



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

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**NEWS RELEASE**

Contact: Michelle Meyer  
515/281-5834

**FOR RELEASE**

**June 29, 2022**

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Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Princeton, Iowa, for the period July 1, 2020 through June 30, 2021. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported fourteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 9 through 12 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, deficit fund balance, disbursements exceeding budgeted amounts, journal entry approvals and reporting of outstanding debt on the Urban Renewal Report. Sand provided the City with recommendations to address each of the findings.

Ten of the fourteen 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 [Audit Reports - Auditor of State](#).

# # #

**CITY OF PRINCETON**

**AUDITOR OF STATE'S INDEPENDENT REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD  
JULY 1, 2020 THROUGH JUNE 30, 2021**

**City of Princeton**



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Rob Sand  
Auditor of State

May 10, 2022

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, 2020 through June 30, 2021. 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".

Rob Sand  
Auditor of State

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**City of Princeton**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kevin Kernan	Mayor	Jan 2022
Michael Kline (Appointed Feb 2020)	Council Member	(Resigned Jun 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
Vacant (Mar 2020 – Aug 2020)	City Clerk/Treasurer	
Kisa Tweed (Appointed Aug 2020)	City Clerk/Treasurer	Indefinite
Patty Morgan	Deputy Clerk	Indefinite
Candy Pastrnak	Attorney	Indefinite

**City of Princeton**



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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, 2020 through June 30, 2021, 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 City of Princeton's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, 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 may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

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 2021 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 to determine 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 engaged by the City of Princeton's management to perform this agreed-upon procedures engagement and conducted our engagement 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. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of the City of Princeton and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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 black ink that reads "Michelle Meyer". The signature is written in a cursive, flowing style.

Michelle B. Meyer, CPA  
Director

May 10, 2022

## **Detailed Findings and Recommendations**

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (A) Fiduciary Oversight – 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. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Recommendation – Oversight by the City Council is essential and should be an ongoing effort. In the future, the City Council should provide appropriate oversight, including exercising due care and requiring and reviewing pertinent information and documentation prior to making decisions affecting the City. Appropriate policies and procedures should be adopted, implemented, and monitored to ensure compliance.

- (B) 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, entering payroll rates and adding/removing employees from the system.
- (5) Utilities – billing, collecting, depositing, and posting.
- (6) Journal entries – preparing and recording.
- (7) Long term Debt – recording and reconciling.

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.

- (C) 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.

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

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 of 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.

- (D) Bank Reconciliations – The City’s Bank Reconciliation Report generated from the accounting system reconciles the beginning and end of month bank statement balances. The City did not perform a reconciliation of the cash balance per the City’s general ledger, including reconciling items such as deposits in transit and outstanding checks, to the bank account balance throughout the year. For the two months observed, the bank balance exceeded the general ledger cash balance by \$18,381 and \$7,190.

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.

- (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 on the reconciliations and the reconciliations are not independently reviewed. For one monthly reconciliation observed, the utility late payment penalties amount did not agree with the penalties report. In addition, the delinquent account listings were not retained.

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 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.

- (F) Payroll – There is no indication that timesheets are reviewed by supervisory personnel prior to preparation of payroll. In addition, although salary and wage increases for fiscal year 2021 began July 1, 2020, they were not approved by resolution until August 2020.

Recommendation – The City should implement procedures to ensure timesheets are reviewed by supervisory personnel. The review should be indicated by the supervisor’s signature or initials and date. Also, the City should approve wage increases by resolution for the upcoming fiscal year prior to the beginning of the year.

- (G) Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government, capital projects and business type functions by \$9,666, \$76,319, \$9,489, \$31,155, \$8,791 and \$475,562, 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 were allowed to exceed the budget.

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (H) Annual Financial Report – The beginning and ending fund balance reported in the fiscal year 2021 Annual Financial Report (AFR) for the governmental funds was understated by \$15,665. In addition, the other purpose / miscellaneous debt reported in Part V of the AFR was understated by \$43,208.

Recommendation: The City should establish procedures to ensure amounts reported on the AFR reconciles to the general ledger and other City records. An independent person should review the AFR for accuracy and document the review by signing or initially and dating the review.

- (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 should be retained for each journal entry.

- (J) Interfund Transfers – Section 545-2 of the Iowa Administrative Code requires “A fund transfer resolution must be completed for all transfers between funds and must include a clear statement of reason or purpose for the transfer, the name of the fund from which the transfer is originating, the name of the fund into which the transfer is to be received, and the dollar amount to be transferred. The City transferred \$21,250 more out of the General Fund than was approved per the resolution.

Recommendation – Procedures should be established to ensure that transfers are made in the amounts approved by resolution of the City Council.

- (K) Annual Urban Renewal Report – The City overstated the amount reported as TIF debt outstanding on the fiscal year 2020 Annual Urban Renewal Report (AURR) Levy Authority Summary by \$178,579.

Recommendation – The City should ensure the amount reported as TIF debt outstanding on the AURR Levy Authority Summary agrees with the City’s records.

- (L) 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, 2021, 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.

- (M) Petty Cash – The petty cash fund on hand at City Hall was 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 documented with a vendor receipt. There was a \$45 variance between the authorized amount and the cash on hand.

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.

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (N) Garbage Rates – Chapter 384.84 of the Code of Iowa requires City utility rates be established by ordinance of the City Council. The City did not establish garbage rates by ordinance until December 20, 2021.

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

City of Princeton

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director  
Janet K. Mortvedt, CPA, Manager  
Adam J. Sverak, Staff Auditor  
Savannah R. Fitz, Assistant Auditor