

**CITY OF EAST MOLINE, ILLINOIS**  

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**MANAGEMENT LETTER**

**FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2020**



July 28, 2021

The Honorable Mayor  
Members of the City Council  
City of East Moline, Illinois

In planning and performing our audit of the financial statements of the City of East Moline (the City), Illinois, for the year ended December 31, 2020, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We do not intend to imply that our audit failed to disclose commendable aspects of your system and structure. For your consideration, we herein submit our comments and suggestions which are designed to assist in effecting improvements in internal controls and procedures. Those less-significant matters, if any, which arose during the course of the audit, were reviewed with management as the audit field work progressed.

The accompanying comments and recommendations are intended solely for the information and use of Members of the City Council, management, and others within the City of East Moline, Illinois.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel. We would be pleased to discuss our comments and suggestions in further detail with you at your convenience, to perform any additional study of these matters, or to review the procedures necessary to bring about desirable changes.

We commend the finance department for the well prepared audit package and we appreciate the courtesy and assistance given to us by the entire City staff.

*Lauterbach & Amen, LLP*

LAUTERBACH & AMEN, LLP

## **CURRENT RECOMMENDATIONS**

### 1. **CAPITAL ASSET POLICY**

#### Comment

During our current year-end audit procedures, we noted the City does not have a formal capital asset policy to provide guidance on the financial aspects and stewardship of capital assets. With respect to the financial aspects, guidance should be provided on the minimum dollar amount and minimum useful life for an item to be capitalized as a capital asset. Stewardship issues include the physical custody of capital assets.

#### Recommendation

We recommend that the City adopt a capital asset policy, which addresses both financial, and stewardship issues. As part of developing the capital asset policy, a review of the current capitalization amount and estimated useful life should be performed for both financial reporting and stewardship. The capital asset policy should also establish standard depreciation methods and useful lives to be applied to specific categories of assets. With respect to stewardship, the policy should address location of assets, tagging, physical access and security and frequency of periodic inventories.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

### 2. **FUND BALANCE POLICY**

#### Comment

During our current year-end audit procedures, we noted that the City does not have a formal fund balance policy. A fund balance policy establishes a minimum level at which the projected end-of-year fund balance/net position should be maintained, taking into account the constraints imposed upon the resources reported by the governmental and proprietary funds. A fund balance policy assists in providing financial stability, cash flow for operations, and the assurance that the City will be able to respond to emergencies with fiscal strength.

It is essential to maintain adequate levels of funds balance/net position to mitigate current and future risks and to ensure tax rates. Fund balance/net position levels are also crucial consideration in long-term financial planning. Credit rating agencies carefully monitor levels of fund balance/net position and unassigned fund balance in the General Fund to evaluate the City's continued creditworthiness.

#### Recommendation

We recommend the City create and adopt a fund balance policy to be in compliance with GASB Statement No. 54. The City should address fund balance reporting categories (nonspendable, restricted, committed, assigned, and unassigned) as well as review minimum fund balance policies.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

## **CURRENT RECOMMENDATIONS - Continued**

### 3. **OUTSTANDING CHECK WRITE-OFF POLICY**

#### Comment

During our current year-end audit procedures, we noted that the City does not have a formal policy for following up and processing old outstanding checks, which has resulted in several old outstanding checks being included in the bank reconciliations.

#### Recommendation

We recommend the City develop and implement an outstanding check policy that includes procedures to follow-up and subsequently how to process the outstanding checks. This policy should be in written form and should set specific instructions for these procedures including steps to be in compliance with State unclaimed property statutes. State unclaimed property statutes note that all checks that are greater than three years old are to be sent to the State of Illinois Treasurer along with the required forms.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

### 4. **GRANTS POLICY**

#### Comment

During our current year-end audit procedures, we noted that the City does not have a formalized Grant Policy that documents their grant procedures. Any department within the City may apply for, and be awarded, grant funding from a variety of State and Federal sources. A Grant Policy should document the procedures in place for ensuring grant requirements are being monitored for Single Audit & Grant Accountability Transparency Act (GATA). The formalized policy will help ensure that each department will follow these procedures and safeguard against the City not being in compliance.

#### Recommendation

We recommend the City develop a formalized policy to document the procedures in place for tracking and monitoring grant activities for compliance with applicable requirements. The Policy should include the award process, accounting for the grant, compliance monitoring, and reporting process for Single Audits and GATA requirements

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

## **CURRENT RECOMMENDATIONS - Continued**

### **5. FUND CONSOLIDATION**

#### Comment

During our current year-end audit procedures, we noted the City maintains a significant number of sub-funds of the General Fund.

