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**NEWS RELEASE**

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FOR RELEASE \_\_\_\_\_ October 12, 2012 \_\_\_\_\_

Auditor of State David A. Vaudt today released a report on a special investigation of the New Hampton Municipal Light Plant (Light Plant) for the period January 1, 2001 through May 31, 2012. The special investigation was conducted after Light Plant officials learned collections from the sale of scrap metal were distributed to Light Plant employees rather than being deposited for the Light Plant.

Vaudt reported the special investigation identified \$64,926.73 of undeposited collections and improper disbursements. The \$64,509.75 of undeposited collections identified includes \$55,085.75 from the sale of scrap metal, \$3,669.00 of cash collections located in the office of the Light Plant's former General Manager, Brian Geschke, and \$5,755.00 of payments issued by North Iowa Municipal Electric Cooperative Association (NIMECA) to Mr. Geschke. The \$416.98 of improper disbursements identified includes \$257.98 of hotel charges, \$123.00 of rental car fees and \$36.00 of airport parking fees for 3 days during trips to Florida and California when Mr. Geschke was not attending conferences or traveling to or from the conference location.

Vaudt also reported it was not possible to determine if additional collections were not properly deposited because adequate records for all collections, such as receipt books, weigh tickets and receipts for scrap metal collections, were not available.

The report includes recommendations to strengthen the Light Plant's internal controls and overall operations, such as requiring adequate documentation to support collections, requiring all collections be properly deposited with the City Clerk and implementing procedures to track the weight and value of scrap metal prior to sale.

Because the Chickasaw County Attorney has referred this matter to the Floyd County Attorney's Office, a copy of the report has been filed with that Office. Copies of the report have also been filed with the Attorney General's Office, the Chickasaw County Sheriff'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 website at <http://auditor.iowa.gov/specials/1223-0167-BE00.pdf>.

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**REPORT ON SPECIAL INVESTIGATION  
OF THE  
NEW HAMPTON MUNICIPAL LIGHT PLANT  
FOR THE PERIOD  
JANUARY 1, 2001 THROUGH MAY 31, 2012**

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## Auditor of State's Report

To the Honorable Mayor, Members of the City  
Council and Members of the Light Board:

As a result of alleged improprieties regarding collections from the sale of scrap metal, we conducted a special investigation of the New Hampton Municipal Light Plant (Light Plant). We have applied certain tests and procedures to selected financial transactions of the Light Plant. However, because certain records were not available for the entire period of the review, not all procedures were performed for the entire period of our review. Based on a review of relevant information and discussions with City officials and staff, we performed the following procedures for the period January 1, 2001 through May 31, 2012 or for the period specified:

- (1) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Using supporting documentation obtained from the Chickasaw County's Sheriff's Office, obtained an understanding of information previously gathered regarding the sale of scrap metal by the Light Plant.
- (3) Reviewed costs paid by the Light Plant for the former General Manager, Brian Geschke, to attend conferences to determine if conference reimbursements he received from North Iowa Municipal Electric Cooperative Association (NIMECA) were used to offset some of the Light Plant's costs. Representatives of NIMECA were able to provide a list of the payments issued between January 1, 2006 and May 31, 2012.
- (4) Obtained and examined receipts from a scrap metal vendor for the purchase of scrap metal to identify the selling entity and/or individual, items sold, amount of sale and whether the payment by the scrap metal vendor was made with cash or check.
- (5) Examined accounting records maintained for the Light Plant to determine if collections from the sale of scrap metal were properly deposited with the City Clerk.
- (6) Obtained and reviewed personal bank statements for accounts held at certain financial institutions by Brian Geschke and Gregory Heying, Chief Operations Supervisor, to identify the source of certain deposits.
- (7) Reviewed available minutes and bill listings to identify significant actions taken by the Light Plant's Board of Trustees and determine if certain payments were properly approved.

These procedures identified \$64,926.73 of undeposited collections and improper disbursements. We were unable to determine if additional amounts were undeposited because adequate records for collections 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 **C** 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 New Hampton Municipal Light Plant, other matters might have come to our attention that would have been reported to you.

Because the Chickasaw County Attorney has referred this matter to the Floyd County Attorney's Office, a copy of the report has been filed with that office. Copies of the report have also been filed with the Attorney General's Office, the Chickasaw County Sheriff's Office and the Division of Criminal Investigation. We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the New Hampton Municipal Light Plant and the Chickasaw County Sheriff's Office during the course of our investigation.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

August 13, 2012

New Hampton Municipal Light Plant  
Investigative Summary

**Background Information**

The New Hampton Municipal Light Plant (Light Plant) provides electric services to residents and businesses in the City of New Hampton, Iowa. The Light Plant is governed by a 5 member Board of Trustees. The Trustees are appointed by the Mayor with the approval and confirmation of the City Council. On March 14, 1994, Brian Geschke was hired as the General Manager and, according to his job description, his responsibilities included:

- 1) Planning, directing, coordinating and implementing all administrative and operational functions,
- 2) Monitoring work of employees for compliance with local, state and federal policies and regulations,
- 3) Preparing, submitting and implementing the budget,
- 4) Maintaining inventories, ordering and purchasing supplies and equipment and
- 5) Planning, organizing and conducting research related to utility rate structure, electric power usage and long range needs of the community.

