

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

March 27, 2018

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Blue Grass, Iowa for the period July 1, 2016 through June 30, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. In addition, the City should certify the Annual Urban Renewal Report (AURR) by December 1 of each year and ensure the amounts reported in the AURR agree with City records.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1721-0771-BLOF>.

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CITY OF BLUE GRASS
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017

Table of Contents

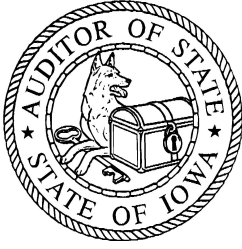
	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Separately Maintained Records	B 8
Questionable Disbursements	C 9
Annual Urban Renewal Report	D 9
Disaster Recovery Plan	E 9
Journal Entries	F 9
Staff	10

City of Blue Grass

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Timothy Brandenburg	Mayor	Jan 2018
Chuck Barton	Council Member	Jan 2018
Jim Goodin	Council Member/Mayor Pro Tem	Jan 2018
Lisa Smith	Council Member	Jan 2020
Brad Schutte	Council Member	Jan 2020
Bonnie Strong	Council Member	Jan 2020
Ann Schmidt	City Clerk/Treasurer	Indefinite
William McCullough	Attorney	Indefinite

City of Blue Grass



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Blue Grass for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Blue Grass' management, which agreed to the performance of the procedures performed, is responsible for compliance with those 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 sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2017 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.


9. We reviewed and tested selected 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.
10. We reviewed 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.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

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

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the 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.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the 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 Blue Grass during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

March 8, 2018

Detailed Recommendations

City of Blue Grass

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

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

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Debt – recordkeeping, compliance and debt payment processing.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.

For the Blue Grass Fire Department, one person has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – posting, reconciling and check writing.
- (3) Cash – handling and recording cash.

In addition, there is no evidence of independent review of bank reconciliations.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Fire Department should review their 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) Separately Maintained Records – The Fire Department maintains a bank account separate from the City Clerk’s accounting records. The transactions and resulting balances for this bank account were not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

City of Blue Grass

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (C) Questionable Disbursements – Certain Fire Department disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
BT Grocery	Groceries for the Fire Department	\$ 253
Trophy Shoppe	Water fight trophies	126
Corner Grill	Pizza for Fire Department meeting	134
Happy Joe’s	Pizza for Fire Department meeting	122
Sam’s Club	Groceries for the Fire Department	163

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation of the public purpose served.

- (D) Annual Urban Renewal Report – The fiscal year 2016 Annual Urban Renewal Report (AURR) was approved but was not certified to the Iowa Department of Management on or before December 1. Also, the amount reported as TIF debt outstanding on the Levy Authority Summary does not agree with City records. Amounts reported in the AURR are not properly supported.

Recommendation – The City should certify the AURR timely. Also, the City should ensure amounts reported on the Levy Authority Summary agree with the City’s records and are properly supported.

- (E) 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.

- (F) Journal Entries – Journal Entries are not reviewed and approved by an independent person.

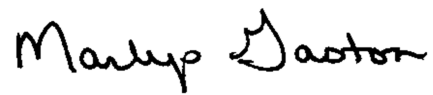
Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

City of Blue Grass

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Sarah K. Nissen, Staff Auditor
Darrin D. Dafney, Assistant Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director