



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

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

February 19, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Palmer's Periodic Examination Report dated April 13, 2017. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2018 through February 28, 2019.

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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight. While the City corrected three of the fifteen findings reported in the Periodic Examination Report dated April 13, 2017 and partially corrected six of the findings, six of the findings are reported as "not corrected". Two additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Palmer's Report on the Status of Periodic Examination Findings and Recommendations is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

#

CITY OF PALMER

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
JUNE 1, 2018 THROUGH FEBRUARY 28, 2019**

City of Palmer



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

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

December 18, 2019

Officials of the City of Palmer
Palmer, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the follow-up report on the Status of Periodic Examination Findings and Recommendations for the City of Palmer, Iowa, for the period June 1, 2018 through February 28, 2019.

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

Sincerely,



Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on the Status of Periodic Examination Findings and Recommendations	5
Status of Findings and Recommendations Previously Reported in the City's Periodic Examination Report:	<u>Finding</u>
Segregation of Duties	A 7
Bank Reconciliations	B 7
Reconciliation of Utility Billings, Collections and Delinquent Accounts	C 8
Deposits and Investments	D 8
Annual Financial Report	E 8
Certified Budget	F 9
City Council Meeting Minutes	G 9
Receipts	H 10
Disbursements	I 10
Payroll	J 10
Transfers	K 10
Uniform Chart of Accounts	L 11
Electronic Check Retention	M 11
Computer System	N 11
Accounting Procedures Manual	O 12
Additional Findings Identified During Follow-up Procedures:	
Utility Reconciliation Verification	P 12
Financial Condition	Q 12
Staff	13

City of Palmer

Officials

<u>Name</u>	<u>Title</u>	Term <u>Began</u>	Term <u>Expires</u>
Robert Rosenboom	Mayor	Jan 2018	Jan 2022
Matt Condon	Council Member	Jan 2016	Resigned Aug 2018
Ron Gutz (Appointed Oct 2018)	Council Member	Oct 2018	Nov 2019
Jackie Conklin	Council Member	Jan 2016	Jan 2020
Marvin Alig	Council Member	Jan 2018	Jan 2022
John Ball	Council Member	Jan 2018	Jan 2022
Melinda Habben	Council Member	Jan 2018	Jan 2022
Julie Rosenboom	City Clerk/Treasurer		Indefinite
Josh Walsh	Attorney		Indefinite

City of Palmer



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Auditor of State's Independent Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated April 13, 2017 on the City of Palmer, Iowa covering the period January 1, 2016 through December 31, 2016 pursuant to Chapter 11.6 of the Code of Iowa. The report included findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated April 13, 2017 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for issues identified during our follow-up procedures. This report covers the period June 1, 2018 through February 28, 2019.

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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated April 13, 2017. 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 Palmer during the course of our follow-up procedures engagement. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Marlys Gaston

Marlys K. Gaston, CPA
Deputy Auditor of State

December 18, 2019

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Palmer

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

Findings Reported in the Periodic Examination Report dated April 13, 2017:

- (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.

Current Status – Not corrected. The recommendation is repeated.

- (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.

Current Status – Partially corrected. All monthly bank reconciliations for the period reviewed contained evidence of review by an independent person. However, petty cash amounts were not included in the bank reconciliation. The recommendation is partially repeated.

City of Palmer

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

- (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.

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.

Current Status – Partially corrected. During the period reviewed, a system generated utility reconciliation and a delinquent accounts listing was prepared. However, see finding (P) below. Also, there was no evidence of independent review of the utility reconciliations. The recommendation is partially repeated.

- (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.

Current Status – Partially corrected. The City adopted a depository resolution on July 10, 2017. The City also developed a draft investment policy, however the City Council had not approved the draft investment policy as of February 28, 2019. While investments and investment balances were listed on the monthly City Clerk's report provided to the City Council, the report did not list the purchase date, interest rate and maturity date. The recommendation is partially repeated.

- (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.

Current Status – Not corrected. The fiscal year 2018 AFR ending fund balance for the General Fund was \$301 higher than the City's financial records. In addition, revenue bonds were not reported as a debt obligation on the AFR. The recommendation is repeated.

City of Palmer

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

- (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.

Current Status – Partially corrected. Disbursements during the year ended June 30, 2018 did not exceed the amounts budgeted. However, the City did not report all debt obligations on Form 703, “Long Term Debt Schedule,” of the adopted budget. The recommendation is partially repeated.

- (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.
- (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.

Current Status – Corrected. In accordance with Chapter 372.13(6) of the Code of Iowa, cities with a population of less than 200 people are allowed to post minutes in three public places designated by ordinance instead of publishing minutes. On June 14, 2017, the City passed an ordinance designating three locations to post minutes. During the period reviewed, the City posted minutes within fifteen days of the meeting and minutes showed information sufficient to indicate the vote of each member present.

City of Palmer

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

- (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.

Current Status – Not corrected. During the period reviewed, a listing of checks received in the mail was not prepared and reviewed by an independent person. In addition, prenumbered receipts were not used. The recommendation is repeated.

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

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

Current Status – Corrected. During the period reviewed, disbursements tested were properly supported.

- (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.

Current Status – Partially corrected. During the period reviewed, salary increases were approved as actual salaries in the City Council meeting minutes. In addition, an IRS Form 1099 was filed for contract labor in excess of \$600 each calendar year. For the payroll transactions observed, timesheets were not prepared to support hours worked. The recommendation is partially repeated.

- (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.

Current Status – Not corrected. During the period reviewed, transfers were not approved by the City Council prior to the actual transfer. The recommendation is repeated.

City of Palmer

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

- (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.

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

Current Status – Partially corrected. During the period reviewed, utility excise tax receipts were properly recorded as other city taxes. However, commercial/industrial replacement receipts were incorrectly recorded as property taxes rather than intergovernmental receipts. The recommendation is partially repeated.

- (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.

Current Status – Corrected. During the period reviewed, bank statements included images of both the front and back of cancelled checks as required by Chapter 554D.114.

- (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.

Current Status – Not corrected. The City has not developed written policies and procedures addressing the above items. The recommendation is repeated.

City of Palmer

Report on the Status of Periodic Examination Findings and Recommendations

For the Period June 1, 2018 through February 28, 2019

- (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.

Current Status – Not corrected. The City has not developed an accounting policies and procedures manual. The recommendation is repeated.

Additional Findings as a Result of Follow-up Procedures:

- (P) Utility Reconciliation Verification – Although the City's software prepares monthly reconciliations of utility billings, collections and delinquent accounts, the City does not support or verify the billings, collections and other reconciling items and the reconciliations are not independently reviewed.

Recommendation – The City should establish procedures to ensure the system generated reconciliations of billings, collections, delinquent accounts and other reconciling items are properly supported and are accurate. The City Council or an 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.

- (Q) Financial Condition – At February 28, 2019, the City had a deficit balance of \$63,975 in the Enterprise, Sewer Fund.

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

City of Palmer

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Jennifer L. Wall, CPA, Manager
Anthony J.T. Mallie, CPA, Staff Auditor