



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

August 3, 2016

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

Auditor of State Mary Mosiman today released a report on a special investigation of the Cascade Municipal Utilities (CMU) for the period July 1, 2009 through March 16, 2016. CMU provides electrical and natural gas services to households and businesses in the City of Cascade (City). In addition to billing customers for these services, CMU also bills customers on behalf of the City for water, sewer, garbage, and recycling services provided by the City. The special investigation was requested by CMU officials as a result of concerns regarding penalties not properly charged to the utility account of the former Assistant Utility Clerk, Sherrie Ries. Ms. Ries resigned on July 29, 2015.

Mosiman reported the special investigation identified \$865.67 of penalties which should have been charged to customers' accounts, collected, and deposited into the CMU bank account for utility billings. The \$865.67 of penalties identified should have been applied to 16 utility accounts which were improperly coded as penalty-exempt in the utility billing system. Mosiman also reported 4 additional utility accounts were improperly coded as penalty-exempt. However, because payments for the 4 accounts were made in a timely manner, penalties would not have been collected for the 4 accounts. Sufficient records were not available to determine how much of the unbilled penalties would have been due to CMU for electrical and natural gas services and how much would have been due to the City for water, sewer, garbage, and recycling services.

Mosiman reported 3 of the 20 accounts identified which were coded as penalty-exempt were accounts of CMU employees. Specifically, \$361.65 and \$36.79 of penalties should have been assessed to the accounts for Ms. Ries and the former Utility Manager, Randy Lansing, respectively, for utility payments which were not received in a timely manner. In addition, the account for Lois Green, the former Utility Clerk, was improperly coded in the billing system as penalty-exempt.

However, because the payments for her utility bills were received prior to the due dates during the period of the investigation, no penalties would have been assessed to her account. Ms. Green retired from CMU in July 2015.

Mosiman also reported the City provides a senior discount on service charges for water, sewer, garbage, and recycling to qualified customers. Specifically, customers eligible for the senior discount currently receive monthly discounts of \$6.06 for water and sewer service, \$2.45 for garbage service, and \$1.50 for recycling service. Providing discounted utility service to certain customers based on age is considered a discriminatory rate and does not comply with requirements established by section 388.6 of the *Code of Iowa*. Mosiman reported approximately \$22,200 of utility fees per year are not collected based on the number of customers currently receiving the discount. If the monthly rates and number of households receiving the discount remained constant, approximately \$149,000.00 was not collected for the 80.5 months from July 1, 2009 through March 16, 2016 as a result of the discount. The discount was implemented by the City prior to July 1, 2009.

Mosiman reported it was not possible to determine if any additional amounts were unrecorded, recorded at an incorrect amount, and/or undeposited because sufficient records for certain utility accounts and other collections were not adequate or not readily available.

The report includes recommendations to strengthen the CMU's internal controls and overall operations, such as improving segregation of duties and preparing reconciliations.

Copies of the report have been filed with the Dubuque County Attorney's Office, the Attorney General's Office, and the Iowa Division of Criminal Investigation. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's website at <https://auditor.iowa.gov/reports/1523-0286-BE00>.

###

**REPORT ON SPECIAL INVESTIGATION
OF THE
CASCADE MUNICIPAL UTILITIES
FOR THE PERIOD
JULY 1, 2009 THROUGH MARCH 16, 2016**

Table of Contents

	<u>Page</u>
Auditor of State's Report	3-4
Investigative Summary:	
Background Information	5-6
Detailed Findings	6-9
Recommended Control Procedures	9-10
Exhibit:	<u>Exhibit</u>
Unbilled Penalties	A 13
Staff	14



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Auditor of State's Report

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

As a result of alleged improprieties regarding the handling of certain penalties for utility billings and at the request of the Board of Trustees, we conducted a special investigation of the Cascade Municipal Utilities (CMU). We have applied certain tests and procedures to selected financial transactions of CMU for the period July 1, 2009 through March 16, 2016. Based on a review of relevant information and discussions with CMU officials and staff, we performed the following procedures:

- (1) Evaluated internal controls and interviewed CMU personnel to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Examined receipt and deposit documentation prepared by CMU staff and bank images of deposit documents for certain deposits to determine if information regarding the collections and the composition of collections deposited agreed with CMU's records.
- (3) Obtained and tested copies of utility billing stubs and/or vendor history reports for certain utility customers to determine if amounts billed to and paid by the customers were appropriate and agreed with amounts recorded.
- (4) Examined customer accounts coded with a penalty-exempt status in the utility billing system to determine propriety and the amount of penalties which should have been charged to the account if the customer was improperly coded in the utility billing system as penalty-exempt.
- (5) Examined images of checks issued from CMU's bank account and any available supporting documentation to determine reasonableness and propriety.
- (6) Examined payroll supporting documentation to determine if the amounts paid to the former Utility Clerk and Assistant Utility Clerk exceeded authorized amounts and if reimbursements were reasonable

These procedures identified 20 customer accounts improperly recorded in the utility billing system as penalty-exempt. Of those 20 customer accounts, 16 should have been charged \$865.67 of penalties for payments received after the due date. Sufficient records were not available to determine how much of the unbilled penalties would have been due to CMU for electrical and natural gas services and how much would have been due to the City for water, sewer, garbage, and recycling services.

The procedures also determined the City of Cascade provides a discount to senior citizens for their water, sewer, garbage, and recycling services. In accordance with section 388.6 of the *Code of Iowa*, a city utility or combined utility system may not provide use of service at a discriminatory rate, except to the city or its agencies, as provided in section 384.91. Approximately \$22,200 of fees is not collected each year based on the number of customers currently receiving the discount. If the monthly rates and number of households eligible for the discount remained constant, approximately \$149,000.00 was not collected for

the 80.5 months from July 1, 2009 through March 16, 2016 as a result of the discount. The discount was implemented by the City prior to July 1, 2009.

We were unable to determine if certain any additional amounts were unrecorded, recorded at an incorrect amount, and/or undeposited because sufficient records for certain utility accounts and other collections were not adequate or not readily available. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibit A**.

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 financial statements of the Cascade Municipal Utilities, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Division of Criminal Investigation, the Dubuque County Attorney's Office, and the Attorney General's Office.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of Cascade Municipal Utilities during the course of our investigation.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 8, 2016

Report on Special Investigation of the
Cascade Municipal Utilities
Investigative Summary

Background Information

The Cascade Municipal Utilities (CMU) is located in Dubuque and Jones Counties and serves the citizens of the City of Cascade (City), which has a population of approximately 2,000. CMU provides electrical and natural gas services to households and businesses in the City. In addition to billing customers for these services, CMU also bills customers on behalf of the City for water, sewer, garbage, and recycling services provided by the City. Collections from billings are to be deposited in CMU's bank account. CMU reimburses the City for the amounts collected on its behalf.

Lois Green became the Utility Clerk on March 20, 1978. Sherrie Ries became the Assistant Utility Clerk on August 3, 1988. According to the Utility Manager, Ms. Green and Ms. Ries were responsible for preparing and mailing utility billings, collecting the related payments, posting collections to customer accounts in CMU's utility billing system and accounting records, and preparing and making bank deposits.

According to the current Utility Clerk and Utility Manager, CMU staff electronically read water meters for all households and businesses in the City at the end of each month with a handheld reader. The meter readings are electronically downloaded to CMU's utility billing system and the utility billing system applies established rates to the usage to calculate monthly utility billings. Monthly bills are printed from the utility billing system on perforated postcards by the Utility Clerk or Assistant Utility Clerk and mailed at the beginning of the next month. Payments from customers are due on the 15th of each month.

According to CMU officials we spoke with, payments for utilities are received through the mail and by utility customers bringing payments to City Hall or placing them in the City's drop box. Customers may also use a "bill pay" service established with the local bank. According to CMU officials, several utility customers routinely pay their monthly utility bills with cash.

All utility collections are to be recorded in CMU's utility billing system by the Utility Clerk or Assistant Utility Clerk. After the 15th of each month, the Utility Clerk is to apply penalties to any outstanding bills.

Ms. Ries, Ms. Green, or someone independent of preparing, collecting, and depositing utility billings did not prepare monthly reconciliations between amounts billed, collected and deposited for water, sewer, garbage, recycling, electric, and natural gas services.

All CMU disbursements are to be approved by the Board of Trustees at the monthly Board meeting. In addition, all disbursements are to be made by checks signed by the Utility Manager and a Board Member. According to CMU personnel we spoke with, Ms. Green and Ms. Ries did not have any disbursement responsibilities, such as check preparation.

