



February 16, 2021

The Honorable Mike Scott, Mayor
and Members of the City Council
City of Manzanita
Tillamook County, Oregon

In planning and performing our audit of the modified cash basis financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Manzanita, as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Manzanita's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Manzanita's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Manzanita's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the following deficiencies in internal control to be significant deficiencies.

Organizational Structure

The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the City Council remains involved in the financial affairs of the City to provide oversight and independent review functions.

436 1st Avenue W • PO Box 1072 • Albany, Oregon 97321
(541) 223-5555 • www.accuitycpas.com • Fax (541) 730-4420

Payroll Controls

During our audit testing, we noted that payroll tax deposits were not paid in a timely manner. Management controls were in place and operating as designed; however, the design of the internal controls was not effective. Management oversight was not timely enough to catch the delayed payments before they were considered late, which can lead to significant late payment penalties. We recommend that management implement and adhere to stronger internal controls within the payroll cycle, including the occurrence of new oversight, as soon as possible in order to mitigate future reoccurrences.

During our audit, we became aware of the following deficiencies in internal control, other than significant deficiencies or material weaknesses, that are an opportunity to strengthen internal controls and operating efficiencies.

Review of Employee Timecards

During our audit testing, we noted the City did not maintain management signatures on all employee timecards, which could potentially lead to overpayment of wages and incorrect benefits accruals and balances. We recommend that the City implement procedures to review all timecards more closely, to prevent future reoccurrences.

Allocation of Payroll

During our audit testing, we noted the City did not properly allocate one employee's salary for five months in accordance with its budgeted allocation percentages, which could lead to undercharging or overcharging departments within the City. We recommend that the City implement procedures to review all monthly salary allocations more closely, to prevent future reoccurrences.

Excess of Expenditures Over Appropriations

During the year ended June 30, 2020, the City expended funds in excess of amounts appropriated in four funds, which is in noncompliance with Oregon Budget Law. We recommend the City review and closely monitor expenditures on a routine basis, comparing budgeted amounts to actual amounts, in order to mitigate future reoccurrences.

This communication is intended solely for the information and use of management, the City Council, and others within the City, and is not intended to be, and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in blue ink that reads "Accuity, LLC". The signature is written in a cursive, flowing style.

Accuity, LLC