



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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Des Moines, Iowa 50319-0006
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NEWS RELEASE

Contact: Ernest Ruben
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FOR RELEASE

January 23, 2023

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

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$11,283,433 for the year ended June 30, 2021, a 108.1% increase over the prior year. Disbursements for the year ended June 30, 2021 totaled \$11,706,588, a 139.3% increase over the prior year. The significant increase in receipts is primarily due to the increase in Federal grant funds received for the levy rebuild project and hazard mitigation due to flooding. The significant increase in disbursements is primarily due to the levy rebuild project in the current fiscal year.

AUDIT FINDINGS:

Sand reported fifteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 40 through 53 of this report. The findings address issues such as a lack of segregation of duties, the lack of monthly bank to book reconciliations, a lack of monthly utility reconciliations, disbursements exceeded budgeted amounts, public purpose of certain transactions, a deficit fund balance in the Enterprise, Water Fund, donations to a nonprofit organization and noncompliance with certain requirements of a community catalyst grant provided by Iowa Economic Development Authority. Sand provided the City with recommendations to address each of the findings.

Eleven of the fifteen findings discussed above are repeated from the prior year's agreed-upon procedures report. 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 [Audit Reports – Auditor of State](#).

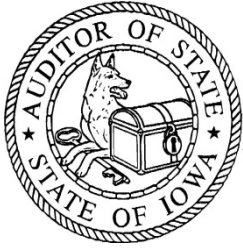
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CITY OF HAMBURG

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2021

City of Hamburg



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STATE OF IOWA

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Des Moines, Iowa 50319-0004
Telephone (515) 281-5834 Facsimile (515) 281-6518

December 20, 2022

Officials of the City of Hamburg
Hamburg, 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 Hamburg, Iowa, for the year ended June 30, 2021. 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 Hamburg 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, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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City of Hamburg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Cathy E. Crain	Mayor	Jan 2024
Kent Benefiel	Mayor Pro tem	Jan 2024
Russell Stockstell	Council Member	Jan 2022
Willie Thorp	Council Member	Jan 2022
Ray Hendrickson	Council Member	Jan 2024
Jimmie Randolph	Council Member	Jan 2024
Sheryl Owen	City Clerk/Treasurer	Indefinite
G. Rawson Stevens	Attorney	Indefinite

City of Hamburg



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STATE OF IOWA**

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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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hamburg, Iowa, as of and for the year ended June 30, 2021, 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 audit opinions.

Opinions

In our opinion, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hamburg as of June 30, 2021, 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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hamburg's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2020 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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 December 20, 2022 on our consideration of the City of Hamburg's 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 Hamburg's internal control over financial reporting and compliance.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

December 20, 2022

City of Hamburg

Basic Financial Statements

City of Hamburg

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2021

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 9,274,249	654	-	7,873,692
Public works	318,400	25,049	209,567	-
Culture and recreation	192,014	7,564	46,463	-
Community and economic development	662,380	-	-	102,695
General government	155,329	-	-	1,423,012
Debt service	503,241	-	-	-
Total governmental activities	11,105,613	33,267	256,030	9,399,399
Business type activities:				
Water	429,962	135,687	-	-
Sewer	171,013	128,926	-	-
Total business type activities	600,975	264,613	-	-
Total Primary Government	\$ 11,706,588	297,880	256,030	9,399,399
Component Unit:				
Hamburg Hometown Pride Affiliate	\$ 14,691	-	12,013	-
General Receipts:				
Property and other city tax levied for:				
General purposes				
Local option sales tax				
Commercial/industrial tax replacement				
Utility excise tax				
Unrestricted interest on investments				
Loan proceeds				
Miscellaneous				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonspendable				
Cemetery perpetual care				
Expendable:				
Streets				
Local option sales tax purposes				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Governmental Activities	Business Type Activities	Total	Hamburg Hometown Pride Affiliate
(1,399,903)	-	(1,399,903)	
(83,784)	-	(83,784)	
(137,987)	-	(137,987)	
(559,685)	-	(559,685)	
1,267,683	-	1,267,683	
(503,241)	-	(503,241)	
(1,416,917)	-	(1,416,917)	
-	(294,275)	(294,275)	
-	(42,087)	(42,087)	
-	(336,362)	(336,362)	
(1,416,917)	(336,362)	(1,753,279)	
			(2,678)
412,168	-	412,168	-
154,494	-	154,494	-
30,685	-	30,685	-
7,451	-	7,451	-
110	-	110	-
569,221	87,000	656,221	-
68,995	-	68,995	-
1,243,124	87,000	1,330,124	-
(173,793)	(249,362)	(423,155)	(2,678)
1,503,764	134,210	1,637,974	29,715
\$ 1,329,971	(115,152)	1,214,819	27,037
\$ 31,734	-	31,734	-
204,617	-	204,617	-
247,544	-	247,544	-
31,597	-	31,597	27,037
814,479	(115,152)	699,327	-
\$ 1,329,971	(115,152)	1,214,819	27,037

