



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

June 8, 2018

Contact: Marlys Gaston
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, 2016 through June 30, 2017. 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 bank and utility reconciliations are reviewed monthly and 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 in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1721-0784-BLOF>.

###

CITY OF PRINCETON

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2016 THROUGH JUNE 30, 2017**

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
Financial Condition	C	8
Investment Policy	D	9
Unclaimed Property	E	9
Annual Financial Report	F	9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	G	9
Certified Budget	H	9
Petty Cash	I	10
Journal Entries	J	10
City Council Meeting Minutes Publication and Claims Approval	K	10
Separately Maintained Records	L	10
Long-Term Debt Issuances	M	10
Annual Urban Renewal Report	N	11
Transfers	O	11
Loan Agreement	P	11
Staff		12

City of Princeton

Officials

<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
James Greenhill	Council Member	Jan 2020
Kevin Kernan	Council Member	Jan 2020
Katie Enloe	City Clerk/Treasurer	Indefinite
Mikkie Schiltz	Attorney	Indefinite

City of Princeton



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

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Accountant's Report on Applying Agreed-Up 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, 2016 through June 30, 2017, 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 2017 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.


MARY MOSIMAN, CPA
Auditor of State

May 3, 2018

Detailed Recommendations

City of Princeton

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

(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, 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 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 using the bank statement reconciliation function within the City’s software. However for one month reviewed, the bank balance was \$26,473 higher than the book balance. The variance was not resolved. While the June 30, 2017 bank balance reconciled to the book balance and was independently reviewed, bank reconciliations were not independently reviewed throughout the year.

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.

(C) Financial Condition – At June 30, 2017, the City had deficit balances of \$88,152, \$37,667 and \$70,631 in the Debt Service Fund, the Capital Projects, Sidewalks Fund and the General Fund, Salvage Account, respectively.

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

City of Princeton

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (D) 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.

- (E) 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.

- (F) Annual Financial Report – 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...” The beginning balances reported on the fiscal year 2017 AFR did not agree to the ending balances reported on the fiscal year 2016 AFR and did not agree with City records. Because the beginning balances did not agree with the prior year ending balances the total ending balance reported on the fiscal year 2017 AFR was understated by \$68,958 when compared to City’s general ledger.

In addition, total indebtedness reported on the fiscal year 2017 AFR was \$620,422 less than the indebtedness reported in the City’s financial records.

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

- (G) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were reconciled during the year, but did not include evidence of independent review.

Recommendation – 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.

- (H) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety and public works 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, 2016 through June 30, 2017

- (I) Petty Cash – Petty cash funds on hand at City Hall were 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) Journal Entries – Journal entries are not reviewed and approved by an independent person.

Recommendation – An independent person should review and approve journal entries. The approval should be documented by signing or initialing and dating the journal entries.

- (K) 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. Also, Fire Department bills are not approved by the City Council and are not included in the list of published claims and 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, total disbursements from each fund and a 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

Detailed Recommendations

For the period July 1, 2016 through June 30, 2017

- (N) Annual Urban Renewal Report – The City’s ending cash balance and receipts of the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary of the fiscal year 2016 Annual Urban Renewal Report 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 receipts 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.

- (O) Transfers – Certain transfers were recorded as a reduction to receipts and disbursements rather than transfers.

Recommendation – The City should ensure transfers between funds are properly recorded and reported.

- (P) Loan Agreement – During the year, the City entered into a \$50,000 loan agreement for a Police Department garage. The notice of public hearing stated, “The Agreement will not constitute a general obligation of the City, nor will it be payable in any manner by taxation but, together with any additional obligations of the City as may be hereafter issued and outstanding from time to time ranking on a parity therewith, will be payable solely and only from the net revenues of the Enterprise Salvage Inspections.” However, the Promissory Note between the City and the lender does not stipulate repayment will be solely and only from the net revenues of the Enterprise Salvage Inspections and, therefore, the loan appears to be a general obligation of the City.

Also, prior to entering into the loan agreement, Chapter 384.24A of the Code of Iowa requires a public hearing to be held and notice of the public hearing to be published not less than 4 nor more than 20 days before the hearing. The notice of public hearing was published 22 days before the public hearing.

Recommendation – The City should consult legal counsel to determine whether the loan is a general obligation of the City. In the future, the City should ensure the notice of public hearing is accurate and is published timely.

City of Princeton

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Robert Quinn Barrett, Staff Auditor
Jason J. Miller, Assistant Auditor


Marlys K. Gaston, CPA
Director