

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

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

May 2, 2017

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Villisca, Iowa for the period July 1, 2015 through June 30, 2016. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible, ensure utility reconciliations are independently reviewed and the City is in compliance with its sewer revenue bond requirements. The City should also comply with Chapter 372.13(6) of the Code of Iowa and ensure all City Council meeting minutes are published within fifteen days of the meeting. The City should also comply with the Constitution of the State of Iowa which prohibits governmental bodies from making gifts to a private non-profit corporation.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1621-0649-BL0F>.

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**CITY OF VILLISCA**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD  
JULY 1, 2015 THROUGH JUNE 30, 2016**

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**City of Villisca**

**Officials**

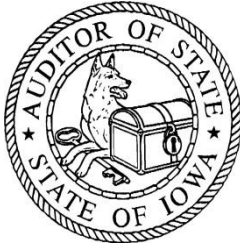
**(Before January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marilyn Halda	Mayor	Jan 2016
Mark Heimbach (Appointed)	Council Member	Nov 2015
Lee Haidsiak	Council Member	Jan 2016
Marsha Shepherd	Council Member	Jan 2016
TJ Leonard	Council Member	Jan 2018
Richard Mullen	Council Member	Jan 2018
Trisha Owen	City Clerk	Indefinite
Cindy Scott	Deputy City Clerk	Indefinite
Carl Sonksen	Attorney	Indefinite

**(After January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Marilyn Halda	Mayor	Jan 2018
TJ Leonard	Council Member	Jan 2018
Richard Mullen	Council Member	Jan 2018
Lee Haidsiak	Council Member	Jan 2020
Mark Heimbach	Council Member	(Resigned Jan 2017)
Helen Lowe (Appointed)	Council Member	Nov 2017
Marsha Shepherd	Council Member	Jan 2020
Trisha Owen	City Clerk	Indefinite
Cindy Whaley	Deputy City Clerk	Indefinite
Carl Sonksen	Attorney	Indefinite

**City of Villisca**



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Villisca for the period July 1, 2015 through June 30, 2016. The City of Villisca's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2016 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.


9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

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

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Villisca, additional matters might have come to our attention that would have been reported to you.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Villisca during the course of our agreed-upon procedures engagement. 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

February 9, 2017



## **Detailed Recommendations**

City of Villisca

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling and recording.
- (2) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Debt – recording, compliance and debt payment processing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – The reconciliations of utility billings, collections and delinquent accounts were not reviewed by an independent person.

Recommendation – The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts each month. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

(C) Sewer Revenue Bonds – The City has not established sewer rates to produce net receipts equal to at least 110% of the principal and interest coming due in each year as required by the bond resolution.

Recommendation – The City should review the sewer revenue bond resolution and comply with its provisions.

(D) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for two meetings tested were not published within fifteen days. In addition, meeting minutes for January 2016 through June 2016 were not signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days of the meeting, as required. Also, minutes should be signed to authenticate the record, as required.

City of Villisca

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (E) Villisca Public Library – During the year ended June 30, 2014, the Villisca Public Library signed an “Agreement to Establish a Designated Fund” with the Omaha Community Foundation (OCF) and paid \$5,000 to OCF to start the fund. The agreement states, in part, “The OCF shall retain the ultimate authority and control over the investment, expenditure, distribution and grants of principal and income from the fund.” The agreement also requires any grants from the fund to go 100% to the Villisca Public Library. As of June 30, 2016, these funds were still held by the OCF.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 states, “No public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly.” In addition, Chapter 392.5 of the Code of Iowa states, in part, “A library board may accept and control the expenditure of all gifts, devises, and bequests to the library.”

Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee or other person and which show the receipt, use, and disposition of all city property.”

We previously requested a letter of advice from the Iowa Attorney General regarding gifts to governmental entities and the propriety of a Library Board of Trustees giving proceeds from a gift to a private non-profit foundation. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2009, which states, in part:

“... I do not believe that a city library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be ‘public funds,’ subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking.”

In addition, consistent with the Iowa Attorney General’s advice letter, the proceeds and related income are public funds and must be accounted for, deposited and invested pursuant to Chapters 12B and 12C of the Code of Iowa and the investment policy of the City.

Also, the agreement with the OCF does not require the OCF to notify the City, in writing, of the existence of material weaknesses in internal control or regulatory orders or sanctions regarding the type of services being provided under the agreement.

A 28E agreement, as described in the advice letter, does not exist.

City of Villisca

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

Recommendation – We are not aware of any statutory authority for the Library Board and/or the City to relinquish its fiduciary responsibility over the public funds trust account to a separate non-profit organization.

The City should consult legal counsel and recover the remaining funds held by the OCF, including all income derived from the investment of the funds from the time they were remitted to the OCF, or develop a 28E agreement as suggested by the Iowa Attorney General's letter of advice.

Until the City recovers the funds or approves a 28E agreement, it should seek to amend the agreement with the OCF to require the OCF to notify the City, in writing, of the existence of material weaknesses in internal control or regulatory orders or sanctions regarding the types of services being provided under the agreement.

(F) Bank Reconciliations – Bank reconciliations are not reviewed by an independent person.

Recommendation – The bank reconciliations should be reviewed by an independent person. The independent review should be documented by the signature or initials of the reviewer and the date of the review.

(G) Petty Cash – A petty cash fund is maintained by the City for small purchases such as postage. The City has not developed a written policy detailing permitted purchases. We noted a petty cash receipt for a lunch reimbursement for \$17, however no other explanation such as the purpose was noted. Also, surprise independent counts of the petty cash are not performed.

Recommendation – The City should develop a written policy for permitted uses of the petty cash fund, including required documentation to support the purchases and related reimbursements. Also, surprise counts should be performed periodically to ensure the accuracy of the petty cash.

City of Villisca

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Alexander N. Kawamura, CPA, Staff Auditor  
Ian N. Judson, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director