Exhibit B

City of Hamburg

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

As of and for the year ended June 30, 2021

	Special Revenue				Total
	General	Road Use Tax	Economic Development LOST	Nonmajor	
Receipts:					
Property tax	\$ 331,164	-	-	81,004	412,168
Local option sales tax	-	-	-	154,494	154,494
Other city tax	30,705	-	-	7,431	38,136
Licenses and permits	792	-	-	-	792
Use of money and property	963	13	-	19	995
Intergovernmental	9,398,563	209,548	823	-	9,608,934
Charges for service	32,475	-	-	-	32,475
Miscellaneous	111,351	-	-	3,254	114,605
Total receipts	9,906,013	209,561	823	246,202	10,362,599
Disbursements:					
Operating:					
Public safety	9,274,249	-	-	-	9,274,249
Public works	37,888	210,793	-	69,719	318,400
Culture and recreation	183,271	-	-	8,743	192,014
Community and economic development	658,901	-	3,479	-	662,380
General government	131,877	-	-	23,452	155,329
Debt service	503,241	-	-	-	503,241
Total disbursements	10,789,427	210,793	3,479	101,914	11,105,613
Excess (deficiency) of receipts over (under) disbursements	(883,414)	(1,232)	(2,656)	144,288	(743,014)
Other financing sources (uses):					
Loan proceeds	569,221	-	-	-	569,221
Change in cash balances	(314,193)	(1,232)	(2,656)	144,288	(173,793)
Cash balances (deficits) beginning of year	1,128,672	205,849	138,107	31,136	1,503,764
Cash balances end of year	\$ 814,479	204,617	135,451	175,424	1,329,971
Cash Basis Fund Balances					
Nonspendable - Cemetery perpetual care	\$ -	-	-	31,734	31,734
Restricted for:					
Streets	-	204,617	-	-	204,617
Local option sales tax purposes	-	-	135,451	112,093	247,544
Other	-	-	-	31,597	31,597
Unassigned	814,479	-	-	-	814,479
Total cash basis fund balances	\$ 814,479	204,617	135,451	175,424	1,329,971

See notes to financial statements.

City of Hamburg

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

As of and for the year ended June 30, 2021

	Enterprise		
	Sewer	Water	Total
Operating receipts:			
Charges for service	\$ 128,926	135,687	264,613
Operating disbursements:			
Business type activities	171,013	342,301	513,314
Deficiency of operating receipts under operating disbursements	(42,087)	(206,614)	(248,701)
Non-operating receipts and (disbursements):			
Capital outlays	-	(87,661)	(87,661)
Loan proceeds	9,000	78,000	87,000
Net non-operating receipts	9,000	(9,661)	(661)
Deficiency of receipts under disbursements	(33,087)	(216,275)	(249,362)
Cash balances beginning of year	107,733	26,477	134,210
Cash balances end of year	\$ 74,646	(189,798)	(115,152)
Cash Basis Fund Balances			
Unrestricted	\$ 74,646	(189,798)	(115,152)

See notes to financial statements.

City of Hamburg

Notes to Financial Statements

June 30, 2021

(1) Summary of Significant Accounting Policies

The City of Hamburg is a political subdivision of the State of Iowa located in Fremont County. It was first incorporated in 1867 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, 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 Hamburg 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.

These financial statements present the City of Hamburg (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

Pursuant to Chapter 501B of Code of Iowa, the Hamburg Hometown Pride organization is an unincorporated nonprofit association. The Hamburg Hometown Pride organization was organized exclusively for charitable purposes for the enhancement and improvement of the City of Hamburg. The organization uses the City's tax I.D. number to operate and requests grants in the name of the City. In accordance with criteria set forth by the Governmental Accounting Standards Board, the organization meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the organization are substantially for the direct benefit of the City of Hamburg.

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: Fremont County Assessor's Conference Board, Fremont County Emergency Management Commission, Fremont County Landfill Commission and Fremont 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:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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.

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 Employee Benefits Fund is used to account for the employee benefit property tax levy for the payment of General and Special Revenue, Road Use Tax Fund employee benefits.

The Economic Development LOST Fund is used to account for local option sales tax and related economic development activities authorized by local option sales tax resolution.

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.

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. Property Taxes and Governmental Cash Basis Fund Balances

The following accounting policies are followed in preparing the financial statements:

Property tax receipts recognized in the governmental funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2019 assessed property valuations; is for the tax accrual period July 1, 2020 through June 30, 2021 and reflects tax asking contained in the budget certified to the City Council in March 2020.

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

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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.

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, 2021, disbursements exceeded the amounts budgeted in the culture and recreation, general government and debt service functions.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2021 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.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Notes Payable

A summary of changes in notes payable for the year ended June 30, 2021 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Governmental activities:					
General obligation anticipation project note - direct borrowing	\$ 471,366	656,221	482,337	645,250	-

General Obligation Corporate Purpose Loan Agreement Anticipation Project Note:

On May 31, 2019, the City entered into a revenue project note agreement with an interest rate of 3.30% with Great Western Bank of Hamburg Iowa for up to \$2,000,000 with a maturity date of May 28, 2020 to be used for the purpose of paying costs of (1) constructing a water system, sanitary sewer system, storm water drainage, street and sidewalk repairs, improvements and extensions, (2) repairing and effectuating street lighting, signage and signalization improvements; (3) constructing flood control and levee improvements; 4) acquiring, demolishing and /or restoring dangerous, dilapidated and /or abandoned properties; (5) acquiring and replacing public works vehicles and equipment; (6) acquiring and replacing fire department vehicles and equipment; (7) undertaking the remediation, restoration, repair, cleanup, replacement, and improvement of property, buildings, equipment and public facilities that have been damaged by a disaster; and (8) reimbursing the City's general fund or other funds of the City for the expenditures made related to remediation, restoration, repair, and cleanup of damage caused by a disaster (collectively, the "Projects"), and is issued under authority of Section 76.13 of the Code of Iowa in anticipation of the receipt of and is payable from the proceeds (the Loan Proceeds) of an authorized loan agreement and a corresponding future issuance of General Obligation Bonds or Notes in a principal amount not to exceed \$2,000,000. On May 21, 2020, the agreement was amended to extend the maturity date to May 28, 2021. As of June 30, 2021, the City has drawn down \$1,763,997. During the year ended June 30,2021, the City drew down \$656,221 of those funds. During the year ended June 30, 2021, the City paid principal of \$482,337 and interest of \$20,904 from the General Fund on the note. The remaining balance on the note at June 30, 2021 of \$645,250 was repaid with a general obligation project anticipation note issued in September 2021.

(4) Plan Pension

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 2021, 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, 2021 totaled \$28,336.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2021, the City reported a liability of \$223,890 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 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, 2020, the City's proportion was 0.003187%, which was an decrease of 0.000618% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$34,350, \$42,734 and \$23,716, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2020 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, 2020 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 2020 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%	4.43%
International equity	17.5	5.15
Global smart beta equity	6.0	4.87
Core plus fixed income	28.0	(0.29)
Public credit	4.0	2.29
Cash	1.0	(0.78)
Private equity	11.0	6.54
Private real assets	7.5	4.48
Private credit	3.0	3.11
Total	<u>100.0%</u>	

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	\$ 373,318	223,890	98,597

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.

(5) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the City of Hamburg, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the City of Hamburg. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the City of Hamburg’s operations and finances.

(7) Deficit Fund Balance

The Enterprise, Water Fund had a deficient balance of \$189,798 at June 30, 2021. The deficit balance is the result of well water project costs incurred prior to receiving grant funds. The deficit will be eliminated with the collection of grant funds.

(8) Subsequent Event

On September 13, 2021, the City of Hamburg issued general obligation anticipation project notes, Series 2021A for \$1,550,000. Proceeds of the Notes will be used for the purpose of paying costs of (1) constructing water system, sanitary sewer system, storm water drainage, street and sidewalk repairs, improvements and extensions; (2) repairing and effectuating street lighting, signage and signalization improvements; (3) constructing flood control and levee improvements; (4) acquiring, demolishing and/or restoring dangerous, dilapidated and/or abandoned properties; (5) acquiring and replacing public works vehicles and equipment; (6) acquiring and replacing fire department vehicles and equipment; (7) undertaking the remediation, restoration, repair, cleanup, replacement, and improvement of property, buildings, equipment, and public facilities that have been damaged by a disaster; (reimbursing the City's general fund or other funds of the City for expenditures made related to remediation, restoration, repair and cleanup of damage caused by a disaster, including refunding of a prior note issued to fund said items) and (9) paying certain costs of issuances related to the notes.

(9) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2022. The revised requirements of this statement require reporting of certain potentially significant lease liabilities that are not currently reported.

Other Information

City of Hamburg
 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, 2021

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 412,168	-	412,168
Local option sales tax	154,494	-	154,494
Other city tax	38,136	-	38,136
Licenses and permits	792	-	792
Use of money and property	995	-	995
Intergovernmental	9,608,934	-	9,608,934
Charges for service	32,475	264,613	297,088
Miscellaneous	114,605	-	114,605
Total receipts	10,362,599	264,613	10,627,212
Disbursements:			
Public safety	9,274,249	-	9,274,249
Public works	318,400	-	318,400
Culture and recreation	192,014	-	192,014
Community and economic development	662,380	-	662,380
General government	155,329	-	155,329
Debt service	503,241	-	503,241
Business type activities	-	600,975	600,975
Total disbursements	11,105,613	600,975	11,706,588
Excess of receipts over disbursements	(743,014)	(336,362)	(1,079,376)
Other financing sources (uses):			
Loan proceeds	569,221	87,000	656,221
Change in balances	(173,793)	(249,362)	(423,155)
Balances beginning of year	1,503,764	134,210	1,637,974
Balances end of year	\$ 1,329,971	(115,152)	1,214,819

See accompanying independent auditor's report.

Budgeted Amounts	Final to Total Variance
Original / Final	
425,423	(13,255)
90,000	64,494
7,300	30,836
350	442
2,500	(1,505)
12,698,000	(3,089,066)
1,522,000	(1,224,912)
125,000	(10,395)
<u>14,870,573</u>	<u>(4,243,361)</u>
10,847,675	1,573,426
361,462	43,062
177,096	(14,918)
908,000	245,620
116,700	(38,629)
225,000	(278,241)
1,525,000	924,025
<u>14,160,933</u>	<u>2,454,345</u>
709,640	(1,789,016)
-	656,221
709,640	1,132,795
2,494,554	856,580
<u>3,204,194</u>	<u>1,989,375</u>

City of Hamburg

Notes to Other Information – Budgetary Reporting

June 30, 2021

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 except the discretely presented component unit. 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 Debt Service Fund, the Permanent 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 there were no budget amendments.

