



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

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ May 5, 2015 \_\_\_\_\_

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Patterson, Iowa for the period December 1, 2013 through November 30, 2014. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its internal controls to obtain the maximum internal control possible. In addition, the City should ensure records are maintained to facilitate governmental accounting and accurate financial reporting and amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements exceed the amounts budgeted.

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 <http://auditor.iowa.gov/reports/1422-0580-EP0P.pdf>.

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**CITY OF PATTERSON**

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

**FOR THE PERIOD**  
**DECEMBER 1, 2013 THROUGH NOVEMBER 30, 2014**

## Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
City Financial Management Information	B 8-9
Disbursements	C 9
Deposits and Investments	D 9
Certified Budget	E 9
Business Transactions	F 9-10
Annual Financial Report	G 10
Prenumbered Receipts	H 10
Bank Reconciliations	I 10
Annual Urban Renewal Report	J 10
Electronic Check Retention	K 10
Timely Deposits	L 11
Questionable Disbursement	M 11
Staff	12

**City of Patterson**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2014)</b>		
Rollie Robbins	Mayor	Jan 2016
Kevin Faux	Mayor Pro Tem	Jan 2014
Marlene Hathaway	Council Member	(Resigned Mar 2013)
Scott Lemon (Appointed Apr 2013)	Council Member	Nov 2013
Dawn Robbins	Council Member	Jan 2014
Wade Adams (Elected Nov 2013)	Council Member	Jan 2016
Liz Hetzel	Council Member	Jan 2016
Connie Shaut	Council Member	Jan 2016
Doris Loy	City Clerk/Treasurer	Indefinite
John Casper	Attorney	Indefinite
<b>(After January 2014)</b>		
Rollie Robbins	Mayor	Jan 2016
Kevin Faux	Mayor Pro Tem	Jan 2018
Wade Adams	Council Member	(Resigned Jul 2014)
Liz Hetzel	Council Member	(Resigned Dec 2014)
Chad Wood (Appointed Dec 2014)	Council Member	Nov 2015
Ed Songer (Appointed Dec 2014)	Council Member	Nov 2015
Connie Shaut	Council Member	Jan 2016
Dawn Robbins	Council Member	Jan 2018
Doris Loy	City Clerk/Treasurer	Indefinite
John Casper	Attorney	Indefinite

**City of Patterson**



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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 Patterson for the period December 1, 2013 through November 30, 2014. The City of Patterson'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 2014 Annual Financial Report (AFR) 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.

We were not engaged to and did not conduct an audit of the City of Patterson, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Patterson, 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 Patterson and other parties to whom the City of Patterson 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 Patterson 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

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 15, 2015



## **Detailed Recommendations**

City of Patterson

Detailed Recommendations

For the period December 1, 2013 through November 30, 2014

- (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) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
  - (2) Investing – recordkeeping, custody of investments and reconciling earnings.
  - (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
  - (4) Payroll – recordkeeping, preparing and distributing.
  - (5) Debt – recordkeeping, compliance and debt payment processing.
  - (6) Accounting system – performing all general accounting functions and having custody of assets.
  - (7) Computer system – performing all general accounting functions and controlling all data input and output.

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) City Financial Management Information – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including property tax levied for specific purposes, road use tax and bond, note and loan proceeds.

The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee. As a result, year-to-date totals of receipts by fund and source and disbursements by fund and function are not maintained to facilitate preparation of and to support the Annual Financial Report (AFR).

Monthly financial reports, including fund balances and comparisons of actual results to budget by function, were not compiled from accounting records and provided to the City Council for review and approval.

City of Patterson

Detailed Recommendations

For the period December 1, 2013 through November 30, 2014

Recommendation – The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting. To provide better financial information and control, the recommended COA, or its equivalent, should be followed. Year-to-date totals of receipts by fund and source and disbursements by fund and function should be maintained to facilitate preparation of and to support the AFR. Monthly financial reports provided to the City Council should include fund balances and comparisons of disbursements by function to budgeted disbursements.

- (C) Disbursements – Certain checks were prepared and signed only by the City Clerk. Invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for six transactions tested could not be located. In addition, the City issued three checks for \$550 to “cash” for candy for holiday celebrations.

Recommendation – The City should establish procedures to ensure each check is prepared and signed by the City Clerk and then the supporting documentation is made available along with the checks to an independent person for review and countersignature. All disbursements should be supported by invoices or other supporting documentation. Writing checks to “cash” should be discontinued.

- (D) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with 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.

- (E) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, culture and recreation, capital projects and business type activities 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.

- (F) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kevin Faux, Mayor Pro Tem, father provides services to City	Snow removal and maintenance service	\$ 5,815

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

City of Patterson

Detailed Recommendations

For the period December 1, 2013 through November 30, 2014

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (G) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...”. Receipts, disbursements and fund balances reported on the AFR did not agree with the City’s financial records. In addition, the beginning fund balances did not agree to the prior year ending balances reported in the June 30, 2013 AFR. Also, the City did not report general obligation debt at June 30, 2014, an understatement of \$128,500.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s financial records, including general obligation debt, and the beginning balances agree with the prior year’s ending balances.

- (H) Prenumbered Receipts – Prenumbered receipts were not issued for all collections and an initial listing of collections was not prepared.

Recommendation – Prenumbered receipts should be issued for all collections and an initial listing of collections should be prepared. The initial listing should be compared to the bank deposit and the accounting records by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

- (I) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year. However, no independent review of the bank reconciliations was performed.

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

- (J) Annual Urban Renewal Report (AURR) – The Annual Urban Renewal Report was not properly approved and certified to the Department of Management on or before December 1 as required by Chapter 403.19 of the Code of Iowa. The amount reported as TIF debt outstanding and the receipts, disbursements and cash balances reported on the Levy Authority Summary did not agree with the City’s records.

Recommendation – The City should file the Annual Urban Renewal Report timely and ensure the amount reported as TIF debt outstanding and receipts, disbursements and cash balances agree with the City’s records.

- (K) 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 back of each cancelled check. The City does not receive an image 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 by Chapter 554D.114 of the Code of Iowa.

City of Patterson

Detailed Recommendations

For the period December 1, 2013 through November 30, 2014

- (L) Timely Deposits – The City collected cash and checks totaling \$1,641 for 4<sup>th</sup> of July parade fees, registrations and donations. The funds were not deposited timely.

Recommendation – The City should establish procedures to ensure receipts are deposited timely.

- (M) Questionable Disbursement – During the year, \$550 was disbursed for candy for holiday celebrations. This disbursement 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.

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 this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

City of Patterson

Detailed Recommendations

For the period December 1, 2013 through November 30, 2014

City of Patterson

Staff

This agreed-upon procedures engagement was performed by:

Tammy A. Hollingsworth, CIA, Manager  
Ryan T. Jelsma, Senior Auditor  
Megan E. Irvin, Staff Auditor



Andrew E. Nielsen, CPA  
Deputy Auditor of State