

Bill Aims to Increase Oversight, Curb Fraud in Small-Town Iowa

Written by Lynn Campbell
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Faced with the temptation of handling thousands of dollars, an increasing number of city clerks in small-town Iowa have used taxpayer money to buy items including alcohol, laptop computers, gas grills, pumpkin pies, cat litter, and self-improvement books.

“To me, it’s just very frustrating,” said Carrie Kirchhoff, city clerk of the 433-resident town of Lewis in southwest Iowa. “It makes the rest of us clerks look bad that really try to do a good job for our cities. And then it gets the citizens all worked up, too. How do they go on in the same community and hold their head up? It’s unreal.”

The number of fraud cases in Iowa cities with populations of fewer than 700 has grown from seven cases from 2000 through 2005 to 32 cases from 2006 through 2011, said State Auditor David Vaudt.

When the public and private sector are combined, Iowa was fourth in the nation last year in a ranking of states most likely to have losses from major embezzlement cases, according to a study by Massachusetts-based risk-management company Marquet International.

A bill expected to be taken up the legislature’s Government Oversight Committee aims to clamp down on the fraud through increased audits and oversight.

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Iowa has 947 cities. Of those, Vaudt said, 217 mid-size cities are required by state law to be audited every four years, while 570 small cities aren't required to be audited at all. Yet officials in those small and mid-size cities are responsible for spending \$629 million in taxpayer dollars.

"That's some temptation for a person who's doing one of these jobs," said Senator Thomas Courtney (D-Burlington), co-chair of the Government Oversight Committee. "There's very little pay in those jobs, and there's very little gratification. All of a sudden, you're in there handling a lot of money. Maybe it's tempting. If you know the state might be taking a look over your shoulder next year, maybe you'll say, 'You know, I'm just going to play it straight.'"

Whiskey, Beer, and Sunglasses

Nearly half of the \$3 million in fraud committed in Iowa cities during the past six years has happened in towns with populations of fewer than 700, according to the state auditor's office.

In the 673-resident town of Alburnett, former City Clerk Amber (Franklin) Ransom pleaded guilty February 7 to first-degree theft after a state audit identified \$102,980 that was missing or improperly spent.

The audit said Ransom bought "gourmet loaves, pumpkin pies, medicine, and cleaning supplies" at Sam's Club, and used a city credit card to buy "a laptop computer, groceries, cat food, DVDs, CDs, cosmetics, and a number of self-improvement books."

Alburnett Mayor Dave Boesenberg said the small city has since implemented more checks and balances, including a finance committee that reviews bills. As mayor, he signs all the checks. He said the city clerk only makes deposits and no longer has the power to write checks – a big change from the way things were done in the past.

"In a small community, we just trusted everybody and didn't worry about it," Boesenberg said. "You trusted your clerk to take care a lot of this stuff. ... We learned a hard lesson. We're also all very much more knowledgeable on everything we're doing. You know the red flags now."

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In the eastern Iowa town of Stockton (population 197), former City Clerk Larry McCoy of Durant pleaded guilty in September to theft after a state audit identified \$65,324 that was missing or improperly spent. The audit said McCoy used the city credit card to pay an eye surgeon and to buy whiskey at Wal-Mart along with two tires, reading glasses, sunglasses, a digital antenna, beer, computer games, household items, and holiday decorations.

Jane Smith, the city clerk in 882-resident Schleswig, said she started her job in December 2006, just as the city was being audited for misappropriated funds. An audit identified \$66,888 of missing money and improper spending by Ron Clausen, who was city clerk for 31 years and has since died.

“It made me literally sick to my stomach,” Smith said. “I almost didn’t want to be involved. I wanted to run. I just was so shocked.”

Smith said steps have been taken to make sure something like that never happens again. Checks are now required to have two signatures, and a new software program records all changes made to the books.

“It was horrible to go through that negative audit, but it was a learning experience for me,” said Smith, who urged city councils and mayors to be more involved in day-to-day operations. “I guess I was naive. I didn’t realize that people would even do that,”

Removing the Temptation

Under proposed legislation, cities with 2,000-plus population would continue to have annual audits. Smaller cities would either agree to an annual audit or a review by a local accountant, or would be required to contribute about \$600 a year to a state pool of funds that would pay for spot-checks or surprise audits of cities throughout the state.

Vaudt said the goal is to reduce fraud by taking away a city employee’s perceived opportunity to

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commit fraud and not get caught. The cost would fall on city taxpayers, but Vaudt argues that it's worth it. A full audit can cost a city as much as \$15,000.

"If you take a look at some of the frauds that have occurred, wouldn't you rather have paid \$600 a year to get some oversight, versus finding out years later that somebody stole \$100,000 from your community?" Vaudt asked. "That's a small price to pay. There has to be some type of oversight. There's just a cost to taking taxpayers' money."

Several city leaders across the state said February 29 they would embrace the proposal.

"I would wholeheartedly suggest that and go with that," said Boesenberg, whose city was the victim of \$102,980 of fraud between 2006 and 2009. "It would protect a lot of other little cities."

Kirchhoff, who has been Lewis city clerk for nine years, agreed.

"Anything to help us," she said. "You can't believe the cash that goes through my office. Thousands of dollars a month. It's just me The council and mayor don't take an active approach in what's going on."

Smith said she's a "big believer" in all cities being audited, no matter the size.

"It is very expensive for a small city to have these audits," she said. "I still think it's very important to have these audits, just for checks and balances. It's comforting for me to know that we're on the right track, doing things right and the way they should be done."

But Alan Kemp, executive director of the Iowa League of Cities – which represents the state's 947 cities – said better training of local elected officials is a better approach to reducing fraud across the state. Kemp said audits and even less-formal reviews of the books by accountants cost money, and small cities can't afford it.

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“An audit would catch something after it’s happened, whereas our impression is [that] we think resources would be much better put towards training of local elected officials,” Kemp said. “They’re the first line of defense. Local elected officials have to step up. The mayor and city council have to become part of that internal control.”

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