



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

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NEWS RELEASE

FOR RELEASE

August 24, 2017

Contact: Marlys Gaston
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Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Palmer, Iowa for the period January 1, 2016 through December 31, 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 and establish procedures to ensure reconciliations of utility billings, collections and delinquent accounts are completed monthly and are independently reviewed.

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/1622-0707-EPOP>.

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CITY OF PALMER

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JANUARY 1, 2016 THROUGH DECEMBER 31, 2016**

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City of Palmer

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Dennis Hallberg	Mayor	Jan 2014	Jan 2018
Marvin Alig	Council Member	Jan 2014	Jan 2018
John Ball	Council Member	Jan 2014	Jan 2018
Melinda Habben	Council Member	Jan 2014	Jan 2018
Matt Condon	Council Member	Jan 2016	Jan 2020
Jackie Conklin	Council Member	Jan 2016	Jan 2020
Julie Rosenboom	City Clerk/Treasurer		Indefinite
Josh Walsh	Attorney		Indefinite

City of Palmer



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Independent Accountant's Report on Applying Agreed-Up 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 Palmer for the period January 1, 2016 through December 31, 2016. The City of Palmer'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 receipts for accurate accounting and consistency with the recommended COA.
11. 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.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. 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 Palmer, 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 Palmer and other parties to whom the City of Palmer 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 Palmer 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

April 13, 2017

Detailed Recommendations

City of Palmer

Detailed Recommendations

January 1, 2016 through December 31, 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 assets.
- (2) Cash – handling, reconciling and recording.
- (3) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (4) Long-term debt – recordkeeping, compliance and debt payment processing.
- (5) Receipts – opening mail, collecting, depositing, recording, posting and reconciling.
- (6) Utility receipts – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – recordkeeping, preparing, signing and distributing.
- (9) Computer system – performing all general accounting functions and controlling all data input and output.
- (10) Financial reporting – preparing and reconciling.

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) Bank Reconciliations – The cash and investment balances in the general ledger were reconciled to bank and investment account balances throughout the year. However, an independent review of the bank reconciliations was not performed. In addition, petty cash amounts were not included in the bank reconciliation.

Recommendation – An independent person should review the reconciliations and document their review by signing or initialing and dating the monthly reconciliations. In addition, reconciliations should include all cash accounts.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared monthly.

City of Palmer

Detailed Recommendations

January 1, 2016 through December 31, 2016

Recommendation – A listing of delinquent accounts should be prepared and retained monthly. 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 of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review.

- (D) Deposits and Investments – An investment register was not maintained for each investment. In addition, the City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa or a resolution naming official depositories as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – An investment register which includes the cost, description, date purchased, interest rate, maturity date and identifying number for each investment should be maintained. In addition, the City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (E) Annual Financial Report – Fund balances on the fiscal year 2016 Annual Financial Report (AFR) did not agree with the City’s financial records. In addition, revenue bonds were not reported as a debt obligation on the AFR.

Recommendation – The City should implement procedures to ensure amounts reported on the AFR are supported by the City’s records. In addition, the AFR should report all debt obligations.

- (F) Certified Budget – Disbursements at June 30, 2016 exceeded the amount budgeted in the culture and recreation function. Also, disbursements exceeded the amount budgeted in the business type activities function prior to the 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.” In addition, the City did not include all debt obligations on Form 703, “Long Term Debt Schedule,” of the adopted budget.

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. In addition, the budget should report all debt obligations.

- (G) City Council Meeting Minutes – The following conditions related to City Council meeting minutes were noted:

- (1) Chapter 21.3 of the Code of Iowa requires the minutes show information sufficient to indicate the vote of each member present. In addition, Chapter 380.4 of the Code of Iowa requires the passage of ordinances, amendments or resolutions be by a majority vote of the City Council members, not by a majority vote of the quorum of the City Council. The City Council meeting minutes do not indicate the vote of each member present. Therefore, we were unable to determine if the actions on ordinances, amendments or resolutions were passed by a majority vote of the City Council members when one or more members were absent.

City of Palmer

Detailed Recommendations

January 1, 2016 through December 31, 2016

- (2) Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for five meetings tested were not published within fifteen days of the meeting.

Recommendation – The City should comply with the Code of Iowa and document information sufficient to indicate the vote of each member present and to indicate the passage of ordinances, amendments and resolutions are by a majority vote of the members. In addition, the City should ensure all minutes are published timely.

- (H) Receipts – A listing of checks received in the mail was not prepared and reviewed by an independent person. In addition, prenumbered receipts were not issued for all collections.

Recommendation – A listing of checks received in the mail should be prepared by a person other than accounting personnel. This listing should be compared to the receipt records by an independent person. Prenumbered receipts should be issued for all collections. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of the review should be documented.

- (I) Disbursements – One of thirty disbursements tested was not properly supported.

Recommendation – All disbursements should be supported by an invoice or other supporting documentation.

- (J) Payroll – The following were noted regarding payroll:

- (1) For three of five payroll transactions tested, timesheets were not prepared to support hours worked.
- (2) Salary increases are approved as percentage increases and the actual salaries or wages were not documented in the City Council meeting minutes.
- (3) The City has not filed an Internal Revenue Service (IRS) Form 1099 for contract labor in excess of \$600 each calendar year, as required.

Recommendation – Timesheets should be prepared by all employees and should be signed by the employee and reviewed, approved and signed by the employee's immediate supervisor prior to submission. Actual approved wages and hourly rates should be documented in the City Council meeting minutes. The City should establish procedures to ensure all required IRS Form 1099s are properly completed and filed.

- (K) Transfers – The City periodically transfers money to and from various funds. However, these transfers were not always approved by the City Council prior to the actual transfer.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and the transfer amounts as part of the minutes record.

- (L) Uniform Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) recommended by the City Finance Committee. As a result, the City recorded utility excise tax receipts and commercial/industrial replacement tax as property taxes rather than other city tax and intergovernmental receipts, respectively.

City of Palmer

Detailed Recommendations

January 1, 2016 through December 31, 2016

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (M) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and the back of each cancelled check. The City does not receive images of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks, as required.

- (N) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

- Requiring a time out/log off function or screen saver passwords to protect computer terminals when not in use.
- Requiring the use of passwords and requiring passwords be changed every 60 to 90 days.
- Password privacy and confidentiality.
- Requiring the use of anti-virus programs on its computers.
- Ensuring only software licensed to the City is installed on its computers.
- Usage of the internet.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City’s control over its computer system. Also, a written disaster recovery plan should be developed, approved and tested periodically.

- (O) Accounting Procedures Manual – The City does not have a current accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

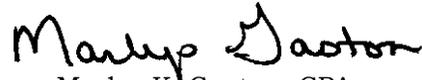
- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

City of Palmer

Staff

This engagement was performed by:

Jennifer L. Wall, CPA, Manager
Jamie T. Reuter, Senior Auditor II
Adjoa S. Adanledji, Assistant Auditor


Marlys K. Gaston, CPA
Director