



OFFICE OF AUDITOR OF STATE
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Rob Sand
Auditor of State

NEWS RELEASE

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FOR RELEASE

November 12, 2021

Auditor of State Rob Sand today released a reaudit report on the Waverly Utilities (Utility) for the period January 1, 2015 through December 31, 2018. The reaudit was performed at the request of City officials pursuant to Section 11.6(4)(a)(2) of the *Code of Iowa*. The request submitted to the Office of Auditor of State asked for a reaudit of the calendar year ended December 31, 2016. However, based on the nature of the concerns presented, the reaudit covered items applicable to the period January 1, 2015 through December 31, 2018.

The reaudit was requested as a result of concerns regarding the business practices and fiscal activities of the Utility, including questionable business expenses, excessive travel, credit card usage, marketing and advertising expenses and donations made by the Utility.

Sand reported documentation was not adequate to demonstrate the public purpose served for certain expenses and payments were identified which did not comply with Article III, Section 31 of the Iowa Constitution. Sand also reported the Utility credit card has been used for personal purchases although reimbursements were consistently received from employees, other than a \$50 transaction for which no documentation was located. The Utility also initially pays for personal costs of individual cell phone plans. In addition, Sand reported the Utility does not have written policies for expenses related to marketing and advertisement; payments were made during 2015, 2016, and 2017 to a business owned by a Trustee which did not comply with section 362.5(2) of the Code of Iowa; and travel costs were paid for with the Utility's credit card which were not supported.

Sand recommended the Utility Board of Trustees ensure all expenses are reasonable, necessary for utility operations, and meets the test of public purpose as defined in an Attorney General's opinion dated April 25, 1979. Sand also recommended the Utility Board of Trustees ensure all expenses comply with Article III, Section 31 of the Iowa Constitution, develop policies and procedures which specifically document the type and amount of advertising and marketing expenses which are necessary and reasonable for the Utility.

The Utility responded favorably to the recommendations included in the reaudit report.

A copy of the reaudit report is available for review on the Auditor of State's website at <https://auditor.iowa.gov/reports/audit-reports/>.

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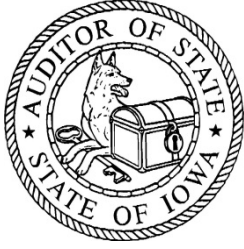
WAVERLY UTILITIES
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JANUARY 1, 2015 THROUGH DECEMBER 31, 2018

Table of Contents

		<u>Page</u>
Officials		3
Auditor of State’s Report on Reaudit		4-5
Background Information		6-7
Detailed Findings:	<u>Finding</u>	
Expenses	A	8-9
Sponsorships	B	9-10
Advertising and Marketing	C	10-11
Business Transactions	D	11
Use of Utility Credit Cards	E	11-12
Travel Policy	F	12-13
Payroll and Leave Requests	G	13
Cell Phone Policy	H	13-14
Exhibits:	<u>Exhibit</u>	
Expenses for Which the Public Purpose Was Not Clearly Documented	1	16-17
Credit Card Purchases for Which the Public Purpose Was Not Clearly Documented	2	18
Unsupported Travel Expenses	3	19
Staff		20

Waverly Utilities

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Officials – December 31, 2015</u>		
Aelvin (Ael) Suhr	Chairman	Dec 31, 2017
Dariece Graening-Knights	Vice Chair	Dec 31, 2015
Reid Koenig	Trustee	Dec 31, 2017
Jere Vyverberg	Trustee	Dec 31, 2019
Anna Seggerman	Trustee	Dec 31, 2019
Darrel Wenzel	CEO	Indefinite
Mike Litterer	COO/Director, Operations	Indefinite
Vicki Hall	Director, Finance	Indefinite
Angela Schroeder	Director, HR & Admin Services/Board Secretary	Indefinite
<u>Officials – December 31, 2016</u>		
Aelvin (Ael) Suhr	Chairman	Dec 31, 2017
Jere Vyverberg	Vice Chair	Dec 31, 2019
Reid Koenig	Trustee	Dec 31, 2017
Anna Seggerman	Trustee	Dec 31, 2019
Emily Neuendorf	Trustee	Dec 31, 2021
Darrel Wenzel	CEO	Indefinite
Mike Litterer	COO/Director, Operations	Indefinite
Vicki Hall	Director, Finance	Indefinite
Angela Schroeder	Director, HR & Admin Services/Board Secretary	Indefinite
<u>Officials – December 31, 2017</u>		
Aelvin (Ael) Suhr	Chairman	Dec 31, 2017
Jere Vyverberg	Vice Chair	Dec 31, 2019
Reid Koenig	Trustee	Dec 31, 2017
Anna Seggerman	Trustee	Dec 31, 2019
Emily Neuendorf	Trustee	Dec 31, 2021
Darrel Wenzel	CEO	Indefinite
Curt Atkins	Director, Business Operations	Indefinite
Tyler Place	Director, Electric Operations	Indefinite
Jeff Magsamen	Director, Telecom	Indefinite
Kasey Lewis	Director, Finance	Indefinite
Angela Schroeder	Director, HR & Admin Services/Board Secretary	Indefinite
Jen Bloker	Director, Marketing	Indefinite
<u>Officials – December 31, 2018</u>		
Bob Buckingham	Chairman	Dec 31, 2023
Emily Neuendorf	Vice Chair	Dec 31, 2021
Jere Vyverberg	Trustee	Resigned Nov 13, 2018
Gaylan Brunssen	Trustee	Dec 31, 2019
Anna Seggerman	Trustee	Dec 31, 2019
Bob Brunkhorst	Trustee	Dec 31, 2023
Darrel Wenzel	CEO	Indefinite
Curt Atkins	Director, Operations	Indefinite
Jeff Magsamen	Director, Telecom	Indefinite
Kasey Lewis	Director, Finance	Indefinite
Angela Schroeder	Director, HR & Admin Services/Board Secretary	Indefinite
Jen Bloker	Director, Marketing	Indefinite



