



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

June 23, 2017

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Blue Grass, Iowa for the period July 1, 2015 through June 30, 2016. 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 amend the budget in accordance with Chapter 348.18 of the Code of Iowa before disbursements are allowed to exceed budgeted amounts.

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/1621-0771-BLOF>.

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CITY OF BLUE GRASS
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016

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City of Blue Grass

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brinson Kinzer	Mayor	Jan 2016
Sandra Frericks	Council Member	Jan 2016
Brad Schutte	Council Member	Jan 2016
Bonnie Strong	Council Member	Jan 2016
Chuck Barton	Council Member	Jan 2018
Jim Goodin	Council Member/Mayor Pro Tem	Jan 2018
Ann Schmidt	City Clerk/Treasurer	Indefinite
William McCullough	Attorney	Indefinite

(After January 2016)

<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, 2015 through June 30, 2016. The City of Blue Grass' management, which agreed to the performance of the procedures performed, is responsible 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 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.

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Blue Grass, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Blue Grass and other parties to whom the City of Blue Grass may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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 16, 2017

Detailed Recommendations

City of Blue Grass

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

- (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) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the business type activities function before the budget was amended on May 16, 2016. 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.

- (C) 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.

City of Blue Grass

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

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.

- (D) 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:

Paid to	Purpose	Amount
Kam Concepts and Wraps	Jr. fire fighter t-shirts	\$ 387
Sycamore Printing	Raffle tickets	32

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) Annual Urban Renewal Report – The fiscal year 2015 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.

Recommendation – The City should file the AURR timely. Also, the City should ensure amounts reported on the Levy Authority Summary agree with the City’s records.

- (F) Disaster Recovery Plan – The City does not have a written disaster recovery plan.

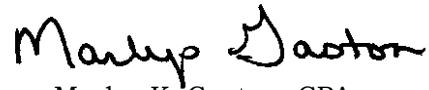
Recommendation – A written disaster recovery plan should be developed and tested periodically.

City of Blue Grass

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Kristin R. Finke, Assistant Auditor
Sidot K. Shipley, 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