During the year ended June 30, 2021, disbursements exceeded the amounts budgeted in the culture and recreation, general government and debt service functions.

City of Hamburg

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

Iowa Public Employees' Retirement System
For the Last Three Years*
(In Thousands)

Other Information

	2021	2020	2019
City's proportion of the net pension liability	0.003187%	0.003805%	0.002430%
City's proportionate share of the net pension liability	\$ 224	220	205
City's covered payroll	\$ 254	286	235
City's proportionate share of the net pension liability as a percentage of its covered payroll	88.19%	76.92%	87.23%
IPERS' net position as a percentage of the total pension liability	82.90%	85.45%	83.62%

* 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 Hamburg

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Other Information

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 28	24	27	21
Contributions in relation to the statutorily required contribution	<u>(28)</u>	<u>(24)</u>	<u>(27)</u>	<u>(21)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 295	254	286	235
Contributions as a percentage of covered payroll	9.49%	9.45%	9.44%	8.94%

See accompanying independent auditor's report.

2017	2016	2015	2014	2013	2012
21	19	18	19	18	15
(21)	(19)	(18)	(19)	(18)	(15)
-	-	-	-	-	-
235	213	202	213	208	186
8.94%	8.92%	8.91%	8.92%	8.65%	8.06%

City of Hamburg

Notes to Other Information – Pension Liability

Year ended June 30, 2021

Changes of benefit terms:

There are no significant changes in benefit terms.

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.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

Supplementary Information

Schedule 1

City of Hamburg

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2021

	Special Revenue		Permanent	Total
	Employee Benefits	Local Option Sales Tax	Cemetery Perpetual Care	
Receipts:				
Property tax	\$ 81,004	-	-	81,004
Local option sales tax	-	154,494	-	154,494
Other city tax	7,431	-	-	7,431
Use of money and property	-	19	-	19
Miscellaneous	-	-	3,254	3,254
Total receipts	88,435	154,513	3,254	246,202
Disbursements:				
Operating:				
Public works	24,643	45,076	-	69,719
Cultures and recreation	8,743	-	-	8,743
General government	23,452	-	-	23,452
Total disbursements	56,838	45,076	-	101,914
Excess of receipts over disbursements	31,597	109,437	3,254	144,288
Cash balances beginning of year	-	2,656	28,480	31,136
Cash balances end of year	31,597	112,093	31,734	175,424
Cash Basis Fund Balances				
Nonspendable - Cemetery perpetual care	\$ -	-	31,734	31,734
Restricted				
Local option sales tax purposes	-	112,093	-	112,093
Other purposes	31,597	-	-	31,597
Total cash basis fund balances	\$ 31,597	112,093	31,734	175,424

See accompanying independent auditor's report.

City of Hamburg

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Two Years

	<u>2021</u>	<u>2020</u>
Receipts:		
Property tax	\$ 412,168	392,146
Local option sales tax	154,494	96,573
Other tax	38,136	48,700
Licenses and permits	792	1,418
Use of money and property	995	24,543
Intergovernmental	9,608,934	3,588,787
Charges for service	32,475	29,039
Miscellaneous	114,605	226,272
Total	<u>\$ 10,362,599</u>	<u>4,407,478</u>
Disbursements:		
Operating:		
Public safety	\$ 9,274,249	2,746,289
Public works	318,400	388,045
Culture and recreation	192,014	111,796
Community and economic development	662,380	419,958
General government	155,329	202,741
Debt service	503,241	645,078
Total	<u>\$ 11,105,613</u>	<u>4,513,907</u>

See accompanying independent auditor's report.

City of Hamburg

City of Hamburg
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2021

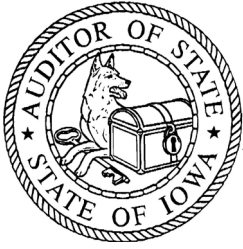
Grantor/Program	Assistance Listing Number	Pass-Through Entity Identifying Number	Program Expenditures
Direct:			
U.S. Department of Commerce Economic Development Cluster Economic Adjustment Assistance	11.307		\$ 4,924,512
Indirect:			
U.S. Department of Agriculture Emergency Community Water Assitance Grant	10.763	19-DRI-002	38,076
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority: Community Development Block Grants/State's Program and Non-Entitlement Grants	14.228	19-DRI-002	31,153
U.S. Department of Homeland Security:			
Emergency Management: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4421-DRIA	847,397
Hazard Mitigations Grant	97.039	FEMA-4421-HMGP	423,059
Total Indirect			1,339,685
Total Federal Awards			\$ 6,264,197

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Hamburg under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Hamburg, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Hamburg.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate – The City of Hamburg has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.



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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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hamburg, Iowa, as of and for the year ended June 30, 2021, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 20, 2022. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hamburg's internal control over financial reporting as a basis for designing audit procedures that are 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 Hamburg's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hamburg's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be 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 and Questioned Costs, we identified certain deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

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 Hamburg's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-21 through II-E-21 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 deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-F-20 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hamburg's 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 financial statements. 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2021 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.

