



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

State Capitol Building  
Des Moines, Iowa 50319-0004

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

March 28, 2017

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Shellsburg, 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 comply with Chapter 384.18 of the Code of Iowa and amend the budget prior to disbursements exceeding the budget.

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/1621-0041-BLOF>.

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**CITY OF SHELLSBURG**  
**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 Shellsburg**

**Officials**

**(Before January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Danny L Roehr	Mayor	Jan 2016
Dave Galli	Council Member	Jan 2016
Tim Peters	Council Member	Jan 2016
Sharon Harvey	Council Member	Jan 2018
Dan Pence	Council Member	Jan 2018
Judy Shaeffer	Council Member	Jan 2018
Nancy Deklotz	City Clerk/Treasurer	Indefinite
Don Hoskins	Attorney	Indefinite
Anne Loomis	Attorney	Indefinite

**(After January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Danny L Roehr	Mayor	Jan 2018
Sharon Harvey	Council Member	Jan 2018
Dan Pence	Council Member	Jan 2018
Judy Shaeffer	Council Member	Jan 2018
Tim Peters	Council Member	Jan 2020
Nancy Thorkildson	Council Member	Jan 2020
Nancy Deklotz	City Clerk/Treasurer	Indefinite
Don Hoskins	Attorney	Indefinite
Anne Loomis	Attorney	Indefinite

**City of Shellsburg**



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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 Shellsburg for the period July 1, 2015 through June 30, 2016. 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 2016 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 voter approved levies for proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
14. 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.
15. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
16. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
17. 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 Shellsburg, 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 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Shellsburg 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

December 22, 2016

## **Detailed Recommendations**

City of Shellsburg

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) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – detailed recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (5) Long-term debt – recordkeeping, compliance and debt payment processing.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) Payroll – entering rates into the system, recordkeeping, preparing, signing and distributing.
- (8) Utilities – billing, collecting, depositing, posting and maintaining accounts receivable and write off records.
- (9) Financial reporting – preparing and reconciling.
- (10) Computer systems – performing all general accounting functions and controlling all data input and output.
- (11) 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 documented by the signature or initials of the reviewer and the date of the review.

(B) Annual Financial Report – The budget column on the current year Annual Financial Report did not agree with the City’s amended budget.

Recommendation – The budget column on the Annual Financial Report should agree with the City’s amended budget.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

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 review should be documented by the signature or initials of the reviewer and the date of the review.

City of Shellsburg

Detailed Recommendations

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

- (D) Investments – An accounting register is not maintained for each investment.

Recommendation – A register should be maintained for each investment which includes cost, description, date purchased, interest rate, maturity date and identifying number.

- (E) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount 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.

- (F) Disbursements – One of thirty disbursements tested was not approved by the City Council prior to payment.

Recommendation – The City should ensure all disbursements are approved by the City Council prior to payment.

- (G) Change Fund – The City maintains a separate change fund. Authorization for the fund could not be located.

Recommendation – The change fund should be formally authorized by the City Council.

- (H) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (I) Annual Urban Renewal Report (AURR) – The amount reported as TIF debt outstanding on the Levy Authority Summary was understated by \$163,837.

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with City records.

- (J) Tax Increment Financing (TIF) – 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. 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.

The City has not certified \$330,482 of interest on general obligation bonds expected to be repaid with TIF collections, including amounts paid in the past and current year.

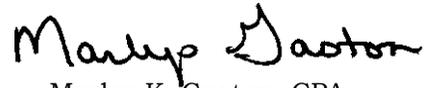
Recommendation – The City should certify the general obligation bond interest expected to be repaid with TIF collections, including past interest amounts paid, to the County Auditor as a TIF obligation.

City of Shellsburg

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager  
Nicole L. Roethlisberger, Staff Auditor  
Anthony J.T. Mallie, 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  
Director