



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

June 12, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Granger, 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 comply with the net receipt requirement of the water revenue note resolution.

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/1721-0234-BLOF>.

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

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City of Granger

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Cathy Fuson	Mayor	Jan 2018
Bob Herrold	Council Member	Jan 2018
Scott Smyth	Council Member	Jan 2018
Mike Backous	Council Member	Jan 2020
Jodi Bermel	Council Member	Jan 2020
Wayne Bice	Council Member	Jan 2020
Kristy Trzeciak	City Clerk	Indefinite
Ralph Brown	Attorney	Indefinite

City of Granger



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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 Granger 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 Granger'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 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 2016 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. 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.

9. 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.
10. 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.
11. 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.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. 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 Granger 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

Detailed Recommendations

City of Granger

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) Long-term debt – record keeping, compliance and debt payment processing.
- (3) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Payroll – entering rates into the system, recordkeeping, preparing, check writing and signing.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (7) Journal entries – preparing and recording.
- (8) Computer system – performing all general accounting functions, controlling all data input and output and having custody of assets.
- (9) Financial reporting – preparing and reconciling.

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) Financial Condition – The Capital Projects Fund had a deficit balance of \$592,282 at June 30, 2017. The City is unclear what happened to cause the deficit.

Recommendation – The City should review current and past financial records to resolve the deficit balance and return the fund to a sound financial condition.

(C) Revenue Bonds – The following instances of non-compliance with the sewer revenue bond requirements were noted:

In accordance with the sewer revenue bond resolution, bond principal, interest and fees are payable solely from sewer revenues. However, during the year ended June 30, 2017, the City paid \$23,475 of sewer revenue bond principal, interest and service fees from the Debt Service Fund.

The provisions of the sewer revenue bond resolution require the City produce net receipts equal to at least 110% of the principal and interest coming due in each fiscal year. The City's fiscal year 2017 net water receipts of \$326,635 were less than 110% of the \$353,010 of sewer revenue bond principal and interest due during fiscal year 2017.

City of Granger

Detailed Recommendations

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

Recommendation – The City should make a corrective transfer of \$23,475 from the Enterprise, Sewer Fund to the Debt Service Fund. Future payments on the sewer revenue bonds should be made from the Enterprise, Sewer Fund, as required. In addition, the City should consult legal counsel and review the City’s sewer rate structure to ensure the rates are adequate to produce the required net operating receipts.

- (D) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for four meetings tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days of the meeting, as required.

- (E) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the business type activities function due to an error in the budget amendment. The budget amendment increased the budget in the capital projects function rather than the business type activities function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

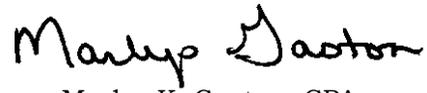
Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget and budget amendments should be reviewed for reasonableness and accuracy prior to taking action to amend the budget.

City of Granger

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Taylor I. Cook, Staff Auditor
Chad C. Lynch, Staff 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