

**CITY OF SHELDAHL**

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**For the Period**

**July 1, 2013 through June 30, 2014**

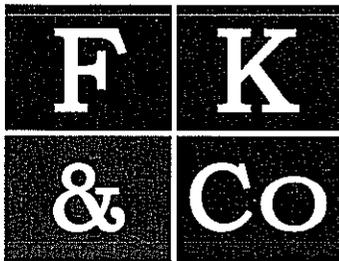
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## City of Sheldahl

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Towers	Mayor	Jan 2018
Henry Frohling	Council Member	Jan 2016
Don Max	Council Member	Jan 2018
Frank Hampton	Council Member	Jan 2016
Russ Obernolte	Council Member	Jan 2016
Raymond Harris	Council Member	Jan 2016
Margie McKinney	Clerk	Appointed Jan 2014
Judy Frohling	Treasurer	Appointed Jan 2014



# FALLER, KINCHELOE & CO, PLC

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## Certified Public Accountants

### Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor  
and Members of City Council:

We have performed an agreed-upon procedures engagement with the City of Sheldahl pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa Cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Sheldahl for the period July 1, 2013 through June 30, 2014. 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 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 security 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 2013 Annual Financial Report (AFR) 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.

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9. We reviewed and tested selected receipts for accurate accounting and consistency with the COA recommended chart of accounts.
10. 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.
11. 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.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. 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 audit of the City of Sheldahl, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Sheldahl, 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 Sheldahl and other parties to whom the City of Sheldahl 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 Sheldahl during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co, PLC

September 16, 2014

CITY OF SHELDAHL  
DETAILED RECOMMENDATIONS  
For the period July 1, 2013 through June 30, 2014

(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, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

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 evidenced by the signature or initials of the reviewer and the date of the review.

(B) City Council Minutes – The following was identified:

- Minutes for the City Council meetings were not signed as required by Chapter 380.7 of the Code of Iowa
- Although minutes of City Council proceedings were posted, the City did not publish a summary of receipts or total disbursements by fund as required by Chapter 372.13(6) of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting. The minutes tested were not published within 15 days.

Recommendation – The City should comply with Chapter 372.13(6) and Chapter 380.7 of the Code of Iowa. The City should ensure the minutes posted include a summary of receipts and total disbursements by fund, as required.

CITY OF SHELDAHL  
DETAILED RECOMMENDATIONS  
For the period July 1, 2013 through June 30, 2014

- (C) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (D) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

- (E) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s Annual Financial Report reported beginning and ending fund balances that do not agree with the City’s records.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records.

- (F) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for its bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (G) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety 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.”

The City’s budget documents did not list the City’s long-term debt on the budget’s long-term debt schedule filed with the State of Iowa. The listing of the City’s debt on the long-term debt schedule in the budget is required by the State of Iowa.

CITY OF SHELDAHL  
DETAILED RECOMMENDATIONS  
For the period July 1, 2013 through June 30, 2014

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. In addition, the City should ensure the City's long-term debt is listed on the long-term debt schedule in the budget as required by the State of Iowa.

- (H) Payroll – Payroll taxes and IPERS are being calculated properly and deducted from the employee's paychecks. However, the IRS Form 941's and W-2's reported the incorrect amount of wages subject to federal and state withholding.

Also the Mayor and City Council members' wages were not set by a City ordinance.

Recommendation – The City should ensure future IRS payroll tax forms are calculated and filed properly. Also the City should pass an ordinance establishing the wages for the Mayor and City Council.

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

Recommendation – 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 reviews should be documented by signing or initialing and dating the reconciliations.

- (J) Deposits – The deposits tested were not deposited in a timely manner.

Recommendation – The City should establish procedures to ensure receipts are deposited in a timely manner.

CITY OF SHELDAHL  
 DETAILED RECOMMENDATIONS  
 For the period July 1, 2013 through June 30, 2014

(K) Local Option Sales Tax – The Sheldahl City limits are located in three different counties (Story, Boone, and Polk). The local option sales tax (LOST) ballot for Polk County could not be located by Polk County or by City officials. The Story and Boone County LOST ballots require LOST receipts be used 75% for property tax relief and 25% for community betterment. During the year, LOST disbursements were not tracked in a manner which documented compliance with the LOST ballot referendum provisions.

Recommendation – The City maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendums. In addition, the City should consult with legal counsel to determine how to account for the LOST monies received from Polk County.

(L) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Russ Obernolte, City Council Father is owner of ESS	Sewer system maintenance Water meter reading	\$29,646

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since the total transactions are more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.