



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA  
Auditor of State

Contact: Mary Mosiman  
515/281-5835  
or Tami Kusian  
515/281-5834

FOR RELEASE October 25, 2013

Auditor of State Mary Mosiman today released a reaudit report on the City of Remsen and the Remsen Municipal Utilities for the period July 1, 2010 through June 30, 2011. The reaudit also covered items applicable to the years ended June 30, 2010 and 2012. The reaudit was performed at the request of citizens pursuant to Chapter 11.6(4)(a)(3) of the *Code of Iowa*.

The reaudit report addressed concerns regarding lack of segregation of duties over utility collections, reconciliation of utility billings, collections and delinquent accounts and written policies for uncollectible accounts and allocation of sewer and garbage charges. Mosiman recommended the Utilities establish procedures to reconcile utility billings, collections and delinquent accounts, including independent review of the reconciliations performed. In addition, Mosiman recommended the Utilities establish a written policy regarding uncollectible accounts and strengthen internal control procedures regarding segregation of duties and the allocation of sewer and garbage charges.

Mosiman also addressed concerns pertaining to nepotism, private use of public property and resources, use of City credit cards, questionable disbursements and use of public funds and the purchase and/or sale of City equipment.

The City responded favorably to the findings and recommendations. The City's responses are included with each finding and recommendation in the reaudit report. A copy of the reaudit report is available for review in the City Clerk's Office, in the Municipal Utilities Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1121-0700-T00Z.pdf>.

# # #



**CITY OF REMSEN AND REMSEN MUNICIPAL UTILITIES**

**AUDITOR OF STATE'S REPORT ON REAUDIT**

**FOR THE PERIOD  
JULY 1, 2010 THROUGH JUNE 30, 2011**

## Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Report on Reaudit	5-6
Detailed Findings:	<u>Finding</u>
Agreed Upon Procedures Report	A 8-9
Minutes	B 9
Nepotism	C 9-11
Private Use of Public Property and Resources	D 11-12
Sewer Revenue Capital Loan Notes, Series 2010	E 12
Credit Cards	F 12-13
Questionable Disbursements and Use of Public Funds	G 13-14
Payroll	H 14-15
Utility Rates	I 15
Purchase and/or Sale of Equipment	J 15-16
Electronic Check Retention	K 16
Exhibit:	<u>Exhibit</u>
Independent Accountants' Report on Applying Agreed Upon Procedures as of May 31, 2012	1 18-25
Staff	26

## City of Remsen and Remsen Municipal Utilities

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>City of Remsen</b>		
Craig Bartolozzi	Mayor	Jan 2012
Mike Nelson	Council Member	Jan 2012
Dick Sievers	Council Member	Jan 2012
Jeff Cluck	Council Member	Jan 2014
Tom Haverkamp	Council Member	Jan 2014
Dave Sonnichsen	Council Member	Jan 2014
Paige List	Clerk/Treasurer	Indefinite

### Remsen Municipal Utilities

Don Kolker	Chairman	Jan 2014
Tom Bacan	Trustee	Jan 2012
Stephen Matgen	Trustee	Jan 2016
Steve Pick	Operations Director	July 1, 2012 (Position Eliminated)

**City Of Remsen And Remsen Municipal Utilities**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Auditor of State's Report on Reaudit

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


We received requests to perform reaudits of the City of Remsen (City) and the Remsen Municipal Utilities (Utilities) under Chapter 11.6(4)(a)(3) of the *Code of Iowa*. As a result, we performed a review of the fiscal 2011 audit reports and workpapers prepared by the City's certified public accounting firm to determine whether the CPA firm may have addressed any or all of the specific issues identified in the requests for reaudit during the annual audits of the City and the Utilities. Based on this review and our review of the preliminary information available, we determined a partial reaudit was necessary to further investigate specific issues identified in the requests for reaudit. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City and the Utilities for the period July 1, 2009 through June 30, 2012. The procedures we performed are summarized as follows:


- 1) Obtained and reviewed a copy of the "Independent Accountants' Report on Applying Agreed-Upon Procedures as of May 31, 2012" prepared by an independent accountant and performed procedures to determine current status of City and/or Utilities actions taken, if any.
- 2) Reviewed selected City Council minutes and Utilities Board minutes for compliance with Chapter 21 and Chapters 372.13(6) and 388.4 of the *Code of Iowa*.
- 3) Reviewed City and Utilities policies pertaining to potential conflicts of interest and potential nepotism to determine whether adequate policies and procedures were in place and operating effectively.
- 4) Inquired whether the City and/or the Utilities had a policy regarding personal use of City and/or Utilities equipment by officials and employees of the City and/or the Utilities to determine if the policy properly addressed the safeguarding of assets, including personal use of equipment.
- 5) Examined a copy of the City Council's resolution dated August 25, 2010 authorizing \$2,215,000 of Sewer Revenue Capital Loan Notes, Series 2010 and performed procedures to determine compliance with the revenue capital loan note covenants.
- 6) Tested certain credit card transactions for propriety, proper documentation and compliance with the City and the Utilities credit card policies.
- 7) Reviewed the City and the Utilities procedures for collecting and accounting for garbage receipts and verified collections were properly allocated.
- 8) Reviewed the City and the Utilities policies pertaining to competitive bidding, including purchasing policies, to determine if adequate policies and procedures were in place and operating effectively.
- 9) Examined copies of minutes, supporting documentation and transactions relating to the sale of a truck and trencher.