According to Light Plant officials and the City Clerk, the Light Plant's primary revenue source is utility collections for electric fees assessed to each household and business. All payments are received through the mail or in person at City Hall. Collections are to be deposited to the City's checking account. In addition, the Light Plant receives revenue from the sale of miscellaneous items, including scrap metal. All collections received at the Light Plant are to be deposited with the City Clerk. All Light Plant disbursements are to be made by checks signed by the City Clerk and Mayor after approval by the Board of Trustees at Board meetings.

The Light Plant began building a new electrical substation by Stolz Park in New Hampton approximately 3 years ago, which created a large volume of scrap metal. According to Light Plant employees we spoke with, a large portion of the scrap metal was sold in August or September 2011. The proceeds from sales reported by employees ranged from \$8,000.00 to \$12,000.00. However, the employees we spoke with confirmed each of the 8 employees of the Light Plant received \$1,000.00 of the proceeds, or \$8,000.00 cumulatively. According to Mr. Geschke, he gave each employee \$1,000.00 from the sale of the scrap metal when he handed out payroll and he deposited the remaining \$4,000.00. However, no deposit from these collections could be located.

According to a Board member, an employee from the Light Plant approached him on May 7, 2012 to inform him about the \$1,000.00 he received from the sale of the scrap metal the previous fall and return it. The Board member also stated he asked the employee to hold onto the money until he could determine how to proceed. The employee kept the cash and went to work. According to the Board member, he contacted the Light Plant's attorney after the employee left to inform her of the situation.

The same employee and another employee stopped the same Board member on May 8, 2012 to discuss personnel issues at the Light Plant. However, the Board member stated they needed to deal with the scrap metal issue before addressing any additional issues. At this time, the 2<sup>nd</sup> employee became aware the Board member had learned the employees had each received \$1,000.00 of the scrap metal proceeds.

The 2 employees met with the same Board member on May 9, 2012 and both employees gave the Board member their \$1,000.00 portion of scrap metal proceeds. Both employees returned the proceeds in cash. The cash received from the first employee was still wrapped in the band from the bank as it was when he received it the previous fall. According to the employee, he had placed the cash in a safe at his home and had not spent any of it. The cash received from the second employee was paper clipped together. The employee did not state what he had done with the cash originally received. According to the Board member, he issued the 2 employees receipts to document the return of the cash and placed the \$2,000.00 in a manila envelope. The Board member immediately delivered the manila envelope to the Light Plant's attorney.

On May 14, 2012, Light Plant officials and the Mayor met with Mr. Geschke in his office to discuss the sale of scrap metal. During this meeting, Mr. Geschke admitted he gave each employee \$1,000.00 the previous fall. In addition, Mr. Geschke removed \$525.00 in cash from his file cabinet and stated the money was from sale of scrap metal. According to the Board member, the money and any supporting documentation was not removed from Mr. Geschke's office at the time of the meeting.

According to minutes from the Board of Trustee's meeting on May 16, 2012, Mr. Geschke was placed on administrative leave. He was allowed to continue receiving pay from the Light Plant during his leave by using his accumulated vacation. When his accumulated vacation was depleted, he was no longer paid.

In addition, the Board approved contacting the Chickasaw County Attorney's Office and the Chickasaw County Sheriff's Office for investigation into misappropriation of Light Plant property. After the Board meeting, Light Plant officials went to Mr. Geschke's office and retrieved cash totaling \$4,669.00 from a file cabinet, which included:

- \$525.00 of cash paper clipped together,
- \$1,574.00 of cash paper clipped together,
- \$1,570.00 of cash, which included \$1,000.00 wrapped in a yellow and white wrapper and bundled with \$570.00 of cash paper clipped together and
- \$1,000.00 of \$100.00 bills bundled and stamped with a teller number.

According to the Light Plant's attorney, the \$1,000.00 which was bundled and stamped with a teller number was from a Light Plant employee who returned the proceeds from the sale of scrap metal.

In light of the concerns addressed by the Board, proceeds from the sale of scrap metal were subsequently remitted to the Light Plant's attorney by the remaining 4 Light Plant employees and Mr. Geschke.

The Light Plant's attorney received a \$1,000.00 check from Mr. Geschke's attorney on May 31, 2012 for his portion of the sale proceeds received the previous fall. All 8 Light Plant employees have returned their proceeds from the sale of scrap metal. Mr. Geschke resigned from his position as General Manager, effective August 14, 2012.

The Office of Auditor of State learned of the alleged misappropriation of Light Plant property from a concerned citizen on May 31, 2012 and contacted the City Clerk. As a result of the concerns identified, we performed the procedures detailed in the Auditor of State's Report for the period January 1, 2001 through May 31, 2012.

## Detailed Findings

These procedures identified \$64,926.73 of undeposited collections and improper disbursements. The \$64,509.75 of undeposited collections identified includes \$55,085.75 from the sale of scrap metal, \$3,669.00 of cash collections located in Mr. Geschke's office and \$5,755.00 of payments issued by North Iowa Municipal Electric Cooperative Association (NIMECA) to Mr. Geschke. The \$416.98 of improper disbursements identified includes \$257.98 of hotel charges, \$123.00 of rental car fees and \$36.00 of airport parking fees for three days during trips to Florida and California when Mr. Geschke was not attending conferences or traveling to or from the conference location. We were unable to determine whether additional amounts were undeposited because adequate records for collections were not available.

### UNDEPOSITED COLLECTIONS

As previously stated, the Light Plant's primary revenue source is from utility collections for electric fees assessed to each household and business. All payments are received through the mail or in person at City Hall. In addition, the Light Plant periodically receives revenue from the sale of scrap metal. All collections received at the Light Plant are to be deposited with the City Clerk for deposit in the City's checking account. We reviewed documentation related to the miscellaneous revenue sources to determine if collections were properly deposited.