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Auditor of State's Report on Reaudit

To the Board of Trustees of the Waverly Utilities:

We received a request to perform a reaudit of the Waverly Utilities (Utility) in accordance with Section 11.6(4)(a)(2) of the *Code of Iowa*. As a result, we performed a review of the audit report for the calendar year ended December 31, 2016, and the workpapers prepared by the Utility's Certified Public Accounting firm to determine whether the CPA firm addressed any or all of the specific issues identified in the request for reaudit during the annual audit of the Utility. 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 request for reaudit. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the Utility for the period January 1, 2015 through December 31, 2018. Based on a review of relevant information and discussions with Utility officials and personnel, we performed the following procedures:

1. Obtained and reviewed various Utility policies to determine whether they were sufficient and whether certain Utility transactions were in compliance with the established Utility policies,
2. Evaluated internal controls related to purchasing, receiving and payment of expenses and the use of credit cards to determine whether adequate procedures were in place and operating effectively.
3. Obtained and reviewed a list of names of the Utility Trustees for each year, including the businesses owned and/or employees of each to determine if there were any business transactions which could have been a conflict of interest in accordance with the Section 362.5 of the *Code of Iowa*.
4. Obtained and examined the City's ordinance which created the Utility, including the process for appointing Trustees, to determine whether the process was followed, and appointments were properly approved.
5. Obtained and examined selected expenses, including credit card transactions, to determine whether the purchases were properly approved, supported, necessary and reasonable for the Utility and met the test of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
6. Obtained a listing of employees who have Utility owned cell phones and scanned the related cell phone bills to determine if the amount of usage by employee appeared reasonable and was adequately supported.
7. Obtained an understanding of the relationship the Utility has with the Municipal Energy Agency of Nebraska (MEAN) and to determine if the Utility has incurred costs as a result of the relationship which are not appropriate for the Utility's operations.
8. Obtained and examined selected payments made by the Utility to Wartburg College to determine if they resulted from agreements between the two entities and whether the payments complied with terms of the agreements.
9. Obtained an understanding of the relationship between the Waverly Municipal Electric Utility and Waverly Communications Utility, which are collectively Waverly Utilities, to determine if the activity between the two entities has been properly reported and in accordance with the agreement.

10. Obtained an understanding of how “Chamber Dollars” were used by the Utility to determine propriety.
11. Tested timesheets submitted by hourly employees to determine if they were properly supported and approved and tested payroll transactions for certain employees to determine whether paid leave requests were properly submitted and approved.

Based on the performance of these procedures, we:

- determined documentation was not adequate to demonstrate the public purpose served for certain expenses;
- identified payments that did not comply with Article III, Section 31 of the Iowa Constitution;
- determined the Utility credit card has been used for personal purchases although reimbursements were consistently received from employees, other than a \$50 transaction for which no documentation was located;
- determined the Utility initially pays for personal costs of individual cell phone plans;
- identified payments during 2015, 2016, and 2017 to a business owned by a Trustee which did not comply with section 362.5(2) of the Code of Iowa;
- determined the Utility does not have written policies for expenses related to marketing and advertisement; and
- identified travel costs paid for with the Utility’s credit card which were not supported.

These findings are described in the Detailed Findings of this report along with our recommendations. Unless reported in the Detailed Findings, items of non-compliance were not identified during the performance of the specific procedures listed above.

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 the Utility, 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 the officials and personnel of the Utility during the course of the reaudit.



