



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

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NEWS RELEASE

Contact: Michelle Meyer
515/281-5834

FOR RELEASE

July 19, 2022

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Manly, Iowa, for the period July 1, 2020 through June 30, 2021. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported sixteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 14 of this report. The findings address issues such as a lack of segregation of duties, the lack of utility system reconciliations, disbursements exceeding budgeted amounts, errors in the certification and reporting of Tax Increment Financing funds, and separately maintained Fire Department accounts which should be included in the City's financial records and monthly and annual financial reports. Sand provided the City with recommendations to address each of the findings.

Nine of the sixteen 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](#).

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CITY OF MANLY
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2020 THROUGH JUNE 30, 2021

City of Manly



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Rob Sand
Auditor of State

June 23, 2022

Officials of the City of Manly
Manly, 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 Manly, Iowa, for the period July 1, 2020 through June 30, 2021. 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 Manly 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 that reads "Rob Sand".

Rob Sand
Auditor of State

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City of Manly

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Regan Banks	Mayor	Jan 2024
Scott Heagel	Mayor Pro tem	Jan 2024
Pete Andera	Council Member	Jan 2022
Amy Durgin	Council Member	Jan 2022
Mary Durner	Council Member	Jan 2022
Richard Baird	Council Member	Jan 2024
Dee Dunbar	City Clerk/Treasurer	Indefinite
Tom Meyer	Attorney	Indefinite

City of Manly



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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 Manly for the period July 1, 2020 through June 30, 2021, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Manly'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 Manly'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. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
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 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 to 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, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were engaged by the City of Manly'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 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 Manly 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 Manly 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.

A handwritten signature in black ink that reads "Michelle Meyer". The signature is written in a cursive, flowing style.

Michelle B. Meyer, CPA
Director

June 23, 2022

Detailed Findings and Recommendations

City of Manly

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

(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) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Utilities – billing, collecting, depositing, posting and maintaining detailed accounts receivable records.
- (5) Disbursements – purchasing, invoice processing, check signing, check writing, reconciling and recording.
- (6) Payroll – recordkeeping, preparing and distributing.

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) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were reconciled throughout the year; however, the reconciliations did not agree to City records and did not include a reconciliation of the utility receipts to bank deposits. In addition, an independent person does not review and approve the reconciliations or adjustments made to customer accounts.

Recommendation – Procedures should be established to ensure utility reconciliations agree with City records and utility receipts agree to bank deposits. Also, the City Council or other independent person designated by the City Council should review the utility reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

(C) Bank Reconciliations – While the cash and investment balances in the City's general ledger were reconciled to bank and investment account balances throughout the year, the Employee Flex/Cafeteria Fund checking account listed on the City's fund balance sheet did not reconcile to the bank balance at June 30, 2021 by \$9,388. The difference is a carryover from the prior year when employees' flex spending disbursements were not accurately recorded by the City.

Additionally, the outstanding transaction listing at January 31, 2021 reported a net \$3,685 in outstanding transactions, however the amount reported on the Bank Cash Report for outstanding transactions was a net amount of \$3,952, a difference of \$267.

Balances for certificates of deposit on the Bank Cash Report did not match bank statements due to unrecorded interest.

City of Manly

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

Recommendation – The City should establish procedures to ensure all bank and investment balances, including the Employee Flex/Cafeteria Fund account, are reconciled to the City Treasurer’s report monthly. Variances, if any, should be reviewed and resolved timely. Further, the City should ensure the outstanding transaction listing is accurate and agrees to the Treasurer’s Bank Cash Report. All interest earned on certificates should be recorded in the City’s ledgers.

- (D) Transfers – Rule 545-2.5 of the Iowa Administrative Code requires transfers between funds be passed by resolution and include a clear statement of the reason or purpose for the transfer, the name of the affected funds and the dollar amount to be transferred. Transfers were approved by resolution, however, actual amounts transferred were \$35,178 less than total transfers authorized in the resolutions.