**Scrap Metal Collections** – During storms or City projects, electrical wires may be damaged and replaced. The electrical wires removed from service are stored in a locked building at the Light Plant. According to Light Plant employees we spoke with, when the building in which the wire and/or scrap metal is stored gets full, Gregory Heying, the Chief Operations Supervisor, contacts a scrap metal vendor who sends a truck to the Light Plant to pick up the scrap metal. According to Light Plant employees we spoke with, they have not sold scrap metal to any vendors other than Wild Horses Trading located in Kensett, Iowa.

According to Mr. Heying and a representative of the scrap metal vendor, each type of metal, such as copper and aluminum, is weighed by a representative of the scrap metal vendor who then provides a payment to the Chief Operations Supervisor for the scrap metal. The payments are typically made in cash. According to Mr. Heying and the scrap metal vendor, a receipt for the sale of scrap metal is sometimes, but not always, provided. Mr. Heying also stated he takes the payment and the receipt, if one is provided, to Mr. Geschke after the sale is completed.

According to the City Code, Article 4, Title I, all officers of the City are to deposit all monies collected for any purpose with the City Clerk for proper checks and balances. According to the Light Plant employees we spoke with, all collections, including proceeds from the sale of scrap metal, should be deposited with the City Clerk. However, according to an interview with Mr. Geschke, collections from the sale of scrap metal were placed in a file cabinet in his office and were subsequently forgotten about until flower arrangements were purchased or when Christmas parties occurred. In addition, Mr. Geschke stated any receipt received from the scrap metal vendor was not maintained if the collection amount was small.

A large portion of scrap metal from the Stolz Park Project was sold in August or September 2011. According to Light Plant employees we spoke with, including Mr. Heying, the sale of scrap metal totaled \$8,000.00 and each of the 8 Light Plant employees received \$1,000.00 from the proceeds. However, during an interview with Mr. Geschke, he stated the proceeds from the sale totaled \$12,000.00, with \$4,000.00 deposited with the City Clerk and the remaining \$8,000.00 disbursed among the 8 Light Plant employees. We were unable to locate a deposit with the City Clerk for the \$4,000.00 Mr. Geschke stated was deposited.

We were also unable to obtain a copy of a receipt or any other related documentation from the scrap metal vendor for the sale in August or September of 2011. According to a representative of the scrap metal vendor, receipts are not always issued when scrap metal is purchased. Because Mr. Geschke stated \$12,000.00 was received for the sale of scrap metal and none of the \$12,000.00 was deposited with the City Clerk, the \$12,000.00 identified by Mr. Geschke is

included in **Exhibit A** as undeposited collections. Because \$8,000.00 has been returned by the employees and is being held by the Light Plant's attorney, this amount is included in **Exhibit A** as a reduction of the total undeposited collections and improper disbursements identified.

We also attempted to identify all sales of scrap metal between January 1, 2001 and May 31, 2012. Because receipts for all collections were not available at the Light Plant, we obtained and reviewed receipts from the scrap metal vendor.

By reviewing records available from the scrap metal vendor, we identified 24 receipts issued to New Hampton Light and Power or Greg Heying which total \$49,477.25. The 24 receipts are listed in **Exhibit B**. As illustrated by the **Exhibit**, 23 receipts document the vendor paid for scrap metal with cash. The remaining receipt documents the vendor paid with a combination of cash and a check. The **Exhibit** also illustrates the receipt issued on June 3, 2003 was originally issued to Greg Heying, but his name was scratched out and New Hampton Light and Power was written in its place.

Of the 24 receipts identified, 5 receipts totaling \$6,391.50 were deposited with the City Clerk. We were unable to trace the remaining 19 receipts, which total \$43,085.75, to deposits with the City Clerk. As a result, we have included the \$43,085.75 as undeposited collections in **Exhibit A**.

According to an interview with Mr. Geschke, the collections which were not deposited with the City Clerk were used for Christmas parties and flower arrangements for funerals. However, supporting documentation was not available to support these purchases. In addition, these types of purchases may not be an allowable use of Light Plant funds.

Because receipts were not always prepared or retained by either the Light Plant or the scrap metal vendor, we were unable to determine if any additional proceeds from the sale of scrap metal were received but were not properly deposited with the City Clerk.

Also, according to a Light Plant employee we spoke with, he received a portion of the proceeds from the sale of scrap metal prior to August or September of 2011. However, all of the other employees stated they did not receive any proceeds on any other occasion. Because the employee was not able to provide any additional details, such as the time frame or amount received, we were unable to determine if the proceeds he referred to are included in the receipts listed in **Exhibit B**.

**Other Collections** – As previously stated, Light Plant officials retrieved cash totaling \$4,669.00 from a file cabinet in Mr. Geschke's office, which included \$1,000.00 from a Light Plant employee who had previously returned the proceeds from the sale of scrap metal. The \$1,000.00 is being held by the Light Plant's attorney as part of the \$8,000.00 returned by Light Plant employees.

Receipts were recovered from the top of Mr. Geschke's desk for 2 of the remaining 3 amounts found in Mr. Geschke's office. Of the 2 receipts, 1 included handwritten notes which stated battery 1700 x \$0.25 = \$425.00 and scrap iron \$100.00, totaling \$525.00. The other receipt was also handwritten and included notes on a vendor scale ticket dated December 8, 2011 for the sale of scrap totaling \$1,570.00. Supporting documentation was not available for the remaining amount of \$1,574.00. These 3 amounts total \$3,669.00.

