



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE _____ June 16, 2014

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an examination report on the City of Manly, Iowa for the period July 1, 2012 through June 30, 2013. The examination 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. The City should establish procedures to ensure computer generated reports and the Annual Financial Report are accurate. The City should comply with Code of Iowa requirements for the proper publishing of City Council minutes, budget amendments and electronic check retention. The City should also take steps to eliminate the June 30, 2013 General Fund deficit balance of \$39,390 and establish procedures to track the proper use of local option sales tax collections. In addition, the City should obtain a surety bond to cover City officials.

A copy of the examination 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/1321-0946-BL0F.pdf>.

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CITY OF MANLY
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

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City of Manly

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------|----------------------|---------------------|
| Kevin Isaacson | Mayor | Jan 2016 |
| Scott Heagel | Mayor Pro tem | Jan 2016 |
| Lon Badker | Council Member | Jan 2014 |
| Priscilla Ferden | Council Member | Jan 2014 |
| Steve Leake | Council Member | Jan 2014 |
| Joe Ryan | Council Member | Jan 2016 |
| Dee Dunbar | City Clerk/Treasurer | Indefinite |
| Tom Meyer | Attorney | Indefinite |



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Independent Accountant's Examination Report

To the Honorable Mayor
and Members of the City Council:

We have performed an examination of the City of Manly pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Manly for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

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 2013 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 Manly, the objective of which is the expression of opinions on 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 Manly, 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 Manly and other parties to whom the City of Manly 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 Manly during the course of our examination. 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

February 12, 2014

Detailed Recommendations

City of Manly

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

(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, journalizing, reconciling and posting.
- (3) Investment – detailed record keeping, custody of investments and reconciling earnings.
- (4) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.
- (8) Accounting system – performing all general accounting functions and having custody of assets.

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) Bond Coverage – The City does not have surety bond coverage of City officials and employees in accordance with statutory provisions.

Recommendation – The City should obtain a surety bond for City officials and employees and the coverage should be in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

(C) Bank Reconciliations – The cash and investment balances in the City's general ledger were reconciled to bank and investment account balances throughout the year. However, for one of the two months reviewed, a variance of \$11,088 was identified. This variance, which represents checks written in the subsequent month, was resolved. Also, there is no evidence of an independent review of the bank reconciliations.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and any variances are reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

City of Manly

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. In addition, procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (E) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the business type activities, debt service and culture and recreation 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 |
|--|---|--------|
| Lon Badker, City Council Member, Plumber | Water heater for the Manly Library | \$ 550 |
| Lon Badker, City Council Member, Plumber | Ductwork, drain work and installing new pumps | 573 |

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

- (G) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for three of four meetings tested were not published within fifteen days.

Recommendation – The City should comply with the Code of Iowa and publish minutes within fifteen days, as required.

- (H) 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 Manly

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (I) Treasurer's Monthly Report – The City Council reviews the Treasurer's Monthly Report. However, the Treasurer's Monthly Report is not reconciled to the City's general ledger due to the timing of preparation of the report.

Recommendation – To improve financial accountability, the City should develop procedures to ensure the Treasurer's Monthly Report reconciles with the City's general ledger.

- (J) Financial Condition – The Enterprise, Garbage Fund had a deficit balance at June 30, 2013 of \$8,586.

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

- (K) Computer System – The following weaknesses in the City's computer system were noted:

The City does not have written policies and procedures for:

- A disaster recovery plan for the computer system.
- Requiring password changes every 60 to 90 days
- Maintaining password privacy and confidentiality.

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City's internal control over its computer system.

- (L) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires all cities to file an Annual Financial Report (AFR) with the Auditor of State's Office no later than December 1 of each year. The 2013 Annual Financial Report did not agree with the City's financial records. The AFR's total receipts were overstated by \$1,827, total disbursements were understated by \$12,494 and the total ending fund balance was overstated by \$2,006.

Recommendation – The City should implement procedures to ensure the information contained in the City's Annual Financial Report agrees with the City's financial records.

- (M) Local Option Sales Tax – Local option sales tax (LOST) collections were recorded in a Special Revenue Fund. The ballot establishing the local option sales tax requires 50% of the receipts to be used for building and ground improvements, 40% to be used for infrastructure improvements and 10% to be used for property tax relief. The City has not tracked the use of LOST receipts.

Recommendation – The City should ensure the funds are spent according to the ballot provisions. The City should implement procedures to track LOST disbursements and transfers to ensure LOST receipts are being used in accordance with the ballot.

City of Manly

Staff

This examination was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Steven O. Fuqua, CPA, Senior Auditor II
Miranda A. Shipman, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State