



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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NEWS RELEASE

FOR RELEASE

October 22, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on the City of Elk Run Heights, Iowa.

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$1,235,717 for the year ended June 30, 2019. Disbursements for the year ended June 30, 2019 totaled \$886,819.

AUDIT FINDINGS:

Sand reported 14 findings related to the receipt and disbursement of taxpayer funds. They are found on pages 34 to 43 of this report. The findings address issues such as a lack of segregation of duties, misposting of receipts, reconciliations of utility billings, collections and delinquent accounts not prepared, the lack of adequate support for credit card purchases, the lack of following policies and procedures and calculating payroll, disbursements exceeding budgeted amounts and not filing an annual urban renewal report with the state. Sand provided the City with recommendations to address each of the findings.

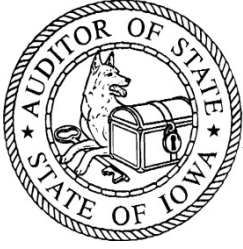
The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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CITY OF ELK RUN HEIGHTS
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2019

City of Elk Run Heights



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October 15, 2019

Officials of the City of Elk Run Heights
Elk Run Heights, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Elk Run Heights for the year ended June 30, 2019. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Elk Run Heights throughout the audit. 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

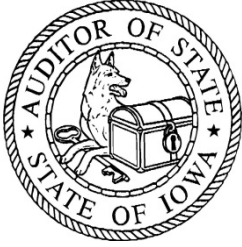
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City of Elk Run Heights

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Timothy Swope	Mayor	Jan 2020
Timothy Ratchford	Mayor Pro tem	Jan 2020
Dennis Bass	Council Member	Jan 2020
Lisa Smock	Council Member	Jan 2020
Dale Wilson	Council Member	Jan 2020
Arlan Schellhorn	Council Member	Jan 2020
Kristi Lundy	City Clerk/Treasurer	(Resigned Jan 2019)
Julie Eastman (Appointed June 2019)	City Clerk/Treasurer	Indefinite
Heather Prendergast	Attorney	Indefinite



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elk Run Heights, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinions.

Basis for Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distributions by fund of the total fund balances at July 1, 2018.

Qualified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2018, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elk Run Heights as of June 30, 2019, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

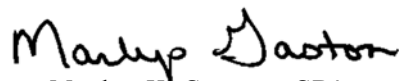
Other Matters

Other Information

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 24 through 30, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2019 on our consideration of the City of Elk Run Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Elk Run Heights' internal control over financial reporting and compliance.


Marlys K. Gaston, CPA
Deputy Auditor of State

October 15, 2019

City of Elk Run Heights

Basic Financial Statements

City of Elk Run Heights

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 92,218	14,707	-	-
Public works	122,506	987	144,301	-
Culture and recreation	51,924	7,747	11	-
Community and economic development	1,888	-	-	-
General government	124,723	17,350	-	-
Capital projects	136,341	-	-	21,263
Total governmental activities	529,600	40,791	144,312	21,263
Business type activities:				
Water	116,333	141,233	-	-
Sewer	174,404	287,960	-	-
Sanitation	66,482	60,722	-	-
Total business type activities	357,219	489,915	-	-
Total	\$ 886,819	530,706	144,312	21,263
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Expendable:				
Streets				
Capital projects				
Debt service				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(77,511)	-	(77,511)
22,782	-	22,782
(44,166)	-	(44,166)
(1,888)	-	(1,888)
(107,373)	-	(107,373)
(115,078)	-	(115,078)
(323,234)	-	(323,234)
-	24,900	26,601
-	113,556	112,589
-	(5,760)	(6,493)
-	132,696	132,697
(323,234)	132,696	(190,537)
350,737	-	350,737
10,276	-	10,276
141,051	-	141,051
7,885	-	7,885
7,335	-	7,335
9,530	12,622	22,152
(50,000)	50,000	-
476,814	62,622	539,436
153,580	195,318	348,898
632,599	1,026,327	1,658,926
\$ 786,179	1,221,645	2,007,824
137,959	-	137,959
285,959	930,664	1,216,623
10,276	-	10,276
351,985	290,981	642,966
\$ 786,179	1,221,645	2,007,824