ROB SAND
Auditor of State

October 18, 2021

Waverly Utilities

January 1, 2015 through December 31, 2018

Background Information

We received a written request from City officials to conduct a reaudit of the Waverly Utilities for calendar year 2016. The request detailed specific concerns, including:

- Several trustee members have personal interests that directly and/or indirectly conflict with the best interest of the Utility.
- The majority of the City's elected officials, including the Mayor, are recipients of campaign finance donations from Utility managers, and the Mayor appointed a majority of the trustee members.
- Lack of compliance with basic, standard accounting protocol with reconciliation of vendor invoices to verify legitimate purchases and/or to ensure goods/services were accurate and/or received prior to, or even after, remittance.
- Multiple questionable business expenses including \$2,000 in golf balls, staff lunches, etc. were identified.
- Excessive cell phone bills and cell phone equipment expenses in relation to employee head count and normal business averages of organizations comparable in both size and operations.
- Purchases of expensive, high end office furniture, building material expenses, (i.e., granite countertops), architectural/engineering consulting costs and construction costs associated with office remodel project.
- Excessive travel, entertainment, per diems, meeting, conference and training expenses – many with questionable business justification and disproportionately high in relation to the organization's size and operational requirements.
- It appears the Utility's General Manager may be charging the Utility for travel expenses not directly aligned with his job functions, instead are associated with his participation with the Municipal Energy Agency of Nebraska (MEAN). These expenses should not be the responsibility of the Utility but should be reimbursed by the MEAN organization. There was no line of sight to confirm what, if any, reimbursement MEAN may be providing for his attendance at their meetings.
- Questionable corporate credit card charges which do not appear to be valid business expenses and/or lack documentation to validate the expense.
- Personal employee expenses charged to the corporate Visas. Appears to be a lack of documentation to support employee reimbursements to the Utility for employee personal charges.
- Charges to Visa cards which may be valid business expenses but would normally be expected to process through typical A/P [accounts payable] Trade Account functions yet did not.
- Donations, contributions and/or payments to Wartburg College, a private, religious college over the past 5 years.
- Inappropriate transfers and comingling of assets/funds/resources between Waverly Municipal Electric Utility and Waverly Communications Utility.
- Conflicts of interest associated with Utility business transactions with organizations which Utility trustee members either own or are closely affiliated with. Also appears to be lack of appropriate bidding processes, ROI [return on investment] evaluations or business justifications associated with transactions involving those recipients affiliated with trustee member.

- Expenses exceeding \$25,000 in 2016 for the purchase of “Chamber Dollars” which are absent of any tracking/documentation of how “Chamber Dollars” were spent/utilized nor valid business justification supporting intent of the original purchase.
- Excessive mileage reimbursements for the Utility General Manager’s personal vehicle when company vehicles are available and/or more economic travel options obviously presented. Also, question whether employees are utilizing personal vehicles for business use without documentation of insurance requirement compliance, which is standard business practice to protect the Utility and mitigate potential Utility liability.
- There appear to be multiple expenses for the exact same or duplicate products/services but from multiple vendors.
- Excessive marketing expenses, above and beyond normal and expected notices, announcements or education. Marketing and communications expenses are disproportionality high for a small, rural municipal utility, especially given there is no threat of competition.
- Questionable payroll practices and employee time tracking, especially as it relates to salaried employees and salaried managers and the time spent actually working versus out of the office.
- Membership dues paid to private clubs/organizations on behalf of Utility employees for their personal participation.
- Funding of golf outings and several country club related expenses.
- Direct monetary donations to churches/religions groups.
- Multiple "Misc. Capital Expenses" entries which lack substantiation and are lumped with Capital Labor Expenses.
- Questionable "consulting" and "professional services" expenses with various vendors which seem disproportionately high relative to the Utility size and operational requirements.
- Duplicate Trade Entries with same expense amount and same check number yet calculated twice.
- Concerns regarding both Utility and/or the City of Waverly’s donations and financial support to Wartburg College. Specifically, City officials reported support has been extended under the premise of supporting Wartburg’s fitness center, the “W,” for several years. The officials also reported the “W” fails to provide any quantifiable value to Utility customers or Waverly citizens and specified admittance to the “W” is free for college students and there is a substantial admittance cost to citizens who are not students or do not have facility credentials.
- There has been an indication that the Utility may be funneling dollars through other entities to support Wartburg, so there may not be an immediately identifiable direct expense other than what exists on a trade account summary.

As a result of the request, we performed a review of the Utility’s audit report and workpapers prepared by the CPA firm engagement by the Utility to determine whether a complete or partial reaudit of the Utility should be performed. As a result of this review, we determined it was necessary to perform reaudit procedures for the period January 1, 2015 through December 31, 2018 for all but the concern regarding the campaign donations from personal funds to City officials.