Based on the procedures described above, we identified instances of non-compliance and have developed various recommendations for the City and the Utilities. Our recommendations and the instances of non-compliance are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, items of non-compliance were not noted during the performance of the specific procedures listed above.

The procedures described above are substantially less in scope than an audit of financial statements made in accordance with U.S. generally accepted auditing standards, the objective of which is the expression of an opinion on financial statements. Accordingly, we do not express an opinion. Had we performed additional procedures, or had we performed audits of the City of Remsen and the Remsen Municipal Utilities, additional matters might have come to our attention that would have been reported to you.

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

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

July 16, 2013



## **Detailed Findings**

City of Remsen and Remsen Municipal Utilities

Detailed Findings

July 1, 2009 through June 30, 2012

(A) Agreed Upon Procedures Report – The Remsen Municipal Utilities Board engaged independent accountants to perform certain agreed upon procedures as of May 31, 2012, primarily in regard to the Utilities' Special Collections account. The Independent Accountants' Report is included in **Exhibit 1**. Based on our review and discussions with City officials, the following findings and recommendations pertain to the status of items identified in the Independent Accountants' Report at the time of our fieldwork in January 2013:

- Utility billings and delinquent accounts have not been reconciled. The Utilities does not have a written policy for write-offs of uncollectible accounts and an allowance for doubtful accounts has not been established.
- Pursuant to Resolution 2007-11, signed and dated October 17, 2007, the City certified a delinquent business customer account balance of \$13,914.56 to the Plymouth County Treasurer for collection at 5% interest. The last payment made on the account prior to certification was on September 28, 2007 and, at the time of certification, the Utilities ceased applying penalties to the account. According to the Plymouth County Treasurer, the delinquent business customer account balance, including interest and penalties, totaled \$27,214.56 as of October 2012.
- The possibility exists for misappropriation of customer deposits made in cash if not recorded in the accounting system. Internal control procedures have not been implemented to address this.
- Utility software has been implemented to permit specific coding to enable proper allocation of sewer and garbage collections. However, written policies and/or procedures have not been developed to address controls over the allocations of the sewer and garbage collections to the City and/or to require periodic review of the propriety of the allocations.
- Lack of segregation of duties exists in recording receipts and preparing and making deposits. No independent review of bank reconciliations or canceled checks is performed.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The Board or a Board-designated independent person should review the reconciliations and monitor delinquent accounts. The Utilities should establish a written policy for write-offs of uncollectible accounts and establish an allowance for doubtful accounts. Internal control procedures should be implemented in regard to segregation of duties, recording customer deposits and allocating sewer and garbage collections to the City.

Legal counsel should be consulted to determine the course of action and disposition in regard to the significant delinquent business customer account balance. The Utilities has established practices to review, monitor and collect customer accounts with delinquent balances, including periodic reporting to the Board. However, periodic independent reviews and procedures should be implemented to prevent delinquent account balances from continuing to increase in the future.

Response – With the implementation of the new software, the utility billings and delinquent accounts have begun to be reconciled each month by the Utility Clerk. Each month, the reconciliation report will be presented to the Utility Board for its review. A

policy for the write-offs of uncollectible accounts was passed at the August 19, 2013 Board meeting.

Legal counsel was consulted in regards to the account carrying a balance of \$13,914.56. At this point, there is nothing more the Utility can do to obtain the monies.

Each month, a designated Board member will be given the new utility applications for that month to compare to what is in the system and the bank statements. This will aid in establishing internal control procedures.

Conclusion – Response acknowledged. The Utilities should also establish written policies and/or procedures to address controls over the allocation of the sewer and garbage collections to the City and/or require periodic review of the propriety of the allocations. In addition, independent personnel should periodically review bank reconciliations and canceled checks and ensure collections per the utility software or initial receipt listings reconcile to deposits and investigate any variances.

(B) Minutes - Testing of the minutes record for the City Council and the Utilities Board disclosed the following:

- Minutes of 2 of 10 City Council meetings tested were not published within 15 days of the meeting date.
- Minutes of 4 of 5 Utilities Board meetings tested were not published timely and proof of publication for the minutes of a meeting was not available.

Chapter 372.13(6) of the *Code of Iowa* states, in part, "Within fifteen days following a regular or special meeting of the council, the clerk shall cause the minutes of the proceedings of the council, including the total expenditure from each city fund, to be published in a newspaper of general circulation in the city. Failure by the clerk to make publication is a simple misdemeanor."

