



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

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NEWS RELEASE

FOR RELEASE

December 23, 2020

Contact: Ernest Ruben
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Elk Run Heights, Iowa, for the period July 1, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported eleven findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 11 of this report. The findings address issues such as a lack of segregation of duties, a lack of bank and utility reconciliations, disbursements exceeding budgeted amounts, a deficit fund balance in the Enterprise, Solid Waste Fund and approval of journal entries are not documented. Sand provided the City with recommendations to address each of the findings.

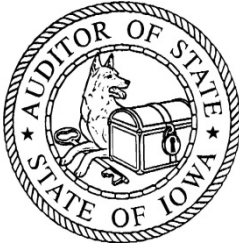
Seven of the eleven findings discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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

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CITY OF ELK RUN HEIGHTS
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Elk Run Heights



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December 4, 2020

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 agreed-upon procedures report for the City of Elk Run Heights, Iowa, for the period July 1, 2019 through June 30, 2020. 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 Elk Run Heights 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 Elk Run Heights

Officials

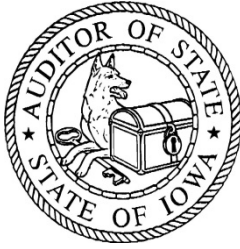
(Before January 2020)

<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
Julie Eastman	City Clerk/Treasurer	Indefinite
Heather Prendergast	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kristi Lundy	Mayor	Jan 2022
Lisa Smock	Mayor Pro Tem	Jan 2022
Dennis Bass	Council Member	Jan 2022
Timothy Ratchford	Council Member	Jan 2022
Heather Sallas	Council Member	Jan 2022
Dale Wilson	Council Member	Jan 2022
Julie Eastman	City Clerk/Treasurer	Indefinite
Heather Prendergast	Attorney	Indefinite

City of Elk Run Heights



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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 Elk Run Heights for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Elk Run Heights' management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We 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 2019 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.

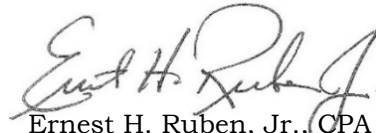
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned 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 not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting 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 Elk Run Heights 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.



Ernest H. Ruben, Jr., CPA
Director

December 4, 2020

Detailed Findings and Recommendations

City of Elk Run Heights

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

(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) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Utilities – collecting, depositing, reconciling, recording and maintaining detailed accounts receivable records.
- (4) Disbursements – invoice processing, purchasing, check writing, mailing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing, distributing and maintaining detailed vacation and compensatory time records.
- (6) Computer system – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

(B) Bank Reconciliations – Cash and investment balances in the City’s general ledger were not reconciled to bank and investment balances throughout the year. For the two months observed, bank and book balances did not properly reconcile. The “Bank Statement Reconciliation” reports from the City’s financial system include the City’s main checking and savings accounts; however, does not include certificates of deposit and the reconciliation did not include all interest receipts on investments. The March 2020 and June 2020 bank balance was greater than the book balance by \$444 and \$10,800, respectively. A correcting adjustment to record interest receipts was made in October 2020. Also, an independent review of the bank reconciliations was not documented.

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

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared. Also, the utility rates entered into the system are not periodically reviewed by an independent person to ensure proper utility calculations and billings.

City of Elk Run Heights

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

Recommendation – A listing of delinquent accounts should be prepared, and procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review. Additionally, utility rates entered into the system should be reviewed by an independent person to ensure proper utility calculations.

- (D) Financial Condition – The Enterprise, Solid Waste Fund had a deficit balance of \$2,733 at June 30, 2020.

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

- (E) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public works, community and economic development and general government functions prior to the June 9, 2020 budget amendment. In addition, disbursements exceeded the amounts budgeted in the public works, community and economic development and business type activities functions at year end. 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) Disaster Recovery Plan – The City does not have a written disaster recovery plan

Recommendation – A written disaster recovery plan should be developed and tested periodically.

- (G) Accounting Policies and Procedures Manual – the City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

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

City of Elk Run Heights

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (H) Annual Urban Renewal Report – The City understated the amount reported as TIF debt outstanding on the fiscal year 2019 Annual Urban Renewal Report (AURR) Levy Authority Summary. The City reported a zero balance for TIF debt outstanding on the AURR, however, the City has an internal loan representing TIF debt outstanding totaling \$150,000.

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

- (I) Journal Entries – Two of six journal entries observed were not supported. There was no evidence journal entries were reviewed and approved by an independent person.

Recommendation – Supporting documentation for all journal entries should be retained. An independent person should review and approved journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (J) Uniform Policy – The City has a policy which states, “Employees are expected to maintain their personal appearance, grooming and hygiene in a manner appropriate to the task at hand and at all times befitting a representative of the City.” The policy allows up to \$300 for clothing replacement each fiscal year for the Maintenance Department and the Wastewater Treatment Plant Supervisor. The clothing replacement includes uniform shirts, belt, jeans, boots and safety clothing. Purchases must be approved by the Mayor prior to the disbursement. We observed disbursements for jeans as part of this clothing allowance, however, there was no evidence of prior approval by the Mayor. Also, the policy is not clear as to the public purpose and how the public benefits from the clothing allowance.

In addition, disbursements for clothing considered adaptable to general usage as ordinary clothing are considered a taxable fringe benefit, however these disbursements were not included in wages in accordance with Internal Revenue Service (IRS) guidelines.

Recommendation – The City should revise the clothing allowance policy to clearly state the public purpose for providing a clothing allowance beyond good grooming and personal hygiene. Purchases should be approved by the Mayor prior to disbursement. Additionally, the City should establish procedures to include clothing purchases as a taxable fringe benefit in accordance with IRS guidelines.

- (K) Minutes – Chapter 21.3 of the Code of Iowa requires meeting minutes to include information sufficient to indicate the vote of each member. The minutes did not show information sufficient to indicate the vote of each member present.

Recommendation – The minutes should show sufficient information to indicate the vote of each member present.

City of Elk Run Heights

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Katherine L. Rupp, CPA, Manager
Kelly L. Hilton, Senior Auditor
Matthew R. Baumhover, Assistant Auditor