Except as included in this report, no additional findings were identified related to the specific concerns presented with the reaudit request. While the reaudit procedures performed addressed the concerns presented, additional procedures were not performed during our fieldwork for the reaudit. Had we performed additional procedures, additional matters might have been identified and included in this report.

Detailed Findings

- (A) Expenses – We identified certain expenses that 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. These expenses are listed in **Exhibit 1** and include payments for employee recognition, retirement parties, employee awards, staff meals and various other items totaling \$13,871.03. Specifically, the **Exhibit** includes a \$475.00 payment for membership renewal of “National Write Your Congressman,” which is a self-described organization that provides “citizens with non-partisan, unbiased information and makes it easy for them to communicate with their lawmakers.” The service requires an annual membership. The **Exhibit** also includes a \$192.95 payment to Advantage Screenprint & Embroidery for caps. There was no support documenting the public purpose served by these payments.

In addition to testing certain payments to vendors for the four years reviewed, we selected 107 credit card transactions to determine whether the public purpose served by the purchase was sufficiently documented. As a result of our testing, we identified purchases totaling \$1,018.20 for which adequate supporting documentation or an explanation to document the public purpose was not available. The purchases identified are listed in **Exhibit 2**.

According to the Attorney General’s opinion dated April 25, 1979, it is possible for expenses such as those listed in **Exhibits 1** and **2** to serve a public purpose if they are to bring about a better and more efficient service by improving personnel and morale, through the retention of faithful and experienced employees. However, the Attorney General’s opinion also states, in part:

“Under the best circumstances a recognition dinner can be seen to benefit the public, even though indirectly and intangibly. But the fear is that one retirement dinner [*or staff meal or other occasion*] will become many, and its high purposes lost to a moment’s impulse to celebrate events and occasions of lesser deserving.”

In addition, the Attorney General’s opinion specifies such items as those listed in **Exhibits 1** and **2** will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin. The Utility does not have policies addressing public purpose criteria or permitting the expense of public funds for employee recognition, retirement parties, employee awards, staff meals or other celebrations.

We also determined Darrel Wentzel traveled to a conference in Arizona. The supporting documentation showed he checked out of his hotel on June 9, 2016. However, on June 10, 2016 he charged \$24.30 fuel for the rental car on the Utility’s credit card. On June 11, 2016 he charged \$144.00 on the Utility credit card for parking at the Minneapolis airport. Because he checked out of the hotel on June 9, 2016, it would indicate this was the end date of the work-related travel. It is unclear whether what portion of the fuel for the rental car and the parking charge were incurred after June 9, 2016 and should have not been paid for or reimbursed by the Utility. Based on discussions with Utility personnel, there was no indication any of these costs were reimbursed by Mr. Wentzel as a personal cost.

Recommendation – The Utility Board of Trustees should establish procedures to ensure all supporting documentation is maintained and the public purpose of all expenses is clearly documented. In addition, if the Utility continues to incur expenses related to employee recognition, retirement parties, employee awards, staff meals and celebrations and other items such as those listed in **Exhibits 1** and **2**, a policy should be developed to address the public purpose served for this type of expenses.

Response – The referenced Attorney General opinion indicates expenses such as those found in Exhibits 1 and 2 can serve a valid public purpose. Waverly Utilities management staff will prepare a policy addressing the public purpose served for such expenses and present it to the Board of Trustees for formal consideration and will establish a procedure for maintaining supporting documentation and documenting the public purpose of such expenses.

Conclusion – Response accepted.

- (B) Sponsorships – Waverly Utility sponsors several community events and organizations throughout the year, including the Waverly Chamber of Commerce Annual Golf Outing, the Waverly Exchange Club Golf Tournament and Best Dam Run, as well as the Vineyard Community Church’s Annual Revibe event, each of which is a non-profit organization. During our review of the Utility’s records, we reviewed documentation for payments to those organizations and determined the sponsorships were approved by the Chief Executive Officer (CEO) during the period of our testing. The Utility recorded the payments as advertising and marketing in the accounting system. However, the Utility does not have a written Sponsorship Policy, which specifically documents the reason for such expenses and the public purpose derived by the Utility.

By scanning information from the Utility’s accounting system, we identified the following amounts which were described as sponsorships from January 1, 2015 through December 31, 2018. Additional payments may have been made by the Utility which were not identified by scanning the Utility’s accounting system.