Chapter 388.4 of the *Code of Iowa* states, in part, "Immediately following a regular or special meeting of a utility board, the secretary shall prepare a condensed statement of the proceedings of the board and cause the statement to be published in a newspaper of general circulation in the city. Failure by the secretary to make publication is a simple misdemeanor."

Recommendation – The City and the Utilities should implement procedures to ensure timely publication as required by Chapters 372.13(6) and 388.4 of the *Code of Iowa*.

Response – Since the audit, a new employee has taken over responsibilities of taking and publishing the Utility Board meeting minutes. Meetings are held on the third Monday of the month and will be published in the following week's Remsen Bell. The City Clerk will see that City Council meeting minutes are published timely. The City Council and Utility Board will annually designate a second newspaper, the LeMars Daily Sentinel. Therefore, minutes will be published in the necessary timeframe.

Conclusion – Response accepted.

(C) Nepotism – Chapter 71 of the *Code of Iowa* states, "It shall hereafter be unlawful for any person elected or appointed to any public office or position under the laws of the state or by virtue of the ordinance of any city in the state, to appoint as deputy, clerk, or helper in said office or position to be paid from the public funds, any person related by consanguinity or affinity, within the third degree, to the person elected, appointed, or making said appointment, unless such appointment shall first be approved by the officer, board, council, or commission whose duty it is to approve the bond of the

principal; provided this provision shall not apply in cases where such person appointed receives compensation at the rate of six hundred dollars per year or less, nor shall it apply to persons teaching in public schools, nor shall it apply to the employment of clerks of members of the general assembly.

No person so unlawfully appointed or employed shall be paid or receive any compensation from the public money and such appointment shall be null and void and any person or persons so paying the same or any part thereof, together with their surety, shall be liable for any and all moneys so paid."

The City's and the Utilities' "Manual of Personnel Policies and Administration" states, in part:

"Section 3.1 Advertising: Notice of open positions will be placed in general circulation newspapers or other appropriate media, depending upon the position to be filled.

Section 3.4 Employment of Relatives: The City Council or the Utility Board shall not encourage the employment of relatives in the same department."

Former Utilities Operations Manager Steve Pick hired his sons to perform services for the Utilities and was responsible for supervising them. Phillip Pick was hired on April 16, 2004 and worked through August 31, 2010. However, the minutes did not document City Council or Utilities Board approval for hiring him. Louis Pick was hired on June 1, 2006 and worked summers and periodically through January 16, 2012. The April 12, 2006 Utilities Board minutes document Board approval for a "summer worker to be paid \$8.00 per hour," but did not identify the name of the summer worker or Board approval to hire Louis Pick.

IRS form W-2 documented payments to these individuals during fiscal years 2010 and 2011, as follows:

<b>Employee</b>	<b>2010</b>	<b>2011</b>
Phillip Pick	\$ 6,881.00	-
Louis Pick	7,084.00	6,360.00
Total	\$13,965.00	6,360.00

Austin Sparr, son of Police Officer Mike Sparr, was hired on May 12, 2010 pursuant to City Council Resolution 2010-017. According to information available, he was paid from the City Streets Department. Because he was employed in a different department than his father, his hiring was in compliance with the City's policy regarding nepotism and the provisions of Chapter 71 of the *Code of Iowa* do not appear to apply to Austin Sparr's employment with the City.

While we found evidence of advertisements for other City and Utilities job openings, no evidence of advertising for these positions was located.

Recommendation – Payments to these individuals exceeding \$600.00 do not comply with Chapter 71 of the *Code of Iowa* since the City Council or the Utilities Board did not approve hiring these individuals. The City Council and the Utilities Board should clarify the "Manual of Personnel Policies and Administration," including Section 3.1 regarding positions to be advertised and Section 3.4 regarding employment of relatives to address the requirements of Chapter 71 of the *Code of Iowa*. Procedures should be implemented

to require City Council or Utilities Board approval prior to hiring relatives of employees to ensure compliance with Chapter 71 of the *Code of Iowa*.

Response – A new handbook was implemented on February 13, 2013 and both the advertising of jobs and nepotism were addressed. The policy ensures this will not happen again.

Conclusion – Response acknowledged. Per the February 13, 2013 handbook, job openings will be posted to the employee bulletin board. The City Council and the Utilities Board should evaluate whether this provides sufficient notification of the job openings to the general public.

- (D) Private Use of Public Property and Resources – According to City staff, the City and the Utilities had a long-standing practice of allowing employees and officials to use City equipment for personal use.

According to Article III, Section 31 of the Constitution of the State of Iowa, “no public money or property shall be appropriated for local or private purposes.” Also, according to an opinion of the Attorney General dated May 13, 1983, “private use of public property is permissible only if the private use is incidental to a public purpose.”

The City’s and the Utilities’ “Manual of Personnel Policies and Administration” states, in part:

“Section 9.3 Use of City Equipment: Any person employed by the City of Remsen or Remsen Municipal Utilities, with the status of regular full-time or regular part-time may be allowed to use the equipment of the City of Remsen and/or the Remsen Municipal Utilities providing that approval from the Supt. of Streets, City Clerk, Utility Director or Supt. of Utilities has been obtained prior to use.

