



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

March 31, 2021

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, 2019 through June 30, 2020. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported sixteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 10 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank reconciliations, the lack of verifying utility reconciliations, deficit fund balances, disbursements exceeding budgeted amounts, errors in the Annual Urban Renewal Report 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 sixteen 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>.

###

CITY OF PRINCETON
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020

City of Princeton



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

March 30, 2021

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, 2019 through June 30, 2020. 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 that reads "Rob Sand".

Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Independent Report on Applying Agreed-Upon Procedures	4-5
Detailed Findings and Recommendations:	Finding
Segregation of Duties	A 7
City Fire Department	B 7
Bank Reconciliations	C 8
Financial Condition	D 8
Annual Financial Report	E 8
Reconciliation of Utility Billings, Collections and Delinquent Accounts	F 8
Garbage Rates	G 8
Certified Budget	H 9
Journal Entries	I 9
City Council Minutes Publication	J 9
Separately Maintained Records	K 9
Fire Department Bank Reconciliation	L 10
Annual Urban Renewal Report	M 10
Disbursements	N 10
Revenue Bonds	O 10
Credit Card Policy	P 10
Staff	11

City of Princeton

Officials

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Woomert	Mayor	Jan 2020
Ann Geiger	Council Member	Jan 2020
Kevin Kernan	Council Member	Jan 2020
Jami Stutting	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

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kevin Kernan	Mayor	Jan 2022
Amy Simmons	Council Member	(Resigned Jan 2020)
Michael Kline (Appointed Feb 2020)	Council Member	Nov 2021
Karen Woomert	Council Member	Jan 2022
Christina McDonough	Council Member	Jan 2024
Jami Stutting	Council Member	Jan 2024
Regina Wolfe	Council Member	Jan 2024
Katie Enloe	City Clerk/Treasurer	(Resigned Mar 2020)
Vacant	City Clerk/Treasurer	Indefinite
Candy Pastrnak	Attorney	Indefinite



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

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, 2019 through June 30, 2020, 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 2020 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.

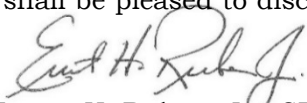
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned 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. The City had no transfers.
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.


Ernest H. Ruben, Jr., CPA
Director

March 30, 2021

Detailed Findings and Recommendations

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

(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) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing, posting and reconciling.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its 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) City 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.

Also, the City Fire Department does not issue pre-numbered receipts for all collections or mark invoices or other supporting documentation as paid to prevent duplicate payment.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Fire Department should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available City 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., Also, the Fire Department should issue pre-numbered receipts for all collections and mark invoices or other supporting documentation as paid to help prevent a duplicate payment.

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (C) Bank Reconciliations – The cash balances in the City’s bank accounts were not reconciled to the general ledger. For the two months observed the bank balance exceeded the book balance by \$28,045 and \$4,104.

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.

- (D) Financial Condition – At June 30, 2020, the City had deficit balances of \$39,388, \$169,751, \$48,518, \$78,388 and \$23,602 in the General Fund, Debt Service Fund, Capital Projects, Sidewalks Capital Outlay 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.

- (E) Annual Financial Report – Total indebtedness reported in the fiscal year 2020 Annual Financial Report (AFR) was \$190,000 less than the indebtedness reported in the City’s financial records. Additionally, because the City did not correct the prior year ending balance and therefore reported an incorrect fiscal year 2020 beginning fund balance, the resulting AFR ending fund balance was understated by \$682,844.

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.

- (F) 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. For one monthly reconciliation observed, the beginning outstanding customer balance did not agree with the prior month ending outstanding customer balance. In addition, the delinquent account listings were not retained. Also, utility late payment penalties were waived from March 2020 to June 2020, however there was no evidence the waiver of penalties was approved by the City Council.

Recommendation – A listing of delinquent accounts should be retained. The City should establish procedures to ensure the system generated reconciliations of utility 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. Also, decisions to waive penalties should be approved and documented in the City Council meeting minutes.

- (G) 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 utility rates by ordinance, as required.

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (H) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public works, debt service and capital projects functions by \$21,672, \$250, and \$26,698 respectively. 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 are allowed to exceed the budget

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

- (J) City Council Minutes Publication – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings to be published within fifteen days of the meeting, including total disbursements from each fund and a summary of receipts. For all minutes observed, the publication 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 is 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 reported to the City Council, however disbursements from the accounts were not reviewed and approved by the City Council prior to payment. 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.

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 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.

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2019 through June 30, 2020

- (L) Fire Department Bank Reconciliation – The City Fire Department maintains bank accounts for activity separate from the City Clerk’s accounting records. A complete monthly bank reconciliation of the fire department bank accounts is not being prepared because the ending balance is not compared to the book balance.

Recommendation – The Fire Department should ensure the bank statement reconciliation is prepared on a monthly basis and compared to the book balance. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (M) Annual Urban Renewal Report – The low and moderate income (LMI) cash balance reported on the Annual Urban Renewal Report (AURR) was not included in the total cash balances. Additionally, outstanding LMI debt reported on the AURR was \$475 less than on City’s records.

Recommendation – The City should ensure the total cash balance and LMI debt outstanding reported on the Annual Urban Renewal Report agree with the City’s records.

- (N) Disbursements – Original vendor receipts or other supporting documentation was not retained to support all credit card charges and other disbursements. Also, we noted one instance of sales tax being paid.

Additionally, two Fire Department disbursements observed included sales tax.

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

- (O) 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 ending June 30, 2020, 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.

- (P) Credit Card Policy – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

City of Princeton

Staff

This engagement was performed by:

Ernest H. Ruben, Jr., CPA, Director
Janet K. Mortvedt, CPA, Manager
Adam J. Sverak, Staff Auditor
Brandon L. Weddell, Assistant Auditor