Recommendation – The City should ensure transfers are executed in accordance with approved resolutions.

- (E) Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, general government, debt service 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) Tax Increment Financing (TIF) Indebtedness Certification – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness.

If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund or other fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the specified fund to repay the advance. An interfund loan which provided for the transfer of \$100,000 from the LOST Infrastructure Fund to the Capital Projects, TIF Projects Fund was approved and properly certified to the County Auditor. However, during the year ended June 30, 2021, the City disbursed \$11,972 related to engineering fees directly from the TIF Fund which should have been disbursed from the Capital Projects, TIF Project Fund.

Recommendation – Disbursements related to the TIF project should be paid from the Capital Projects, TIF Projects Fund and not directly from the TIF Fund. TIF receipts should then be transferred to the LOST Infrastructure Fund to repay the interfund loan between the LOST Infrastructure Fund and the Capital Projects, TIF Projects Fund.

City of Manly

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (G) Annual Urban Renewal Report – The City overstated the amount reported as TIF debt outstanding on the fiscal year 2020 Annual Urban Renewal Report (AURR) Levy Authority Summary by \$38,679.

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

- (H) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit these obligation as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State, as required.

- (I) Official Depositories – While a resolution naming official depositories has been adopted by the City, the maximum deposit amount stated in the resolution for one bank was exceeded during the year ended June 30, 2021.

Recommendation – A new resolution in an amount sufficient to cover anticipated balances at the approved depository should be adopted by the City.

- (J) Park and Recreation Department Pool Collections – Prenumbered receipts were not issued for all collections.

Recommendation – To provide additional control over collection and recording of receipts, prenumbered receipts should be issued for all collections and an initial listing of collections should be prepared. These collections should be compared to the bank deposit and the City’s accounting records by an independent person and the evidence of review should be documented.

- (K) Disbursements – The following were noted:

- For ten of thirty disbursements observed, claims were presented in the Council minutes as a monthly total rather than providing a list of claims for approval.
- For one of thirty disbursements observed, the City used the incorrect rate for mileage reimbursement.
- For two of thirty disbursements observed, the City incorrectly paid sales tax.

Recommendation – To provide additional control over authorization of claims for payments, the Council should be presented a list of individual claims for payment. The list of claims should include the name of the person or firm making the claim, the reason for the claim and the amount of the claim. Claims should be reviewed to ensure the correct mileage rate is used for mileage reimbursements and sales tax should not be paid on claims.

- (L) Payroll – One of five payroll transactions observed was not calculated properly. As a result, the employee was under paid by \$42.

Recommendation – The City should review payroll transactions to ensure payroll is correctly calculated.

City of Manly

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (M) Journal Entries – One of three journal entries observed was not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve all journal entries. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (N) 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...” We noted certain receipts and disbursements did not agree with the City’s records. In addition, the ending cash balances did not agree with the City’s Treasurer Report at June 30, 2021.

Recommendation – The City should establish procedures to ensure the AFR reconciles to the general ledger and other City records. An independent person should review the AFR for accuracy and document their review by signing or initialing and dating the review.

- (O) Manly Volunteer Firefighters Association

Background:

Chapter 364.16 of the Code of Iowa requires the City to provide for the protection of life and property against fire. This section also states in part, “A city has the same governmental immunity outside its corporate limits when providing fire protection as when operating within the corporate limits.”

Chapter 359.42 of the Code of Iowa requires townships to provide fire protection for the township and Chapter 359.43 allows the township trustees to levy an annual tax for the purpose of exercising its fire protection duties. Chapter 359.42 allows the township trustees to “contract with a public or private agency under Chapter 28E of the Code of Iowa for the purpose of providing any service or system required or authorized under this section.”