Approval from the department heads, as listed above, where the equipment is primarily used must be received prior to use. Use of equipment to be used for personal use only, not for profit. All equipment used must be returned in the same condition as taken. Any repairs or maintenance due to use will be at the expense of the user.”

According to City staff, there was no written evidence of Department head approval for use of City and Utilities equipment.

In addition, according to City staff, there has been a long-standing practice allowing sewer employee Mike Ruden to purchase goods and supplies through the City for his private business, Rudy’s Repair. Mr. Ruden has purchased concrete from L.G. Everist, Inc. and tools from Tool Depot in the City’s name. According to City staff, Mr. Ruden orders the goods and supplies and pays the invoice directly (marked as “Rudy’s personal”) so no City or Utilities funds have been remitted for the personal purchases. However, by purchasing the goods and supplies in the name of the City, Mr. Ruden avoided payment of sales tax.

Because the transactions were not recorded by the City or the Utilities, we were unable to determine the number of transactions or potential dollar amount involved. Based on the 4 documents available, 2 invoices from Tool Depot were for \$62.00 in August 2010 and \$95.00 in September 2010. An invoice from L.G. Everist, Inc. was for \$81.20 in August 2010 and a second document from L.G. Everist, Inc. in August 2012 did not include an amount due. Each of the 4 documents identified had a handwritten note stating “Rudy’s personal.”

Recommendation - On June 13, 2012, the City took action to "create and enforce a policy in which employees cannot use the City's equipment for personal use." The City and the Utilities should clarify and modify Section 9.3 of the "Manual of Personnel Policies and Administration" regarding use of City equipment. Procedures should be implemented to ensure compliance with Article III, Section 31 of the Constitution of the State of Iowa.

In addition, the City and the Utilities should establish a policy to specifically prohibit personal purchases in the name of the City and/or the Utilities and ensure the policy is adequately communicated to employees.

Response - The February 2013 City of Remsen Employee Handbook addresses the issue of employee use of City equipment. All staff were made aware of the revised policy and signed off stating they agree to it. Mr. Ruden has been notified with a written notice to cease all personal purchasing through the City.

Conclusion - Response accepted.

- (E) Sewer Revenue Capital Loan Notes, Series 2010 - Section 16(b) of the sewer revenue capital loan notes, series 2010 note resolution requires the City to establish a separate Sewer Revenue Note and Interest Sinking Fund (Sinking Fund) to be "used solely for the purpose of paying principal of and interest on the Notes and Parity Obligations as the same shall become due and payable."

Section 16(b) also states, in part, "The required amount to be deposited in the Sinking Fund in any month shall be the equal monthly amount necessary to pay in full the installment of interest coming due on the next interest payment date on the then outstanding Notes and Parity Obligations, plus the equal monthly amount necessary to pay in full the installment of principal coming due on such Notes on the next succeeding principal payment date until the full amount of such installment is on hand."

Section 18(b) states, in part, "On or before the beginning of each fiscal year the Governing Body will adopt or continue in effect rates for all services rendered by the System determined to be sufficient to produce Net Revenues for the next succeeding fiscal year adequate to pay principal and interest requirements and create reserves as provided in this Resolution but not less than 110 percent of the principal and interest requirements of the fiscal year."

The City has not established the Sinking Fund or made the monthly transfers required by Section 16(b) of the sewer revenue capital loan note resolution. In addition, the City is not in compliance with the 110 percent net revenue requirement of Section 18(b) of the sewer revenue capital loan note resolution.

Recommendation - The City should establish the Sinking Fund and make the monthly transfers, as required. In addition, the City should ensure net operating receipts for the Enterprise, Sewer Fund are sufficient to make required debt service payments to comply with the sewer revenue capital loan note resolution.

Response - A sinking fund has been established and monthly transfers will occur.

Conclusion - Response acknowledged. In addition, the City should ensure net operating receipts for the Enterprise, Sewer Fund are sufficient to make required debt service payments to comply with the sewer revenue capital loan note resolution.

- (F) Credit Cards - On June 25, 2008, the City Council authorized the City to obtain and use "a credit card for travel, conferences, etc." The City does not have a written credit card

policy or specifically prohibit personal use of credit cards. However, no City credit card transactions for personal purchases were noted.

Testing of 20 City credit card transactions identified the following:

- 3 transactions included \$54.31 for sales tax paid on an equipment purchase, coffee supplies and pop, which does not appear to meet the test of public purpose.
- 7 transactions totaling \$949.08 for travel expenses and equipment purchases were not properly authorized by the City Council.

According to City staff, prior to the departure of the former Utilities Operations Director, all Utilities employees had an American Express credit card in their name. These have since been canceled and destroyed and a different credit card account established. However, Utilities Board approval to obtain the credit cards was not documented in the Utilities Board minutes. The Utilities does not have a written credit card policy or specifically prohibit personal use of credit cards. However, no Utilities credit card transactions for personal purchases were noted.

