



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

Contact: Pam Bormann
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FOR RELEASE

May 16, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Shellsburg, Iowa, for the period July 1, 2022 through June 30, 2023. 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 9 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, disbursements exceeding budgeted amounts and business transactions that may represent conflicts 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 website at [Audit Reports – Auditor of State](#).

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CITY OF SHELLSBURG
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2022 THROUGH JUNE 30, 2023

City of Shellsburg



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March 1, 2024

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, 2022 through June 30, 2023. 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".

Rob Sand
Auditor of State

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City of Shellsburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lonnie Speckner	Mayor	Jan 2024
Brian Reeves	Council Member	Jan 2024
Nancy Thorkildson	Council Member	Jan 2024
Sharon Harvey	Council Member	Jan 2026
Lori Travis	Council Member	Jan 2026
Shadoe Vogt	Council Member	Jan 2026
Barbara Tracey	City Clerk/Treasurer	Indefinite
Steve Leidinger	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 procedures to selected accounting records and related information of the City of Shellsburg for the period July 1, 2022 through June 30, 2023, 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 City of Shellsburg'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 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, journal entries 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 2023 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 for 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 to determine 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, no exceptions were noted during the performance of the specific procedures listed above.

We were engaged by the City of Shellsburg's management to perform this agreed-upon procedures engagement and conducted our 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. We were 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, 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.

We are required to be independent of the City of Shellsburg and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our 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.

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.

A handwritten signature in black ink that reads "Pam Bormann". The signature is written in a cursive style with a large, looped initial "P".

Pam Bormann, CPA
Director

March 1, 2024

Detailed Findings and Recommendations

City of Shellsburg

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

(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, 2022 through June 30, 2023

- (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, 2023, the bank balance exceeded the book balance by \$703.

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:

Name, Title, and Business Connection	Transaction Description	Amount
Lonnie Speckner, Mayor, owner of Speckner Insurance	City insurance premiums	\$ 31,407

Speckner Insurance was an independent insurance agency owned by Shellsburg Mayor Lonnie Speckner which also provided insurance to the City. In previous years, the City was apprised of the conflict of interest inherent in this arrangement and the need to competitively bid the contract. In the previous fiscal year, the City took measures to competitively bid the insurance contract. Subsequently, Speckner Insurance was acquired by Atkins Savings Bank Insurance in January 2023 and both agencies were rebranded as Compass Insurance Agency LLC. The invoice for City insurance purchased from EMC Insurance in April 2023 lists Compass Insurance Agency LLC as the insurance agent. According to the Compass Insurance Agency LLC website, Lonnie Speckner’s spouse is listed as a team member for insurance sales. The insurance contract relating to the year ended June 30, 2023 was not competitively bid. Mayor Speckner’s continued interest in the insurance agency receiving City business appears to be a conflict of interest issue once again. Because total transactions were more than \$6,000 during the fiscal year and the transactions were not competitively bid, the insurance contract may be void pursuant to Iowa Code Chapter 362.5(3)(j).

Recommendation – The City should consult legal counsel to determine the disposition of this matter. The City is required to provide an open competitive bidding process for its insurance and other such contracts when any City officer or employee has any interest, direct or indirect, in any such contract award. The Auditor's Office is referring this matter to law enforcement for potential further investigation.

- (F) Certified Budget – Disbursements exceeded the amounts budgeted in the general government and debt service functions prior to the June 20, 2023 budget 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 disbursements were allowed to exceed the budget.

City of Shellsburg

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (G) 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.” The City made one transfer which was not approved by resolution.

Recommendation – The City Council should ensure all transfers are approved by resolution prior to the actual transfer, as required by Section 545-2 of the City Finance Committee Rules.

- (H) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City and all expenditures...” The City’s fiscal year 2023 AFR reported certain receipts and disbursements which did not agree with City records.

Recommendation – The City should establish procedures to ensure the AFR reconciles to the general ledger and other City records. An independent person should review the AFR for accuracy and document their review by signing or initialing and dating the review.

- (I) Change Fund – The City has established a change fund with an authorized amount of \$140. When the change fund was counted, there was a difference of \$38 between cash and undeposited receipts to the established amount.

Recommendation – The City should establish procedures to ensure the change fund is reconciled regularly and maintained on an imprest basis. An independent person should perform surprise cash counts to ensure the amount authorized is properly maintained and the surprise count should be documented by the date of the surprise count and the signature or initials of the reviewer.

City of Shellsburg

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Lesley R. Geary, CPA, Manager
Tammy A. Hollingsworth, CIA, Manager
Charles P. Duff, Staff Auditor
Patrick A. Stewart, Staff Auditor