



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

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ May 23, 2016

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Princeton, Iowa for the period July 1, 2014 through June 30, 2015. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. Also, the City should establish procedures to ensure utility reconciliations are performed monthly and the Annual Financial Report is accurate. In addition, the City should comply with the budget amendment requirements of Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed budgeted amounts.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1521-0784-BLOF>.

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CITY OF PRINCETON
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant’s Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Bank Reconciliations	B 8
Investment Policy	C 9
Unclaimed Property	D 9
Management Financial Information	E 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	F 9
Certified Budget	G 9
Fire Department Debit Cards	H 10
Petty Cash	I 10
Payroll	J 10
City Council Meeting Minutes Publication and Claims Approval	K 10
Separately Maintained Records	L 10
Long-Term Debt Issuances	M 10
Staff	11

City of Princeton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Keith Youngers	Mayor	Jan 2016
Brian Carter	Council Member	Jan 2016
Chantele Craig	Council Member	(Resigned Aug 2014)
Liz Bosworth (Appointed Sept 2014)	Council Member	Nov 2015
Ann Geiger	Council Member	Jan 2016
Kevin Kernan	Council Member	Jan 2016
Karen Woomert	Council Member	Jan 2018
AJ Grunder	City Clerk/Treasurer	(Resigned May 2015)
Katie Tolley (Appointed Jul 2015)	City Clerk/Treasurer	Indefinite
Mikkie Schiltz	Attorney	Indefinite

City of Princeton



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Princeton for the period July 1, 2014 through June 30, 2015. The City of Princeton's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

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

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.

9. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
10. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Princeton, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Princeton and other parties to whom the City of Princeton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Princeton during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 7, 2016

Detailed Recommendations

City of Princeton

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Long-term debt – recording and reconciling.
- (3) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (4) Disbursements – purchasing, invoice processing, check writing, reconciling and recording.
- (5) Payroll – recordkeeping, preparing, distributing, entering payroll rates and adding or removing employees from the system.
- (6) Utilities – billing, collecting, depositing, posting and reconciling.

For the Princeton Fire Department, one individual has control over each of the following areas.

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (3) Disbursements – preparing, recording and reconciling.

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

(B) Bank Reconciliations – The cash and investment balances in the City's general ledger were reconciled to bank and investment account balances throughout the year. However, for the two months tested, a \$19 error was not resolved. In addition, the bank reconciliations are not independently reviewed and the monthly outstanding check listings are not retained. For the Princeton Fire Department, bank reconciliations are not independently reviewed.

Recommendation – The City should establish procedures to resolve bank reconciliation variances timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations. Monthly outstanding check listings should be retained.

City of Princeton

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (C) Investment Policy - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (D) Unclaimed Property - Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit one outstanding obligation held for more than two years to the Office of Treasurer of State.

Recommendation - Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

- (E) Management Financial Information - Governmental and proprietary fund disbursements and transfers reported in the Annual Financial Report (AFR) did not agree with the City's financial records. Total governmental fund disbursements and transfers were overstated by \$99,525 and total proprietary fund disbursements and transfers were understated by \$99,517.

In addition, total indebtedness reported in the AFR did not agree to the City's financial records. The total indebtedness at June 30, 2015 was \$1,437,000 more than reported on the AFR.

Recommendation - The City should establish procedures to ensure the Annual Financial Report reconciles to the general ledger and other City financial records.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled for May and June 2015 and a delinquent account listing was not prepared monthly. For the months that were reconciled, the utility reconciliations were not independently reviewed.

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

- (G) Certified Budget - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, 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.

City of Princeton

Detailed Recommendations

For the period July 1, 2014 through June 30, 2015

- (H) Fire Department Debit Cards – The City’s Fire Department has debit cards available for use by volunteers while on department business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the Fire Department. The function of a debit card is to provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

- (I) Petty Cash - Petty cash funds on hand at City Hall are not maintained on an imprest basis.

Recommendation – Petty cash funds should be maintained on an imprest basis to provide additional control over these funds. Imprest systems improve the accountability for cash and enhance reconciliation of receipts and deposits.

- (J) Payroll – Timesheets did not include evidence of supervisory review and approval.

Recommendation - All time sheets should be reviewed and approved by supervisory personnel prior to processing payroll.

- (K) City Council Meeting Minutes Publication and Claims Approval – Chapter 372.13(6) of the Code of Iowa requires the publication of City Council meeting minutes include “a list of all claims allowed and a summary of all receipts.” Fire Department bills are not approved by the City Council and are not included in the list of published claims. In addition, a summary of Fire Department receipts is not published.

Recommendation – The City Council should approve all claims, including Fire Department claims. The City should ensure all claims and the summary of receipts, including Fire Department claims and receipts, are published, as required.

- (L) Separately Maintained Records – The Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

- (M) Long-Term Debt Issuances – The City filed Internal Revenue Service form 8038-G, Information Return for Tax-Exempt Governmental Obligations, indicating it has written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements of Section 148 of the Internal Revenue Service rules. However, the City has not established these written procedures.

Recommendation – The City should establish written procedures for post issuance compliance, as required.

City of Princeton

Staff

This agreed-upon procedures engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Ryan P. Swanson, CPA, Staff Auditor
Colton L. Barton, Assistant Auditor


Marlys K. Gaston, CPA
Director