



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

February 9, 2012 _____

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on applying agreed-upon procedures to the Villisca Municipal Power Plant's accounting procedures, cash and investment balances and compliance with Code of Iowa requirements. The report covers the period February 1, 2007 through December 31, 2010.

Vaudt recommended the Power Plant ensure the publication of Power Plant disbursements is for the proper reporting period and excludes transfers between funds. In addition, the Power Plant should investigate and resolve any variances in a timely manner, publish corrected and/or revised reports and retain proof of all publications. The Power Plant should also comply with the Board minute requirements of Chapter 21 of the Code of Iowa.

Copies of the report are available for review in the Power Plant Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1023-0649-BC00.pdf>.

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VILLISCA MUNICIPAL POWER PLANT
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
FEBRUARY 1, 2007 THROUGH DECEMBER 31, 2010

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Villisca Municipal Power Plant

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Darwin Williams	Board Chairperson	December 31, 2013
Carl Johnson	Trustee	December 31, 2014
Gene Munsterman	Trustee	December 31, 2015
Floyd Taber	Superintendent	Indefinite
Tammie Johannes	Office Manager	Indefinite

Villisca Municipal Power Plant



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Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Board Members of
the Villisca Municipal Power Plant:

We have performed the following procedures, which were agreed to by the Villisca Municipal Power Plant (Power Plant), solely to assist the Power Plant in evaluating certain compliance and accounting requirements for the period February 1, 2007 through December 31, 2010. The Power Plant's management is responsible for the Power Plant's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

- (1) We obtained an understanding of the City of Villisca's (City) accounting procedures for the Power Plant and reviewed documentation for the period February 1, 2007 through December 31, 2010, including recorded receipts, disbursements, transfers and account balances.
- (2) We obtained and reviewed Board minutes and selected transactions of the Power Plant for the period February 1, 2007 through December 31, 2010 for compliance with Chapter 21 of the Code of Iowa.
- (3) We obtained and reviewed copies of the Clerk/Treasurer monthly financial reports published for the period February 1, 2007 through October 31, 2010.
- (4) We compared the amounts of selected electric utility billings to actual amounts collected, recorded and reported in the accounting records.
- (5) We reviewed the monthly Clerk/Treasurer disbursement publications for accuracy and completion. We also selected disbursements reported in the published monthly financial reports for the Power Plant and in the City's general ledger for the Power Plant Fund and compared them to amounts reported in the monthly Clerk/Treasurer disbursement publication.
- (6) We reviewed selected disbursements to determine they were for Power Plant purposes.
- (7) We summarized and reviewed monthly transfers between City accounts and Power Plant accounts for proper authorization and accurate posting in the accounting records.
- (8) We compared the amounts reported for the Power Plant in the Clerk/Treasurer monthly financial reports to the amounts reported in the City's general ledger.

- (9) We determined whether the Power Plant made required debt service payments in accordance with the revenue debt covenants.
- (10) We reviewed bank and investment accounts and compared balances to the City's general ledger for proper accounting of the Power Plant Fund for the period February 1, 2007 through December 31, 2010.

Based upon the performance of the procedures described above, we identified various recommendations for the Power Plant Board. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination of the operations of the Villisca Municipal Power Plant, the objective of which is the expression of an opinion on the financial statements of the Villisca Municipal Power Plant. Accordingly, we do not express an opinion. Had we performed additional procedures or had we performed an audit of the City of Villisca or the Villisca Municipal Power Plant, other matters might have come to our attention that would have been reported to you. A copy of this report has been filed with the City of Villisca and the Montgomery County Attorney for review and information.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Villisca Municipal Power Plant and other parties to whom the Villisca Municipal Power Plant may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the assistance extended to us by personnel of the Villisca Municipal Power Plant. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 30, 2011

Detailed Recommendations

Villisca Municipal Power Plant

Detailed Recommendations

For the period February 1, 2007 through December 31, 2010

Background

During the year ended June 30, 2007, the City of Villisca integrated the Power Plant's funds and activities into the City's new software and accounting system and included the electric billing in a combined billing to customers which included charges for all utilities provided.

From November 2007 until April 2008, Power Plant collections were deposited in the Power Plant's checking account. However, Power Plant disbursements were paid from the City's checking account with periodic transfers from the Power Plant's checking account to the City's checking account to reimburse the City. Transfers from the Power Plant to the City were required to be documented on a transfer form which was reviewed and signed by two Power Plant Board Members.

As of April 2008, Power Plant collections and disbursements were processed through the City's checking account and accounted for through a sub-account in the City's general ledger. The City Clerk processed invoices for the City and the Power Plant Clerk processed invoices for the Power Plant. Transfers were then made between the City's checking account and the Power Plant's checking account for the net amount of the transaction activity. Transfers from the Power Plant to the City were required to be documented on a transfer form which was to be reviewed and signed by two Power Plant Board Members. The transfer forms for transfers to the Power Plant were not required to be signed by the Board. The City Clerk printed the checks and provided a listing of the claims for the City Council's review and a separate list for the Power Plant Board's review. Bank reconciliations were prepared using the City's software by the City Clerk for the City's checking account and by the Power Plant Clerk for Power Plant's checking account. The City Clerk also performed monthly reconciliations of billings and collections for the electric and water utilities.