City of Elk Run Heights

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2019

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 350,737	-	-
Tax increment financing	-	-	-
Other city tax	-	-	141,051
Licenses and permits	19,489	-	-
Use of money and property	16,850	-	-
Intergovernmental	7,335	144,301	-
Charges for service	1,082	-	-
Miscellaneous	20,796	-	-
Total receipts	416,289	144,301	141,051
Disbursements:	416,289		
Operating:			
Public safety	92,218	-	-
Public works	400	122,106	-
Culture and recreation	51,924	-	-
Community and economic development	1,888	-	-
General government	124,723	-	-
Capital projects	-	-	-
Total disbursements	271,153	122,106	-
Excess (deficiency) of receipts over (under) disbursements	145,136	22,195	141,051
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	(50,250)	-	(175,000)
Total other financing sources (uses)	(50,250)	-	(175,000)
Change in cash balances	94,886	22,195	(33,949)
Cash balances beginning of year	257,099	115,764	199,143
Cash balances end of year	\$ 351,985	137,959	165,194
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	137,959	-
Capital improvement	-	-	165,194
Debt service	-	-	-
Assigned for equipment replacement	64,334	-	-
Unassigned	287,651	-	-
Total cash basis fund balances	\$ 351,985	137,959	165,194

See notes to financial statements.

Capital Projects	Nonmajor Tax Increment Financing	Total
-	-	350,737
-	10,276	10,276
-	-	141,051
-	-	19,489
63	-	16,913
21,200	-	172,836
-	-	1,082
-	-	20,796
21,263	10,276	733,180
-	-	92,218
-	-	122,506
-	-	51,924
-	-	1,888
-	-	124,723
136,341	-	136,341
136,341	-	529,600
(115,078)	10,276	203,580
175,250	-	175,250
-	-	(225,250)
175,250	-	(50,000)
60,172	10,276	153,580
60,593	-	632,599
120,765	10,276	786,179
-	-	137,959
120,765	-	285,959
-	10,276	10,276
-	-	64,334
-	-	287,651
120,765	10,276	786,179

City of Elk Run Heights

City of Elk Run Heights
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2019

	Enterprise			Total
	Water	Sewer	Solid Waste	
Operating receipts:				
Charges for service	\$ 141,233	287,960	60,722	489,915
Operating disbursements:				
Business type activities	116,333	174,404	66,482	357,219
Excess of operating receipts over operating disbursements	24,900	113,556	(5,760)	132,696
Non-operating receipts (disbursements):				
Interest on investments	2,598	9,942	82	12,622
Excess (deficiency) of receipts over (under) disbursements	27,498	123,498	(5,678)	145,318
Transfers Out	-	50,000	-	50,000
Change in cash balances	27,498	173,498	(5,678)	195,318
Cash balances beginning of year	294,112	727,429	4,786	1,026,327
Cash balances end of year	\$ 321,610	900,927	(892)	1,221,645
Cash Basis Fund Balances				
Restricted for capital projects	\$ 232,413	698,251	-	930,664
Unrestricted	89,197	202,676	(892)	290,981
Total cash basis fund balances	\$ 321,610	900,927	(892)	1,221,645

See notes to financial statements.

City of Elk Run Heights

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

The City of Elk Run Heights is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1951 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Elk Run Heights has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Black Hawk County Assessor's Conference Board, Black Hawk County Emergency Management Commission, and Black Hawk County Joint 911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. The City has imposed a capital project fee through enabling legislation. The amount restricted by this enabling legislation was not available since the City does not track the receipts, disbursements or balance of the imposed fee.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for collections made on sales in the County.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's garbage and yard waste collection programs.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2019, disbursements exceeded the amount budgeted in the public works function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2019 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2019, the City had no investments meeting the disclosure requirements of Governmental Account Standard Board Statement No. 72.

(3) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%.

The City’s contributions to IPERS for the year ended June 30, 2019 totaled \$17,144.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported a liability of \$160,835 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2018, the City’s proportion was 0.002542%, which was an increase of 0.000006% over its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$21,792, \$42,566, and \$26,794, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core plus fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
Total	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 272,970	160,835	66,771

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(4) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2019, the City contributed \$14,664 and plan members eligible for benefits contributed \$1,187 to the plan. At June 30, 2019, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the City of Elk Run Heights and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Active employees	2
Total	<u>2</u>

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused paid time off and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City’s approximate liability for earned paid time off and compensatory time payable to employees at June 30, 2019, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Paid time off	\$ 12,267
Compensatory time	5,313
Total	<u>\$ 17,580</u>

This liability has been computed based on rates of pay in effect at June 30, 2019.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

