



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 7, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the Villisca Municipal Power Plant for the period January 1, 2017 through December 31, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the Power Plant review its control procedures to obtain the maximum internal control possible. The Power Plant should also adopt a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

A copy of the agreed-upon procedures report is available for review in the Power Plant Superintendent's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1723-0649-BLOF>.

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VILLISCA MUNICIPAL POWER PLANT

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2017 THROUGH DECEMBER 31, 2017

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Villisca Municipal Power Plant

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Darwin Williams	Board Chair	Dec 2022
Gene Munstermann	Board Member	(Resigned Jan 2017)
Carl Johnson	Board Member	Dec 2018
Kathy Freeman	Board Member	Dec 2019
Kyle Yates	Superintendent	Indefinite
Tammie Bodwell	Administrative Assistant	Indefinite

Villisca Municipal Power Plant



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Independent Accountant's Report on Applying Agreed-Up Procedures

To the Board Members of the Villisca Municipal Power Plant:

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 Villisca Municipal Power Plant (Power Plant) for the period January 1, 2017 through December 31, 2017, including procedures related to the Power Plant's compliance with certain Code of Iowa requirements identified below. The Villisca Municipal Power Plant's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the Power Plant'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 Power Plant Board meeting minutes for compliance with Chapters 21 and 388.4(4) of the Code of Iowa.
2. We reviewed the Power Plant'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 Administrative Assistant'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 Power Plant Board.
5. We reviewed Power Plant 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 investments to determine compliance with Chapter 12B of the Code of Iowa.
7. 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.


8. 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.
9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. 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.
11. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 Power Plant. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the Power Plant, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the Power Plant, including the Power Plant's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Villisca Municipal Power Plant 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

May 7, 2018

Detailed Recommendations

Villisca Municipal Power Plant

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

(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 Power Plant:

- (1) Cash – handling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording and posting.

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

(B) Investments – The Power Plant has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The Power Plant should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

(C) Questionable Disbursements – Certain disbursements we believe may not meet the requirements 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 were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Villisca Foods	Chips and plastic silverware	\$ 12

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 – The Power Plant Board should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the Power Plant Board should establish written policies and procedures, including the requirements for proper documentation.

(D) Payroll Increase – Annual wage increases for all Power Plant employees were approved based upon a percentage increase and the actual approved wage or salary was not documented in the Board Minutes.

Recommendation – Salaries and wages of employees should be adequately documented in the Board minutes.

Villisca Municipal Power Plant

Detailed Recommendations

For the period January 1, 2017 through December 31, 2017

- (E) Clothing Allowance – The Power Plant has a policy to reimburse employees for clothing. The policy states, “All Power Plant personnel shall recognize that personal appearance is important in gaining respect for the Power Plant. All personnel shall adhere to ordinary rules of good grooming as to their personal hygiene and shall begin each working day with clean and repaired clothing.” The policy allows reimbursement up to \$300 for clothing for full-time construction employees and up to \$150 for full-time office employees. Power Plant staff indicated the clothing allowance for construction employees is necessary because of the excessive wear and tear due to the physical nature of the job. However, the policy is not clear as to this purpose and the policy does not document how the public benefits from the \$150 reimbursable to the office employees. Also, during the calendar year, one employee received reimbursement in excess of the amount allowed by \$64. In addition, clothing reimbursements are not processed through payroll and, accordingly, the proper tax withholdings were not applied to the reimbursements.

Recommendation – The Power Plant should ensure clothing allowances do not exceed the amounts allowed per the Board’s policy. Also the Power Plant should revise the clothing allowance policy to clearly state the public purpose for providing a clothing allowance beyond good grooming and personal hygiene. Further, the Power Plant should contact the Internal Revenue Service (IRS) to determine the disposition of the unreported compensation and should establish procedures to ensure clothing allowance reimbursements are processed through payroll and proper tax withholdings are applied.

Villisca Municipal Power Plant

Staff

This engagement was performed by:

Ernest H. Ruben Jr., CPA, Manager
Alex N. Kawamura, CPA, Staff Auditor
Elin M. Landgren, Assistant Auditor
Andy J. Salwolke, Assistant Auditor


Marlys K. Gaston, CPA
Director