Description	Payments During				Total
	2015	2016	2017	2018	
Chamber of Commerce Golf Outing					
Sponsorship	\$ 1,000.00	1,000.00	1,000.00	1,000.00	4,000.00
Promotional materials*	1,531.65	1,780.05	4,276.85	-	7,588.55
Exchange Club Golf Tournament	-	100.00	-	100.00	200.00
Revibe, Vineyard Comm. Church	500.00	1,000.00	1,000.00	1,000.00	3,500.00
Best Dam Run	-	25.00	-	25.00	50.00
American Cancer Society/Relay for Life	-	-	-	500.00	500.00
Robotics	-	-	1,000.00	1,000.00	2,000.00
Swim team	-	-	150.00	-	150.00
Valley Luthern School	-	50.00	-	-	50.00
Greater Cedar Valley Alliance & Chamber	950.00	-	500.00	-	1,450.00
Waverly Rotary Club	250.00	250.00	-	100.00	600.00
Total	\$4,231.65	4,205.05	7,926.85	3,725.00	20,088.55

* - Items such as golf balls, koozies, and towels were purchased by the Utility.

In addition, the Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 of the Iowa Constitution states, in part, “...no public money or property shall be appropriated for local, or private purposes...”

At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that “a governmental body may not donate public funds to a private entity, even if the entity is established for charitable or educational purposes and performs work which the government could perform directly.” The Opinions further state, “Even if the function of a private non-profit corporation fits within the scope of activities generally recognized as serving a public purpose, a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes.”

Recommendation – The Utility Board of Trustees should establish procedures which ensure all expenditures comply with Article III, Section 31 of the Iowa Constitution.

Response – Waverly Utilities management staff will prepare a policy addressing the public purpose served by sponsorship expenses and present it to the Board of Trustees for formal consideration and will establish a procedure for administration of such policy.

Conclusion – Response accepted.

(C) Advertising and Marketing – The Utility charges various expenses to marketing, communication, consulting and professional services, including advertising expenses. In addition to the expenses and sponsorships previously described, we selected 40 transactions specifically coded in the Utility’s accounting system as advertising or marketing costs for testing and identified certain payments for which the goods/services purchased were not adequately supported, reasonable and necessary for the Utility’s operations and/or did not meet the test of public purpose. Based on our testing, we identified the following:

- \$562.18 was paid on December 31, 2015 for 100 Swing USB Drives and set up charge.
- \$360.20 was paid on February 9, 2016 to the newspaper for a Happy New Year advertisement.
- \$10,000.00 was paid on June 3, 2016 to the Waverly-Shell Rock Community School District Football Gridiron Club. The support for the payment was a page stating issue a payment to the Gridiron Club listing the head coach. The description added to the document by a Utility employee was delivery and assembly of charter membership kit. It is unclear if this payment was a sponsorship.
- \$234.06 was paid on July 19, 2018 for t-shirts.
- \$1,475.92 was paid to 4Imprint on August 29, 2018 via credit card for cups, power clips, mugs, sunglasses, and beachballs.

The amounts paid by the Utility for the marketing and advertising from January 1, 2015 through December 31, 2018, as recorded in the Utility’s accounting system, are summarized in the following table. These costs do not include the payments which we were readily able to identify with a sponsorship previously disclosed.

Description	Payments During				Total
	2015	2016	2017	2018	
Electric	\$ 12,984.18	19,270.02	32,463.08	29,203.25	93,920.53
Communications	104,797.12	82,325.74	97,776.77	34,705.39	319,605.02
Total	\$ 117,781.30	101,595.76	130,239.85	63,908.64	413,525.55

As illustrated by the table, the Utility spent a total of \$95,920.53 for marketing and advertising from January 1, 2015 through December 31, 2018 for the Electric operations of the Utility. While customers of the Utility have options as to which vendor to choose for communications services, all residents and businesses in Waverly are required to obtain electrical services from the Utility. As a result, the purpose for marketing and advertising for the Electric operations is not readily apparent. The Utility Trustees have a fiduciary responsibility to exercise authority over its funds, efficiently and effectively achieve its mission, provide oversight of the Utility’s operations, and maintain the public trust. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity.

Recommendation – The Utility Board of Trustees should implement policies and procedures which specifically document the type and amount of advertising and marketing expenses which are necessary and reasonable for the Utility. The policies and procedures should also include the public purpose served by these types of expenses.

Response – Waverly Utilities management staff will prepare a policy addressing advertising and marketing and the public purpose served by such expenses and present it to the Board of Trustees for formal consideration and will establish a procedure for administration of such policy. For further answer, the annual advertising and marketing plan for the electric utility include mandatory Iowa Utility Board customer notifications, energy efficiency advertising, call before you dig advertisements, social media alerts of electrical outages, and quarterly newsletters to keep customers informed about electric utility actions. Some of the IUB mandatory advertisements include annual LIHEAP notification, Project Share requirements, notification of customer complaint requirement, annual grain bin safety requirement and mandatory rate change notification requirements. Such communications and the associated expenses are necessary and appropriate and serve a public utility purpose.

Conclusion – Response accepted.