Transfer to	Transfer from	Amount
Capital Projects	General	\$ 50,250
	Special Revenue:	
	Local Option Sales Tax	175,000
	Enterprise Fund:	
	Sewer	50,000
Total		<u>\$ 275,250</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 778 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2019 were \$11,124.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

(8) Interfund Loan

On November 14, 2017, a \$150,000 advance was made from the Special Revenue, Local Option Sales Tax Fund to the Special Revenue, Tax Increment Financing Fund to provide a capital improvement grant for an urban renewal project. The loan will be repaid through transfers from the Special Revenue, Tax Increment Financing Fund as tax increment financing receipts become available. As of June 30, 2019, no repayments of the loan have been made.

(9) Senior Housing Revenue Bonds

On December 29, 2017, the City issued Senior Housing Revenue Bonds (Amity Fellowserve-Iowa, Inc., Rosewood Project), Series 2017 of \$4,500,000, as permitted by Chapter 419 of the Code of Iowa, for a project located within the City or within eight miles of the City for the purpose of financing the cost of acquiring, by construction or purchase, land, buildings, improvements and equipment, or any interest therein, suitable for the use of any facility. The bonds are dated December 29, 2017. The bonds shall never constitute indebtedness, a general or moral obligation or a loan of credit of the City, or a lien, charge or encumbrance, legal or equitable, against the City's property, revenues or general credit and do not give rise to a charge against the general credit or taxing power of the City, but rather shall be special obligations payable solely from revenues pledged and assigned to the payment thereof and secured by the loan agreement. Since these bonds do not constitute indebtedness of the City, a liability has not been included in the Statement of Net Position.

(10) Deficit Balance

The Enterprise, Solid Waste Fund had a deficit balance of \$892 at June 30, 2019. The deficit was a result of lack of proper funding for this activity. The deficit will be eliminated through better monitoring of activity within the fund.

(11) Construction Commitment

The City has entered into a construction contract with Baker Enterprises in the amount of \$142,817 for Gilbertville Road water main improvements (from Plaza Drive to Young Road). There were no payments made to Baker Enterprises during fiscal year 2019.

During fiscal year 2019, the City was awarded a TAP grant in the amount of \$428,000. The grant is to be used for upgrades to Mayor's Park. The City's share of the cost will be 20% of the total cost of construction and work will start in the fall of 2020.

(12) Subsequent Events

On August 13, 2019, the City approved a Sewer Revenue Loan and Disbursement agreement in an amount not to exceed \$352,000. The loan from the Iowa Finance Authority will be repaid solely from revenues generated by charges to customers from the sewer utility.

(13) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 84, Fiduciary Activities. This statement will be implemented for the fiscal year ending June 30, 2020. The revised requirements of this statement will enhance the consistency and comparability of fiduciary activity reporting by state and local governments by establishing specific criteria for identifying fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities.

Other Information

City of Elk Run Heights
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2019

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 350,737	-	350,737
Tax increment financing	10,276	-	10,276
Other city tax	141,051	-	141,051
Licenses and permits	19,489	-	19,489
Use of money and property	23,795	5,740	29,535
Intergovernmental	172,836	-	172,836
Charges for service	1,082	489,915	490,997
Miscellaneous	20,796	-	20,796
Total receipts	<u>740,062</u>	<u>495,655</u>	<u>1,235,717</u>
Disbursements:			
Public safety	92,218	-	92,618
Public works	122,506	-	122,106
Culture and recreation	51,924	-	53,812
Community and economic development	1,888	-	1,888
General government	124,723	-	124,723
Capital projects	136,341	-	136,341
Business type activities	-	357,219	357,219
Total disbursements	<u>529,600</u>	<u>357,219</u>	<u>888,707</u>
Excess of receipts over disbursements	210,462	138,436	348,898
Other financing sources, net	50,000	(50,000)	-
Excess of receipts and other financing sources over disbursements and other financing uses	260,462	88,436	348,898
Balances beginning of year	1,027,493	631,433	1,658,926
Balances end of year	<u>\$ 1,287,955</u>	<u>719,869</u>	<u>2,007,824</u>

See accompanying independent auditor's report.