City of Hamburg's Responses to the Findings

The City of Hamburg's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Hamburg's 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 Hamburg 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.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

December 20, 2022



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Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Hamburg, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City of Hamburg's major federal programs for the year ended June 30, 2021. The City of Hamburg's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Hamburg's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hamburg's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the City of Hamburg's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Hamburg complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

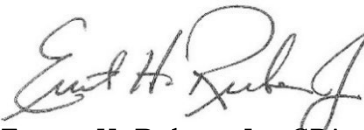
The management of the City of Hamburg is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Hamburg's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Hamburg's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item III-A-20, we consider to be a material weakness.

The City of Hamburg's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. The City of Hamburg's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

December 20, 2022

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major programs were Assistance Listing Numbers 11.307 – Economic Adjustment Assistance and 97.036 – Disaster Grants – Public Assistance/Presidentially Declared Disaster.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Hamburg did not qualify as a low-risk auditee.

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-21 Segregation of Duties
(2021-001)

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 have control over the following areas for which no compensating controls exist:

- (1) Accounting system – performance of all accounting functions and having custody of assets.
- (2) Cash – initiating cash receipt and disbursement transactions, handling and recording cash and reconciling bank accounts.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long-term debt – maintaining long-term debt records and handling and recording cash and reviewing compensated absence records.
- (5) Receipts – opening mail, collecting, depositing, recording, and reconciling.
- (6) Disbursements – purchasing, disbursement preparation, recording, check writing, signing, and reconciling.
- (7) Payroll – entering rates into the system, preparing, reconciling, recording, and distributing.
- (8) Journal entries are not reviewed and approved by an independent person.

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 – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Reviews of journal entries and reconciliations should be performed by independent persons and should be evidenced by the signature or initials of the reviewer and the date of the review.

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Response – The City will implement procedures to comply with segregation of duties to the best of our ability with limited staff. The City will utilize Council Members, the Mayor and CPA, when possible, to segregate duties.

Conclusion – Responses accepted.

II-B-21 Segregation of Duties – Hamburg Hometown Pride
(2021-002)

Hamburg Hometown Pride – One important aspect of internal control is the segregation of duties among volunteers to prevent an individual from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another.

Condition – For the Hamburg Hometown Pride, a discretely presented component unit, the responsibilities for deposit preparation, cash disbursement and bank reconciliation functions are not properly segregated. These duties are handled by one individual. In addition, mail is not opened by someone independent of the cash receipt functions and an initial listing of receipts is not prepared and tested by an independent mail opener.

Cause – The Hamburg Hometown Pride has a limited number of volunteers 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 component unit'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 – We realize segregation of duties is difficult with a limited number of individuals. However, the Hamburg Hometown Pride should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including Board members. An initial listing of receipts should be prepared and tested by an independent mail opener and that independent individual should document this review of mail receipts by signing or initialing and dating each listing.

Response – Hamburg Hometown Pride has no employees. Members are all community volunteers. The only receipts received by mail are the grant checks received from the SW Iowa Community Foundation, and a few other donation transactions through the year. The Treasurer reports each deposit and disbursement transaction during the monthly HHP monthly meeting which is open to the public. All monies are spent for community betterment projects for the purpose of improving first impressions. Projects are all visible to the public. Actions are conducted with complete transparency.

HHP has received their 501c3 on May 6, 2022.

Conclusion – Response acknowledged. The Hamburg Hometown Pride should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including Board members.

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

II-C-21 Bank Reconciliations
(2021-003)

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling bank and book balances. Supervisory review of bank reconciliations can help ensure the accuracy of recorded amounts.

Condition – Monthly bank to book reconciliations which include all accounts, cash and investment balances and outstanding transactions, are not reconciled monthly.

Cause – Procedures have not been designed and implemented to ensure monthly bank to book reconciliations are performed which include all accounts held by the City and outstanding transactions.

Effect – The lack of a complete monthly bank to book reconciliation could result in unrecorded transactions, undetected errors, and the opportunity for misappropriation.

Recommendation – The City should implement procedures to ensure monthly bank to book reconciliation are performed which include all accounts held by the City and outstanding transactions. In addition, an independent person should review the bank reconciliations and document their review by signing or initialing and dating the monthly reconciliations.

Response – The City will begin June 30, 2021 with the CPA reviewing reconciliations prepared with new software.

Conclusion – Response acknowledged. The City should ensure the reconciliations prepared by the new software incorporate all City accounts, including savings accounts and investments.

II-D-21 Reconciliation of Utility Billings, Collections and Delinquent Accounts
(2021-004)

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. In addition the City has not developed a policy dictating how to collect delinquent account balances

Condition – The City does not maintain delinquent account listings. Accordingly, reconciliations of utility billings, collections and delinquent accounts are not prepared.

Cause – Policies have not been established and procedures have not been implemented to require the preparation of delinquent account listings and the reconciliation of utility billings, collections and delinquent accounts.

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

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Recommendation – The City should adopt a policy requiring the preparation of delinquent account listings and reconciliations of delinquent accounts to utility billings and collections. The delinquent account listings and the reconciliations of utility billings, collections and delinquent accounts should be reviewed by someone independent of handling utility billings and collections and maintaining the delinquent account listings.