During this period, various issues were litigated regarding the actions taken by the City and Power Plant relating to the combined accounting and billing system. In November 2010, the Power Plant Board rescinded its 2007 action and re-established financial and billing control for the electric operation. In December 2010, Power Plant data was transferred from the City's computer to the Power Plant's computer. In January 2011, the Power Plant Board requested the Office of Auditor of State review financial transactions processed between February 2007 and December 2010 to determine whether the Power Plant received all monies entitled to it upon separation from the City.

Based upon our review and testing of Power Plant revenue reports and supporting documentation, proper amounts were billed to customers per the meter reader reports, billings were properly computed and collections could be traced to a validated deposit ticket. Also, the amount of the deposit attributable to the Power Plant was traced into the general ledger for proper reporting. Except as noted below, there were no significant findings in regard to disbursements or transfers. However, the following findings and recommendations are presented for the Power Plant's review and consideration:

- A. Monthly Financial Report and Disbursement Publications – The City did not include the Power Plant in the City’s monthly financial reports prior to July 2007. The monthly financial reports for November and December 2010 were not located and, consequently, were not reviewed. During the period July 2007 through October 2010, the City’s monthly publication of receipts and disbursements by fund included monthly totals for the Power Plant Fund, which varied significantly from the Power Plant’s monthly publication of Power Plant disbursements. For the 40 monthly reports during this period available for review, the following were noted:

Monthly Financial Report Publications:

We compared the receipts and disbursements in the City’s monthly financial report publications for the period July 2007 through October 2010 to Power Plant receipts and disbursements recorded by the City and noted the following:

- a. City publications of Power Plant Fund disbursements in the monthly financial reports differed from the disbursements recorded in the City’s general ledger. Also, the publication for the month of January 2009 was not located for review.
- b. Receipts and disbursements by fund included in the City’s monthly financial report publications included erroneous amounts. For example, the City reported receipts of \$17,741.19 and disbursements of \$4,827.52 for the Power Plant Fund for November 2007 rather than the \$57,955.35 and \$61,789.67 of receipts and disbursements, respectively, recorded in the City’s general ledger. Also, the June 2008 monthly financial report publication included disbursements of \$159,452.22 rather than the \$59,392.92 recorded in the City’s general ledger and April 2009 receipts and disbursements were reported again in May 2009.
- c. While amounts were incorrectly reported in the Power Plant disbursement publications, the appropriate amounts were recorded in the City’s general ledger.

Power Plant Disbursement Publications:

We selected four months during the period July 2007 through October 2010 to reconcile City publications for the Power Plant Fund with Power Plant disbursement publications and noted the following:

- a. The Power Plant disbursement publications did not include certain transactions recorded in the City’s general ledger for the Power Plant, including Power Plant payroll, semi-annual debt service payments for revenue bonds, customer deposit refunds and direct payments from the bank account to remit sales tax collections. However, the Power Plant disbursement publications included transfers between Power Plant funds, such as the transfer to the debt sinking fund used to accumulate funds for the semi-annual debt service payments.
- b. The Power Plant disbursement publications used a different cut-off date than the cut-off date used in the City’s monthly financial report of receipts and disbursements.
- c. For the four selected months tested, these improperly omitted transactions and transfers substantially account for the variance between the Power Plant disbursements publication and the City’s monthly financial report publication of receipts and disbursements by fund.

In total for the period July 2007 through October 2010, after accounting for the improperly omitted transactions and improperly included transfers, the receipts and disbursements in the City's general ledger reconcile to the Power Plant's records within an insignificant variance. As such, further investigation was not warranted.

Recommendation – Transfers between funds are not disbursements and should not be reported or included on the list of disbursements. Disbursements should be reported and published for the proper reporting period.

Reports should be carefully reviewed prior to publication to ensure publications include accurate and reliable information. Proof of all publications should be retained. Variances, if any, should be investigated and resolved in a timely manner. If errors are discovered after publication, a revised publication or a notice a corrected report or revised information is available should be published.

Response – The recommendation is understood and changes are being considered. As of January 2011, monthly claims listed are faxed to the *Villisca Review/Stanton Viking* the day after the board's approval at the regular VMPP monthly board meeting. The VMPP board members, superintendent, and administrative assistant all sign the approved claims list.

Conclusion – Response accepted.