Because Mr. Geschke was responsible for depositing the collections with the City Clerk and none of the \$3,669.00 was deposited with the City Clerk, the \$3,669.00 is included in **Exhibit A** as undeposited collections. Because \$3,669.00 was retrieved by Light Plant officials and is being held by the Light Plant's attorney, this amount is also included in **Exhibit A** as a reduction of the total undeposited collections and improper disbursements identified.

**NIMECA Payments** – According to a representative of the North Iowa Municipal Electric Cooperative Association (NIMECA), Mr. Geschke has been the President of the organization since January 2000. As the President, he received reimbursement from NIMECA for conferences he attended as a representative of NIMECA. The reimbursements were to help offset conference expenses such as registration fees, lodging costs, airfare, meals and fuel costs.

According to the Light Plant's attorney, the City Clerk and a representative of NIMECA, Mr. Geschke attended conferences in January and June of each year since he became President of NIMECA. He attended the conferences as a representative of both NIMECA and the Light Plant.

As a result, we obtained a listing of payments issued by NIMECA to Mr. Geschke from January 1, 2006 through May 31, 2012. With assistance from the City Clerk, we also determined the costs the Light Plant paid for Mr. Geschke to attend the conferences during this period and reviewed the related supporting documentation. **Exhibit C** lists the payments NIMECA issued to Mr. Geschke and the costs paid by the Light Plant for 10 conferences attended by Mr. Geschke between January 1, 2006 and May 31, 2012.

**Exhibit C** illustrates the Light Plant incurred \$13,966.47 of costs for the conferences Mr. Geschke attended. The costs included registration fees, lodging costs, airfare, meals, baggage fees, shuttle costs, parking fees and fuel costs. According to an interview with Mr. Geschke, the Light Plant's credit card is used to pay for expenses related to travel for any Light Plant employee.

**Exhibit C** also illustrates Mr. Geschke received \$5,755.00 from NIMECA between January 1, 2006 and May 31, 2012 to help offset conference expenses, such as registration fees, lodging costs, airfare, meals and fuel costs. According to a NIMECA representative, Mr. Geschke did not request any payments from NIMECA to attend conferences prior to January 1, 2006. Had he requested payment, NIMECA would have helped offset the costs of earlier conferences. Because supporting documentation for conference expenses prior to January 1, 2006 was not available from the City, we were unable to determine the total travel costs of conferences prior to January 1, 2006 and the portion of travel costs NIMECA would have paid to offset the costs incurred by the Light Plant. As illustrated by **Exhibit C**, NIMECA paid the registration fees directly to the sponsor for the conferences Mr. Geschke attended in January 2009 and 2010.

During fieldwork, the Light Plant's attorney learned the registration fee for the June 2011 American Public Power Association (APPA) National Conference had not been paid as of June 11, 2012. According to Mr. Geschke, he thought NIMECA was going to pay the registration fee directly to the sponsor. However, according to a representative of NIMECA, the payment provided to Mr. Geschke prior to the conference included funds for the registration fee. In a letter to Mr. Geschke's attorney dated July 19, 2012, the Light Plant's attorney requested a response regarding Mr. Geschke's willingness to pay the conference fee of \$695.00. However, after approximately 4 weeks, a response had not been received and a payment had not been made by Mr. Geschke. City officials subsequently paid the registration on August 22, 2012.

Because NIMECA provided payments to Mr. Geschke to help offset conference expenses, the \$5,755.00 he received should have been remitted to the Light Plant as reimbursement of the costs incurred. As a result, the \$5,755.00 of payments from NIMECA is included in **Exhibit A** as undeposited collections.

## IMPROPER DISBURSEMENTS

**Travel Costs** - We also reviewed the costs incurred by the Light Plant for Mr. Geschke to attend conferences for propriety and identified concerns with costs incurred for the conferences he attended.

Mr. Geschke attended the 2007 APPA Joint Action Workshop in Key West, Florida. According to the APPA's website, the 2007 APPA Joint Action Workshop began on Saturday, January 7, 2007 and ended on Tuesday, January 9, 2007. Based on supporting documentation, such as his hotel receipt, Mr. Geschke arrived in Key West, Florida on January 7, 2007 and departed Key West on Thursday, January 11, 2007. Because it is reasonable to allow a day of travel to return to Iowa following the conference, Mr. Geschke spent 1 day in Florida not related to attending the conference or traveling.

In addition, Mr. Geschke attended the 2009 APPA Joint Action Workshop in Palm Springs, California. According to the APPA's website, the 2009 APPA Joint Action Workshop began on Sunday, January 11, 2009 and ended on Monday, January 12, 2009. Based on supporting documentation, such as his flight itinerary and rental car receipts, Mr. Geschke arrived in Los Angeles, California on Saturday, January 10, 2009 and departed Los Angeles on Thursday, January 15, 2009. As a result, Mr. Geschke spent 2 days in California not related to attending the conference or traveling.

Board members we spoke with were not aware Mr. Geschke extended his stays. We also reviewed Board minutes to determine if any action had been taken regarding Mr. Geschke's ability to flex his working schedule. We did not find any notations regarding this matter. In addition, while Mr. Geschke did not record vacation for any of the 3 days of his extended stays, he also did not record additional work time for his weekend travel and conference time. **Table 1** summarizes the costs incurred by the Light Plant for 3 days of time Mr. Geschke was paid while on administrative leave.

