

**CITY OF SHELLSBURG, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

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Officials

Name	Title	Term Expires
Elected Officials		
Danny Roehr	Mayor	January, 2016
Tim Peters	Council Member/Mayor Pro Tem	January, 2016
Dave Galli	Council Member	January, 2016
Sharon Harvey	Council Member	January, 2017
Judy Shaeffer	Council Member	January, 2017
Dan Pence	Council Member	January, 2017
Appointed Officials		
Nancy DeKlotz	City Clerk	Indefinite
Don Hoskins	City Attorney	Indefinite
Anne Loomis	City Attorney	Indefinite

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

To the Honorable Mayor and
Members of the City Council
City of Shellsburg, Iowa

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 Shellsburg for the period July 1, 2014 through June 30, 2015. The City of Shellsburg's 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 2015 Annual Financial Report 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.
9. 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.
10. 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.
11. 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.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. 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 noncompliance were not noted during the performance of the specific procedures listed above.

These agreed-upon procedures did not constitute an audit of the 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 Shellsburg, additional matters might have come to our attention that would have been reported to you.

To the Honorable Mayor and
Members of the City Council
City of Shellsburg, Iowa
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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 Shellsburg and other parties to whom the City of Shellsburg may report. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 14, 2015

Detailed Recommendations

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

(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:

- Accounting System - performing all general accounting functions, including journal entries and having custody of assets.
- Cash - handling, reconciling and recording.
- Investing - recordkeeping, investing, custody of investments and reconciling earnings.
- Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- Utilities - billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- Debt - recordkeeping, compliance and debt payment processing.
- Journal Entries - preparing and journalizing.
- Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- Payroll - entering rates into the system, recordkeeping, preparing, signing and distributing.
- Computer System - performing all general accounting functions and controlling all data input and output.
- Financial Reporting - preparing and reconciling.

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 and journal entries should be evidenced by the signature or initials of the reviewer and the date of review.

(B) **Certified Budget** - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works 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."

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) **Financial Reports** - Although monthly Treasurer's reports are prepared, the two reports tested did not agree with the bank reconciliation. In addition, receipts and disbursements reported on the Annual Financial Report did not agree with the City's financial records.

Recommendation - The City should establish procedures to ensure that the monthly Treasurer's reports and Annual Financial Report reconcile to the general ledger and bank reconciliations.

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- (D) **Investments** - An accounting record/register is not maintained for each investment.

Recommendation - An accounting record/register for each investment which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained.

- (E) **Monthly Treasurer's Report** - The June, 2015 Treasurer's report did not properly total in the monthly receipts, transfer in and transfer out columns. We also noted that the fund balance for RAGBRAI couldn't be traced to the general ledger.

Recommendation - The City should establish procedures to ensure that reports are accurate. The City should also ensure that the Treasurer's report fund balances agree to the general ledger.

- (F) **Annual Urban Renewal Report (AURR)** - The AURR report was properly approved and certified to the Iowa Department of Management on or before December 1. On the Levy Authority Summary, the City understated the amount reported as TIF debt outstanding by \$191,522.

Recommendation - The City should ensure that the amounts reported on the Levy Authority Summary agree with the City's records.

- (G) **Tax Increment Financing (TIF)** - Chapter 403.19 of the Code of Iowa provides a municipality shall certify TIF 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.

During the current and prior years, the City didn't properly include interest payments in the total certified debt.

Recommendation - The City should certify the general obligation bond and interest expected to be repaid, including past interest amounts paid with TIF collections, to the County Auditor as a TIF obligation.

- (H) **Disbursements** - An invoice or other supporting documentation was not available to support a disbursement of \$600 for 1 of 30 transactions tested.

Recommendation - All disbursements should be supported by invoices or other supporting documentation.

- (I) **Receipts Reconciliation** - For one month tested, we were unable to reconcile from deposits to the bank account to receipts posted in the general ledger. The general ledger total was \$993.81 higher than the bank.

Recommendation - The City should establish procedures to ensure that bank deposits are properly reconciled to book balances monthly and variances, if any, are reviewed and resolved timely.

Detailed Recommendations

For the Period July 1, 2014 through June 30, 2015

- (J) **Reconciliation of Utility Billings, Collections and Delinquent Accounts** - While delinquent accounts were reconciled monthly, the utility billings and collections reports were not being utilized by the Clerk or reconciled. There is no evidence of independent review of the utility reconciliation, but we noted the delinquent accounts were reviewed monthly by the City Council.

Recommendation - As a part of the reconciliation process, the City should ensure that the beginning balance used agrees to the ending balance from the prior month's reconciliation. Also, the Clerk should receive additional training on how the report compiles the amounts on the utility reconciliation. The City Council or other independent person designated by the City Council should review the reconciliations and sign or initial them to provide evidence of the review.

- (K) **Local Option Tax** - Local Option Sales Tax (LOST) receipts are to be expended as determined by local ballot provisions. We were unable to determine if LOST receipts were expended in accordance within these provisions.

Recommendation - The City should expend annual receipts in accordance with the provisions of the ballot. If funds are not fully expended, a proper accounting should be maintained to determine authorized use of any carryover fund balances.