- B. Account Transfers – We reviewed transfers between the City's checking account and the Power Plant's checking account for proper authorization by the Power Plant Board, agreement to the bank statements and proper recording in the City's general ledger. In total, transfers recorded per the checking account bank statements agreed to the City's general ledger and transfer supporting documentation for the period November 1, 2007 through December 31, 2010.

We noted 14 of 52 transfers between the City's checking account and the Power Plant's checking account which were not approved by two Power Plant Board Members.

Because these 14 transfers were for months when Power Plant receipts exceeded disbursements and the excess was moved to the Power Plant's checking account, Power Plant Board Member approval was not required. The support and recording for each of these 14 transfers to the Power Plant's checking account agreed to the general ledger.

Recommendation – All transfers should be approved by the Power Plant Board and evidence of Board approval should be documented and retained.

Response –

1. On June 20, 2011, VMPP board passed resolution No. 06-20-11:

WHEREAS: the authorized users and signature cards with Bank Iowa Villisca/Clarinda accounts and lockbox are required to have current signature cards listing Villisca Municipal Power Plant (VMPP) chairman and board members.

THEREFORE: As of June 20, 2011, _____, _____, and _____ are hereby authorized and instructed to handle financial transactions regarding the Bank Iowa accounts as well as continuing to require two signatures on all checks issued from these accounts.

2. On December 12, 2011, VMPP board passed resolution no. 12-12-11-1:

Whereas: Villisca Municipal Power Plant will be required in the near future to upgrade the Caterpillar Generators to become compliant with new EPA regulations.

Therefore: Villisca Municipal Power Plant wishes to transfer the sum of \$5,000.00 monthly from the general operating bank account into the Money Market Savings account to put towards those upgrades.

Be it Resolved: Villisca Municipal Power Plant Board of Trustees approves a transfer of \$5,000.00 per month from the checking account to the Money Market savings account.

Conclusion – Response accepted.

C. Disbursements – We reviewed disbursements recorded in the City’s general ledger history report for the Power Plant Fund for the period February 1, 2007 through December 2010. We also reviewed claims listed in the Power Plant monthly publication of claims. We selected certain disbursements for further testing and noted the following:

- a. A listing of disbursements is prepared and is required to be approved by two Board Members prior to payment. Disbursement listings for approval were consistently available for review after August 2007, but not prior to that month. Of the 14 disbursement listings included in our test of disbursements, one did not include Board Member signatures.
- b. A \$28.75 charge from Brown’s Sanitation for City service was not included in the disbursement listing, but was charged to the Power Plant Fund in November 2007.
- c. A \$235.00 disbursement to the Montgomery County Clerk of Court for a filing fee for the City was included in the disbursement listing for August 2009. However, the disbursement was appropriately not charged to the Power Plant Fund.

Recommendation – Procedures should be reviewed and revised, if necessary, to ensure the disbursement listing is approved by two Board Members, as required. Disbursement listings should be reviewed for accuracy and completeness prior to approval. The City should reimburse the Power Plant for the \$28.75 which was a City expense erroneously charged to the Power Plant Fund.

Response – Since January 2011, the monthly disbursement list is included in each board member’s packet for review prior to the regular VMPP monthly board meeting. At the meeting, the board approves/disapproves the list and after approval/disapproval, the disbursement list is signed by all present VMPP board members, superintendent, and administrative assistant.

Conclusion – Response acknowledged. The Power Plant should continue to seek reimbursement from the City for the expense erroneously charged to the Power Plant Fund.

- D. Board Minutes – Chapter 21.3 of the Code of Iowa states, in part: “Each governmental body shall keep minutes of all its meetings showing the date, time and place, the members present, and the action taken at each meeting.”

Chapter 21.5(1) of the Code of Iowa states, in part, “A governmental body may hold a closed session only by affirmative public vote of either two-thirds of the members of the body or all of the members present at the meeting. A governmental body may hold a closed session only to the extent a closed session is necessary...” and lists 12 specific reasons a governmental body may hold a closed session.

Chapter 21.5(2) of the Code of Iowa requires, "The vote of each member on the question of holding the closed session and the reason for holding the closed session by reference to a specific exemption under this section shall be announced publicly at the open session and entered in the minutes."

The Power Plant Board went into closed sessions on November 10, 2009 and August 10, 2010. However, the Board minutes record did not document the specific information regarding the closed session required by Chapter 21 of the Code of Iowa.

Recommendation – The Board should comply with Chapter 21 of the Code of Iowa. Closed sessions should be documented, including the specific information required by Chapter 21.5(2) of the Code of Iowa.

Response – Since January 2011, all closed sessions have been conducted per Iowa Code Chapter 21. However, the only meeting which included a closed session was in the month of June 2011.

Conclusion – Response accepted.

Villisca Municipal Power Plant

Staff

This agreed-upon procedures engagement was performed by:

Ronald D. Swanson, CPA, Manager
Brian R. Brustkern, CPA, Manager
Elizabeth A. Harriss, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, prominent initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State