Response – The City will adopt a policy to maintain a delinquent account listing containing delinquent account balances. The City Clerk will reach out to a City that uses the same software to implement adequate reconciliation procedures.

Conclusion – Response accepted.

II-E-21 Financial Reporting
(2021-005)

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 statement on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City’s financial statements.

Condition – A material amount of receipts and disbursements were incorrectly recorded in the City’s financial records according to the Uniform Chart of Accounts. Adjustments were subsequently made to properly include these amounts in the financial statements.

Cause – City policies do not require and procedures have not been established for an independent person to review the financial records to help ensure accuracy.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the City financial records were necessary.

Recommendation – The City should ensure all receipts and disbursements are recorded to the proper receipt or disbursement account and fund in the financial records according to the recommended Uniform Chart of Accounts for Iowa City Governments.

Response – The City will ensure all receipts and disbursements are recorded to the proper accounts and funds.

Conclusion – Response accepted.

II-F-21 Annual Financial Report
(2021-006)

Criteria – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...”

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Condition – Total receipts and disbursements reported on the AFR trace to the City’s “Client Profit and Loss Statement” report; however, balances reported in the AFR do not agree with the City’s records and the governmental fund total beginning balance did not trace to prior year ending balance.

Cause – Policies have not been established and procedures have not been implemented to ensure all amounts in the AFR are supported by the City’s financial records. Also, policies have not been established to require independent review of the AFR.

Effect – The AFR does not accurately reflect the City’s financial activity for the fiscal year ended June 30, 2021.

Recommendation – The City should establish procedures to ensure the AFR beginning balances and financial activity is properly supported and reported.

Response – The recent implementation of municipal software will correct these errors in the future.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No matters noted.

INTERNAL CONTROL DEFICIENCY:

Assistance Listing Number 11.307: Economic Adjustment Assistance

Agency Number: 05-79-05980

Federal Award Year: 2021

Prior Year Finding Number: N/A

U.S. Department of Commerce

Assistance Listing Number 97.036: Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Pass-through Entity Identifying Number: FEMA-4016-DRIA

Federal Award Year: 2021

Prior Year Finding Number: III-A-20 (2020-001)

U.S. Department of Homeland Security

Passed through Iowa Department of Homeland Security and Emergency Management

III-A-21 Segregation of Duties – The City did not properly segregate collection,
(2021-007) deposit and record-keeping for receipts, including those related to federal
programs. See item II-A-21.

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Other Findings Related to Required Statutory Reporting:

IV-A-21 Certified Budget – Disbursements at year end exceeded the amount budgeted in the culture and recreation, general government and debt service 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 amend prior to exceeding budget in accordance with Iowa Code Chapter 384.20.

Conclusion – Response accepted.

IV-B-21 Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General 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 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Great Western Bank	Late fees	\$ 350
Amazon	Unsupported	141
Various vendors	Sales tax	54

According to the Attorney General's 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 Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper documentation.

Response – As of now, the City has the City Clerk, City Council person and Mayor sign off on all payments that are approved by the City Council. The City will also create a policy for these procedures.

Conclusion – Response accepted.

IV-C-21 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-21 Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

IV-E-21 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>
Kent Benefiel, City Council Member, Owns Benefiel Towing	Flood clean up	\$ 9,061

The transaction with Benefiel Towing may represent a conflict of interest since the transactions exceeded \$6,000 and were not competitively bid in accordance with Chapter 362.5(3)(d).

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – Although the City knows, we had limited services at the time of this transaction. In the future the city will consult with legal counsel.

Conclusion – Response acknowledged. The City should consult legal counsel to determine the disposition of this matter.

IV-F-21 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.

IV-G-21 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-H-21 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.

IV-I-21 Financial Condition – The Enterprise, Water Fund had a deficit balance of \$189,798 at June 30, 2021.

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

Response – The deficit was due to engineering and design expenditures for the USDA Water well project. As soon as the City is reimbursed the fund will be back in sound financial position.

Conclusion – Response accepted.

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

- IV-J-21 Hamburg Hometown Pride – Hamburg Hometown Pride (HHP) is an affiliate of Fremont County Hometown Pride which was established in 2013. Fremont County Hometown Pride was an affiliate of Keep America Beautiful, a statewide non-profit organization. Affiliates were part of the state program for 5 years offering program support and technical assistance. After five years the affiliates were to establish their own entity and operate without the assistance from Keep Iowa Beautiful. HHP did not pursue obtaining non-profit status while three other affiliates of Fremont County Hometown Pride complied with this directive and are operating as separate 501C organizations.

HHP appears to be operating as an unincorporated nonprofit association under Chapter 501B of the Code of Iowa. Chapter 501B.2(8) defines an unincorporated nonprofit association as an unincorporated organization consisting of two or more members joined under an agreement that is oral, in a record, or implied from conduct, for one or more common, nonprofit purposes. HHP purpose is to provide community improvement projects in Hamburg Iowa. HHP does not have a separate tax ID number. HHP established a checking account in Hamburg Hometown Pride's name using the City's tax ID number with the City's permission. HHP applies for grants from SW Community Foundation each year under the City of Hamburg's tax ID number. When grant funds are received, they are deposited into HHP checking account. Funds in HHP's checking account are maintained by HHP's Treasurer who provides a monthly report at the HHP meeting which is open to the public.