- (D) Business Transactions – Section 362.5(2) of the Code of Iowa states “A city officer or employee shall not have an interest, direct or indirect, in any contract or job of work or material or the profits thereof or services to be furnished or performed for the officer’s or employee’s city. A contract entered into in violation of this section is void”. An exception to this section is if a contract was made upon competitive bid in writing, publicly invited and opened.

Aelvin (Ael) Suhr, Trustee is owner of Ael Suhr Enterprises, which operates a radio station in Waverly. The Utility paid \$13,381, \$10,861 and \$13,605 to Ael Suhr Enterprises for the calendar years ending 2015, 2016 and 2017, respectively. The contracts related to these payments were not established through a bidding process. Mr. Suhr’s term on the Board of Trustees ended on December 31, 2017.

In addition, the Utility did not have policies and procedures regarding business transactions and conflict of interest until March 12, 2019.

Recommendation – The Utility Board of Trustees should consult legal counsel to determine the disposition of the potential conflict of interest. In addition, the Utility Board of Trustees should ensure all Utility trustees and employees follow the conflict of interest policy approved on March 12, 2019 and all provisions included in section 362.5(2) of the Code of Iowa.

Response – Legal counsel has been consulted. A Conflict-of-Interest policy was created and approved on March 12, 2019.

Conclusion – Response accepted.

- (E) Use of Utility Credit Cards – The Utility’s credit card policy does not prohibit personal use of the Utility’s credit card. In addition, according to the travel expense reporting/reimbursement policy, an employee may use the Utility’s credit card for meals and airline costs for a guest. The employee is to report these costs as personal on the related expense report and reimburse the Utility when the report is submitted or when the credit card bill arrives, whichever is sooner.

During our review, we identified several instances where a personal purchase was made with a Utility credit card. The Utility was subsequently reimbursed for these purchases; however, the initial purchase should not have been made using a Utility credit card.

On January 6, 2017, a registration fee for an employee and \$50.00 for a spouse ticket were charged to the Utility credit card. Utility personnel we spoke with reported support was not available to document if the fee for the spouse was reimbursed to the Utility.

In June 2018, airline tickets were purchased with the Utility credit card for an employee and her husband for an out-of-state conference. Although, the employee properly reimbursed the expenses related to her husband's travel, the initial purchases should not have been made using a Utility credit card.

Recommendation – The Utility Board of Trustees should update the credit card policy to specifically prohibit the use of the Utility's credit card for personal purchases. In addition, the policy should not allow purchases to be made for non-employees with a Utility credit card. In these instances, the employee should be required to purchase the items using a personal credit card and seek reimbursement from the Utility for any purchases related to Utility operations.

Response – Waverly Utilities management staff will prepare proposed revisions to the credit card policy to prohibit employees from including related personal expenses or other personal expenses when using the credit card for utility purposes and will present the proposed revisions to the Board of Trustees for formal consideration.

Conclusion – Response accepted.

- (F) Travel Policy – The Utility's travel policy states employees should utilize a Utility vehicle as available. If a utility vehicle is not available, a personal vehicle may be used. It goes on to state employees and trustees are responsible for carrying at least \$100,000/\$300,000 liability insurance coverage on personal vehicles which will be used for business purposes. Based on discussions with the current Director of Finance, this proof of insurance coverage has not been requested from employees or trustees using a personal vehicle for business purposes.

The Utility's travel expense reporting/reimbursement policy states the reimbursement rate for use of a personal vehicle is determined by current IRS guidelines. An expense report is completed for reimbursement of travel related expenses. For five of the 25 mileage transactions tested, the number of miles traveled was not included on the expense report; however sufficient information was included in two of the five expense reports to substantiate the mileage reimbursed. As a result, we are unable to determine the propriety of the reimbursements.

According to the Utility's travel policy, employees should use the Utility credit card for all travel expenses. Expenses totaling \$1,814.28 listed in **Exhibit 3** are a portion of travel expenses charged to the Utility credit card for certain conferences. However, detailed receipts were not available for the portion of the costs listed in the **Exhibit**, therefore, it could not be determined whether they were allowable per the travel policy.

Recommendation – The Utility Board of Trustees should enforce the established policies and procedures regarding travel costs. In addition, the Board of Trustees should appropriate modify the policy if it is determined proof of insurance is not necessary. In addition, the policy should require documentation of the number of miles traveled which are being reimbursed and all travel costs should be supported by detailed receipts documenting the purpose of the travel.

Response – Expense report forms will be modified to include destination to and from mileage. All employees using personal vehicles for work now must submit necessary proof of insurance. All Board of Trustees will be advised to submit necessary proof of insurance if they will be using their personal vehicle for utility business. Detailed receipts documenting the purpose of travel are required. For further response, if Waverly Utilities' insurance agent indicates

that proof of personal liability insurance coverage is not necessary when using personal vehicles for utility business, the travel policy may be revised.

