



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

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

December 17, 2018

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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, 2017 through June 30, 2018. 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. In addition, the City should comply with Chapters 384.20 and 384.18 of the Code of Iowa and include financial activity and balances for all City accounts in the City's accounting records and amend their budget before disbursements are allowed to exceed the budget.

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/audit-reports/>.

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**CITY OF PALO**

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

**FOR THE PERIOD  
JULY 1, 2017 THROUGH JUNE 30, 2018**

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**City of Palo**

**Officials**

**(Before January 2018)**

<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

**(After January 2018)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ryan Scheckel	Mayor	Jan 2022
Brian Beaty	Council Member	(Resigned Jan 2018)
Travis Rieck (Appointed)	Council Member	Nov 2019
Jake Sutherland (Appointed)	Council Member	Nov 2019
Pete Hagstrom	Council Member	Jan 2022
Angie Brekke	Council Member	Jan 2022
Doug Hanover	Council Member	Jan 2022
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, 2017 through June 30, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Palo'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 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 2017 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. 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.


8. 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.
9. 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.
10. 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.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. 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.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. 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.

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 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 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

November 15, 2018



## **Detailed Recommendations**

City of Palo

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

(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) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Utilities – billing, collecting, depositing and posting.
- (4) Long-term debt – recordkeeping, compliance and debt payment processing.
- (5) Journal entries – preparing, recording and approving.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (7) 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, there is no evidence the reconciliations were reviewed by an independent reviewer.

Recommendation – Procedures should be established to ensure an independent individual or a Council member documents a review of the reconciliation.

(C) City Council Meeting Minutes – Although minutes of City Council proceedings were published, the City did not publish a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Also, 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 – The City should publish minutes with a summary of receipts, as required. Also, actual approved wages and hourly rates should be documented in the City Council meeting minutes.

(D) Separately Maintained Records – 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.”

The City of Palo Fire Department maintains bank accounts for activity separate from the City Clerk’s accounting records. While the Department is part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

City of Palo

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

In addition, disbursements from the accounts were not reviewed and approved by the City Council and a summary of each account's receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire Department separate account should be integrated with the City's accounting records in the City Clerk's office. The financial activity should be included in the City Clerk's accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City's budget process. Also, a summary of each account's receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (E) Financial Condition – At June 30, 2018, the City had deficit balances in the Capital Projects, Debt Service and Special Revenue, FEMA Funds of \$431,048, \$1,293 and \$204,028, respectively.

Recommendation – The City Council should continue to investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

- (F) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the debt service function. In addition, disbursements exceeded the amounts budgeted prior to the budget amendment in the health and social services, debt service and capital projects functions. 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.

- (G) Annual Urban Renewal Report – The Annual Urban Renewal Report (AURR) was approved and certified to the Iowa Department of Management on or before December 1. However, the TIF debt outstanding reported in the Levy Authority Summary was overstated by \$2,041,086.

Recommendation – The City should ensure the amounts reported in the Levy Authority Summary agree with and are supported by the City's records.

- (H) Senior Discount – Section 388.6 of the Code of Iowa states, "A city utility or a combined utility system may not provide use or service at a discriminatory rate, except to the city or its agencies, as provided in section 384.91." Senior citizen discounts on utility bills were provided by the City Council.

Recommendation – The City should not provide discounted utility rates to any customers, including senior citizens, in accordance with Chapter 388.6 of the Code of Iowa.

City of Palo

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (I) Fire Association Payment – In January 2018, the City approved a payment of \$1,300 to the Palo Iowa Firefighters Association, a Chapter 504 non-profit corporation.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a non-profit corporation. Article III, Section 31 of the Constitution of the State of Iowa states, "... no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the general assembly."

In addition, we previously requested a letter of advice from the Iowa Attorney General regarding the propriety of a gift to a private non-profit organization. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2008. The advice letter states, in part:

"Past opinions of this office have consistently concluded that a governmental body may not donate public funds to a private entity, even if the entity is established for charitable or educational purposes and performs work which the government could perform directly...I do not believe that a City library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be 'public funds,' subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking."

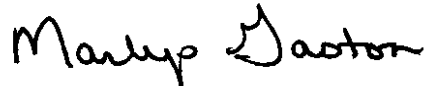
Recommendation – A 28E agreement, as described in the advice letter, does not exist. We are not aware of any statutory authority for the City to provide public funds to a separate non-profit corporation. The City should recover the remaining funds provided to the Association.

City of Palo

Staff

This engagement was performed by:

Deborah J. Moser, CPA, Manager  
Jesse J. Harthan, Senior Auditor II  
Mark W. Hart, Assistant Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA  
Director