Chapter 28E.4 of the Code of Iowa states, “Any public agency of this state may enter into an agreement with one or more public or private agencies for joint or cooperative action pursuant to the provisions of this chapter, including the creation of a separate entity to carry out the purpose of the agreement. Appropriate action by ordinance, resolution or otherwise pursuant to law of the governing bodies involved shall be necessary before any such agreement may enter into force.”

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.”

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private non-profit corporations. Article III, Section 31 of the Constitution of the State of Iowa states “... no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly.”

City of Manly

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

The Manly Volunteer Firefighter's Association was established as a 501C(3) non-profit corporation, a legally separate entity. In accordance with the Association's Articles of Incorporation, the purpose and objectives of the corporation are to assist the City of Manly Fire Department in the execution and performance of its responsibilities to the citizens of the City and the townships served by the City's Fire Department.

Chapter 35.16 of the City of Manly Code of Ordinances recognizes the Manly Volunteer Firefighters Association and tasks this organization with the collection and disbursement of the City of Manly Fire Department funds for operation of the Department. Accordingly, the Townships of Lincoln, Danville, Union and Lime Creek each pay their levied property taxes to the Association annually. The City of Manly does not pay the Association directly, but is responsible for paying routine expenses such as gasoline, repairs, maintenance, utilities, telephone, etc. The Association maintains two bank accounts, a checking and a savings, with balances totaling \$185,306 at June 30, 2021.

We noted the following:

- (1) A 28E agreement as described in Chapters 28E.4 and 359.42 of the Code of Iowa does not exist, nor is there a contract between the City and the Association that lays out mutual obligations and provides for oversight of the Association.
- (2) Legally separate non-profit fire associations typically exist to support a City government in carrying out its responsibility to provide fire protection. These non-profit associations provide this support by holding fund raisers and collecting donations to help provide funds to purchase equipment and other items needed by the City to carry out its duties. Funds in these situations flow from the non-profit organization to the City and are accounted for by the City.

The arrangement the City has with the Manly Volunteer Firefighters Association to account for the collection and disbursement of the Fire Department's operating funds, and not just to support the City's Fire Department by holding fundraisers and providing funds to or purchasing equipment for the Fire Department is unusual and appears to violate the Iowa Constitution which prohibits providing public funds to private entities. Although the City's Code of Ordinances allows for this arrangement, an ordinance does not take precedence over the Iowa Constitution.

- (3) The City Code of Ordinances requires the Manly Volunteer Firefighters Association to conduct an annual audit of its practices no later than August 1 of each year and transmit the audit to the City Council. The Association has not conducted annual audits and therefore has not transmitted required audits to the City Council.

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa and the Iowa Constitution, as well as for better accountability, financial and budgetary control and oversight over the public funds, the financial activity and balances of the Manly Fire Department's funds, including funds provided by the Townships for fire protection, should be included in the City's accounting records, monthly financial reports and the Annual Financial Reports. Alternatively, an entirely separate 28E governmental subdivision can be created between the City and townships. The activity of all the Fire Department's funds should be subject to City Council review and approval and should be included in the City's budget process. Also, a summary of each account's receipts, total disbursements and listings of claims allowed each month should be published, as required. Proper accounting of these funds in this manner negates the necessity of an annual audit by the Fire Association (since the funds will be included in the annual examination required and obtained by the City each year) and the need for a 28E agreement as discussed in Chapters 28E.4 and 359.42 of the Code of Iowa.

City of Manly

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (P) Separately Maintained Records – The City Fire Department maintains two accounts separate from the City’s accounting records. At June 30, 2021, these accounts totaled \$49,130. The transactions and resulting balances of these accounts were not included in the City Clerk’s accounting records or the City’s annual budget and were not reported to the City Council each month. These accounts are not under the Manly Volunteer Firefighters Association noted above.

Recommendation – 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.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the City Council monthly.

City of Manly

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Lesley R. Geary, CPA, Manager
Brandon L. Weddell, Staff Auditor
Kari L. Middleton, Assistant Auditor