

**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

**NEWS RELEASE**

FOR RELEASE

April 1, 2019

---

Contact: Marlys Gaston  
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, 2017 through June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand recommended the City review its control procedures to obtain the maximum internal control possible. In addition, the City should determine and document the public purpose served for certain Fire Department account disbursements.

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, 2017 THROUGH JUNE 30, 2018**

## Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Separately Maintained Records	B 8-9
Questionable Disbursements	C 9
Disaster Recovery Plan	D 9
Tax Increment Financing	E 10
Supporting Documentation	F 10
Staff	11

**City of Blue Grass**

**Officials**

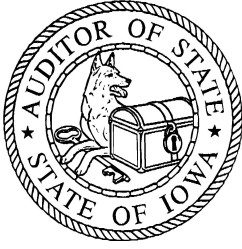
**(Before January 2018)**

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

**(After January 2018)**

<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

**City of Blue Grass**



**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 tests and procedures to selected accounting records and related information of the City of Blue Grass for the period July 1, 2017 through June 30, 2018, 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 2018 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.



ROB SAND  
Auditor of State

March 6, 2019

## **Detailed Recommendations**



City of Blue Grass

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

(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 Recommendations

For the period July 1, 2017 through June 30, 2018

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. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (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>
West End Gardens	Floral arrangements for fallen firefighters	\$ 119
Cole Downing	Various alcoholic beverages for Wives Appreciation	112
Menards	Sales tax	39
Hy-Vee	Steaks for firefighters and public service departments	393

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. However, we can see no public purpose served in the purchase of alcoholic beverages.

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) 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 Recommendations

For the period July 1, 2017 through June 30, 2018

- (E) Tax Increment Financing – Chapter 403.22 of the Code of Iowa requires the City to provide assistance for low and moderate income family housing (LMI) when urban renewal projects involve public improvements related to housing and residential development. LMI assistance includes lots for low and moderate income housing, construction of low and moderate income housing and grants, credits or other direct assistance to low and moderate income families.

During the year, the City transferred \$116,057 of LMI reserve from Special Revenue, Tax Increment Financing Fund to the Special Revenue, Local Options Sales Tax Fund for the purpose of reimbursing a portion of the Mayne Street Rehabilitation Project, equal to the percentage of households in Blue Grass that would qualify as low and moderate income. The use of LMI to pay for a portion of street rehabilitation does not appear to meet the intent of Chapter 403.22 of the Code of Iowa.

Recommendation – The City should consult legal counsel to resolve this matter and make corrective transfers, if necessary.

- (F) Supporting Documentation – Invoices and other supporting documentation for the Fire Department were not always available to support disbursements. An invoice for \$22 from a grocery store charge account was not in sufficient detail to determine what was purchased.

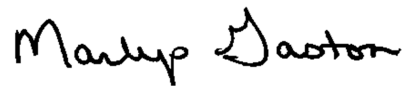
Recommendation – Any disbursements should be supported by invoices or other supporting documentation.

City of Blue Grass

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director  
Sarah K. Nissen, Staff Auditor  
Terry J. Erlbacher, 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  
Deputy Auditor of State