<b>Description</b>	<b>Amount</b>
Mr. Geschke's bi-weekly gross pay	\$ 2,818.23
Divided by number of work days in a bi-weekly period	10
Gross pay per day	281.82
x Number of days	3
Gross pay for 3 days	845.46
Employer's share of FICA (7.65%)	64.68
Employer's share of IPERS (8.07%)	68.23
Total	<u>\$ 978.37</u>

According to the Fair Labor Standards Act, Mr. Geschke was classified as an exempt employee. As an exempt employee and the Light Plant General Manager, it would not be unusual or unallowable for Mr. Geschke to work outside his normal business hours to address Light Plant needs or job demands as they arise. As a result, we have not included the \$987.37 from **Table 1** in **Exhibit A**. However, the Light Plant is not responsible for, and should not pay, expenses not related to time Mr. Geschke was not engaged in Light Plant related work or travel.

The Light Plant incurred a hotel charge for the additional day Mr. Geschke spent in Florida. Using the invoice from the hotel, we determined the Light Plant paid \$257.98 for the additional day. The Light Plant also incurred additional rental car fees and airport parking fees for the 2 additional days Mr. Geschke spent in California. Using the invoice from the car rental

company, we determined the Light Plant paid \$123.00 for the 2 additional days. The Light Plant also paid \$36.00 for parking at the Minneapolis/St. Paul airport during the 2 additional days. The Light Plant did not incur any costs for lodging or meals for Mr. Geschke during this trip. According to City representatives, Mr. Geschke stayed with a family member during the conferences.

We attempted to contact Mr. Geschke through his attorney to discuss the additional time Mr. Geschke spent in Florida and California. However, Mr. Geschke’s attorney advised him to not comment because Mr. Geschke did not have supporting documentation available. The additional costs identified for hotel charges, rental car and parking total \$416.98, which is included in **Exhibit A** as improper disbursements.

By reviewing the costs incurred by the Light Plant, we determined lodging and meal costs were not incurred for some conferences because Mr. Geschke stayed with a family member during the conference. However, it appears other costs were incurred, such as airline fees to an alternate destination and rental car fees to travel to the conference. Documentation was not maintained which allowed us to determine if the alternative arrangements were more or less costly for the Light Plant.

In addition, the documentation supporting meal costs paid by the City included only a notation on a hotel bill or a copy of the Light Plant’s credit card charge slip rather than the detailed receipt from the restaurant. The meal costs paid by the City for which detailed documentation was not submitted are listed in **Table 2**.

<b>Date</b>	<b>Vendor/Description</b>	<b>Location</b>	<b>Amount</b>
01/08/06	Westward Look Resort	Tucson, AZ	\$ 30.00
01/08/06	Westward Look Resort	Tucson, AZ	60.00
01/09/06	Westward Look Resort	Tucson, AZ	29.34
01/09/06	Westward Look Resort	Tucson, AZ	10.50
01/10/09	Westward Look Resort	Tucson, AZ	28.35
04/08/06	Hyatt Regency	Sacramento, CA	51.33
04/10/06	Chops Steak House	Sacramento, CA	40.00
04/11/06	Hard Rock Care	Sacramento, CA	44.56
01/08/07	Westin Hotels & Resorts	Key West, FL	16.78
01/09/07	Westin Hotels & Resorts	Key West, FL	18.13
01/09/07	Half Shell Raw Bar	Key West, FL	38.57
01/11/07	Westin Hotels & Resorts	Key West, FL	7.10
06/20/10	Marriott Hotels & Resorts	Orlando, FL	11.98
06/22/10	Marriott Hotels & Resorts	Orlando, FL	25.43
01/09/11	InterContinental Resort & Casino	San Juan, PR	20.19
01/10/11	InterContinental Resort & Casino	San Juan, PR	25.54
06/19/11	Marriott Wardman Park Hotel	Washington, DC	19.60
	Total		\$ 477.40

As illustrated by the **Table**, the amounts paid by the City ranged from \$7.10 to \$60.00. Because the detailed receipts from the restaurant were not available, we are unable to determine if the City paid for meals for more than 1 person or if the meals paid by the City included alcohol. As a result, we have not included any costs in **Exhibit A** for Mr. Geschke’s meals.

## **Recommended Control Procedures**

As part of our investigation, we reviewed the procedures used by the Light Plant to process collections. 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 of 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 Light Plant's internal controls.

- A. Scrap Metal – Inventory records were not maintained which documented the weight or value of scrap metal held or sold.

Also, the scrap metal vendor typically paid cash for the scrap metal and did not always provide a receipt showing the amount paid for the scrap purchased from the Light Plant. In addition, Light Plant employees did not retain all receipts received from the vendor. As a result, the Light Plant did not have complete records of the proceeds received from the vendor.

Recommendation – The Light Plant should implement policies and procedures to ensure the inventory and sale of scrap metal is properly tracked, such as maintaining a log of the weight and value of the scrap metal held and sold.

In addition, all receipts from the vendor should be maintained and matched to deposits with the City Clerk. The receipts should be matched by someone independent of the sale of scrap and collection of proceeds. Also, Light Plant officials should consider discontinuing collecting cash for the sale of scrap metal and, if possible, request payment be made with a check payable to the Light Plant to provide control over the collections.

