



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

State Capitol Building  
Des Moines, Iowa 50319-0004

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

March 24, 2017

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Palo, Iowa for the period July 1, 2015 through June 30, 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 determine and document the public purpose served by certain disbursements. In addition, the City should comply with Chapter 384.20 of the Code of Iowa and include financial activity and balances for all City accounts in the City's accounting records.

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/1621-0549-BLOF>.

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**CITY OF PALO**

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

**FOR THE PERIOD  
JULY 1, 2015 THROUGH JUNE 30, 2016**

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**City of Palo**

**Officials**

**Before January 2016**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Thomas Yock	Mayor	Jan 2018
Thomas Sanders	Mayor Pro-Tem	Jan 2018
Brian Beaty	Council Member	Jan 2016
Ryan Scheckel	Council Member	Nov 2015
Doug Hanover	Council Member	Jan 2018
Delmar Jellison	Council Member	Jan 2018
Trisca Dix	City Clerk	Indefinite
Jenny Jellison	Deputy City Clerk	Resigned Sept 2015
Erek Sittig	Attorney	Indefinite

**(After January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Thomas Yock	Mayor	Jan 2018
Thomas Sanders	Mayor Pro-Tem	Jan 2018
Doug Hanover	Council Member	Jan 2018
Delmar Jellison	Council Member	Jan 2018
Brian Beaty	Council Member	Jan 2020
Ryan Scheckel	Council Member	Jan 2020
Trisca Dix	City Clerk	Indefinite
Erek Sittig	Attorney	Indefinite

**City of Palo**



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Independent Accountant's Report on Applying Agreed-Upon 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 Palo for the period July 1, 2015 through June 30, 2016. The City of Palo'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 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 reviewed 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 reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. 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.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. 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 Palo, 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 Palo and other parties to whom the City of Palo 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 Palo 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

February 2, 2017



## **Detailed Recommendations**

City of Palo

Detailed Recommendations

For the period July 1, 2015 through June 30, 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) Cash – handling, reconciling and recording.
- (2) Investments – investing, recordkeeping, custody and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (4) Utilities – billing, collecting, depositing and posting.
- (5) Long-term debt – recordkeeping, compliance and debt payment processing.
- (6) Journal entries – preparing and journaling.
- (7) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (8) Payroll – recordkeeping, preparing and distributing.

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 – Although the City maintains a monthly reconciliation of utility billings, collections and delinquent accounts produced by the utility system, the individual components are not reconciled to the City's general ledger, billing register, bank account and delinquent account listings.

Recommendation – The City should reconcile the individual components of the system run monthly reconciliation to the City's general ledger, billing register, bank account and delinquent account listings. The City Council or other independent person designated by the City Council should review the utility reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

(C) City Council Meeting Minutes – Wage increases were approved based upon a percentage increase and the actual approved wages and hourly rates were not documented in the City Council meeting minutes.

Recommendation – Actual approved wages and hourly rates should be documented in the City Council meeting minutes.

(D) Separately Maintained Records – The City of Palo Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

City of Palo

Detailed Recommendations

For the period July 1, 2015 through June 30, 2016

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

- (E) Questionable Disbursements – Disbursements from the City of Palo Fire Department bank account do not include evidence of prior authorization by an appropriate official. In addition, certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979, since the public benefits to be derived have not been clearly documented were noted. These disbursements from the bank account maintained by the Palo Fire Department are detailed as follows:

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Paid to	Purpose	Amount
Woodworking Etc.	Plaques	\$ 550
Shirley Harrison	Fruit baskets and stamps	31
Terry Galvin	Wood and paint for picture frames	43
Trent Miller	Plates for fruit baskets	8
James Seely	Linn County Fire Fighter’s Association food	367
Shirley Harrison	Christmas party room rental	50

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation and prior authorization of disbursements by an appropriate official.

- (F) Financial Condition – At June 30, 2016, the City had a deficit balance in the Capital Projects Fund of \$236,906. The deficit is due to an inter-fund loan for urban renewal projects. The loan is expected to be repaid with future tax increment financing receipts.

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

City of Palo

Staff

This engagement was performed by:

Deborah J. Moser, CPA, Manager  
Eileen D. Loomis, Staff Auditor  
Zachary J. Koziolk, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director