Testing of 16 Utilities credit card transactions identified the following:

- 2 transactions totaling \$43.11 for Christmas decorations do not appear to meet the test of public purpose.
- 5 transactions totaling \$1,030.93 for travel expenses and equipment purchases did not have proper supporting documentation.

The City and the Utilities do not have policies establishing limits on travel expenses, including allowable reimbursements for meals and/or lodging.

Recommendation – Pursuant to Article III, Section 31 of the Constitution of the State of Iowa, public funds may only be spent for the public benefit. Several court cases and opinions of the Iowa Attorney General address and provide guidance regarding this public purpose criteria. The City Council and/or the Utilities Board minutes record did not document, and we were otherwise unable to determine, the public benefit regarding the invoices and related payments for the items noted above.

The City and the Utilities should adopt a formal written policy documenting approval and regulating use of City and Utilities credit cards. At a minimum, the policy should address who controls the credit cards, the individual(s) authorized to use the credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges. The credit cards should be used only for City or Utilities business purposes and all charges should be scrutinized, reviewed and approved by the City Council or the Utilities Board prior to payment. The City and the Utilities should also establish policies to address limits on travel expenses, including allowable reimbursements for meals and/or lodging.

Response – A new credit card policy was adopted at the September 16, 2013 Utility Board meeting and at the September 25, 2013 City Council meeting.

Conclusion – Response accepted.

- (G) Questionable Disbursements and Use of Public Funds – In addition to testing credit card transactions, testing of City and Utilities disbursement transactions identified the following:

- A City transaction totaling \$80.00 for memorial flowers does not appear to meet the test of public purpose.
- 4 of 6 Utilities transactions totaling \$1,544.47 do not appear to meet the test of public purpose. These transactions consist of:
  - Holiday meals totaling \$964.47, including 39 buffet meals at \$9.95 each, or \$388.05, beverages totaling \$427.00, gratuity and sales tax.
  - Summer picnic expenses totaling \$397.50, including golf fees of \$176.00, golf carts of \$104.00 and beer and liquor of \$117.50.
  - Funeral flowers of \$52.50.
- 2 of 6 Utilities transactions tested totaling \$527.50 for the summer picnic expenses did not have proper supporting documentation.

In addition, City Resolution 2012-023 passed and approved May 23, 2012 states, in part, "... effective immediately, interest obtained from the Collections Account will be used towards employee recognition dinners as approved by the Utility Board." Staff represented the Collections Account is no longer being used, but a balance of \$127.88 remains.

Recommendation – Pursuant to Article III, Section 31 of the Constitution of the State of Iowa, public funds may only be spent for the public benefit. Several court cases and opinions of the Iowa Attorney General address and provide guidance regarding this public purpose criteria. The City Council and/or the Utilities Board minutes record did not document, and we were otherwise unable to determine, the public benefit regarding the invoices and related payments for the items noted above.

Interest income earned on City and/or Utilities investments is subject to the Constitutional public purpose criteria. The Collections Account should be closed and, in the future, if/when applicable, the City and the Utilities should address and document public purpose criteria before public funds, including interest income, are used for other than clearly public purposes.

The use of public funds for purchases of alcoholic beverages should be prohibited.

We did not determine whether the Utilities Board included and reported the value of the meals and/or golf fees and carts to officials and/or to individual employees on IRS form W-2. However, these may be considered to be compensation and, therefore, should be reported with total wages paid on IRS form W-2. The Utilities Board should determine and document the public purpose served by these expenditures before authorizing any further payments. The City and the Utilities should establish written policies and procedures to incorporate the IRS reporting requirements and ensure compliance with Article III, Section 31 of the Constitution of the State of Iowa, including the requirement for proper documentation of the Constitutional public purpose criteria.

Response – In the new employee handbook, a public purpose policy was established. It was also decided that, in the future, no more alcoholic beverages will be provided by the City or Utility at employee recognition events.

Conclusion – Response acknowledged. The City should close the Collections Account.

- (H) Payroll – We did not search for or note any instances of payments to independent contractors. However, according to City staff, IRS form 1099 was not prepared or filed during fiscal years 2010 and 2011, if applicable. Except for pool employees, timecards were not reviewed or signed by the employees' supervisors.



Recommendation – IRS form 1099 should be completed and filed for payments of \$600 or more to independent contractors. All timecards should be reviewed and signed by the employee's supervisor.

Response – Current staff was not aware that 1099's needed to be prepared until it was a finding in our last annual audit. This year 1099's will be issued to necessary vendors. A new policy has been implemented and all employees and supervisors sign off on their timecards each pay period.

Conclusion – Response accepted.

- (I) Utility Rates - According to City staff, the Utilities electric rate increases authorized by Utilities Board Resolution 2011-06, dated June 9, 2011 and effective for July 2011 billings, were not billed to customers in July 2011. However, the Utilities Board subsequently amended electric rates pursuant to Utilities Board Resolution 2011-10, dated July 13, 2011 and effective for August 2011 billings. These rates were appropriately processed and billed.