- B. Deposit of Light Plant Collections – The former General Manager was responsible for depositing all Light Plant collections with the City Clerk. However, we identified collections which were not properly deposited. Because sufficient records were not available, we are unable to determine if additional collections were received which were not properly deposited.

Some of the collections were identified using records available from a scrap metal vendor. Other undeposited collections were remitted by employees and some were found in the former General Manager's office. Receipts are not prepared for all collections received at the Light Plant.

Recommendation – The Light Plant should implement policies and procedures to ensure all collections are properly deposited with the City Clerk in a timely manner. Receipts should be prepared for all collections received at the Light Plant. Someone independent of the collections process should periodically compare the collections recorded in the receipt book to the amounts deposited with the City Clerk.

- C. Public Purpose – The former General Manager stated the collections which were not deposited were used for Christmas parties and flower arrangements for funerals. Supporting documentation was not available to support the purchases described by the former General Manager.

Disbursements of this nature may not meet the requirement of public purpose as defined in an Attorney General's Opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – City officials and members of the Light Plant Board should determine and document the public purpose served by expenditures of this nature. If these practices continue, City officials and members of the Light Plant Board should establish written policies and procedures for documenting the public purpose served. The policy should address the circumstances under which Light Plant funds may be used for employee recognition, floral arrangements or other special events. The policy should also specify a maximum amount allowable. In addition, supporting documentation for all expenditures of this nature should be maintained.

- D. Travel Expenses – The former General Manager received payments from an outside organization to assist with costs of attending conferences. While the Light Plant incurred the expenses, the former General Manager did not remit the payments received to the Light Plant.

Lodging and meal costs were not incurred for some conferences because the former General Manager stayed with a family member during the conference. However, airline fees to an alternate destination and rental car fees were incurred for some conferences. Documentation was not maintained to determine if the alternative arrangements were economical and approved by the Light Plant.

Also, the Light Plant has not established a policy regarding allowable travel days. We identified instances in which the employee incurred additional expenses after the conference was over.

The Light Plant had not established a policy regarding the maximum meal costs which will be reimbursed. In addition, prior to August 2012, the Light Plant's Board did not require employees to submit itemized receipts in order to be reimbursed for meals. As a result, it was not possible to determine if meals claimed for reimbursement were for more than 1 person or if the meals claimed included alcohol. A policy was established in August 2012 to address this concern.

Recommendation – The Light Plant should implement policies and procedures to ensure all reimbursements received from outside organizations are properly remitted to the Light Plant. In addition, the Light Plant should implement policies and procedures to ensure all travel arrangements are approved by the Board and any alternative arrangements are economical and approved by the Light Plant.

Also, the Light Plant Board should ensure a thorough review of all travel expenses is performed to ensure all expenses submitted are reasonable and appropriate. In addition, the receipts submitted to support costs incurred on the Light Plant's credit card should include the original itemized receipts rather than the credit card charge slips.

Also, the Light Plant Board should establish maximum amounts to be reimbursed for meal costs. In addition, reimbursement requests should be reviewed to ensure meal costs are reimbursed only for the Light Plant employee and alcohol is not purchased.

- E. Notification – Section 11.6(7) of the *Code of Iowa* requires governmental subdivisions to notify the Auditor of State regarding any suspected embezzlement, theft or other significant financial irregularities. The Auditor of State was not notified when the Board members and City officials became aware of the undeposited proceeds from the sale of scrap metal.

Recommendation – The City should implement procedures to ensure compliance with section 11.6(7) of the *Code of Iowa*.

**Report on Special Investigation of the  
New Hampton Municipal Light Plant**

## **Exhibits**

Report on Special Investigation of the  
New Hampton Municipal Light Plant

Summary of Findings  
For the period January 1, 2001 through May 31, 2012

<b>Description</b>	<b>Exhibit/ Page Number</b>	<b>Amount</b>
Undeposited collections:		
Scrap metal sale in August or September 2011	<b>Pages 7 and 8</b>	\$ 12,000.00
Other scrap metal sales	<b>Exhibit B</b>	43,085.75
Other collections	<b>Pages 8 and 9</b>	3,669.00
NIMECA payments	<b>Exhibit C</b>	5,755.00
Total undeposited collections		<u>64,509.75</u>
Improper disbursements:		
Travel costs	<b>Page 10</b>	<u>416.98</u>
Subtotal of undeposited collections and improper disbursements		64,926.73
Less: Collections recovered from employees	<b>Pages 7 and 8</b>	(8,000.00)
Collections recovered from Mr. Geschke's office	<b>Pages 8 and 9</b>	(3,669.00)
Net total		<u><u>\$ 53,257.73</u></u>

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**Report on Special Investigation of the  
New Hampton Municipal Light Plant**

Report on Special Investigation of the  
New Hampton Municipal Light Plant

Sales of Scrap Metal per Receipts from Vendor  
For the period January 1, 2001 through May 31, 2012

