



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

NEWS RELEASE

Contact: Pam Bormann
515/281-5834

FOR RELEASE

March 7, 2025

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Villisca, Iowa, for the period July 1, 2023 through June 30, 2024. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported eleven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 11 of this report. The findings address issues such as a lack of segregation of duties, a lack of review and approval of journal entries, deficit balances, an excess balance in the Special Revenue, Tax Increment Financing Fund and unclaimed property not remitted to the Office of Treasurer of State, as required. Sand provided the City with recommendations to address each of the findings.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's website at [Audit Reports – Auditor of State](#).

#

CITY OF VILLISCA
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2023 THROUGH JUNE 30, 2024

City of Villisca



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

Rob Sand
Auditor of State

February 17, 2025

Officials of the City of Villisca
Villisca, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Villisca, Iowa, for the period July 1, 2023 through June 30, 2024. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Villisca throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Table of Contents

| | <u>Page</u> |
|--|----------------|
| Officials | 3 |
| Auditor of State's Independent Report on Applying Agreed-Upon Procedures | 5-7 |
| Detailed Findings and Recommendations: | <u>Finding</u> |
| Segregation of Duties | A 9 |
| Bank Reconciliations | B 9 |
| Journal Entries | C 9 |
| Receipts | D 9 |
| City Council Meeting Minutes | E 10 |
| Financial Condition | F 10 |
| Tax Increment Financing | G 10 |
| Revenue Notes/Bonds | H 11 |
| Unclaimed Property | I 11 |
| Petty Cash and Change Fund Policies | J 11 |
| Disaster Recovery Plan | K 11 |
| Staff | 12 |

City of Villisca

Officials

(Before January 2024)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|----------------------|---------------------|
| Marilyn Halda | Mayor | Jan 2024 |
| Lee Haidsiak | Council Member | Jan 2024 |
| Robert Narup | Council Member | Jan 2024 |
| Marsha Shepherd | Council Member | Jan 2024 |
| Duane Casey | Council Member | Jan 2026 |
| Marcus Taylor | Council Member | Jan 2026 |
| Kadee Myers | City Clerk/Treasurer | Indefinite |
| Brianna O'Hearn | Attorney | Indefinite |

(After January 2024)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|----------------------|---------------------|
| Marilyn Halda | Mayor | Jan 2028 |
| Duane Casey | Council Member | Jan 2026 |
| Marcus Taylor | Council Member | Jan 2026 |
| Gabby Jackson | Council Member | Jan 2028 |
| Robert Narup | Council Member | Jan 2028 |
| Marsha Shepherd | Council Member | Jan 2028 |
| Kadee Myers | City Clerk/Treasurer | Indefinite |
| Brianna O'Hearn | Attorney | Indefinite |

City of Villisca



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

Rob Sand
Auditor of State

Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Villisca for the period July 1, 2023 through June 30, 2024, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Villisca's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and 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 City of Villisca's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, recommendations pertaining to selected accounting records and related information of the City including the City's compliance with certain Code of Iowa requirements. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures were in place and incompatible duties, from a control standpoint, were not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances, journal entries and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances were properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2023 Annual Financial Report to determine whether it was completed timely and accurately reflected the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We observed depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

9. We scanned 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 scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts for accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. We traced selected disbursements to 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.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, no exceptions were noted during the performance of the specific procedures listed above.

We were engaged by the City of Villisca's management to perform this agreed-upon procedures engagement and conducted our engagement 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. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, 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.

We are required to be independent of the City of Villisca and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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 findings and recommendations pertaining to selected accounting records and related information of the City, including the City'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 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.

A handwritten signature in black ink that reads "Pam Bormann". The signature is written in a cursive, flowing style.

Pam Bormann, CPA
Deputy Auditor of State

February 17, 2025

Detailed Findings and Recommendations

City of Villisca

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Accounting system – performing all accounting functions, controlling all data input and output and having custody of assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – investing, record keeping, custody and reconciling earnings.
- (4) Long-term debt – recording, compliance and debt payment processing.
- (5) Receipts – opening mail, collecting, recording, depositing, reconciling and posting.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – entering rates in the system, recordkeeping, preparing and distributing.

