



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 4, 2017

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Auditor of State Mary Mosiman today released a Report on the Status of Findings and Recommendations from the City of Patterson's Periodic Examination Report dated January 15, 2015. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period June 1, 2016 through April 30, 2017.

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 three of the thirteen findings reported in the Periodic Examination Report dated January 15, 2015 have been corrected and three were partially corrected, seven of the findings are reported as "not corrected". Three additional findings identified during the follow-up procedures are also included in this report.

A copy of the City of Patterson's Report on the Status of Periodic Examination Findings and Recommendations 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/1422-0580-EPFP>.

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CITY OF PATTERSON

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

**FOR THE PERIOD
JUNE 1, 2016 THROUGH APRIL 30, 2017**

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City of Patterson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Rollie Robbins	Mayor	Jan 2016	Jan 2018
Dawn Wood	Council Member	Jan 2014	Jan 2018
Harriett Dunsworth	Council Member	Feb 2017	Jan 2018
Kevin Faux	Council Member	Jan 2016	Jan 2020
Teresa Faux	Council Member	Jul 2016	Jan 2020
Chad Wood	Council Member	Jan 2016	Jan 2020
Doris Loy	City Clerk/Treasurer		Indefinite

City of Patterson



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Independent Accountant's 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 January 15, 2015 on the City of Patterson, Iowa covering the period December 1, 2013 through November 30, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain 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 date January 15, 2015 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures. This report covers the period June 1, 2016 through April 30, 2017.

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 January 15, 2015. 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 Patterson during the course of our follow-up procedures. Should you have 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

October 18, 2017

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

City of Patterson

Detailed Recommendations

For the period June 1, 2016 through April 30, 2017

Findings Reported in the Periodic Examination Report dated January 15, 2015:

- (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.

Current Status – Not corrected. The recommendation is repeated.

- (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 June 1, 2016 through April 30, 2017

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 function 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.

Current Status – Not corrected. The recommendation is repeated.

- (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.

Current Status – Partially corrected. During the period reviewed, no instances of checks written to “cash” were noted. However, supporting documentation was not located for two debit card purchases totaling \$294. In addition, only the City Clerk signs checks. The recommendation is partially repeated. In addition, see finding (O).

- (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.

Current Status – Corrected. The City adopted a written investment policy and resolution naming official depositories on October 20, 2015.

- (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.

Current Status – Not corrected. For the fiscal year ended June 30, 2016, the City exceeded the amounts budgeted in the culture and recreation, capital projects and business type activities functions. The recommendation is repeated.

City of Patterson

Detailed Recommendations

For the period June 1, 2016 through April 30, 2017

- (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.

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

Current Status – Not corrected. For the fiscal year ended June 30, 2016, disbursements to the father of Council Member Kevin Faux and the father in law to Council Member Teresa Faux totaled \$11,405. The recommendation is repeated since the services provided were not pursuant to a competitive bid.

- (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.

Current Status – Partially corrected. The June 30, 2016 AFR properly reported the beginning balance and the general obligation debt. However, disbursements were understated by \$2,624 which overstated the ending fund balance. In addition, loan proceeds were incorrectly reported as “use of money and property” rather than “other financing sources”. The recommendation is partially repeated.

- (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.

Current Status – Not corrected. The recommendation is repeated.

City of Patterson

Detailed Recommendations

For the period June 1, 2016 through April 30, 2017

- (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.

Current Status – Not corrected. Although the City Clerk presents the bank reconciliation to the City Council, there is no evidence of independent review. The independent reviewer should initial and date the bank reconciliation as evidence of the review. The recommendation is repeated.

- (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

Current Status – Partially corrected. The Annual Urban Renewal Report was properly certified to the Department of Management on or before December 1. However, there was no evidence in the minutes the City Council had properly approved the report. In addition, the Annual Financial Report for June 30, 2016 reported TIF receipts of \$10,717 and disbursements of \$11,421. However, the June 30, 2016 AURR Levy Authority Summary reported no TIF receipts or disbursements. Also, the cash balance reported did not agree with the City’s records. The recommendation is partially repeated.

- (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.

Current Status – Corrected. During the period reviewed, the City obtained and retained images of both the front and back of cancelled checks.

- (L) Timely Deposits – The City collected cash and checks totaling \$1,641 for 4th 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.

Current Status – Corrected. During the period reviewed, the City’s funds were deposited timely.

City of Patterson

Detailed Recommendations

For the period June 1, 2016 through April 30, 2017

- (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.

Current Status – Not corrected. For the period from June 1, 2016 through April 30, 2017, the City purchased various items for holiday celebrations, including a Santa suit, candy and totes for a total of \$1,274. The recommendation is repeated.

Additional Findings as a Result of Follow-up Procedures:

- (N) City Council Meeting Minutes – The City Council minutes publications do not include total disbursements by fund or a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa and the meeting minutes are not signed in accordance with Chapter 380.7 of the Code of Iowa. Also, the minutes record does not include the total amount of claims approved.

Recommendation – The minutes publications should include total disbursements by fund and a summary of receipts and the minutes should be signed, as required. In addition, although a listing of claims allowed is approved, the total dollar amount approved should be included in the minutes record.

- (O) Debit Card – The City has a debit card available for use by employees while on City business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. Debit cards provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

- (P) Financial Condition – The Capital Projects Fund had a deficit balance at June 30, 2016 of \$77,917.

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

City of Patterson

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Manager
Dorothy O. Stover, Senior Auditor II


Marlys K. Gaston, CPA
Director