<b>Receipt Number</b>	<b>Receipt Date</b>	<b>Name</b>	<b>Description per Receipt*</b>	<b>Price per Pound</b>	<b>Amount</b>	<b>Type of Payment</b>
477749	NA	New Hampton Light and Power	1760# Insulcu	\$ 0.15	\$ 264.00	
			1160# Alum Cable	0.13	150.80	
			Scale Fee	5.00	5.00	
					<u>419.80</u>	Cash
577309	06/22/02	New Hampton Light and Power	4400# ACSR	0.18	738.00	
			325# Insulcu	0.20	65.00	
			Lumpsum Fe 15	15.00	15.00	
			Scale Fee	5.00	5.00	
					<u>823.00</u>	Cash
256380	04/23/03	New Hampton Light and Power	760# Insulcu	0.20	152.00	
			Scale Fee	5.00	5.00	
					<u>157.00</u>	## Cash
15381	04/23/03	Greg Haying (sic)	760# Insulcu	0.05	<u>38.00</u>	Cash
125806	06/03/03	New Hampton Light and Power^	2360# Insulcu	0.23	542.80	
			Scale Fee	5.00	5.00	
					<u>547.80</u>	Cash
1263	06/04/04	New Hampton Light and Power	2440# ACSR	0.25	610.00	##
			480# Insulcu	0.50	240.00	
					<u>850.00</u>	Cash
1264	06/04/04	Greg Heying	2440# ACSR	0.05	<u>122.00</u>	Cash
1175	12/03/04	New Hampton Light and Power	3980# ACSR	0.28	1,114.40	
			Scale Fee	5.00	5.00	
					<u>1,119.40</u>	Cash
1768	09/07/05	New Hampton Light and Power	1940# ACSR	0.30	582.00	
			1440# Insulcu	0.65	936.00	\$537.00 Cash
					<u>1,518.00</u>	\$981.00 Check

**Exhibit B**Report on Special Investigation of the  
New Hampton Municipal Light PlantSales of Scrap Metal per Receipts from Vendor  
For the period January 1, 2001 through May 31, 2012

<b>Receipt Number</b>	<b>Receipt Date</b>	<b>Name</b>	<b>Description per Receipt*</b>	<b>Price per Pound</b>	<b>Amount</b>	<b>Type of Payment</b>
3247	10/04/06	New Hampton Light and Power	3160# Insulcu	1.95	6,162.00	
			740# ACSR	0.35	259.00	
					<u>6,421.00</u>	Cash
4601	05/11/07	New Hampton Light and Power	480# Insulta	2.00	960.00	
			5320# Insula #2	1.55	8,246.00	
			640# ACSR	0.35	224.00	
					<u>9,430.00</u>	Cash
4602	05/11/07	New Hampton Light and Power	2212# Insulcu	1.55	3,430.00	## Cash
5442	08/09/07	New Hampton Light and Power	2460# Unprop	0.03	73.80	
			200# Alum	0.60	120.00	
					<u>193.80</u>	## Cash
5443	08/09/07	New Hampton Light and Power	3820# Insulcu(underground)	1.50	5,730.00	
			1820# Insulcu	1.90	3,458.00	
			3320# ACSR	0.36	1,195.20	
					<u>10,383.20</u>	Cash
6532	11/07/07	New Hampton Light and Power	1380# ACSR	0.25	345.00	
			1255# Insulcu	1.55	1,945.25	
			45# Hlcu	2.50	112.50	
					<u>2,402.75</u>	Cash
11635	11/14/08	New Hampton Light and Power	5380 Unpre	0.40	107.60	Cash
15257	10/06/09	New Hampton Light and Power	1900 OCAR	0.12	228.00	
			40 Ins cap	0.60	24.00	
			1 Bed	0.14	5.00	
					<u>257.00</u>	Cash

Report on Special Investigation of the  
New Hampton Municipal Light Plant

Sales of Scrap Metal per Receipts from Vendor  
For the period January 1, 2001 through May 31, 2012

Receipt Number	Receipt Date	Name	Description per Receipt*	Price per Pound	Amount	Type of Payment
22500	09/21/10	New Hampton Light and Power	200 inul	1.30	260.00	Cash
			440 old wire	0.27	118.80	
			95 batts	0.16	15.20	
			750 unpre	0.08	60.00	
					<u>454.00</u>	
23680	11/16/10	New Hampton Light and Power	1640# insula	1.50	2,460.00	Cash
29260	06/13/11	New Hampton Light and Power	1300# Insulcu (MCM)	2.00	2,600.00	Cash
			680# ACSR	0.20	136.00	
			3140#	0.32	1,004.80	
					<u>3,740.80</u>	
30484	07/13/11	New Hampton Light and Power	1026 insul cap	1.95	2,000.70	## Cash
36138	12/08/11	New Hampton Light and Power	760# Insulcu	1.85	1,406.00	Cash
			950# ACSR	0.25	237.50	
					<u>1,643.50</u>	
36027	12/10/11	New Hampton Light and Power	4180# unprepre	0.01	418.00	Cash
39230	03/30/12	New Hampton Light and Power	1700# Batt	0.25	425.00	Cash
			920# unpropfe	0.11	98.90	
			8# Brass	2.00	16.00	
					<u>539.90</u>	
Total sale proceeds					49,477.25	
Less: Deposits with City Clerk					(6,391.50)	
Total					<u>\$ 43,085.75</u>	

NA - Receipt date was not available because corner of receipt was torn.

^ - Receipt initially issued to Greg Heying, but scratched through and New Hampton Light and Power was written in instead.

