



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

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NEWS RELEASE

FOR RELEASE

May 1, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Blairsburg, 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 seventeen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliation procedures, disbursements exceeding budgeted amounts, errors in TIF reporting, transfers between funds are not supported or approved by the City Council and dual compensation of a City official in violation of Chapter 372.13(8) of the Code of Iowa. Sand provided the City with recommendations to address each of the findings.

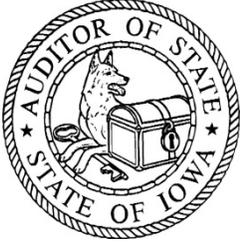
The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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

City of Blairsburg



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March 6, 2020

Officials of the City of Blairsburg
Blairsburg, 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 Blairsburg, 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 Blairsburg 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 Recommendations:	<u>Finding</u>	
Segregation of Duties	A	7
Bank Reconciliations	B	7
Deposits and Investments	C	8
Dual Compensation	D	8
Council Minutes	E	8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	F	9
Utility Rates	G	9
Elected Official Compensation	H	9
Certified Budget	I	9
Tax Increment Financing	J	9-10
Monthly Financial Report	K	10
Transfers	L	10
Disbursements	M	10
Annual Financial Report	N	10
Uniform Chart of Accounts	O	11
Prenumbered Receipts	P	11
Sewer Revenue Bonds	Q	11
Staff		12

City of Blairsburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Troy Hassebrock	Mayor	Jan 2018	Jan 2020
Shirley Nelson	Council Member	Jan 2016	Jan 2020
Marlin Pruismann	Council Member	Jan 2016	Jan 2020
Vicki Jean Sturtevant (Elected)	Council Member	Nov 2017	Jan 2020
Rodney Harris	Council Member	Jan 2018	Jan 2022
Craig Jeffers	Council Member	Jan 2018	Jan 2022
Patricia Jacobson	City Clerk/Treasurer		Indefinite
Justin Deppe	Attorney		Indefinite



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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 Blairsburg 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 Blairsburg'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 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 2018 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
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.

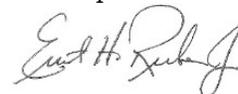
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned 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 to 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, 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 Blairsburg 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

March 6, 2020

Detailed Findings and Recommendations

City of Blairsburg

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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Long-term debt – recording and reconciling.
- (4) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (5) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing and posting.

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 – The cash and investment balances in the City’s financial records were not reconciled to bank and investment account balances throughout the year and a list of outstanding checks was not prepared. For one month observed, June 2019, the total fund balance reported in the City Clerk’s financial report was \$292,032 lower than the bank and investment balances primarily because certificates of deposit totaling \$294,719 were not reported in the City Clerk’s financial report. The remaining \$2,687 variance is unresolved.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be investigated and resolved timely. A listing of outstanding checks should be prepared each month and retained. In addition, the bank reconciliation should be reviewed monthly by an independent person, and the review should be documented by the signature or initials of the independent reviewer and the date of review.

City of Blairsburg

Detailed Findings and Recommendations

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

- (C) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. Also, although a resolution naming official depositories has been adopted by the City Council, the maximum deposit amounts for each bank were not included as required by Chapter 12C.2 of the Code of Iowa.

Recommendations – The City should adopt a written investment policy that complies with the provision of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (D) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office but may be reimbursed for actual expenses incurred.”

During the period July 1, 2018 through June 30, 2019, the City paid a City Council Member \$1,230 for cleaning city buildings. This compensation violates Chapter 372.13(8) of the Code of Iowa, which prohibits elected City officials from receiving compensation as a City employee.

A recent Attorney General’s opinion dated August 15, 2018, clarified Chapters 372.13(8) and 362.5 of the Code of Iowa and states, in part, “Iowa Code §372.13(8) (2018) bars city elected officers from receiving additional compensation for positions of employment beyond the salary received for their elected office. Iowa Code §362.5(3) (2018), providing exceptions to the general ban in that statute for city offices and employees having interests in contracts with the city do not allow city elected officers to receive additional compensation for positions of employment with their city beyond the salary provided for their elected office. That portion of prior formal opinion, Op. Atty. Gen. #93-8-2(L), finding that a city elected officer may serve as an employee of their city for additional pay if the compensation does not exceed annual cumulative amounts set under Iowa Code §362.5(3)(j) and (k) (2018), is retracted.”

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including seeking reimbursement for the \$1,230 improperly paid to the City Council Member.

- (E) Council 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, including a summary of all receipts. The minutes publications for four meetings observed did not include a summary of receipts.

Recommendation – The City should comply with the Code of Iowa and ensure published minutes include a summary of all receipts.

