



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Pam Bormann
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FOR RELEASE

June 21, 2024

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Princeton, Iowa, for the period July 1, 2022 through June 30, 2023. 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 9 through 12 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank reconciliations, no supervisory review of timesheets and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

Fourteen of the 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 website at [Audit Reports – Auditor of State](#).

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CITY OF PRINCETON

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

**FOR THE PERIOD
JULY 1, 2022 THROUGH JUNE 30, 2023**

City of Princeton



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Rob Sand
Auditor of State

June 13, 2024

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, 2022 through June 30, 2023. 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 2024
Christina McDonough	Council Member	Jan 2024
Jami Stutting	Council Member	Jan 2024
Gina Wolfe	Council Member	Jan 2024
Zach Phares	Council Member	Jan 2026
Karen Woomert	Council Member	Jan 2026
Kisa Tweed	City Clerk/Treasurer	Indefinite
Nicole Matzen	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, 2022 through June 30, 2023 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, journal entries 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 2023 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. The City has 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 for accurate accounting and consistency with the recommended COA.
13. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
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, no exceptions were 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.



Pam Bormann, CPA
Director

June 13, 2024

Detailed Findings and Recommendations

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (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.

For the Fire Department, one individual has control over the following areas:

- (1) Disbursements – 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.

- (C) 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 a bank account for activity separate from the City Clerk’s accounting records. While this Department is part of the City, the transactions and the resulting balance 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.

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

A check from the Iowa Department of Natural Resources for a Volunteer Fire Assistance grant in the amount of \$2,678 issued to the City of Princeton was deposited in the City Fire Department external bank account. However, this check should have been deposited to the City's bank account and recorded in the City's financial system.

In addition, the transactions and resulting balances of this account were not reported to the City Council and disbursements from the account were not reviewed and approved by the City Council. Also, a summary of the account's receipts, total disbursements and the listings of claims allowed each month was 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 City Fire Department's separate account 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 this account should be subject to City Council review and approval and should be included in the City's budget process. Also, a summary of the account's receipts, total disbursements and listings of claims allowed each month should be published, as required. Checks issued to the City should not be deposited in the City Fire Department external bank account, but rather recorded in the City's financial system and deposited in the City's bank account.

- (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.

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) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of the Treasurer of State annually. The City did not remit two checks outstanding for greater than two years.

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) Payroll – There was no indication all timesheets were reviewed by supervisory personnel prior to preparation of payroll. The Mayor only signed the top timesheet of the packet.

Recommendation – The City should establish procedures to ensure all timesheets are reviewed and approved by supervisory personnel prior to the preparation of payroll. The review should be indicated by the supervisor's signature or initials and date on all timesheets.

City of Princeton

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (G) Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amounts budgeted in the public safety, general government 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.

- (H) Annual Financial Report – Total indebtedness reported in the Annual Financial Report (AFR) at June 30, 2023 is understated by \$1,358,223 and total interest in understated by \$16,100.

Recommendation - The City should establish procedures to ensure amounts reported on the AFR reconciles to 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 were not reviewed and approved by an independent person. Also, supporting documentation was not retained for one of three journal entries observed.

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

- (J) Annual Urban Renewal Report – The amounts reported on the Levy Authority Summary in the Annual Urban Renewal report (AURR) for the fiscal year ended June 30, 2022 included the following:

- (1) The amount reported as TIF debt outstanding was understated by \$96,162.
- (2) Ending restricted cash balance for LMI was understated by \$123,184.
- (3) The ending restricted cash balance for the TIF Special Revenue Fund was understated by \$139,165.

Recommendation – The City should ensure the amounts reported on the AURR agrees with the City’s records.

- (K) 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, 2023, 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

Detailed Findings and Recommendations

For the period July 1, 2022 through June 30, 2023

- (L) 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. In addition, there was a \$53 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.

- (M) City Council Meeting Minutes – For the meeting minutes observed, the publication included a list of all claims allowed but did not include the reason for the claim, or a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

The City Council also approved by a motion, a list of all claims to be paid. However, the approval was done after the disbursements were made. In addition, there was no evidence of the approval on the claims listing.

Recommendation – The City should ensure the meeting minutes publication includes a list of all claims allowed, including the reason for the claim and a summary of all receipts. In addition, the City could adopt a written disbursement policy to allow payment of certain routine monthly bills and payroll prior to City Council approval. All disbursements should be approved by the City Council prior to disbursement, with the exception of those specifically allowed by the policy. Those bills paid prior to approval should be submitted to the City Council for review and approval at its next meeting following payment. The action of the City Council should be recorded in the minutes of the City Council.

- (N) Disbursements – Certain vendor receipts or other supporting documentation were not retained to support one of thirty transactions observed. Also, we observed one instance of sales tax totaling \$2 as being paid. Additionally, one of five Fire Department disbursements observed included sales tax of \$122. As a government entity, the City maintains a tax-exempt status. As a result, the City and the Fire Department should not incur sales tax.

Recommendation – All disbursements should be supported by original vendor invoices or receipts or other supporting documentation. In addition, the City and Fire Department should establish procedures to ensure all payments are reviewed to prevent the payment of sales tax.

- (O) Payroll Tax Reporting – The City did not prepare and file IRS 1099 forms as required.

Recommendation – The City should implement procedures to ensure IRS 1099 forms are completed and filed, as required.

- (P) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings and collections were properly reconciled monthly; however, a delinquent accounts listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared and retained monthly. Procedures should be established to ensure the utility reconciliations are generated from the City's software and verified by City personnel at the end of each month. The City Council or a City Council designated independent person should review the reconciliations and monitor delinquencies. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Princeton

Staff

This engagement was performed by:

Pamela J. Bormann, CPA, Director
Janet K. Mortvedt, CPA, Manager
Jamie T. Reuter, Senior II Auditor
Matthew F. Perry, Assistant Auditor