#### Recommendation

When the Governmental Accounting Standards Board issued GASB Statement No. 34 for the new reporting model, the Statement was issued under the theory of maintaining the minimum number of funds, which would enable governments to begin analyzing financial statements functionally (general government, public safety, public works, etc.) instead of by fund. The City currently maintains 34 sub-funds of their General Fund. We recommend the City begin the process of consolidating these funds into the General Fund, and segregating information as necessary for tracking purposes at a departmental level. These fund consolidations would be beneficial to the financial reporting of the City and provide efficiencies and more concise reporting of information.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

### **6. TIMELY PROCESSING AND RECONCILIATION OF INSPECTION RECEIPTS**

#### Comment

During our current year-end audit procedures, we noted that the cash and check receipts pertaining to building inspections were not being reconciled on a timely basis, which caused delays in the depositing of these funds.

#### Recommendation

We recommend as a means of better control, that the inspection receipts be reconciled and deposited on a weekly basis.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

## **CURRENT RECOMMENDATIONS - Continued**

7. **LIBRARY BONUSES**

Comment

During our current year-end audit procedures, we noted that the City of East Moline Library (Library Fund) paid out employee bonuses from petty cash.

Recommendation

All bonuses must be paid out to employees through the payroll system to ensure that employees are taxed appropriately.

Management Response

Management acknowledges this comment and will work to correct it in the coming year.

8. **INTERFUND RECEIVABLES AND PAYABLES**

Comment

During our current year-end audit procedures, we noted a significant number of long-term and short-term loans between funds; some of which have been outstanding for several years. As of December 31, 2020, the interfund receivable and payable balances between funds exceeded \$5.0 million.

Recommendation

We recommend that the City evaluate all outstanding interfund balances to determine which balances are expected to be repaid.

Management Response

Management acknowledges this comment and will work to correct it in the coming year.

## **CURRENT RECOMMENDATIONS - Continued**

### 9. **COMMINGLED CASH**

#### Comment

During our current year-end audit procedures, we noted that the City's commingled cash allocations between various funds resulted in significant positive and negative book balances.

There are many advantages to cash commingling, such as increasing the funds available for investment opportunities. However, the allocation process should represent accurately each funds' percentage ownership of the cash balance.

#### Recommendation

We recommend that the City review the process for allocation of the commingled cash balances and adjust the balances as appropriate.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

### 10. **FUNDS OVER BUDGET**

#### Comment

During our current year-end audit procedures, we noted that the following funds had an excess of actual expenditures over budget for the fiscal year:

<u>Fund</u>	<u>12/31/20</u>
Port of Call TIF	\$ 280,493
Garbage	30,358
Municipal Swimming Pool	19,344
Hotel Motel Tax	7,865
Lucky Strike TIF	2,643
Capital Projects	2,916
Water Plant	958,122
Water Distribution	1,975,386
Sewer Plant	1,340,420
Sewer Collection	1,511,587
Drainage	1,644,878
Economic Development Loan	3,846
Housing Rehabilitation	6,724
Employee Insurance	116,256

#### Recommendation

We recommend the City investigate the causes of the funds over budget and adopt appropriate future funding measures.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

## **CURRENT RECOMMENDATIONS - Continued**

### 11. **FUNDS WITH DEFICIT FUND BALANCE/NET POSITION**

#### Comment

During our current year-end audit procedures, we noted numerous funds with deficit fund balance/net position. See the following funds and the December 31, 2020 fund balance/net position

Fund	12/31/20
Riverfront - The Quarter TIF	\$ (3,657,145)
Great River Industrial Park TIF	(915,695)
Gateway Industrial Park TIF	(58,986)
Kennedy Drive TIF	(958,310)
EM Glass TIF	(63,172)
Debt Service	(370,317)
Insurance Reserve	(7,975)

#### Recommendation

We recommend the City investigate the causes of the various deficits and adopt appropriate future funding measures.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

### 12. **POLICE PENSION FUND AND FIREFIGHTERS' PENSION FUND FUNDING**

#### Comment

During our current year-end audit procedures, we noted that both the Police Pension Fund and Firefighters' Pension Fund employer contributions were below the actuary's annual determined contributions (ADC). For December 31, 2020, the Police Pension Fund's ADC was \$2,246,511 and the employer contributions were \$1,417,220, resulting in 63.1% funded. For December 31, 2020, the Firefighters' Pension Fund's ADC was \$1,447,154 and the employer contributions were \$1,064,024, resulting in 73.5% funded. Neither the City's Police Pension Fund nor the City's Firefighters' Pension Fund is being funded per the actuary's recommendation.

#### Recommendation

The actuarial accrued liability for the Police and Firefighters' Pension Funds will continue to increase and the funded ratio will continue to decrease if the City does not fund the pension funds according to the actuarially determined annual determined contribution. Continued underfunding will decrease the funded ratio each year increasing the gap between the State average and the City. Therefore, we recommended that the City fund the Police and Firefighters' Pension Funds according to the actuarially determined contributions for each fiscal year.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.