Budgeted	
Amounts	Final to
Original/Final	Variance
347,301	3,436
10,259	17
137,509	3,542
22,590	(3,101)
17,500	12,035
201,343	(28,507)
457,465	33,532
12,278	8,518
<u>1,206,245</u>	<u>29,472</u>
99,837	7,219
116,763	(5,343)
86,741	32,929
5,000	3,112
147,720	22,997
175,000	38,659
414,201	56,982
<u>1,045,262</u>	<u>156,555</u>
160,983	187,915
20,000	(20,000)
180,983	167,915
<u>1,447,346</u>	<u>211,580</u>
<u>1,628,329</u>	<u>379,495</u>

City of Elk Run Heights

Notes to Other Information – Budgetary Reporting

June 30, 2019

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2019, disbursements exceeded the amount budgeted in the public works functions.

City of Elk Run Heights

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Two Years*

Other Information

	2019	2018
City's proportion of the net pension liability	0.002542%	0.002536%
City's proportionate share of the net pension liability	\$ 160,835	167,437
City's covered payroll	\$ 191,021	187,628
City's proportionate share of the net pension liability as a percentage of its covered payroll	84.20%	89.24%
IPERS' net position as a percentage of the total pension liability	83.62%	82.21%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Elk Run Heights

Schedule of the City Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years*

Other Information

	2019	2018	2017	2016
Statutorily required contribution	\$ 17,144	17,058	16,755	14,963
Contributions in relation to the statutorily required contribution	(17,144)	(17,058)	(16,755)	(14,963)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	\$ 181,614	191,021	187,628	167,562
Contributions as a percentage of covered payroll	9.44%	8.93%	8.93%	8.93%

See accompanying independent auditor's report.

2015	2014	2013	2012	2011	2010
15,056	14,170	13,365	11,469	10,036	8,984
(15,056)	(14,170)	(13,365)	(11,469)	(10,036)	(8,984)
-	-	-	-	-	-
168,596	158,680	154,154	142,117	144,406	135,097
8.93%	8.93%	8.67%	8.07%	6.95%	6.65%

City of Elk Run Heights

Notes to Other Information – Pension Liability

Year ended June 30, 2019

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2016. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

City of Elk Run Heights



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elk Run Heights, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 15, 2019. The financial statements were prepared on the basis of cash receipts and disbursements which is a basis of accounting other than U.S. generally accepted accounting principles. We expressed qualified opinions on the financial statements since we were unable to satisfy ourselves as the distribution by fund of the total fund balance of July 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Elk Run Heights' internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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 Elk Run Heights' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Elk Run Heights' 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Elk Run Heights' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (E) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (F) and (G) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elk Run Heights' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

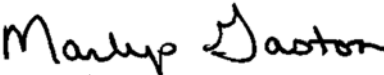
The City of Elk Run Heights' Responses to the Findings

The City of Elk Run Heights' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Elk Run Heights' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication 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 Elk Run Heights during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Marlys K. Gaston, CPA
Deputy Auditor of State

October 15, 2019

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – 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.

Condition – Generally, one or two individuals in the City have control over each of the following areas for which no compensating controls exist:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording and reconciling. No initial listing of receipts received in the mail is prepared.
- (3) Disbursements – invoice processing, purchasing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing, distributing and maintaining detailed vacation and comp time records.
- (5) Computer system – performing all general accounting functions and controlling all data input and output.
- (6) Compensated absences – maintaining records and balances.
- (7) Utilities – billing, collecting, depositing, reconciling, recording and maintaining detailed accounts receivable records.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Reviews of transactions and reconciliations should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

Response – The City is working to get the elected officials more involved in performing independent reviews and documenting those reviews.

Conclusion – Response accepted.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2019

(B) Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by reconciling bank and book balances.

Condition – At June 30, 2019, the total fund balance per the City’s financial records was \$1,057 lower than the bank balance. The resulting variances were not properly investigated and resolved.

Cause – Procedures have not been implemented to ensure all accounts are reconciled and the amounts recorded in the books and bank accounts are complete and accurate to ensure proper accounting for all funds.

Effect – A lack of bank to book reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be performed and variances between book and bank balances should be investigated and resolved in a timely manner. In addition, the reconciliations should be reviewed by an independent person and should be documented by the signature or initials of the independent reviewer and the date of review.

Response – The City is working with software provider to assist in correcting balances.

Conclusion – Response accepted.

(C) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are in integral part of ensuring the reliability and accuracy of the City’s financial statements.

