's	none		60.00
09/07/11	09/02/11	3015	Casey's	none		57.42
10/03/11	09/29/11	3026	Casey's	none		59.12
10/05/11	10/02/11	3027	Casey's	none		40.33
10/25/11	10/21/11	3034	Casey's	gas for travel		25.00
10/26/11	10/24/11	3035	Casey's	gas for travel		62.85
11/14/11	11/09/11	3044	Casey's	none		48.87
11/29/11	11/27/11	3046	Casey's	none		43.09
12/13/11	12/10/11	3060	Casey's	gas for travel		50.00
12/23/11	12/21/11	3061	Casey's	none		40.00
01/03/12	12/29/11	3062	Casey's	none		52.50
01/11/12	01/09/12	3063	Casey's	none		40.00
01/18/12	01/14/12	3072	Casey's	none		25.00
05/31/12	05/29/12	3105	Casey's	gas		48.46
06/15/12	06/13/12	3119	Casey's	travel to C.R.		48.00
06/26/12	06/24/12	3120	Casey's	mower gas		31.58

Report on Special Investigation of the
City of Kinross

Payments to Vendors
For the period January 15, 2008 through October 31, 2013

Trans Date	Per Check				Description per Bank Statement	Amount
	Check Date	Check Number	Payee	Memo		
09/17/12	09/13/12	3143	Casey's	travel		38.00
09/24/12	09/20/12	3144	Casey's	none		50.00
10/03/12	10/01/12	3147	Casey's	gasoline - travel		25.00
11/13/12	11/11/12	3165	Casey's	gasoline		44.04
12/11/12	12/04/12	3180	Casey's	fuel - travel		41.06
12/28/12	12/19/12	3182	Casey's	none		36.73
01/08/13	-	-	-	-	ACH Debit Casey's Gen	53.34
01/08/13	12/25/12	3183	Casey's	none		35.65
03/18/13	-	-	-	-	ACH Debit Casey's Gen Store	51.98
04/04/13	-	-	-	-	ACH Debit Casey's Gen Store	45.86
04/25/13	-	-	-	-	ACH Debit Caseys Gen Store	35.31
05/21/13	-	-	-	-	ACH Debit Caseys Gen Store	47.99
06/10/13	-	-	-	-	ACH Debit Caseys Gen Store	54.70
06/24/13	-	-	-	-	ACH Debit Caseys Gen Stores	39.25
07/09/13	-	-	-	-	ACH Debit Caseys Gen Store	33.80
08/05/13	-	-	-	-	ACH Debit Caseys Gen Store	41.94
09/09/13	-	-	-	-	ACH Debit Caseys Gen Store	54.32
09/23/13	-	-	-	-	ACH Debit Caseys Gen Store	54.00
09/30/13	-	-	-	-	ACH Debit Caseys Gen Store	35.00
10/10/13	-	-	-	-	ACH Debit Caseys Gen Store	63.00
10/15/13	-	-	-	-	ACH Debit Caseys Gen Store	37.69
Total						<u>\$2,686.75</u>

Report on Special Investigation of the
City of Kinross

Comparison of Reported Balances to Bank Balances
For the period January 15, 2008 through October 31, 2013

	Reported	Actual	Difference
January 2008	\$ 2,105.75	2,104.85	0.90
February 2008	818.41	612.31	206.10
March 2008	655.73	655.47	0.26
April 2008	1,887.72	2,835.73	(948.01)
May 2008	7,567.08	8,107.23	(540.15)
June 2008	7,045.74	8,314.41	(1,268.67)
July 2008	7,947.43	9,233.06	(1,285.63)
August 2008	7,718.43	8,987.56	(1,269.13)
September 2008	1,118.41	2,350.60	(1,232.19)
October 2008	1,913.49	3,145.68	(1,232.19)
November 2008	3,475.62	4,707.81	(1,232.19)
December 2008	2,912.69	4,355.71	(1,443.02)
January 2009	1,660.38	2,892.57	(1,232.19)
February 2009	1,336.54	2,568.73	(1,232.19)
March 2009	1,564.75	2,796.94	(1,232.19)
April 2009	1,841.10	3,048.04	(1,206.94)
May 2009	1,999.59	2,847.61	(848.02)
June 2009	1,195.42	2,172.77	(977.35)
July 2009	2,071.47	2,912.83	(841.36)
August 2009	2,828.49	3,177.70	(349.21)
September 2009	3,182.75	2,798.38	384.37
October 2009	5,296.02	4,152.88	1,143.14
November 2009	6,439.01	5,612.37	826.64
December 2009	5,842.51	4,240.72	1,601.79
January 2010	5,192.66	3,871.83	1,320.83
February 2010	5,469.86	6,500.81	(1,030.95)
March 2010	5,651.36	7,878.91	(2,227.55)
April 2010	12,039.39	13,073.49	(1,034.10)
May 2010	12,843.77	13,877.87	(1,034.10)
June 2010	12,834.56	14,350.31	(1,515.75)
July 2010	13,899.71	14,402.33	(502.62)
August 2010	13,964.68	14,506.01	(541.33)
September 2010	14,746.06	15,237.10	(491.04)
October 2010	15,021.58	14,267.62	753.96