Recommendation – Hamburg Hometown Pride should seek legal advice as to their status as a 501B non-profit. Funds applied for and received under the City's name and using their tax ID should be turned over to the City of Hamburg. Hamburg Hometown Pride should immediately cease using the City of Hamburg's tax identification number and should immediately cease using the City of Hamburg's name and tax ID number to apply for grants.

Response – Hamburg Hometown Pride received their 501c3 on May 6, 2022.

Conclusions – Response acknowledged. Hometown Pride should seek legal advice as to their status as a 501B nonprofit organization. All funds collected under the City's name with the City's tax ID number and still remaining on hand should be turned over to the City. The City and HHP should then work together to ensure the proper use of the donated funds. Hamburg Hometown Pride should immediately cease using the City of Hamburg's tax ID number and should immediately cease using the City of Hamburg's name and tax ID number to apply for grants.

- IV-K-21 Donations – In 2013 when Fremont County Hometown Pride was created, affiliate communities were asked to be part of the County wide projects. A Fremont County Community Coach was hired, and his position was funded by Keep Iowa Beautiful for five years. The City of Hamburg does not have voting rights or oversight of the affiliate. Prior to and during year ended June 30, 2021, the City has donated funds to the Fremont County Hometown Pride for an LED sign at the City Park in the amount of \$22,000, the Community Coach in the amount of \$2,000 per year for two additional years of coaching ending in fiscal year 2021 and a feasibility study in the amount of \$2,000. There were no agreements in place for any services to be provided to the City.

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

City of Hamburg

Schedule of Findings and Questioned Costs

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At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that “a governmental body may not donate public funds to a private entity, even if the entity is established for charitable educational purposes and performs work which the government can’t perform directly. The Opinions further state, “Even if the function of a private non-profit corporation fits within the scope of activities generally recognized as serving a public purpose, a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purpose.

Political subdivisions and municipalities, including cities, counties, schools and townships are municipal – governmental entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support ‘public’ services which are the same or similar to the services provided by government, the private organization are not subject to the same degree of public accountability and oversight as governmental entities.

Recommendation – We are not aware of any statutory authority for the City to donate public funds to private non-profit organizations. The City should immediately cease making future such donations.

Response – The City Council will inform Hometown Pride the City can no longer donate to Hamburg Hometown Pride.

Conclusions – Response accepted.

IV-L-21 Water Meters – We identified a water billing for the Public Works Director which did not recalculate and was not supported by a meter reading. Upon inquiry, the City Clerk disclosed 50 of the approximately 465 water meters in the City of Hamburg water system do not work. In order to calculate the monthly billings, the City Clerk estimates monthly water usage to bill. There is no policy setting guidelines as to how the City Clerk calculates the usage. The City Clerk stated that she estimates usage based upon other households of similar size.

During fieldwork, it was determined the Public Works Director owed the City of Hamburg and additional \$14 for the miscalculated bill. AOS obtained documentation of the payment to the City during fieldwork.

Recommendation – The City should maintain water meters in working order and establish policies and procedures to ensure the City properly bills and collects for water usage according to City policy. In addition, any estimated billings for non-working meters should be reviewed by an independent person. The review of the estimates should be documented by the signature or initials of the reviewer and the date of the review.

Response – The City Clerk added 26,000 gallons to the Public Works Director water bill to account for filling his personal swimming pool. The City Clerk changed the usage but did not add the base rate of \$14 to the bill. The Public Works Director paid the City \$14 with a personal check #779 in March 2022. Several City meters are estimated. The City Council approved an upgrade to our Badger Meter Reading System because we cannot install new meters on the old system. We have ordered the new system and the City Clerk and other staff will be trained how to use it. When the City ordered the new system, they also approved ordering new meters.

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Conclusion – Response acknowledged. The City should establish policies and procedures to ensure the City properly bills and collects for water usage according to City policy. If estimated billings are continued until the new meters are installed, those billings, including estimated usage should be reviewed and approved by an independent person. The review should be evidenced by the signature or initials of the reviewer and the date of the review.

- IV-M-21 Local Option Sales Tax – The City’s local option sales tax (LOST) ballot states “A local option sales and services tax shall be imposed in the City of Hamburg at the rate of one percent (1%) to be effective on January 1, 1996. The specific purpose for which the revenues shall otherwise be expended is: 90% for infrastructure and 10% for economic development”.

During fiscal year ended 2021, we noted that while 10% of revenues were given a description of economic development when deposited in the LOST fund, the City does not maintain documentation to support how the 10% of LOST collections credited to the LOST Fund for economic development were used or the unspent balances held for the specified purpose.

Recommendation – The City should establish procedures to properly account for LOST revenues, expenditures and balances in accordance with the LOST ballot provisions.

Response – When the LOST revenues are used the City will document expenditures and balance with a new procedure.

Conclusion – Response accepted.