Monthly statements for CMU's bank account are picked up from the bank by the Utility Clerk or Assistant Utility Clerk. Either the Utility Clerk or Assistant Utility Clerk opened the monthly bank statements. According to the Utility Manager, both Ms. Ries and Ms. Green were also able to access and review bank account activity through on-line banking. The Utility Clerk reconciled monthly bank account activity to the accounting system. However, she did not compare detailed deposit information to payments posted in CMU's utility billing system. In

addition, bank statements, check images, and the reconciliations she prepared were not periodically reviewed by members of the Board.

According to the Utility Manager, only non-profit organizations, schools, and the City should have been coded as penalty-exempt in the utility billing system. However, there is no written documentation of this practice.

When reviewing all account activity as part of a system conversion, the current Utility Clerk determined penalties were not properly applied to the former Assistant Utility Clerk's account for payments received after their due date. After preparing a report listing all utility accounts coded as penalty-exempt, the current Utility Clerk identified additional accounts which were improperly established in the utility billing system as penalty-exempt.

CMU officials subsequently requested the Office of Auditor of State perform an investigation of CMU's financial transactions. As a result, we performed the procedures detailed in the Auditor of State's Report for the period July 1, 2009 through March 16, 2016.

Detailed Findings

The procedures identified \$865.67 of penalties which should have been charged to customers' accounts, collected, and deposited in CMU's bank account for utility billings. The penalties identified should have been applied to 16 utility accounts which were improperly coded as penalty-exempt in the utility billing system. The procedures also identified 4 additional utility accounts which were improperly coded as penalty-exempt; however, no penalties would have been collected for the 4 accounts because payments were made in a timely manner. The 20 accounts which were coded as penalty-exempt include 3 accounts of CMU employees.

Sufficient records were not available to determine how much of the unbilled penalties would have been due to CMU for electrical and natural gas services and how much would have been due to the City for water, sewer, garbage, and recycling services.

The procedures also determined the City provides a discount to senior citizens for their water, sewer, garbage, and recycling services. In accordance with section 388.6 of the *Code of Iowa*, a city utility or combined utility system may not provide use of service at a discriminatory rate, except to the city or its agencies, as provided in section 384.91. Approximately \$22,200 of utility fees per year were not collected based on the number of customers currently receiving the discount. If the monthly rates and number of households receiving the discount remained constant, approximately \$149,000.00 was not collected for the 80.5 months from July 1, 2009 through March 16, 2016 as a result of the discount. The discount was implemented by the City prior to July 1, 2009.

As previously stated, CMU's primary revenue sources include revenue received from utility collections for water, sewer, garbage, recycling, electric, and natural gas services billed to each household and business served. We reviewed documentation maintained by CMU to determine if billings were properly prepared and if collections were properly recorded and deposited. Our findings are explained in the following paragraphs.

Recorded Collections to Support Comparison – In order to determine if the amounts recorded in CMU's utility billing system were appropriate, we compared the amounts recorded as billed and collected for the months of April 2015 and September 2015 to the utility remittance stubs available. According to the Utility Manager, Ms. Ries and Ms. Green were expected to keep all utility remittance stubs submitted to CMU with utility payments. If a utility remittance stub was not remitted by the customer, Ms. Ries or Ms. Green was to create a utility stub documenting the amount paid by the customer.

Pre-numbered receipt books are not maintained by CMU. However, Ms. Ries and Ms. Green prepared a cash receipts journal which included collections. Prior to fiscal year 2015, the cash receipts journal was prepared manually. Beginning in fiscal year 2015, the cash receipts journal was electronically prepared based on the collections recorded in CMU's utility billing system. When a utility remittance stub was not available, we determined if the collections recorded in CMU's utility billing system agreed with the collections recorded in the cash receipts journal.

We traced the collections recorded in the utility billing system for the April 2015 and September 2015 billings to the utility remittance stubs or the cash receipts journal.

During our testing, we determined the composition of collections was not recorded in the utility billing system. All collections were recorded as cash whether the payment received was cash or check. While Ms. Reis and Ms. Green infrequently documented on the utility stub if the payment was made by cash or check, this was not done consistently. As a result, we are not able to determine if cash or checks were collected.

Recorded Collections to Deposit Comparison – As previously stated, Ms. Green, Ms. Ries, or someone independent of utility duties did not prepare monthly reconciliations between amounts billed, collected, and deposited. Because monthly reconciliations were not prepared, we were unable to readily determine if amounts collected were properly recorded in the utility billing system and properly deposited to CMU's bank account. Because reconciliations were not prepared, we judgmentally selected September 2014 and May 2015 billing activity for testing.