Report on Special Investigation of the
City of Kinross

Comparison of Reported Balances to Bank Balances
For the period January 15, 2008 through October 31, 2013

	Reported	Actual	Difference
November 2010	16,033.01	14,102.36	1,930.65
December 2010	14,355.26	12,672.11	1,683.15
January 2011	14,582.12	12,314.97	2,267.15
February 2011	14,177.23	12,045.88	2,131.35
March 2011	15,155.61	12,737.76	2,417.85
April 2011	22,639.63	15,432.48	7,207.15
May 2011	21,594.89	18,942.14	2,652.75
June 2011	13,273.70	10,464.75	2,808.95
July 2011	14,853.53	11,909.49	2,944.04
August 2011	15,098.40	12,510.68	2,587.72
September 2011	14,826.70	10,872.69	3,954.01
October 2011	18,653.59	14,236.74	4,416.85
November 2011	13,366.54	9,152.77	4,213.77
December 2011	13,655.39	9,151.33	4,504.06
January 2012	13,176.75	8,504.19	4,672.56
February 2012	13,985.88	9,363.25	4,622.63
March 2012	11,730.60	7,078.04	4,652.56
April 2012	17,923.87	9,251.31	8,672.56
May 2012	17,898.80	13,225.87	4,672.93
June 2012	13,389.40	8,493.80	4,895.60
July 2012	14,416.59	9,845.79	4,570.80
August 2012	15,467.14	10,380.56	5,086.58
September 2012	19,826.59	13,624.72	6,201.87
October 2012	22,202.81	15,866.65	6,336.16
November 2012	25,021.99	19,370.74	5,651.25
December 2012	25,097.73	19,174.66	5,923.07
January 2013	25,069.83	18,530.75	6,539.08
February 2013	23,638.78	17,060.21	6,578.57
March 2013	24,224.07	17,082.16	7,141.91
April 2013	30,030.07	16,925.63	13,104.44
May 2013	28,399.95	18,623.66	9,776.29
June 2013	27,740.12	17,870.49	9,869.63
July 2013	27,223.38	16,124.51	11,098.87
August 2013	24,166.59	11,270.11	12,896.48
September 2013	23,313.99	9,531.81	13,782.18

Report on Special Investigation of the
City of Kinross

Staff

This special investigation was performed by:

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



Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

Report on Special Investigation of the
City of Kinross

Copy of Check Issued to Toni Miller

72-1082/739 3301
CITY OF KINROSS
KINROSS IA 52335
DATE 10/8/13
PAY TO THE ORDER OF Toni Miller \$ 1000.00
one thousand 22 00/100 DOLLARS
WHITE STATE BANK
SOUTH ENGLISH, IOWA 52335
MEMO personal loan
Toni Miller
3301

deposit only

UOICCU

ATM ID:
Date: 10/15/2013
Tran #: 0911
\$1000.00

Report on Special Investigation of the City of Kinross

Toni Miller's Voluntary Statement

WILSON PETERSON LAW ENFORCEMENT SYSTEMS, INC. P.O. BOX 1635 • CORSICANA, TEXAS 75101 • 1-800-927-4667

11985 01/2008

VOLUNTARY STATEMENT (NOT UNDER ARREST)

PAGE NO. ____ OF ____ PAGES

Toni Lynn Miller

I am not under arrest for, nor am I being detained for any criminal offenses concerning the events I am about to make known to Deputy Sanders. Without being accused of or questioned about any criminal offenses regarding the facts I am about to state, I volunteer the following information of my own free will, for whatever purposes it may serve.

I am 41 years of age, D.O.B. [redacted] and I live at [redacted] Kinross, IA 52335

I have been the City Clerk in Kinross for approximately 6-8 years. In 2009, I began writing checks from the city bank account through White State Bank in South English to myself and depositing into my own personal checking account. I have also written checks from the city account to Casey's in Wellman on several occasions. I have also on two occasions kept cash contributions made to the city of Kinross and failed to deposit these contributions into the city bank account. I did pay back approximately \$2400 in 2009, writing a personal check to the city of Kinross and depositing this into the city account. Between 2009 and October of 2013, I believe I have taken \$15,000 - \$20,000 to be used to help pay my bills and cover personal expenses.

I have read each page of this statement consisting of ____ page(s), each page of which bears my signature, and corrections, if any, bear my initials, and I certify that the facts contained herein are true and correct.

Read at 6:55pm, this 18th day of October, 2013

Witness: [Signature] Signature of person giving voluntary statement: [Signature]

Report on Special Investigation of the
City of Kinross

Copy of Check to City from Toni Miller

Toni L. Miller
Kinross, IA 52335

2615
72-7509(273)

2/1 20 10

Pay to the order of City of Kinross \$ 2417.00

two thousand ^{four} hundred ^{seventeen} and 00/100 Dollars

UNIVERSITY OF IOWA
COMMUNITY CREDIT UNION
IOWA CITY - CORALVILLE - GRINNELL

For _____

Toni L. Miller

2615 02/03/2010 2417.00

WHITE STATE BANK
02/03/2010
#000000000000141

WHITE STATE BANK
SOUTH ENGLISH, IA 52335

Credited to the Account of Payee.
Absence of Payee's Endorsement
Guaranteed

2615 02/03/2010 2417.00