



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

Rob Sand  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE

September 9, 2021

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Contact: Ernest Ruben  
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, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported nine findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 9 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, transfers not approved by resolution, lack of supervisory review of timesheets and business transactions that may represent a conflict of interest. Sand provided the City with recommendations to address each of the findings.

Six of the nine findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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/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, 2019 THROUGH JUNE 30, 2020**

**City of Shellsburg**



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August 25, 2021

Officials of the City of Shellsburg  
Shellsburg, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Shellsburg, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and 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.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Shellsburg throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand  
Auditor of State

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**City of Shellsburg**

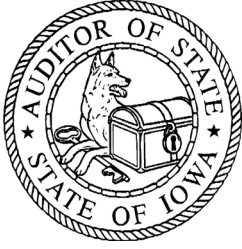
**Officials**

**(Before January 2020)**

<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
Barbara Tracey	City Clerk/Treasurer	Indefinite
Anne Kruse	Attorney	Indefinite
Kara Bullerman	Attorney	Indefinite

**(After January 2020)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lonnie Speckner	Mayor	Jan 2022
Lindsey Chapman	Council Member	Jan 2022
Alisha Knight	Council Member	Jan 2022
Shadoe Vogt	Council Member	Jan 2022
Brian Reeves	Council Member	Jan 2024
Nancy Thorkildson	Council Member	Jan 2024
Steve Leidinger	Attorney	Indefinite



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Rob Sand  
Auditor of State

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 procedures to selected accounting records and related information of the City of Shellsburg for the period July 1, 2019 through June 30, 2020, 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 observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We 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. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We 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. We 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. We observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We 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. We 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. We 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. We 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. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
14. We 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. We traced transfers between funds to proper authorization and accurate accounting and determined whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and 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 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.

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.



Ernest H. Ruben, Jr., CPA

Director

August 25, 2021



**Detailed Findings and Recommendations**

City of Shellsburg

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

(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 systems – 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.

City of Shellsburg

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (C) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. At June 30, 2020, the bank balance exceeded the book balance by \$2,500.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (D) 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.

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

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Name, Title, and Business Connection	Transaction Description	Amount
Lonnie Speckner, Mayor, owner of Speckner insurance	City insurance	\$ 17,307

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In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions exceed \$6,000 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.

- (F) Annual Financial Report – The ending balance in the fiscal year 2020 Annual Financial Report (AFR) did not agree with the City’s financial records.

Recommendation – The City should ensure the AFR ending balance agrees with the City’s financial records.

- (G) Payroll – Although timesheets are prepared by employees, three of ten timesheets traced were not reviewed and approved by a supervisor.

Recommendation – Timesheets should be reviewed and approved by appropriate supervisory personnel prior to the preparation of payroll.

- (H) Transfers – Rule 545-2.5 of the Iowa Administrative Code requires transfers between funds be passed by resolution and include a clear statement of the reason or purpose for the transfer, the name of the affected funds and the dollar amount to be transferred. We noted two transfers that were not approved by resolution, as required.

Recommendation – The City should comply with Rule 545-2.5 of the Iowa Administrative Code.

City of Shellsburg

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (I) Disbursements – Disbursements should be properly supported by invoice or other supporting documentation. We noted one disbursement that was not supported by invoice or other supporting documentation.

Recommendation – The City should maintain an invoice or other appropriate supporting documentation for all disbursements.

City of Shellsburg

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director  
Lesley R. Geary, CPA, Manager  
Taran E. McCusker, Staff Auditor  
Adam J. Sverak, Staff Auditor  
Edward G. Mollohan, Assistant Auditor