For the period September 1, 2014 through September 30, 2014, Ms. Ries and Ms. Green prepared 9 utility deposits. For the period May 1, 2015 through May 30, 2015, 8 utility deposits were prepared. We obtained and reviewed listings prepared by Ms. Green and Ms. Ries documenting amounts posted to CMU's utility billing system. We also reviewed payments recorded in CMU's utility billing system to identify the amounts recorded in customers' accounts.

By comparing images of checks and documents for cash deposited to CMU's bank account to collections recorded in CMU's utility billing system for each of the 17 deposits, we determined all collections recorded in CMU's utility billing system were properly deposited to CMU's bank account.

Analytical Comparison – Using collections recorded in CMU's utility billing system, we compared collections for each fiscal year from July 1, 2009 through March 31, 2016. Because information was not available from the utility billing system for earlier periods, we did not include collections prior to July 1, 2009.

As a result of the comparison, we determined the collections recorded after Ms. Green and Ms. Ries left CMU's employment decreased approximately 8.6%; however, the decrease was a result of a significant decrease in natural gas rates from fiscal year 2015 to fiscal year 2016. The collections recorded during Ms. Green's and Ms. Ries' employment were consistent in amount and frequency from year to year.

Penalties – As previously stated, according to the Utility Manager, only non-profit organizations, schools, and the City should have been coded as penalty-exempt in the utility billing system. However, there is no written documentation of this practice.

While reviewing information recorded in the utility billing system, the current Utility Clerk identified 20 customer accounts which were improperly coded in the utility billing system as penalty-exempt from July 1, 2009 to March 16, 2016. According to the Utility Manager, both

Ms. Green and Ms. Reis had the ability to code customer accounts as penalty-exempt in the billing system. We reviewed information recorded in the utility billing system and did not identify any additional accounts coded as penalty-exempt.

According to the current Utility Clerk, when an account is established in the utility billing system, it is automatically set up with coding which does not specify the account as penalty-exempt. In order for an account to be changed to penalty-exempt status, a particular field in the utility billing system must be changed.

Of the 20 customer accounts identified, 16 should have had penalties applied to their account for payments received after the due date. The total amount of penalties which was not properly applied totals \$865.67. **Exhibit A** lists the total penalties for each of the 16 accounts. As illustrated by the **Exhibit**, the unbilled penalties range from \$1.10 to \$361.65. Sufficient records were not available to determine how much of the unbilled penalties would have been due to CMU for electrical and natural gas services and how much would have been due to the City for water, sewer, garbage, and recycling services.

The 16 accounts listed in **Exhibit A** include the utility accounts of Ms. Reis and the former Utility Manager, Randy Lansing. The unbilled penalties for these former employees total \$361.65 and \$36.79, respectively.

The 4 remaining customer accounts which should not have been coded as penalty-exempt are not included in **Exhibit A** because there were no penalties which should have been billed for the 4 accounts. Each utility payment made for the 4 accounts during our testing period was made prior to the due date. The 4 accounts include the utility account of Ms. Green.

Because the utility billing system does not include information prior to July 1, 2009, we are unable to determine if additional penalty amounts were unbilled or if there were additional customer accounts which were improperly coded as penalty-exempt prior to that date.

Senior Discount – Section 388.6 of the *Code of Iowa* states, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the city or its agencies, as provided in section 384.91.” As a result, CMU and the City are required to establish and apply consistent billing rates to certain types of customers, such as residential or commercial.

We determined the City provides certain customers discounted rates for water, sewer, garbage, and recycling services based on their age. These rates are established by the City Council. The rates at full cost and discounted cost are summarized in **Table 1**. As illustrated by the **Table**, each household receiving discounted utility services saves \$120.12 per year.

Table 1

Description	Full Cost	Discounted Cost	Monthly Savings	Annual Savings
Water/sewer	\$ 13.33	7.27	6.06	72.72
Garbage	7.50	5.05	2.45	29.40
Recycling	5.50	4.00	1.50	18.00
Total	\$ 26.33	16.32	10.01	120.12

Because 185 households currently receive the discount, approximately \$22,200 per year of utility fees is not collected. If the monthly rates and number of households receiving the discount remained constant for the period of our investigation, approximately \$149,000.00 was

not collected for the 80.5 months from July 1, 2009 through March 16, 2016. According to the Utility Manager, the discount was provided prior to July 1, 2009.