City of Blairsburg

Detailed Findings and Recommendations

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

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (G) Utility Rates – Recycling rates were not approved by City ordinance as required by Chapter 384.84 of the Code of Iowa.

Recommendation – The City should ensure all utility rates are established by City ordinance, as required.

- (H) Elected Official Compensation – The Mayor and City Council compensation was not approved by City ordinance as required by Chapter 372.13(8) of the Code of Iowa.

Recommendation – The Mayor and City Council compensation should be approved by City ordinance, as required.

- (I) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the public safety, public works and general government functions. 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.

- (J) 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 County Auditor’s Tax Increment Financing (TIF) Indebtedness Reconciliation prepared on November 19, 2018, reported outstanding TIF debt obligations previously certified by the City totaling \$313,019, however, the City’s Annual Urban Renewal Report (AURR) for the year ended June 30, 2018 reported no outstanding TIF obligations. Also, the June 30, 2018 AURR reports an ending cash balance of \$5,958 which represents TIF collections in excess of TIF certified debt. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining 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.

Additionally, the City has not established a Special Revenue, Tax Increment Financing Fund and incorrectly records TIF receipts in the General fund.

City of Blairsburg

Detailed Findings and Recommendations

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

Recommendation – The City should consult TIF legal counsel to determine the appropriate resolution for the excess TIF collections, including whether the TIF receipts in excess of TIF indebtedness should be returned to the County Treasurer as required by Chapter 24.21 of the Code of Iowa. The City should decertify excess TIF debt. If TIF obligations are certified in the future, the City should establish a Special Revenue, Tax Increment Financing Fund, to account for the related urban renewal activities.

- (K) Monthly Financial Report – The monthly City Clerk’s financial report does not include a comparison of total disbursements to the certified budget by function. Also, the financial report does not include a summary of receipts, disbursements and transfers by fund.

Recommendation – A monthly City Clerk’s report which includes a comparison of total disbursements to the certified budget by function should be prepared and presented to the City Council. The financial report should also include a summary of receipts, disbursements and transfers by fund.

- (L) Transfers – Transfers were not approved by the City Council and supporting documentation was not maintained for transfers.

Recommendation – The City should ensure transfers are authorized by the City Council and are accurately recorded. Supporting documentation should be maintained for all transfers. Effective April 17, 2019 Rule 545-2.5 of the Iowa Administrative Code requires transfers between funds be passed by resolution and include a clear statement of the reason or purpose of the transfer, the name of the affected funds and the dollar amount to be transferred.

- (M) Disbursements – The City reimburses the City Clerk \$27 each month for home internet. The City also reimburses the City Clerk for computer supplies and virus protection costs. The City does not have a written policy for reimbursing the City Clerk for home internet service or for reimbursements for computer supplies and virus protection.

Recommendation – The City Council should adopt a written policy for reimbursing the City Clerk for home internet service, supplies and virus protection including the determination of the cost and the requirements for supporting documentation.

- (N) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collection and receipts, all accounts due the city, and all expenditures...” The fiscal year 2019 beginning balances do not agree to the prior year ending balances by \$346,502. The June 30, 2019 total ending fund balance was understated by approximately \$292,000 in comparison to the City’s records. Also, long term debt for a City road project was not included in the AFR. Additionally, receipts and disbursements did not agree with City records.

Recommendation – The City should establish procedures to ensure the AFR beginning balances, ending balances, receipts, disbursements and long-term debt agree to the City’s records.

City of Blairsburg

Detailed Findings and Recommendations

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

- (O) Uniform Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee. As a result, disbursements are not classified by function in the City's records.

Recommendation – To provide better financial information and control, the City should fully implement the Uniform Chart of Accounts.

- (P) Prenumbered Receipts – Prenumbered receipts are not issued for all collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all receipts.

- (Q) Sewer Revenue Bonds – The provisions of the City's sewer revenue bond resolution require the City produce net operating receipts equal to at least 110% of the principal and interest on the bonds as they come due. The City's fiscal year 2019 Enterprise, Sewer Fund net operating receipts of \$232 were less than 110% of the required bond principal and interest payment of \$7,810.

Additionally, the City improperly levied for debt service for the sewer revenue bond. The sewer revenue bond is required to be paid from the earnings of the sewer system. The debt service levy for fiscal year 2019 totaled 15,017.

Recommendation – The City should establish sewer rates at a sufficient level to allow net receipts to comply with the bond provisions. In addition, the City should consult legal counsel to determine the disposition of this matter.

City of Blairsburg

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Lesley R. Geary, CPA, Manager
Taylor I. Cook, CPA, Senior Auditor
Jacob L. Bump, Intern Auditor