

CITY OF SHELL ROCK, IOWA

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JULY 1, 2021 THROUGH JUNE 30, 2022

- Prepared By -

Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616-2036
Phone (641)257-4222

CITY OF SHELL ROCK, IOWA

TABLE OF CONTENTS

	<u>PAGE</u>
<u>OFFICIALS</u>	1
<u>INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES.</u> . .	2-4
<u>DETAILED FINDINGS AND RECOMMENDATIONS:</u>	<u>Finding</u>
Segregation of Duties	A 5
Business Transactions.	B 5
Excessive Balance	C 5
Interfund Transfers	D 6
Annual Financial Report	E 6
Countersignature of Checks	F 6
Certified Budget	G 6
General Ledger Postings	H 6

CITY OF SHELL ROCK, IOWA

OFFICIALS

(Before January 2022)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Larry Young	Mayor	January 2022
Mike Klinefelter	Mayor Pro tem	January 2024
Jared Krull	Council Member	January 2022
Garrett Schuldt	Council Member	January 2022
Donald Bonzer	Council Member	January 2024
Robyn Holden	Council Member	January 2024
Marilyn Hardee	Clerk/Treasurer	January 2022
Karl Nelson and Bruce Toenjes	Attorney	January 2022

(After January 2022)

Larry Young	Mayor	January 2024
Mike Klinefelter	Mayor Pro tem	January 2024
Donald Bonzer	Council Member	January 2024
Robyn Holden	Council Member	January 2024
Jared Krull	Council Member	January 2026
Garrett Schuldt	Council Member	January 2026
Marilyn Hardee	Clerk/Treasurer	January 2024
Karl Nelson and Bruce Toenjes	Attorney	January 2024



Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616

(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Honorable Mayor and
Members of the City Council:

I performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, I have applied certain procedures to selected accounting records and related information of the City of Shell Rock for the period July 1, 2021 through June 30, 2022, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Shell Rock'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 City of Shell Rock's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, 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 may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures I performed are summarized as follows:

1. I observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. I obtained an understanding of 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. I observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. I obtained and observed 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. I scanned 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. I observed the City's fiscal year 2022 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.

7. I scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. I scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. I scanned 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. I scanned 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. I observed 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. I traced selected receipts for accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. I traced selected disbursements to 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. I traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. I traced selected payroll and related transactions to proper authorization and accurate accounting and determine whether payroll was proper.
17. I observed the annual certified budget for proper authorization, certification and timely amendment.

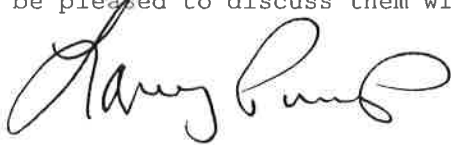
Based on the performance of the procedures described above, I identified various findings and recommendations for the City. My findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, no exceptions were noted during the performance of the specific procedures listed above.

I was engaged by the City of Shell Rock's management to perform this agreed-upon procedures engagement and conducted my engagement 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. I was not engaged to and did not conduct an examination or review engagement, 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, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

I am required to be independent of the City of Shell Rock and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements related to my agreed-upon procedures engagement.

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 findings and 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.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Shell Rock during the course of my agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script, appearing to read "Gary Burt".

Charles City, Iowa
November 9, 2022

Detailed Findings and Recommendations

CITY OF SHELL ROCK, IOWA
DETAILED FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2021 THROUGH JUNE 30, 2022

- (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) Payroll - recordkeeping, preparing and distributing.
- (5) Utilities - billing, collecting, depositing and posting.
- (6) Financial reporting - preparing and reconciling.
- (7) Journal entries - preparing and recording.

Recommendation - I 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) Business Transactions - Business transactions between the City and City officials or employees which may represent conflicts of interest are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Carla Rops, Sister-in-law of employee Deb Nieman	Cleaning	\$ 2,880

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since total transactions were less than \$6,000 during the fiscal year.

- (C) Excessive Balance - The balance in the Special Revenue, Road Use Tax Fund at June 30, 2022 was in excess of fund disbursements for the year.

Recommendation - The City should consider the necessity of maintaining this substantial balance and, where financially feasible, consider reducing the balance in an orderly manner.

CITY OF SHELL ROCK, IOWA
DETAILED FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2021 THROUGH JUNE 30, 2022

- (D) Interfund Transfers - Section 545-2 of the City Finance Committee Rules requires "A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred. For transfers of utility surpluses outlined in subrule 2.5(5), the calculation proving the surplus must also be shown in the resolution."

The resolutions approving the City's fund transfers did not include the purpose of each transfer.

Recommendation - The resolutions approving all fund transfers should include the information required by Section 545-2 of the City Finance Committee rules.

- (E) Annual Financial Report - The Annual Financial Report (ARF) debt outstanding schedule does not agree with City financial records.

Recommendation - The City should review and verify the AFR before finalizing it to ensure the City's figures and AFR's figures agree with each other.

- (F) Countersignature of Checks - The City requires checks to be signed by two authorized individuals. I noted a check with only one authorized signature.

Recommendation - Checks should be prepared and signed by one authorized individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

- (G) Certified Budget - Disbursements during the year ended June 30, 2022 exceeded the amount budgeted in the public works function prior to amendment. 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 disbursement were allowed to exceed the budget.

- (H) General Ledger Postings - A general journal entry was not posted correctly for a transfer.

Recommendation - General journal entries should be reviewed to ensure correct postings to the general ledger.