

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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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 Shellsburg, 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, including independent reviews of reconciliations. In addition, the City should establish procedures to reconcile utility billings, collections and delinquent accounts for each billing period.

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/>.

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CITY OF SHELLSBURG
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018

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City of Shellsburg

Officials

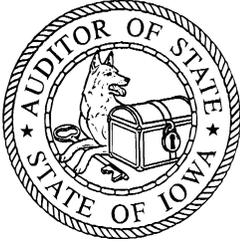
(Before January 2018)

<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
Anne Kruse	Attorney	Indefinite
Kara Bullerman	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lonnie Speckner	Mayor	Jan 2020
Tim Peters	Council Member	Jan 2020
Nancy Thorkildson	Council Member	Jan 2020
Lindsey Chapman	Council Member	Jan 2022
Alisha Knight	Council Member	Jan 2022
Shadoe Vogt	Council Member	Jan 2022
Nancy DeKlotz	City Clerk/Treasurer	Retired Jun 2018
Barbara Tracey	City Clerk/Treasurer	Indefinite
Anne Kruse	Attorney	Indefinite
Kara Bullerman	Attorney	Indefinite

City of Shellsburg



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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 Shellsburg 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 Shellsburg's management, which agreed to the performance of the procedures performed, is responsible for compliance with these 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 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.

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 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.



ROB SAND
Auditor of State

March 11, 2019

Detailed Recommendations

City of Shellsburg

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) 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, recording and reconciling.
- (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 system – performing all general accounting functions and controlling all data input and output.
- (11) Journal entries – preparing and recording.

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) 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.

(C) 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.

City of Shellsburg

Detailed Recommendations

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

- (D) Annual Urban Renewal Report – The amount reported as TIF debt outstanding on the Annual Urban Renewal Report Levy Authority Summary was overstated by \$76,116.

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

- (E) Tax Increment Financing – 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 tax increment financing (TIF) collections, including amounts paid in the past and current year.

Chapter 403.19(10)(b) of the Code of Iowa provides moneys in the Special Revenue, Tax Increment Financing (TIF) Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund. During the year ended June 30, 2017, the City paid \$3,052 in legal fees from the TIF Fund. These costs do not represent TIF obligations and, accordingly, are not an allowable use of tax increment financing receipts.

Recommendation – The City should certify the general obligation bond interest paid from TIF collections in the past and current year as well as the interest expected to be repaid with TIF collections in the future to the County Auditor as a TIF obligation. In addition, the City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for the \$3,052 of legal fees. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

- (F) Financial Condition – At June 30, 2018, the City had a deficit balance of \$104,136 in the Capital Projects Fund.

Recommendation – The City should investigate alternatives to eliminate the deficit to return this fund to a sound financial position.

- (G) Annual Financial Report – The City incorrectly classified \$151,663 of disbursements in the fiscal year 2018 Annual Financial Report (AFR) in the public works function rather than the capital projects function.

Recommendation – The City should establish procedures to ensure the amounts reported in the AFR are accurate.

City of Shellsburg

Detailed Recommendations

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

- (H) Questionable Disbursement – Article III, Section 31 of the Iowa Constitution requires public funds may only be spent for public benefit. An Attorney General’s opinion dated April 25, 1979 discusses the concept of public purpose, including the requirement to properly document public benefit for those disbursements for which public benefit is not clear, i.e., “so clear and palpable as to be perceived by every mind at first blush”.

During the year ended June 30, 2018, the Police Chief resigned his position with the City due to personal reasons. Upon his resignation, the former Police Chief requested the City Council authorize a separation payout of \$67,000, including 40 weeks of salary and insurance premiums for 12 months. The City Council approved this separation payout in August 2017, however; the City did not document how the public benefitted from this disbursement prior to making the payment. The \$67,000 payout was in addition to the accrued vacation and personal time payouts also made to the former Police Chief upon his resignation. Except for accrued vacation and personal time, the City’s policies do not include a provision for separation payouts.

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including, at a minimum, documenting how the public benefitted from this payment.

City of Shellsburg

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Ashley J. Moser, Senior Auditor
Adrian T. Duer, Auditor Intern

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive style with a large, stylized initial "M".

Marlys K. Gaston, CPA
Deputy Auditor of State