

**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

**NEWS RELEASE**

Contact: Brian Brustkern  
515/281-5834

FOR RELEASE

March 16, 2023

---

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Palo, Iowa, for the period July 1, 2021 through June 30, 2022. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported seven 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, Fire Department records kept separate from the City Clerk's accounting records, deficit fund balances and lack of journal entry approvals. Sand provided the City with recommendations to address each of the findings.

Six of the seven 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 web site at [Audit Reports – Auditor of State](#).

###

**CITY OF PALO**  
**AUDITOR OF STATE'S INDEPENDENT REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2021 THROUGH JUNE 30, 2022**

**City of Palo**



**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

February 22, 2023

Officials of the City of Palo  
Palo, 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 Palo, Iowa, for the period July 1, 2021 through June 30, 2022. 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 Palo 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, appearing to read "Rob Sand", written in a cursive style.

Rob Sand  
Auditor of State

## Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on Applying Agreed-Upon Procedures	5-7
Detailed Findings and Recommendations:	<u>Finding</u>
Segregation of Duties	A 9
Separately Maintained Records	B 9-10
Financial Condition	C 10
Journal Entry Approval	D 10
Annual Urban Renewal Report	E 10
Computer System	F 10
Palo Volunteer Fire Department Bank Reconciliations	G 11
Staff	12

**City of Palo**

**Officials**

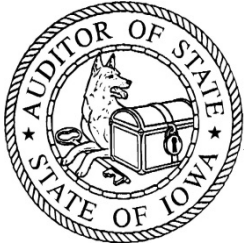
**(Before January 2022)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Eric Van Kerckhove	Mayor	Jan 2022
Angie Brekke	Council Member	Jan 2022
Pete Hagstrom	Council Member	Jan 2022
Doug Hanover	Council Member	Jan 2022
Andrea Rahe	Council Member	Jan 2024
Travis Rieck	Council Member	(Deceased Jan 2022)
Lenna Goodale	City Clerk	Indefinite
Erek Sittig	Attorney	Indefinite

**(After January 2022)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Eric Van Kerckhove	Mayor	Jan 2026
Andrea Rahe	Council Member	Jan 2024
Jen Welton (Elected Mar 2022)	Council Member	Jan 2024
Angie Brekke	Council Member	Jan 2026
Pete Hagstrom	Council Member	Jan 2026
Mallory Schulte	Council Member	Jan 2026
Lenna Goodale	City Clerk	Indefinite
Dan Morgan	Attorney	Indefinite

**City of Palo**



**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 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 Palo for the period July 1, 2021 through June 30, 2022, 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 City of Palo'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 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 2021 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. The City had no investments.
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. The City had no voter approved levies.
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 Palo'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 Palo 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 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.



Brian R. Brustkern, CPA  
Director

February 22, 2023

## **Detailed Findings and Recommendations**

City of Palo

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

(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) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Long-term debt – maintaining long-term debt records and handling and recording.
- (5) Payroll – recordkeeping, preparing and distributing.
- (6) Utilities – billing, collecting, depositing and posting.
- (7) Journal entries – preparing and recording.

For the Palo Volunteer Fire Department, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – collecting, depositing, reconciling and recording.
- (3) Disbursements – preparing, recording and signing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Palo Volunteer Fire Department should review their 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) 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, by any city officer, employee or other person, and which show the receipt, use, and disposition of all city property.”

The Palo Volunteer Fire Department maintains a bank account 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.

In addition, the transactions and resulting balances of this account were not reported to the City Council and disbursements from the account were not reviewed and approved by the City Council. Also, a summary of the 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.

City of Palo

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

Recommendation – In order to comply with these code sections, as well as for better accountability, financial and budgetary control, the financial activity and balances of the Palo Volunteer Fire Department 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 this account should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of the account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (C) Financial Condition – At June 30, 2022, the City had a deficit balance in the Debt Service Fund of \$79,364.

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

- (D) Journal Entry Approval – Journal entries are not approved by an independent person.

Recommendation – Journal entries should be reviewed and approved by an independent person and evidence of the approval should be documented by the signature or initials of the approver and the date of the approval.

- (E) Annual Urban Renewal Report – The City overstated the amount reported as TIF debt outstanding on the fiscal year 2021 Annual Urban Renewal Report (AURR) Levy Authority Summary by \$237,697.

Recommendation – The City should ensure the amounts reported as TIF debt outstanding on the AURR Levy Authority Summary agree with the City’s records.

- (F) Computer System – The City has a written disaster recovery plan; however, it does not include:

- (1) Identification of critical applications.
- (2) Identification of staff responsibilities.
- (3) Identification of steps for recovery of the system.
- (4) Identification of computer equipment needed for temporary processing.
- (5) Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
- (6) Requirement a copy of the disaster recovery plan be kept off site.
- (7) An inventory of all hardware and components.
- (8) An inventory of software applications.
- (9) A requirement extra stocks of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.

Recommendation – In order to improve the City’s control over its computer systems, the City should review and modify the current disaster recovery plan to address the above items.

City of Palo

Detailed Findings and Recommendations

For the period July 1, 2021 through June 30, 2022

- (G) Palo Volunteer Fire Department Bank Reconciliations – Monthly bank statements are reconciled to the Department’s monthly financial report. However, the monthly bank reconciliations are not reviewed and approved by an independent person.

Recommendation – An independent person should review the reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

City of Palo

Staff

This engagement was performed by:

Brian R. Brustkern, CPA, Director  
Pamela J. Bormann, CPA, Manager  
Laurel P. Hoogensen, Staff Auditor