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) Bank Reconciliations – Although monthly bank reconciliations were prepared for the City's bank accounts, the reconciliations did not include all City activity and a complete reconciliation, including investments was not prepared.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by the signature or initials of the reviewer and the date of the review on the monthly reconciliations.

(C) Journal Entries – Journal entries were not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. The approval should be documented by the signature or initials of the reviewer and the date of the review on the journal entries.

(D) Receipts – The City recorded \$3,659 of commercial/industrial replacement tax and \$12,840 of tier I business property tax replacement tax as property tax rather than intergovernmental receipts and \$9,692 of utility excise tax as property tax rather than other city taxes according to the Uniform Chart of Accounts (COA) recommended by the City Finance Committee.

Recommendation – The City should establish procedures to ensure all receipts are properly coded and recorded.

City of Villisca

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

- (E) City Council Meeting Minutes – Prior to April 10, 2024, Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. After April 10, 2024, Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be delivered to a newspaper within fifteen days of the meeting. Minutes for an August 2023 meeting observed were not published within fifteen days. Chapter 372.16(6) also requires minutes to include total disbursements for each fund, a listing of all claims allowed, including the reason for the claim and a summary of all receipts. Four of four meetings observed, did not include a total of disbursements by fund and summary of all receipts.

Recommendation – The City should comply with the current Code of Iowa and deliver City Council minutes to the newspaper within fifteen days of the meeting and include total disbursements from each fund and a summary of receipts, as required.

- (F) Financial Condition – At June 30, 2024 the Enterprise, Water Fund had a deficit balance of \$377,028 and the Capital Projects Fund had a deficit balance of \$138,766.

Recommendation – The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

- (G) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City has certified tax increment financing (TIF) debt outstanding at June 30, 2023 totaling \$150,000 as part of a developer agreement. The City made no payments under the agreement, leaving a balance in the TIF fund at June 30, 2024 totaling \$153,068. According to the City, the developer sold the property referenced in the developer agreement. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including whether the \$150,000 of TIF collections accumulated pursuant to the developer agreement should be paid to the developer. Remaining TIF receipts should be returned to the County Treasurer as required by Chapter 24.21 of the Code of Iowa.

City of Villisca

Detailed Findings and Recommendations

For the period July 1, 2023 through June 30, 2024

- (H) Revenue Notes/Bonds – The City has not established sewer rates to produce net operating receipts equal to at least 110% of the principal and interest coming due each year as required by the bond resolution. In addition, the water revenue note resolution requires the City to make monthly transfers to a water revenue note sinking account for the purpose of making principal and interest payments when due as well as an annual transfer of \$37,013 to a water revenue reserve account for the purpose of paying principal and interest on the notes when there shall be insufficient money in the sinking fund and to pay the cost of extraordinary maintenance disbursements or repairs. The City did not make the required transfers in fiscal year 2024.

Recommendation – The City should ensure net operating receipts for the Enterprise, Sewer Fund are sufficient to make required debt service payments and comply with the revenue bond resolution. In addition, the City should ensure monthly and annual transfers are made to the water sinking account and water reserve account as required by the water note resolution.

- (I) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit these obligations, as required.

Recommendation – Outstanding obligations should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State, as required.

- (J) Petty Cash and Change Fund Policies – The City utilizes a petty cash fund and change fund. The City does not have a policy for the petty cash fund specifying proper usage, allowable disbursements, approvals and maximum dollar amount to be maintained in the petty cash fund. Neither the petty cash nor change fund were authorized by the City Council through resolution.

Recommendation – The City should establish separate petty cash and change fund policies through resolution which includes proper usage, allowable disbursements, approvals and the maximum dollar amount to be maintained in the petty cash fund and to provide for an amount to be available for a change fund.

- (K) Disaster Recovery Plan – The City does not have a written disaster recovery plan.

Recommendation – A written disaster recovery plan should be developed and tested periodically.

City of Villisca

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Deputy
Ryan J. Pithan, CPA, Manager
Nichole D. Tucker, Senior Auditor II
Ariel N. Dennler, Staff Auditor