Condition – A material amount of local option sales tax and road use tax (RUT) receipts were misposted between these funds. Additionally, \$10,012 of RUT receipts were duplicated but the correcting entry was made to the General Fund rather than the Special Revenue, RUT fund. \$6,000 of sewer fees were incorrectly recorded in the General Fund. Adjustments were subsequently made by the City to properly report these amounts in the City’s financial statements.

Also, the Capital Projects, Waste Water Plant Project account was reported as a capital projects fund in the governmental activities. Construction activity for utilities should be reported in an enterprise fund which is part of the business type activities. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Cause – City policies do not require and procedures have not been established to require receipts to be compared to the accounting records by an independent person and the review of fund classifications.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2019

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions and material adjustments to the City’s financial statements were necessary.

Recommendation – The City should implement procedures to ensure receipts are properly recorded in the City’s financial statements and fund classifications are proper.

Response – The City has passed a resolution to correct these funds and will monitor reporting of receipts more closely.

Conclusion – Response accepted.

(D) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Cause – Policies have not been established and procedures have not been implemented to maintain delinquent account listings, reconcile utility billings, collections and delinquent account balances and to reconcile utility collections to deposits.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquents. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – The City is working with accountant to develop proper flow of reports and prepare a properly supported utility reconciliation.

Conclusion – Response accepted.

(E) Credit Cards

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity’s governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes included establishing policies addressing proper asset use and proper supporting documentation.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2019

Condition – The City has credit cards for use by various employees while on City business. The City has a formal policy to regulate the use of credit cards with established procedures for the proper accounting of credit card charges. However, documentation was not always available to support credit card charges.

In addition, one month's list of bills provided to the City Council did not include the credit card purchases; however, it appears the credit card bill was paid on time and without interest or penalties.

Cause – Lack of supporting documentation for credit card charges and not including the credit card bills on the City Council's list of bills being paid are the result of not enforcing the established credit card policy requiring proper support for these charges.

Effect – Lack of supporting documentation and not including the bills on the City's Council's list of bills being approved could result in unauthorized or improper transactions and the opportunity for misappropriations.

Recommendation – The City should review their credit card policy and reinforce the adherence to it with all City employees. All credit card charges should be supported by vendor invoices and should be included on the list of bills provided to the City Council for approval.

Response – All credit card transactions will require proper receipts and the policy will be reviewed.

Conclusion – Response accepted.

(F) Disaster Recovery Plan

Criteria – A disaster recovery plan for financial continuity should include the following:

- Identification of critical applications.
- Identification of steps for recovery of any operating systems for City operations.
- Identification of computer equipment needed for temporary processing.
- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
- Requirement to keep a copy of the disaster recovery plan off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedures manual be located off site.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2019

- A requirement for extra stock of paper supplies, such as checks, warrants, purchase order, etc., be located off site.
- Requirement outlining the frequency of testing the disaster recovery plan to identify issues and document the results of testing.

Condition – The City does not have a written disaster recovery plan for its computer system.

Cause – Management has not required a written disaster recovery plan for its computer system.

Effect – The failure to have a formal disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop a written disaster recovery plan.

Response – The City is planning to work with IT support to implement a disaster recovery plan.

Conclusion – Response accepted.

(G) Accounting Procedures Manual

Criteria – Accounting policies and procedures manuals provide the following benefits:

- Aid in training additional or replacement staff.
- Help achieve uniformity in accounting and in the application of policies and procedures.
- Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Condition – The City has not developed an accounting policies and procedures manual.

Cause – The development of accounting policies and procedures manuals has not been prioritized by the City.

Effect – Lack of an accounting policies and procedures manual could result in the City's lack of ability to continue operating effectively and efficiently in the event there is accounting staff turnover.

Recommendation – City procedures and accounting manuals should be prepared for all functions.

Response – The City is planning to develop detailed instructions and policies.

Conclusion – Response accepted.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2019

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2019

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amount budgeted in the public works 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.

Response – The City will be reviewing budgeted disbursements monthly and timely prepare amendments when needed.

Conclusion – Response accepted.

- (2) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe 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. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Target	Four \$5 gift cards	\$ 20
Sp*Cents of Style	No support - women's apparel store, \$20 purchase with \$10 return	10

In addition, a Best Buy store gift card which originated January 2, 2019 for \$765 was located at City Hall. The gift card was used to purchase a printer for City Hall and has a remaining balance of \$343. The origin of the gift card could not be determined.

According to the opinion, it is possible for certain 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 these types of disbursements prior to authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper public purpose documentation.