Chapter 384.84 of the *Code of Iowa* addresses the requirements for rates and charges, billings, collections and contracts. Chapter 384.84(1) states, in part, "The governing body of a city utility, combined utility system, city enterprise, or combined city enterprise may establish, impose, adjust, and provide for the collection of rates and charges to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the city utility, combined utility system, city enterprise, or combined city enterprise.... Rates must be established by ordinance of the council or by resolution of the trustees, published in the same manner as an ordinance."

Except for natural gas rates, all other utility rates have been established by City Council ordinance or Utilities Board resolution.

Recommendation – In the future, the Utilities should implement billing rates in a timely manner. Natural gas rates should be established by ordinance of the City Council or Utilities Board resolution in accordance with Chapter 384.84 of the *Code of Iowa*. Legal counsel should be consulted to determine the disposition and corrective action required.

Response – The Utility Board will establish the gas rate at the September 16, 2013 meeting.

Conclusion – Response accepted.

- (J) Purchase and/or Sale of Equipment - Based on our review and according to City staff, the City and the Utilities do not have a policy addressing the acquisition or sale of equipment or requiring competitive bidding for disposal of City and/or Utilities equipment.

In February 2010, the City purchased a used storage trailer for \$4,900.00 from Council Member Jeff Cluck. According to City staff, bids were not obtained in conjunction with this purchase and this related party (business) transaction was not reported in the fiscal year 2010 audit report.

In accordance with Chapter 362.5(3)(k) of the *Code of Iowa*, this transaction could be a conflict of interest since the total transaction exceeded \$2,500.00 during the fiscal year and was not competitively bid.

Recommendation – The City and the Utilities should establish a policy which addresses the sale of equipment and requires competitive bidding for acquisition and disposal of

City/Utilities equipment. Related party (business) transactions should be reported in the audit report.

Response – A policy regarding purchasing and/or disposition of City property is included in the new handbook. The City/Utilities have contracted with the State of Iowa to do annual reviews in place of annual audits which will assure pertinent information is reported.

Conclusion – Response acknowledged. The City/Utilities should implement policies and procedures to ensure the disposal of City/Utilities property is in compliance with *Code of Iowa* requirements.

- (K) Electronic Check Retention – Chapter 554D.114 of the *Code of Iowa* allows entities to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City and the Utilities receive the front of cancelled checks but not the back of cancelled checks.

Recommendation – The City and the Utilities should obtain and retain an image of both the front and back of each cancelled check as required by Chapter 554D.114 of the *Code of Iowa*.

Response – Both banks have been contacted and they began printing bank statements with both the fronts and backs of the checks on the bank statements.

Conclusion – Response accepted.

**City of Remsen and Remsen Municipal Utilities**

Independent Accountants' Report on Applying  
Agreed Upon Procedures as of May 31, 2012

**REMSEN MUNICIPAL UTILITIES  
INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES  
AS OF MAY 31, 2012**

**WINTHER, STAVE & CO., LLP**  
*Certified Public Accountants*

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351  
Phone 712-338-2488  
FAX 712-338-2510

INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

Board of Directors  
Remsen Municipal Utilities  
Remsen, IA 51050

We have performed the procedures listed in the attached supplement to this report, which were agreed to by the Board of Remsen Municipal Utilities (Utilities), solely to assist you with respect to the financial and accounting records of the Utilities as of May 31, 2012. Management of the Utilities is responsible for the financial and accounting records of the Utilities. 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 party specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the supplement to this report either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the financial and accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Remsen Municipal Utilities and is not intended to be and should not be used by anyone other than the specified party.

*Winther, Stave & Co., LLP*

September 7, 2012

Member Private Companies Practice Section,  
American Institute of Certified Public Accountants