- IV-N-21 Annual Financial Report – The Annual Financial Report (AFR) was not approved by the City Council and was not certified to the Iowa Department of Management on or before December 1. The report was certified on December 31, 2021.

Recommendation – The City should approve and file the AFR before December 1st as required by the Code of Iowa.

Response – The City will work to have the AFR approved before December 1st of each fiscal year.

Conclusion – Response accepted.

- IV-O-21 Payment of General Obligation Anticipation Project Notes – Chapter 384.4 of the Code of Iowa states, in part, “moneys pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the Debt Service Fund”. The City has not established a debt service fund. In addition, the general obligation anticipation project notes were paid from the General Fund.

Recommendation – The City should establish a Debt Service Fund and deposit or transfer funds received from sources other than property taxes to the Debt Service Fund for future funding.

Response – The City will set up a debt service fund to deposit or transfer funds received from other sources other than property taxes to the debt service.

Conclusion – Response accepted.

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

IV-P-21 Community Catalyst Grant – The City entered into a Community Catalyst Building Remediation Grant Agreement with the Iowa Economic Development Authority (IEDA). The grant totaled \$400,000 for costs directly related to privately owned properties located on Main Street damaged as part of a flood in 2019.

The Hamburg Economic Development Corporation (HEDC) is a Chapter 504A private non-profit organization. The purpose of the Corporation, among other things, is to promote the betterment of the downtown area of Hamburg.

Political subdivisions and municipalities, including cities, counties, schools and townships are municipal – governmental entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support “public” services which are the same or similar to the services provided by government, the private organization are not subject to the same degree of public accountability and oversight as governmental entities.

The Community Catalyst Grant agreement between the City and IEDA, among other things, did not permit the City to assign, transfer or convey in whole or in part the agreement, delegate any obligations or duties, or pledge as collateral, grant a security interest in, create a lien against, or otherwise encumber, any payment that may or will be made to the City under this agreement. Also, the City did not enter into a written agreement with HEDC to formalize duties and responsibilities of each party and requirements for compliance with the Community Catalyst Grant.

Under the agreement, the City, not the HEDC, was required to prepare, review, and sign all requests for payment and verify claimed expenditures are allowable costs directly related to the project. While the City submitted reimbursement requests to IEDA supported by contractor or vendor invoices, the vendors were contracted and paid by the HEDC. Reimbursements received by the City from IEDA, were receipted by the City and City checks were issued to the Hamburg Economic Development Corporation for the invoices paid by HEDC. There would be no practical reason for the HEDC to contract and pay vendor invoices related to the catalyst grant between the City and IEDA. To comply with the agreement and to provide public accountability and oversight, the City should have contracted and approved the vendors and paid the vendors from City accounts.

Also, the agreement requires the owner of the project property to provide the City with a copy of each and every insurance policy in effect and the City is to maintain a copy and provide copies to IEDA upon request. The City has not maintained the required insurance policy documentation.

The catalyst grant, in order to address conflicts of interest, requires the City to establish safeguards to prevent employees, consultants, or members of governing bodies from using their positions for purposes that are, or give the appearance of being motivated by the desire for private gain for themselves or others with whom they have family, business, or other ties. Two properties purchased by Kent Benefiel, a City Council member, subsequent to the flood and subsequent to the catalyst grant award to the City, received eligible grants totaling \$233,000. A City Council member is a member of the governing body and therefore is subject to conflict of interest. Because the City did not establish the required controls and safeguards to prevent a conflict of interest, the transactions with the City council member, at a minimum, gives the appearance of being motivated by the desire for private gain.

City of Hamburg

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Recommendation – The City should contact the Iowa Economic Development Authority for resolution to potential violations of the agreement including conflict of interest with the City Council member. The City should implement procedures to ensure compliance with grant agreements.

Response –

Grants and HEDC:

While we do have record of the forming of the Hamburg Economic Development Corporation (HEDC), we find no recent grant-related communications between the City of Hamburg (the City) and the HEDC.

From the IEDA findings it is my understanding the City should not have used HEDC for the purposes of issuing or approving payments to contractors or vendors. Apparently, those payments should have been issued directly from City accounts. Additionally, the City should have requested and maintained copies of all related documents and insurance policies.

Those copies could have been obtained from owners of the involved property or properties.

Conflicts of Interest and the appearance of conflicts of interest:

We have conducted lengthy searches of grant documents, as well as discussions with Hamburg's City Council and previous Mayor. It was their understanding that after reviewing Catalyst Grants for potential conflicts with Mr. Jim Thompson, no conflict of interest was determined. The previous Mayor and City Council believed further that IEDA's approval of those grants was confirmation of their understanding that no conflict of interest existed. Thus far, we are unable to find any instances where the City documented such an understanding.

The City of Hamburg is committed to maintaining the required documentation and copies of insurance policies regarding future grants. As a normal course of action, we continue to review information pertaining to existing grants. Going forward, we will require the City to seek expert advice from involved grant agencies to ensure compliance with appropriate grant procedures, including collection and retention of necessary grant information. To help make proper decisions in this area, we will develop a Conflict of Interest Policy and Procedure to guide us.

Conclusion – Response acknowledged. The City should contact the Iowa Economic Development Authority for resolution to these matters.

City of Hamburg

Staff

This audit was performed by:

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