## - Collections were traced to a deposit with the City Clerk.

\* - Abbreviations used in the description include:

ACSR - Aluminum conductor steel - reinforced cable

Insulcu - Insulated copper

Unpre - Unprepared, item is not cut and is longer than 3ft

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Report on Special Investigation of the  
New Hampton Municipal Light Plant

NIMECA Payments and Light Plant Costs for Conferences  
For the period January 1, 2001 through May 31, 2012

<b>Per NIMECA Records</b>			
<b>Transaction Date</b>	<b>Amount</b>	<b>Description</b>	<b>Conference Dates</b>
01/01/06	\$ 500.00	# APPA Joint Action Workshop Tucson, AZ	Jan. 8 - 10, 2006
04/01/06	750.00	APPAs Engineering & Operations Technical Conference Sacramento, CA	April 9 - 12, 2006
01/01/07	475.00	# APPA Joint Action Workshop Key West, FL	Jan. 7 - 9, 2007
06/01/08	105.00	# APPA National Conference New Orleans, LA	June 21 - 25, 2008

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**Per Supporting Documentation Obtained from Light Plant**


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<b>Check Number~</b>	<b>Amount</b>	<b>Description</b>
7385	\$ 690.06	Hotel
7385	<u>20.00</u>	Airport parking
	<u>710.06</u>	
7486	595.00	Conference fee
7520	747.25	Hotel and meal
7520	40.00	Chops Steak House
7520	44.56	Hard Rock Café
7520	<u>55.00</u>	Airport parking
	<u>1,481.81</u>	
7905	371.80	Airfare from Minneapolis to Key West
8051	903.51	Hotel and meals from Jan. 7-9
8051	250.88	Hotel for Jan. 10
8051	7.10	Refreshment center at hotel on Jan. 10
8051	48.75	Airport parking
8051	38.57	Half Shell Raw Bar
8051	<u>59.19</u>	Fogarty's
	<u>1,679.80</u>	
8680	217.70	Hotel - Deposit
8977	437.40	Hotel - June 22-24
8977	144.24	Hotel in Minneapolis - June 21
8977	59.20	Gas
8571	<u>445.61</u>	Airfare
	<u>1,304.15</u>	

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Report on Special Investigation of the  
New Hampton Municipal Light Plant

NIMECA Payments and Light Plant Costs for Conferences  
For the period January 1, 2001 through May 31, 2012

<b>Per NIMECA Records</b>			
<b>Transaction Date</b>	<b>Amount</b>	<b>Description</b>	<b>Conference Dates</b>
01/02/09	475.00 #	APPA Joint Action Workshop Palm Springs, CA	Jan. 11 - 12, 2009
06/01/09	750.00	APPA National Conference Salt Lake City, UT	June 13 - 17, 2009
01/04/10	450.00 #	APPA Joint Action Workshop Palm Springs, CA	Jan. 10 - 12, 2010
06/02/10	750.00	APPA National Conference Orlando, FL	June 19 - 23, 2010

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**Per Supporting Documentation Obtained from Light Plant**


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<b>Check Number~</b>	<b>Amount</b>	<b>Description</b>
9217	319.00	Airfare from Minneapolis to Los Angeles
9367	30.00	Baggage fee
9367	383.60	Car rental
9367	108.00	Airport parking
9367	20.20	Gas for rental car
	<u>860.80</u>	*
9471	645.00	APPA Conference fee
9478	339.20	Airfare from Minneapolis to Salt Lake City
9584	689.62	Hotel and room service
9584	30.00	Baggage fee
9584	72.00	Airport parking
	<u>1,775.82</u>	
9886	308.40	Airfare from Des Moines to Los Angeles
9930	124.13	Car rental
9930	55.15	Gas
9930	44.00	Airport parking
	<u>531.68</u>	*
10096	645.00	APPA Conference fee
10075	317.30	Airfare from Des Moines to Orlando
10200	752.93	Hotel and food court
10200	29.00	Airport Shuttle
10200	50.00	Baggage fee
10200	48.00	Airport parking
10200	31.86	Gas
	<u>1,874.09</u>	

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Report on Special Investigation of the  
New Hampton Municipal Light Plant

NIMECA Payments and Light Plant Costs for Conferences  
For the period January 1, 2001 through May 31, 2012

<b>Per NIMECA Records</b>			
<b>Transaction Date</b>	<b>Amount</b>	<b>Description</b>	<b>Conference Dates</b>
01/03/11	750.00	APPA Joint Action Workshop San Juan, Puerto Rico	Jan. 9 - 11, 2011
06/01/11	750.00	APPA National Conference Washington, DC	June 17 - 22, 2011
Total	<u>\$5,755.00</u>		

~ - Costs were initially paid with the Light Plant's credit card. The check number shown is for the check to pay amount due on credit card.

\* - No lodging costs were paid for these trips. Mr. Geschke's daughter lived in California during the time of the conferences.

# - Registration fee for conference was paid directly to sponsor by NIMECA. The amount Mr. Geschke received from NIMECA was net of the registration fee.

^ - The City paid the registration fee on August 22, 2012.

**Per Supporting Documentation Obtained from Light Plant**

<b>Check Number~</b>	<b>Amount</b>	<b>Description</b>
31494	300.00	APPA Conference fee
10477/31735	698.53	Hotel and café
31735	20.00	Airport parking
31735	50.00	Baggage fee
31597	683.20	Airfare from Cedar Rapids to San Juan
	<u>1,751.73</u>	
32562	429.10	Airfare from Minneapolis to Washington DC
^	695.00	APPA Conference fee
32507	50.00	Baggage fee
32507	54.00	Airport parking
32807	768.43	Hotel and food
	<u>1,996.53</u>	
	<u>\$ 13,966.47</u>	

Report on Special Investigation of the  
New Hampton Municipal Light Plant

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director  
Melissa J. Knoll-Speer, Senior Auditor II  
Lara K. Van Wyk, Staff Auditor



Tamera S. Kusian, CPA  
Deputy Auditor of State