Conclusion – Response accepted.

- (G) Payroll and Leave Requests – All employees are required to submit a leave request for each pay period in which leave is requested. The request is to be approved by the employee’s supervisor. In addition, all hourly employees are required to submit timesheets for each pay period, which is to be approved by the employee’s supervisor. While salaried employees are not required to submit timesheets, they are required to submit leave requests, a process also known as negative reporting.

We selected four months per calendar year 2015 through 2018 and four employees per month to test, for a total of 48 payroll transactions. Of these transactions, 18 were salaried employee transactions and 30 were hourly employee transactions. As a result of testing, we identified the following:

- There was no evidence of the supervisor review and approval of the leave request for one salaried employee transaction.
- There was no evidence of supervisor review and approval for leave taken for three hourly employees.

Recommendation – The Utility Board of Trustees should develop and implement policies and procedures to ensure all timesheets, negative reporting, and leave taken has documented evidence of the supervisor approval.

Response – In June of 2016, salaried employees were converted to an electronic payroll system that requires supervisory approval before authorizing leave. Hourly employees were converted to the same system in February of 2018 and require supervisory approval of timesheets and pre-approval of leave requests. Prior to implementation of the electronic system, all paper timesheets required written authorization in addition to a separate paper request for leave. Since implementing the electronic system, to management staff’s knowledge Waverly Utilities has not encountered missing documentation of authorization by a supervisor.

Conclusion – Response accepted.

- (H) Cell Phone Policy – The Utility has policies and procedures allowing for cell phone to be provided to all Utility full time employees as a way to stay informed during emergencies or to communicate during the workday. The Utility pays the following:

- cell phone that is selected from several options approved for Utility use and appropriate for the employee’s position;
- line and monthly fees including data plan charges for applicable positions;
- basic texting fees; and
- taxes and fees.

In addition, the policy allows any services an employee wants in addition to the services paid for by the Utility to be charged and deducted directly from the employee’s paycheck, including:

- adding family members to the Utility cell phone plan and all associated fees,
- additional texting or picture messaging, and
- data plans.

A listing of the employees who have cell phone owned by the Utility was obtained and certain employees were selected for testing to ensure the proper amounts were properly deducted from the employee's payroll. No errors were identified. However, the policy should not allow for Utility funds to be used for personal expenses even if reimbursed.

Recommendation – The Utility Board of Trustees should update the cell phone policy to prohibit adding services which are personal in nature or adding family members to individual cell phone plans.

Response – Waverly Utilities receives a group discount under this cell phone plan. This benefit is extended to family members at no cost to Waverly Utilities or the rate payers. This is a benefit to Waverly Utilities employees and their families that serves a public purpose by improving personnel and morale, through the retention of faithful and experienced employees. This benefit cannot be provided without Waverly Utilities making the initial payment and requiring reimbursement from the employee. To ensure prompt reimbursement the recovery and reimbursement of an employee's personal cell phone expense is captured through payroll recovery, similar to the recovery of employee health insurance premiums for a family insurance plan. To Waverly Utilities' knowledge there is no prohibition of this employee benefit in Iowa Code, nor is it known to be a GAAP or GASB accounting violation. Because this is a valuable employee benefit believed to serve a public purpose, Waverly Utilities management will recommend the Board of Trustees leave this benefit in place but will also recommend that the Board of Trustees address the public purpose in a policy. If the Board of Trustees determines that this practice does not serve a public purpose, the practice will be discontinued.

Conclusion – Response acknowledged. If this practice will be continued as indicated in the response above, the Board of Trustees should continue to ensure the personal portions of cell phone bills are withheld from the employees' payroll and measures are taken to ensure no public funds are used for these costs.

Exhibits

Exhibit 1

Waverly Utilities

Expenses for Which the Public Purpose Was Not Clearly Documented

January 1, 2015 through December 31, 2018

Date Paid	Payee	Amount	Description
01/26/15	Successories	\$ 194.94	Two Navy Mini Star with Base Awards for 10 years of service
02/23/15	Water Street Grill	1,230.50	Employee recognition dinner
03/11/15	Sunrise Catering	612.04	Retirement open house
09/25/15	Sunrise Catering	497.98	Food for fall awards meeting at the park
10/21/15	Hy-Vee	253.70	Staff breakfast
02/18/16	Prairie Links Golf and Event Center LLC	100.00	Room charge for the awards dinner
03/01/16	Prairie Links Golf and Event Center LLC	2,372.25	Employee Safety Celebration event
03/18/16	The W	775.00	31 Stretching Classes @ \$25 each from 07/15/15 - 02/16/16
03/24/16	The Other Place	36.57	Meals with new techs on first day of work. No itemized receipt.
06/17/16	Hy-Vee	229.47	Staff breakfast meeting
10/24/16	Hy-Vee	249.83	Staff breakfast meeting
10/25/16	Hy-Vee	24.97	Staff breakfast meeting
10/25/16	Jimmy Johns	40.83	Staff lunch meeting
02/08/17	Water Street Grill	1,592.55	December awards lunch
03/30/17	Hy-Vee	29.97	Specialty buns and rolls
04/27/17	Hy-Vee	150.00	Gift card for Cabelas for retirement gift
04/27/17	Pizza Ranch	277.13	Retirement lunch. No itemized receipt.

