



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

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NEWS RELEASE

FOR RELEASE

June 25, 2020

Contact: Ernest Ruben
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, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported eighteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 14 of this report. The findings address issues such as a lack of segregation of duties, the lack of verifying utility reconciliations, disbursements exceeding budgeted amounts, errors in the Annual Urban Renewal Report, deficit fund balances and Fire Department records kept separate from the City Clerk's accounting records. Sand provided the City with recommendations to address each of the findings.

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

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

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CITY OF PRINCETON
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Princeton



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June 16, 2020

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 report for the City of Princeton, Iowa, for the period July 1, 2018 through June 30, 2019. 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 agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand", written in a cursive style.

Rob Sand
Auditor of State

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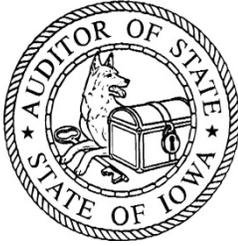
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City of Princeton

Officials

| <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 procedures to selected accounting records and related information of the City of Princeton for the period July 1, 2018 through June 30, 2019, 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 observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2019 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. The City had no investments.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa, to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

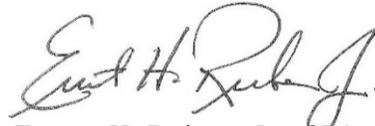
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. The City had no voter approved levies.
14. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We traced transfers between funds to proper authorization and accurate accounting and determined whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

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

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

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

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

A handwritten signature in cursive script, reading "Ernest H. Ruben, Jr.", positioned above the printed name.

Ernest H. Ruben, Jr., CPA
Director

June 16, 2020

Detailed findings and Recommendations

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

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

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 balances in the City’s general ledger were reconciled to bank account balances throughout the year using the bank statement reconciliation function within the City’s software. However, there was no evidence the reconciliations were compared to the City’s general ledger. For two months observed, the bank statement reconciliation and general ledger properly reconciled. Also, petty cash is not included in the bank reconciliation. Additionally, there was no evidence the bank reconciliations were independently reviewed.

Recommendation – The City should ensure the bank statement reconciliation is compared 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. Additionally, petty cash should be included in the bank reconciliations.

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (C) Financial Condition – At June 30, 2019, the City had deficit balances of \$58,176, \$47,832, \$55,993, \$64,599 and \$20,442 in the Debt Service Fund, the Capital Projects, Sidewalks Capital Outlay Fund, the Special Revenue Salvage Fund and the Enterprise, Water and Sewer Funds, respectively.

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

- (D) Annual Financial Report – Total indebtedness reported in the fiscal year 2019 Annual Financial Report (AFR) was \$617,812 less than the indebtedness reported in the City’s financial records. Additionally, the City incorrectly reported the total AFR beginning fund balance as zero, resulting in the AFR total ending fund balance being understated by \$685,778.

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 and document their review by signing or initialing and dating the review.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although the City’s software prepares monthly reconciliations of utility billings, collections and delinquent accounts, the City does not verify the billings, collections and other reconciling items and the reconciliations are not independently reviewed. In addition, the delinquent account listings are not maintained. Additionally, for one month observed, the amount recorded as billed in the utility reconciliation, was \$627 less than supporting documentation.

Recommendation – A listing of delinquent accounts should be maintained. The City should establish procedures to ensure the system generated reconciliations of billings, collections, delinquent accounts and other reconciling items are accurate. The City Council or an 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.

- (F) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the public works function prior to the budget amendment. At June 30, 2019, disbursements exceeded the amounts budgeted in the public works 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 Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (G) 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.

- (H) 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, supporting documentation for each journal entry should be retained.

- (I) 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 observed, 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.

- (J) 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, one of five transactions observed totaling \$799 for a security camera system, was not reported to the City Council. Also, disbursements from the accounts were not reviewed and approved by the City Council before disbursements occurred. 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 Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

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 before disbursements occur 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.

- (K) Annual Urban Renewal Report – The low and moderate income (LMI) cash balance reported on the Annual Urban Renewal Report (AURR) was not also included in the total cash balances. Additionally, outstanding debt reported on the AURR was \$952 less than the City’s records.

Recommendation – The City should ensure the total cash balance and TIF debt outstanding reported on the Levy Authority Summary agree with the City’s records.

- (L) Tax Increment Financing – On December 14, 2006 the City entered into an agreement with a developer for a housing and infrastructure project. The agreement requires the City to obtain documentation from the developer to verify the actual cost for the housing and infrastructure project. The agreement requires the City to make total payments over the term of the agreement not to exceed the lesser of \$850,000 or the infrastructure project costs. The City has not obtained documentation of the actual costs from the developer. The City has instead based all payments on the \$850,000 maximum allowed per the developer agreement. Additionally, the City has certified \$21,195 more in tax increment financing debt than is allowed per the developer agreement.

Recommendation – The City should consult legal counsel to determine the disposition of this matter and obtain documentation from the developer of total actual costs for the housing and infrastructure project. Additionally, the City should decertify the excess tax increment financing debt.

- (M) Transfers – City Council approved transfers were not recorded in the City’s accounting records.

Recommendation – The City should review these transfers and ensure they are properly recorded. In the future, the City should ensure all approved transfers are properly recorded.

- (N) 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 Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (O) Payroll – In fiscal year 2016, a resolution approving percentage and per hour wage increases each year through July 2024 was approved by the City Council. During fiscal year 2018 the City Council approved an additional pay increase for certain employees ranging from \$.25 to \$1.00 per hour above the approved resolution. Also, these pay increases were approved as a per hour increase and the actual total hourly wages were not documented in the City Council minutes. As a result of the additional increase in pay approved in fiscal year 2018 above the approved resolution, the hourly increases received during fiscal year 2019 for certain employees were from \$.27 to \$1.06 per hour more than was approved in the 2016 resolution.

Also, the City Council approved a lump sum payment for the Deputy City Clerk for hours worked while the City Clerk was on leave. Supporting documentation for the number of hours and rate of pay was not retained.

Recommendation – The City should review this matter and determine, document and approve salaries each year. Also, actual approved wages and hourly rates should be documented in the City Council minutes.

Also, the City should retain supporting documentation for all employee pay.

- (P) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General's opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted with we believe may not meet the requirements of public purpose as defined in the Attorney General's opinion since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

| Paid to | Purpose | Amount |
|----------------|---|--------|
| Dollar General | Bottled water, coffee, greeting card and candy | \$ 42 |
| Target | Bottled water and coffee | 28 |
| Casey's | Bottled water | 4 |

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

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (Q) Disbursements – Original vendor receipts or other supporting documentation was not retained to support all credit card charges and other disbursements. Also, we noted eleven instances of sales tax being paid on purchases made by the City.

Recommendation – All disbursements should be supported by original vendor invoices or receipts or other supporting documentation. Procedures should be established to ensure the City does not pay sales tax.

- (R) Revenue Bonds – The provisions of the water and sewer revenue bonds require water and sewer rates to be established at a level which produces and maintains net receipts at a level not less than 110% of the amount of principal and interest on the revenue bonds as they become due. During the year ended June 30, 2019, the City was not in compliance with the net receipt requirements of the water and sewer revenue bond resolutions.

Recommendation – The City should consult legal counsel and review the City’s water and sewer utility rates to ensure the rates are adequate to produce the required net operating receipts.

City of Princeton

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Janet K. Mortvedt, CPA, Manager
Nicholas J. Gassman, Staff Auditor
Adrian T. Duer, Assistant Auditor