



**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

January 31, 2018

Contact: Marlys Gaston  
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Menlo, Iowa for the period July 1, 2016 through June 30, 2017. 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 ensure proper monthly book to bank reconciliations are prepared and are independently reviewed. Monthly financial reports should include a comparison of total disbursements for all funds to the certified budget by function. Also, the City should amend the budget in accordance with Chapter 384.18 of the Code of Iowa 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/1722-0367-EP0P>.

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**CITY OF MENLO**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**  
**FOR THE PERIOD**  
**JULY 1, 2016 THROUGH JUNE 30, 2017**

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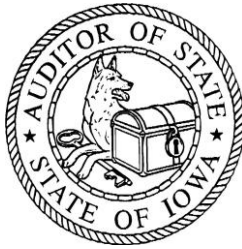
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## City of Menlo

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Michael Clarke	Mayor	Jan 2016	Jan 2018
Larry Jacobson	Council Member	Jan 2014	Jan 2018
Dorothy Korradi	Council Member	Jan 2014	Jan 2018
Shannon Behnken	Council Member	Jan 2016	Jan 2020
Michael Culver	Council Member	Jan 2016	Jan 2020
Troy Miller	Council Member	Jan 2016	Jan 2020
Gwen Blass	City Clerk		Indefinite
Stewart Law and Mediation, PLLC	Attorney		Indefinite

**City of Menlo**



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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 Menlo for the period July 1, 2016 through June 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Menlo'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 2016 Annual Financial Report 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 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 Menlo 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

January 24, 2018



## **Detailed Recommendations**

City of Menlo

Detailed Recommendations

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

- (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, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Financial reporting – preparing and reconciling.
- (6) Journal entries – preparing and recording.
- (7) Debt – recordkeeping, compliance and debt payment processing.
- (8) Accounting system – performing all general accounting functions, including journal entries, 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) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment balances throughout the year and an outstanding check listing was not prepared monthly.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. A listing of outstanding checks should be prepared monthly and retained to support the reconciliation.

- (C) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (D) Monthly City Clerk's Report – The monthly City Clerk's reports do not include a comparison of total disbursements for all funds to the certified budget by function.

Recommendation – The City should establish procedures to ensure the City Clerk's reports include a comparison of total disbursements for all funds to the certified budget by function.

City of Menlo

Detailed Recommendations

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

- (E) Deposits and Investments – 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 Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (F) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires the publication of the City Council minutes include total disbursements from each fund. The publication of minutes for four meetings tested did not include total disbursements by fund. In addition, for one closed session tested, the minutes did not include the specific exemption under Chapter 21.5 of the Code of Iowa allowing the closed session, as required.

Recommendation – The City should comply with the Code of Iowa and publish total disbursements by fund. In addition, for closed sessions, the specific exemption under Chapter 21.5 of the Code of Iowa allowing the closed session should be documented in the minutes record.

- (G) Certified Budget – Disbursements for the year ended June 30, 2017 exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt services 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.

- (H) Questionable Disbursements – During the period reviewed, the City disbursed \$54 for flowers for a City employee illness. 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 documentation.

City of Menlo

Detailed Recommendations

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

- (I) 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 retain electronic images of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (J) 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,,,'. The City's fiscal year 2016 AFR ending fund balances for the General and Proprietary Funds were \$3,272 and \$585, respectively, less than the City's records. The City's fiscal year 2016 AFR ending fund balance for the Special Revenue Funds was \$3,801 more than the City's records.

Recommendation – The City should ensure future AFRs agree with the City's records.

- (K) Journal Entries – Supporting documentation is not maintained for journal entries and journal entries are not approved by an independent person.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. Additionally, journal entries should be approved by an independent person and evidence of the approval should be documented.

- (L) Payroll – The City Clerk salary was not approved by resolution as required by City Ordinance.

Recommendation – All salaries and wage rates should be approved by resolution as required by City Ordinance.

- (M) Investments – An accounting record/register is not maintained for each investment.

Recommendation – To properly account for investments, an accounting record/register which includes the cost, description, date purchased, interest rate, maturity date and identifying number should be maintained for each investment.

- (N) Petty Cash – Petty cash funds on hand at City Hall are not maintained on an imprest basis.

Recommendation – Petty cash funds should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

City of Menlo

Detailed Recommendations

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

(O) Computer System – The City does not have written policies for:

- Requiring password changes because the City's software does not require the user to change log-ins or passwords and does not prevent reuse of the same password.
- Requiring lock out if the password is incorrectly entered three times in a row.

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

City of Menlo

Staff

This engagement was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Adjoa S. Adanledji, Staff Auditor  
Madeline W. Petellin, Assistant Auditor

  
Marlys K. Gaston, CPA  
Director