



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

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NEWS RELEASE

FOR RELEASE

June 19, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Princeton, Iowa for the period July 1, 2017 through June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand recommended the City review its control procedures to obtain the maximum internal control possible and establish procedures to ensure bank and utility reconciliations are reviewed monthly and variances are resolved timely. The City should also ensure the Annual Financial Report is accurate. In addition, the City should comply with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed budgeted amounts and should ensure notice of public hearing for loan agreements is published timely as required by Chapter 384.24A of the Code of Iowa.

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

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CITY OF PRINCETON
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018

City of Princeton



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Rob Sand
Auditor of State

May 28, 2019

Officials of the City of Princeton
Princeton, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures (AUP) report for the City of Princeton, Iowa for the year ended June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Princeton throughout the engagement. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and written in a cursive-like font.

Rob Sand
Auditor of State

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City of Princeton

Officials

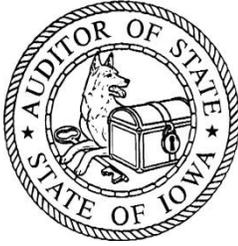
(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Woomert	Mayor	Jan 2018
Brian Carter	Council Member	Jan 2018
Karen Woomert	Council Member	Jan 2018
Ann Geiger	Council Member	Jan 2020
Jami Stutting	Council Member	Jan 2020
Kevin Kernan	Council Member	Jan 2020
Katie Enloe	City Clerk/Treasurer	Indefinite
Mikkie Schiltz	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Woomert	Mayor	Jan 2020
Ann Geiger	Council Member	Jan 2020
Jami Stutting	Council Member	Jan 2020
Kevin Kernan	Council Member	Jan 2020
Amy Simmons	Council Member	Jan 2022
Karen Woomert	Council Member	Jan 2022
Katie Enloe	City Clerk/Treasurer	Indefinite
Greg Jager	Attorney	Indefinite

City of Princeton



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6 to provide oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Princeton for the period July 1, 2017 through June 30, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Princeton's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

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

The procedures we performed are summarized as follows:

1. We 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 2018 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.

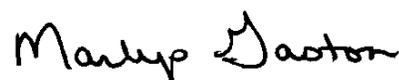
8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
9. We reviewed 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.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of 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.



Marlys K. Gaston, CPA
Deputy Auditor of State

May 28, 2019

Detailed Recommendations

City of Princeton

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City’s financial statements. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Long-term debt – recording and reconciling.
 - (3) Receipts – opening mail, collecting, depositing, posting and reconciling.
 - (4) Disbursements – purchasing, invoice processing, mailing, reconciling and recording.
 - (5) Payroll – recordkeeping, preparing, distributing, entering payroll rates and adding or removing employees from the system.
 - (6) Utilities – billing, collecting, depositing, entering utility rates, 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, to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and 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 using the bank statement reconciliation function within the City’s software. However, for two months reviewed, bank and book balances did not reconcile and the variances were not resolved. For two months reviewed, the bank balance was greater than the book balance by \$1,981 and \$433, respectively. Also, the petty cash was not included in the bank reconciliations.

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

City of Princeton

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (C) Financial Condition – At June 30, 2018, the City had deficit balances of \$61,071, \$140,641 and \$37,898 in the Special Revenue, Salvage Fund, the Debt Service Fund, and the Capital Projects, Sidewalks Capital Outlay Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

- (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’s Fire Department 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) Annual Financial Report – Total indebtedness reported in the fiscal year 2018 Annual Financial Report (AFR) was \$7,569 less than the indebtedness reported in the City’s financial records. Also, although total disbursements reported in the AFR agreed to the general ledger, some disbursements were not properly reported by function or in the proper fund.

Recommendation – The City should establish procedures to ensure the AFR reconciles to the general ledger and other City records. An independent person should review the AFR for accuracy.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – 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, 2018 exceeded the amounts budgeted in the community and economic development, debt service and business type activities 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, 2017 through June 30, 2018

- (H) Petty Cash – Petty cash funds on hand at City Hall were not maintained on an imprest basis and vouchers for petty cash purchases were not retained. An imprest system is one in which petty cash is maintained at a fixed, authorized, amount and all distributions from the petty cash fund are supported/documented with a vendor receipt.

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. Vouchers for petty cash purchases should be retained.

- (I) Journal Entries – Journal entries are not reviewed and approved by an independent person. Also, supporting documentation was not retained.

Recommendation – An independent person should review and approve journal entries. The approval should be documented by signing or initialing and dating the journal entries. Also, supported documentation for each journal entry should be retained.

- (J) City Council Meeting Minutes Publication and Claims Approval – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting, including total disbursements from each fund and a summary of receipts. For all minutes tested, the published minutes did not include total disbursements from each fund or a summary of receipts.

Recommendation – The City should ensure total disbursements from each fund and a summary of receipts are published, as required.

- (K) Separately Maintained Records – 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, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The City Fire Department maintains bank accounts for activity separate from the City Clerk’s accounting records. While this Department is part of the City, the transactions and the resulting balances were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of these accounts were not reported to the City Council and disbursements from the accounts were not reviewed and approved by the City Council. Also, a summary of each account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

City of Princeton

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Fire Department’s separate accounts should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of each account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (L) Annual Urban Renewal Report – The City’s ending cash balance and disbursements for the Special Revenue, Urban Renewal Tax Increment Fund reported in the 2017 Annual Urban Renewal Report Levy Authority Summary did not agree with the City’s general ledger. Also, the amount reported as TIF debt outstanding on the Levy Authority Summary was not supported by City records.

Recommendation – The City should ensure the cash balance and total disbursements reported on the Levy Authority Summary agree with the City’s general ledger. Also, the City should ensure the amount reported as TIF debt outstanding on the Levy Authority Summary is supported by City records.

- (M) Transfers – The City transferred funds from the General, Economic Development Reserve and General, General Funds to the General, General and the Capital Projects, Fire Truck Reserve Funds, respectively. However, these transfers were not approved by the City Council prior to the actual transfer.

Recommendation – The City should approve all fund transfers prior to the actual transfer posting and document approval and amount(s) in the City Council minutes.

- (N) Loan Agreement – During the year, the City entered into a loan agreement totaling \$179,714 for the purchase of a fire truck. The City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which requires certain authorization procedures to be followed, including notice, publication of intended action and time and place of the meeting to approve the intended action.

Recommendation – The City should comply with Chapters 384.24A and 384.25 of the Code of Iowa when entering into future loan agreements.

- (O) Garbage Rates – During the year, the City’s garbage rates were increased by City Council resolution. Chapter 384.84 of the Code of Iowa requires utility rates be established by ordinance of the City Council.

Recommendation – The City Council should establish or amend rates by ordinance, as required.

City of Princeton

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (P) Tax Increment Financing – For the year ended June 30, 2017, a County Auditor’s “Urban Renewal Area TIF Indebtedness/Increment Tax Revenue Reconciliation” was not available.

Recommendation – The City should work with the County Auditor to ensure a reconciliation is prepared by the County and made available to the City each year.

- (Q) Penalties – Federal withholding tax submitted was underpaid resulting in a penalty and interest charge to the City.

Recommendation – The City should implement procedures to ensure withholding taxes are accurately submitted to the United States Treasury in order to avoid penalty and interest charges.

City of Princeton

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Janet K. Mortvedt, CPA, Manager
Alex N. Kawamura, CPA, Senior Auditor
Taran E. McCusker, Assistant Auditor