Response – Elected officials will be reviewing all disbursements more closely and the City will establish a reviewing the written policy as necessary.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2019

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Tim Ratchford, Council Member Owner of Ratchford Auto Detail	City vehicle repairs	\$102

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member do not appear to represent conflicts of interest since total transactions were less than \$1,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

However, one of twelve City Council meeting minutes were not signed as required by Chapter 380.7(3) of the Code of Iowa.

Recommendation – The minutes should be signed to comply with statute and to authenticate the record.

Response – All minutes will be signed and recorded.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Annual Urban Renewal Report – The Annual Urban Renewal Report was not submitted to the Iowa Department of Management on or before December 1. The report was never filed.

Recommendation – The City should file the Annual Urban Renewal Report timely and ensure the cash balances and debt amounts reported on the Levy Authority Summary agree with the City’s records.

Response – The City will properly file the report as required.

Conclusion – Response accepted.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2019

- (9) Financial Conditions – The Enterprise, Solid Waste Fund had a deficit balance of \$892 at June 30, 2019.

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

Response – The City will be making a transfer into the fund from to eliminate the deficit from the General Fund.

Conclusion – Response accepted.

- (10) Payroll – The City’s policy allows for a health insurance waiver payment to be made to each employee who waives the health insurance coverage offered by the City. In accordance with the policy, the total annual stipend shall be 50% of the total annual cost quoted to insure the employee for single health insurance policy premium. Also, in accordance with the policy, the employee who waives coverages shall receive one half of the payment in June and the second half in December.

The City’s employee handbook states that paid time off (PTO - vacation, compensatory time and sick leave allowance combined) shall be granted on January 1st of each year according to the employee’s number of completed years of employment.

The City Council approved payroll for employees on an hourly basis.

We noted the following:

- Health insurance waiver payments were made to 2 employees; however, the payments were made in one lump sum in December. In addition, the stipends were paid through accounts payable rather than through the payroll system. Accordingly, the payments were not subject to the proper state and federal tax withholdings.
- The City is not following the City’s PTO policy. Employees are accruing PTO with each paycheck rather than receiving the allotted leave hours at the beginning of each year.
- City employees were paid on a semi-monthly pay period basis resulting in payment of 86.67 hours (2080 hours per year/24 pay periods) each pay period rather than the actual hours worked in each pay period. As a result, the payroll journal does not match the time cards for the same period. It also resulted in an overpayment of 24 hours (\$529.84) to the former City Clerk.

Recommendation – City should review and enforce policies regarding how often insurance waiver stipends should be paid. The City should contact the Iowa Department of Revenue and the Internal Revenue Service to determine the disposition of the unpaid state and federal taxes related to past and current stipend payments. Procedures should be established to ensure future stipends are paid through the payroll system so adequate withholding and reporting is done by the City. Paid time off should be awarded according to City policy. Payroll should be calculated based on approved hours worked each pay period. The City should consult legal counsel regarding the \$529.84 overpayment to the former City Clerk, including whether to seek reimbursement for the overpayment.

City of Elk Run Heights

Schedule of Findings

Year ended June 30, 2019

Response – Elected officials will be reviewing all timesheets and payroll reports. The personnel policy is in the process of being updated to help pay employees for the hours worked per their timesheets.

Conclusion – Response accepted.

- (11) Capital Project Fee – The City established a “capital project fee” by ordinance to save funds for the future waste water treatment plant. However, the funds are accumulating in the sewer fund and are not specifically tracked to determine appropriate spending in according with the approved ordinance or the balance remaining each month.

Recommendation – The City should establish a separate “capital project fee” account within the Enterprise, Sewer Fund and transfer accumulated receipts received from this revenue source into the fund so receipts and disbursements can be appropriately tracked.

Response – The City will be updating the Capital Projects Fund for the sewer fee of \$50 to separate it from the Enterprise, Sewer Fund.

Conclusion – Response acknowledged. A review of the capital project fee receipts and disbursements should be prepared, and any balance should be transferred to the new fund.

- (12) Sales Tax – We noted certain credit card purchases that included sales tax of \$18. The City is exempt from paying sales tax.

Recommendation – The City should review purchases and provide the appropriate documentation to vendors to eliminate sales tax on purchases

Response – Elected officials will be reviewing charges more closely to ensure there is no sales tax paid for the City.

Conclusion – Response accepted.

City of Elk Run Heights

Staff

This audit was performed by:

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