



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

April 21, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Blue Grass, Iowa for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported nine findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, Fire Department bank account held outside of the City's control, the lack of bank reconciliations for the Fire Department account, disbursements exceeding budgeted amounts and Fire Department questionable disbursements. Sand provided the City with recommendations to address each of the findings.

Five of the nine findings discussed above are repeated from the prior year. 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 web site at <https://auditor.iowa.gov/reports/audit-reports/>.

###

CITY OF BLUE GRASS
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Blue Grass



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

April 1, 2020

Officials of the City of Blue Grass
Blue Grass, 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 Blue Grass, Iowa, for the period July 1, 2018 through June 30, 2019. 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 Blue Grass 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 that reads "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	4-5
Detailed Findings and Recommendations:	<u>Finding</u>
Segregation of Duties	A 7
Separately Maintained Records	B 7-8
Fire Department Bank Reconciliations	C 8
Questionable Disbursements	D 8
Disaster Recovery Plan	E 8
Journal Entry Approval	F 9
City Council Meeting Minutes	G 9
Certified Budget	H 9
Fire Department Disbursements	I 9
Staff	10

City of Blue Grass

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Larry D. Guy	Mayor	Jan 2020
Brad Schutte	Council Member/Mayor Pro Tem	Jan 2020
Lisa Smith	Council Member	Jan 2020
Bonnie Strong	Council Member	Jan 2020
Donna Kinzer	Council Member	Jan 2022
Emilyne Slagle	Council Member	Jan 2022
Ann Schmidt	City Clerk/Treasurer	Indefinite
William McCullough	Attorney	Indefinite



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

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 Blue Grass for the period July 1, 2018 through June 30, 2019, 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 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 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 are in place and incompatible duties, from a control standpoint, are 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 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 are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2019 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. The City had no investments.
8. We scanned 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 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.
15. We traced transfers between funds to proper authorization and accurate accounting and determined whether transfers were proper.
16. We traced selected payroll and related transactions for 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, 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 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 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.



Ernest H. Ruben, Jr., CPA
Director

April 1, 2020

Detailed Findings and Recommendations

City of Blue Grass

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

(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) 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.

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.

(B) Separately Maintained Records – 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The City Fire Department maintains a bank account for activity separate from the City Clerk’s accounting records. While this Department is part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of this account were not reported to the City Council and disbursements from this account were not reviewed and approved by the City Council. Also, a summary of the account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

City of Blue Grass

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire Department separate account should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. A summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (C) Fire Department Bank Reconciliations – The cash balance for the Fire Department was not reconciled to the bank account balance throughout the year. For the two months observed, the book balance agreed to the bank balance.

Recommendation – The Fire Department should establish procedures to ensure all bank 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 signing or initialing and dating the monthly reconciliations.

- (D) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain Fire Department disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

Paid to	Purpose	Amount
All in Fun	Fire truck themed bounce house	\$ 160
West End Gardens	Plant for fire department employee funeral	107
Jon Grunder	Pizza for fire department staff	122

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.

- (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.

City of Blue Grass

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (F) Journal Entry Approval – The City has established procedures for the review and approval of journal entries by an independent person. However, for three months observed, the journal entries report did not contain the signature or initials of an independent reviewer.

Recommendation – The City should follow established procedures and ensure journal entries are reviewed and approved timely by an independent person and evidence of the approval should be documented by the signature or initials of the reviewer and the date of the review.

- (G) City Council Meeting Minutes – Chapter 380.4 of the Code of Iowa requires the passage of ordinances, amendments or resolutions be by a majority vote of the City Council members, not by a majority vote of the quorum of the City Council. For two of four City Council meeting minutes observed, resolutions were passed as part of the consent agenda, with two City Council members voting yes, which does not represent a majority of all five City Council members.

Recommendation – The City should comply with the Code of Iowa and ensure all resolutions are approved by a majority of all City Council members.

- (H) Certified Budget – Disbursements at June 30, 2019 exceeded the amount budgeted in the public works function. In addition, disbursements exceeded the amounts budgeted in the public works, capital projects and business type activities functions prior to the budget amendment. 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.

- (I) Fire Department Disbursements – Invoices or other supporting documentation for the Fire Department were not always available to support disbursements. An invoice for \$245 from a grocery store charge account was not in sufficient detail to determine what was purchased. Also, for seven disbursements observed, the Fire Department improperly paid sales tax.

Recommendation – All disbursements should be supported by invoices or other supporting documentation. Also, the Fire Department should establish procedures to ensure sales tax is not paid on Fire Department disbursements.

City of Blue Grass

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Pamela J. Bormann, CPA, Manager
Brett S. Gillen, CPA, Staff Auditor
Matthew K. Nnanna, Assistant Auditor