REMSEN MUNICIPAL UTILITIES  
SUPPLEMENT SUMMARIZING PROCEDURES PERFORMED  
MAY 31, 2012

1. We obtained the detailed listing of customer deposit accounts as of June 30, 2011. With assistance from the Utilities and based on the transactions in Iowa State Bank account #22-357 (Special Collections account), the detailed listing of customer deposit accounts was updated through May 31, 2012 and the following applicable items were obtained for each account.
  - Account number
  - Name
  - Deposit amount
  - LIHEAP amount
  - Date received
  - Date property vacated
  - Utility account balance due at May 31, 2012
  - Last delinquent payment date
2. We obtained a copy of the May 31, 2012 Special Collections account bank statement.
3. We obtained a reconciliation of any differences between the May 31, 2012 customer deposit accounts detailed listing total and the Special Collections account May 31, 2012 bank statement balance.
4. From the May 31, 2012 detailed listing of customer deposit accounts, we determined the customer deposit accounts meeting the following criteria:
  - a. Deposit balances for current accountholders where the deposit was received before May 31, 2011 and there have been no delinquent payments subsequent to May 31, 2011. See Exhibit A. We recommend the deposits be returned to the respective accountholder.
  - b. Deposit balances for current accountholders where the deposit was received after May 31, 2011. See Exhibit B. We recommend the deposits be maintained until the one year anniversary of the deposit or the most recent delinquent payment, whichever is later, and then be returned to the respective accountholder.
  - c. Deposit balances for current accountholders where the deposit was received prior to May 31, 2011 and there have been delinquent payments subsequent to May 31, 2011. See Exhibit C. We recommend the deposits be maintained until the one year anniversary of the most recent delinquent payment, and then be returned to the respective accountholder.
  - d. Deposit balances for accounts where property was vacated by accountholder before May 31, 2011 and a current address for accountholder is not available. See Exhibit D. We recommend the balances be remitted to the State of Iowa in accordance with State escheat laws.
  - e. Deposit balances for accounts where the accountholder is currently renting property and the deposit is held until account is closed. See Exhibit E. We recommend the balances be maintained until the account is closed and all remaining charges have been paid.
5. From the May 31, 2012 detailed listing of customer deposit accounts, we determined the accounts with LIHEAP balances and whether there were utility account balances the LIHEAP balances could be applied against. Based on procedures performed, we noted no exceptions to the processing of LIHEAP funds.

REMSEN MUNICIPAL UTILITIES  
Deposits Received Before May 31, 2011 - No Delinquent Payments

Exhibit A

Acct #	Date of Deposit	End Bal.
105901	11/23/2001	100.00
115202	5/3/2010	200.00
102502	12/30/2009	200.00
116101	5/30/2001	200.00
202607	2/14/2011	200.00
207702	11/8/2005	200.00
215401	7/27/2000	90.00
105301	9/24/2008	200.00
300708	4/26/2010	200.00
400702	6/29/2009	200.00
314701	10/28/1996	90.00
302401		200.00
214301	4/11/2002	200.00
312402	5/10/2010	200.00
406503	10/30/2002	200.00
203702	1/22/2011	200.00
308401	5/28/2011	200.00
409305	4/5/2004	200.00
417506	8/16/2010	200.00
308202	6/17/1999	90.00
413001	8/17/2006	200.00
214003	7/30/2001	90.00
119804	8/31/2009	200.00
405202	11/4/2005	200.00
306802	7/26/2007	200.00
116301	10/29/2003	200.00
409124	10/2/2008	200.00
108401	3/24/2011	200.00
109703	8/6/2010	200.00
415901	4/7/2006	200.00
213601	11/25/2002	200.00
314501	4/25/2011	200.00
105405	7/11/2007	200.00
115001	4/2/1997	90.00
204701	8/31/2001	90.00
123702	7/29/2004	200.00
126901	8/2/2010	-
102302	8/14/2003	200.00
115402	8/28/2009	200.00
121905	1/5/2009	220.00
128704	12/3/2002	200.00
413602	4/15/2010	200.00
419201	10/26/2009	200.00
304102	4/16/2008	200.00
128101	4/7/2011	200.00
414001	12/2/2010	200.00
301002	3/17/2009	200.00
128902	5/10/2010	200.00
Total		<u>\$ 8,660.00</u>

**Exhibit 1**REMSEN MUNICIPAL UTILITIES  
Deposits Received After May 31, 2011

Exhibit B

Acct #	Date of Deposit	End Bal.
436302	3/16/2012	200.00
128005	8/5/2011	200.00
405408	10/28/2011	200.00
202003	7/25/2011	200.00
116406	8/4/2011	200.00
112467	2/15/2012	200.00
300505	10/4/2011	200.00
116919	3/16/2012	200.00
416604	4/24/2012	90.00
432103	1/3/2012	200.00
112367	3/15/2012	200.00
405409	3/16/2012	200.00
209302	11/2/2011	200.00
106820	12/16/2011	200.00
208043	8/24/2011	90.00
	7/28/2011	200.00
116918	9/1/2011	200.00
	5/29/2012	200.00
105001	11/16/2011	200.00
113011	12/5/2011	200.00
205220	2/23/2012	200.00
	7/28/2011	200.00
300601	2/15/2012	200.00
200602	8/8/2011	200.00
215504	4/24/2012	200.00
116501	9/23/2011	200.00
124202	2/27/2012	200.00
	5/21/2012	200.00
103016	5/1/2012	200.00
406504	8/12/2011	200.00
213707	12/9/2011	200.00
310400	4/5/2012	200.00
119401	9/15/2011	200.00
112363	1/6/2012	200.00
1230003	9/16/2011	200.00
400609	9/28/2011	200.00
112466	10/28/2011	110.00
203704	5/1/2012	200.00
208047	4/11/2012	90.00
431504	3/2/2012	200.00
202704	4/3/2012	200.00
205219	1/3/2012	200.00
Total		<u>\$ 7,980.00</u>