Waverly Utilities

Expenses for Which the Public Purpose Was Not Clearly Documented

January 1, 2015 through December 31, 2018

Date Paid	Payee	Amount	Description
04/27/17	Hy-Vee	51.24	Retirement lunch dessert supplies
04/27/17	Applebee's	56.69	Department lunch
07/20/17	National Write Your Congressman	475.00	Membership renewal
09/25/17	Hy-Vee	715.66	Staff picnic. No itemized receipt.
10/17/17	Prairie Links Golf and Event Center LLC	288.90	Green fees for Employee Safety Celebration
01/24/18	Hy-Vee	314.60	Retirement breakfast
02/08/18	Water Street Grill	1,885.11	Christmas awards banquet
02/13/18	Pizza Ranch	151.11	Pizza, cactus bread and dessert
08/22/18	Hy-Vee	698.04	Recognition picnic meal
09/18/18	Waverly Golf Course	275.00	Green fees for Employee Safety Celebration
10/31/18	Scratch Cupcakery	99.00	Party, no itemized receipt
12/31/18	Advantage Screenprint & Embroidery	192.95	Caps
Total		<u>\$ 13,871.03</u>	

Exhibit 2

Waverly Utilities

Credit Card Purchases for Which the Public Purpose Was Not Clearly Documented

January 1, 2015 through December 31, 2018

Date Paid	Payee	Amount	Description
06/28/16	Amazon	\$ 35.45	Pack of 12 salt and pepper shakers
06/02/16	Loris Flowers	64.20	Flowers for funeral of employee at another Utility. No itemized receipt.
10/25/16	Kwik Star	6.97	Donuts
10/25/16	Casey's General Store	6.66	Donuts
10/25/16	Jimmy Johns	106.50	Strategic Planning meeting
10/25/16	Walmart	48.61	<i>No itemized receipt.</i>
07/26/17	China Buffet	34.24	Staff meeting at restaurant
11/15/17	Hy-Vee	48.51	Buns, rolls and melons
04/12/18	China Buffet	46.81	Lunch at restaurant fro various staff
04/19/18	Fareway	33.91	Employee lunch
08/16/18	The Other Place	91.65	Staff meal
08/16/18	Jimmy Johns	105.54	Staff meal
08/16/18	Pizza Ranch	121.71	Staff meal
08/29/18	The Other Place	51.47	Staff meal
08/29/18	Casey's General Store	29.94	Breakfast pizza
08/29/18	Fareway	19.24	Gatorade powder
08/29/18	Walmart	23.77	Candy for safety picnic
08/29/18	Jimmy Johns	132.88	Staff meal
08/29/18	Dollar Tree	10.14	No itemized receipt
Total		<u>\$ 1,018.20</u>	

Waverly Utilities

Schedule of Unsupported Travel Expenses

January 1, 2015 through December 31, 2018

Date Paid	Description	Amount	
02/18/16	Lodging for one night for Darrel Wenzel in Des Moines area	\$ 252.00	No itemized receipt, only the email confirmation was available.
04/27/16	Parking at Eastern Iowa Airport	36.00	No receipt available
12/28/16	Lodging for Mike Litterer for a two night stay for a work related conference	450.74	No itemized hotel receipt.
02/27/17	Deposit for lodging for Jennifer Bloker for a four night stay for a work related conference	257.65	No itemized hotel receipt.
03/30/17	Remainder of charge related to lodging for Jennifer Bloker for a four night stay for a work related conference	817.89	No itemized hotel receipt.
Total		<u>\$ 1,814.28</u>	

Waverly Utilities

Staff

This reaudit was performed by:

Pamela J. Bormann, CPA, Manager
Anthony M. Heibult, Senior Auditor II
Maria R. Collins, Staff Auditor
Nathan A. DeWit, Staff Auditor
Steven D. Rater, Staff Auditor

A handwritten signature in black ink that reads "Annette K. Campbell". The signature is written in a cursive style with a large, looped initial "A".

Annette K. Campbell, CPA
Deputy Auditor of State