Providing discounted utility services to certain customers based on age is considered a discriminatory rate and does not comply with requirements established by section 388.6 of the *Code of Iowa*.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the Cascade Municipal Utilities to perform bank reconciliations and process receipts, disbursements and payroll. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check of those of another and provide a level of assurance errors or irregularities will be identified within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the Cascade Municipal Utilities' internal controls.

- A. Segregation of Duties - An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The former Utility Clerk and Assistant Utility Clerk had control over each of the following areas:

- (1) Receipts - collecting, journalizing, posting, and deposit preparation.
- (2) Utilities - preparing billings, collecting, assessing penalties, depositing and posting payments to customer accounts, and recording payments in the utility billing system.

In addition, the former Utility Clerk and Assistant Utility Clerk were responsible for preparing and making deposits. Also, an initial receipt listing is not prepared by someone independent of other receipt duties.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the functions listed above should be segregated. In addition, Board members should periodically review records related to utility billings, collections and deposits, perform or review monthly utility reconciliations, and examine supporting documentation for accounting records on a periodic basis. In addition, Board members should review financial records, perform reconciliations and examine supporting documentation for accounting records on a periodic basis.

To improve financial accountability and control, an initial receipt listing should be prepared by someone independent of other receipt duties for all collections received through the mail to ensure receipts are prepared for all collections.

- B. Utility Billings, Reconciliations and Delinquencies - Utility billings were not periodically reconciled to the amounts collected and unpaid balances.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Board should ensure an independent party reviews the reconciliation.

- C. Deposits – The composition of deposits was not consistently recorded in the utility billing system or underlying supporting documents.

Recommendation – An independent person should compare collections recorded to deposits to ensure the composition of the deposit agrees with information recorded in the utility billing system. In addition, reports generated by the utility billing system should be attached to deposit slips to support the amount collected and recorded.

- D. Pre-Numbered Receipts – CMU uses pre-numbered receipts; however, receipts were not issued for all collections. Because receipts were not issued for all collections, we were unable to determine if miscellaneous amounts were properly collected, recorded, and deposited.

Recommendation – Prenumbered receipts should be issued for all collections at the time money is received to provide additional control over proper deposit and recording. The prenumbered receipts should be retained and an independent party should periodically account for the sequence of the receipts.

- E. Water Collections – CMU did not properly track collections received from new customers for water deposits in its financial system. A receipt was prepared and maintained, but the water deposit collections were not properly recorded in the system.

Recommendation – Water deposit collections should be included in the financial system to determine proper collection and recording of all money.

- F. Penalty-Exempt Accounts – According to CMU officials, non-profit organizations, schools, and the City are considered penalty-exempt. However, there is no documentation of this practice.

In addition, certain accounts were improperly coded in the utility billing system as penalty-exempt for the period of our testing. When an account is established in the utility billing system, it is automatically set up with coding which does not specify the account as penalty-exempt. In order for an account to be changed to penalty-exempt status, a particular field in the utility billing system must be changed.

Recommendation – According to CMU officials we spoke with, the penalty-exempt status will be removed from the non-profit organizations' and school accounts and the accounts which were improperly coded in the utility billing system. The Board of Trustees should implement procedures to ensure no accounts are coded as penalty-exempt.

- G. Senior Discount – Section 388.6 of the *Code of Iowa* states, “A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the city or its agencies, as provided in section 384.91.” Senior discounts were provided by the City Council.

Recommendation – The City is required to establish and apply consistent billing rates to certain types of customers, such as residential or commercial. The City Council should implement procedures which ensure nondiscriminatory utility rates are used for all customers.

Exhibits

**Report on Special Investigation of the
Cascade Municipal Utilities**

Report on Special Investigation of the
Cascade Municipal Utilities

Unbilled Penalties
For the period July 1, 2009 through March 16, 2016

Account Number	Amount
1007000	\$ 361.65
16055000	228.33
1048000	64.03
14043001	36.79
15001000	32.74
2049001	31.05
1022000	26.19
19177001	20.30
12070000	17.30
14039101	16.69
2011001	8.80
2005131	6.64
9042051	5.35
19140001	4.95
12036301	3.76
2044015	1.10
Total	<u>\$ 865.67</u>

Report on Special Investigation of the
City of Cascade Municipal Utilities

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
April D. Harbst, Senior Auditor


Tamera S. Kusan, CPA
Deputy Auditor of State