REMSEN MUNICIPAL UTILITIES  
Accounts Delinquent Subsequent to May 31, 2012

Exhibit C

Acct #	Date of Deposit	End Bal.
207601	9/26/2008	200.00
206202	2/26/2008	200.00
310503	3/7/2005	200.00
122701	6/27/2008	200.00
212501	7/29/2005	200.00
202201	9/27/2000	90.00
124501	3/4/2002	200.00
422000	6/23/2005	200.00
109106	4/7/2011	200.00
313303	3/13/2007	200.00
314402	12/17/2003	200.00
210802	12/16/2005	200.00
401101	12/31/2007	200.00
406302	12/29/2008	200.00
305201	8/15/2005	200.00
201903	8/19/2009	200.00
117302	8/17/2009	200.00
211902	4/11/2007	200.00
209701	1/28/2008	200.00
205802	8/10/2009	200.00
309105	5/18/2004	200.00
403001	10/1/2003	90.00
203001	2/7/2003	90.00
104803	8/1/2008	200.00
411601	12/31/2007	200.00
127001	8/30/2005	200.00
123901	2/2/2005	200.00
434101	4/13/2009	200.00
213501	8/2/2006	200.00
103802	12/10/2003	200.00
207004	9/8/2008	200.00
306602	12/1/2009	200.00
120101	1/22/2002	200.00
301715	7/30/2010	200.00
417604	10/6/2003	200.00
128801	11/4/2002	200.00
109303	4/6/2010	200.00
118305	7/20/2004	200.00
127608	10/31/2009	35.00
402002	11/1/2006	200.00
201606	12/1/2006	200.00
404801	5/22/2006	200.00
313901	10/29/2010	200.00
126501		200.00
214701	10/4/1993	90.00
107502	7/26/2002	200.00
Total		<u>\$ 8,595.00</u>

**Exhibit 1**REMSEN MUNICIPAL UTILITIES  
Inactive Accounts With No Current Address

Exhibit D

Acct #	Date of Deposit	End Bal.
215708	10/4/2005	1.02
416603	6/10/2010	200.00
112481	5/19/2008	59.73
128002	2/12/2008	200.00
112606	11/9/2004	200.00
313603	12/31/2002	200.00
215705	5/5/2002	110.00
117012	1/5/1995	35.00
109403	6/30/2011	90.00
315702	12/14/2007	187.90
306201	10/25/2005	100.00
432403	12/30/1994	35.00
405604	6/19/2000	90.00
304007	1/26/2010	200.00
212041	9/22/2003	110.00
300801	3/28/2006	90.00
402001	3/26/1999	90.00
214215	8/19/1997	90.00
436321	10/20/1997	35.00
405406	2/10/2011	200.00
214602	4/16/2004	90.00
110541	9/3/1998	41.38
400976	7/16/2007	93.14
304005	10/11/2007	67.76
400996	7/17/1997	45.00
314655	3/11/1999	90.00
112323	10/16/2001	200.00
312629	3/10/2009	90.00
112400	4/23/1997	90.00
201803	8/25/2003	50.55
103009	8/4/2000	90.00
207002	1/12/2004	20.52
312626	1/30/2006	90.00
128002	11/9/2007	200.00
109401	1/2/2001	90.00
208042	6/21/2006	90.00
Total		<u>\$ 3,762.00</u>

REMSEN MUNICIPAL UTILITIES  
Deposits of Renters Held Until Account Closed

Exhibit E


Acct #	Date of Deposit	End Bal.
303210	9/23/2003	200.00
110581	8/27/2001	200.00
312644	2/1/2006	90.00
208502	10/14/2010	200.00
311104	3/26/2010	200.00
214506	10/6/2006	200.00
120905	9/15/2009	110.00
112603	4/4/2011	200.00
305703	2/22/2011	200.00
304008	10/6/2000	90.00
208022	5/13/2011	90.00
209504	8/6/2009	200.00
314636	3/20/1998	70.00
204909	11/3/2003	200.00
108016	6/17/2011	90.00
312621	6/1/2010	90.00
203703	4/7/2011	121.97
110306	1/26/2007	200.00
314622	4/7/2006	200.00
112402	8/31/2007	200.00
203902	2/2/2001	90.00
416002	9/20/2010	200.00
301903	9/2/2010	200.00
201417	7/1/2011	200.00
125903	10/15/1998	90.00
112326	10/11/2009	200.00
305910	8/14/2008	200.00
204401	8/23/2000	90.00
304208	6/14/2010	200.00
112412	2/22/2008	200.00
208035	7/9/2001	90.00
112382	9/27/2001	200.00
110641	6/11/2003	200.00
212427	1/15/1999	90.00
110506	1/11/2005	200.00
110603	1/5/2007	300.00
209013	10/31/2008	200.00
103015	10/14/2010	200.00
129206	2/20/2009	200.00
306403	9/4/2009	200.00
112483	7/10/2000	90.00
409402	8/18/2010	200.00
Total		<u>\$ 6,991.97</u>

City of Remsen and Remsen Municipal Utilities

Staff

This reaudit was performed by:

Jennifer Campbell, CPA, Manager  
Lesley R. Geary, CPA, Senior Auditor II

  
Tamera S. Kusian, CPA  
Deputy Auditor of State