

**CITY OF GENEVA, ILLINOIS**

REPORT ON FEDERAL AWARDS

For the Year Ended April 30, 2019

# CITY OF GENEVA, ILLINOIS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of Geneva, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Geneva, Illinois as of and for the year ended April 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Geneva's basic financial statements, and have issued our report thereon dated October 11, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002 and 2019-003 that we consider to be significant deficiencies.

To the Honorable Mayor and Members of the City Council  
City of Geneva, Illinois

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The City of Geneva's Responses to Findings**

The City of Geneva's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Geneva's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly Virchow Krause, LLP*

Oak Brook, Illinois  
October 11, 2019



REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL  
EXPENDITURES REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of Geneva, Illinois

**Report on Compliance for the Major Federal Program**

We have audited the City of Geneva's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended April 30, 2019. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

To the Honorable Mayor and Members of the City Council  
City of Geneva, Illinois

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the City's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended April 30, 2019.

### **Report on Internal Control Over Compliance**

Management of the City's is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

To the Honorable Mayor and Members of the City Council  
City of Geneva, Illinois

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Geneva, Illinois as of and for the year ended April 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Geneva's basic financial statements. We issued our report thereon dated October 11, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Baker Tilly Virchow Krause, LLP*

Oak Brook, Illinois  
November 8, 2019

## CITY OF GENEVA

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended April 30, 2019

Federal Grantor / Pass Through Grantor / Program or Cluster Title	CFDA Number	Grant Number	Federal Expenditures	Payments Made to Subrecipients
<b>U.S. Department of Justice</b>				
Direct Funding				
Bulletproof Vest Partnership Program	16.607	N/A	\$ 2,288	\$ -
<b>Total U.S. Department of Justice</b>			<u>2,288</u>	<u>-</u>
<b>Environmental Protection Agency</b>				
Passed through Illinois Environmental Protection Agency				
Capitalization Grants for Clean Water State Revolving Funds (M)	66.458	L175415	1,583,404	-
Subtotal Clean Water State Revolving Fund Cluster			<u>1,583,404</u>	<u>-</u>
<b>Total Environmental Protection Agency</b>			<u>1,583,404</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,585,692</u>	<u>\$ -</u>

(M) - Denotes Major Program

# CITY OF GENEVA, ILLINOIS

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended April 30, 2019

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### **NOTE 1 – BASIS OF PRESENTATION**

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The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal award activity of the City of Geneva, Illinois (the City) under programs of the federal government for the year ended April 30, 2019. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included in the schedule. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the city, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

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### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The underlying accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

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### **NOTE 3 – INDIRECT COST RATE**

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The City of Geneva has not elected to use the 10% de minimis indirect cost rate.

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### **NOTE 4 – LOAN AND LOAN GUARANTEE PROGRAMS**

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The City of Geneva participates as a subrecipient of federal awards from the Illinois Environmental Protection Agency (IEPA) under the Capitalization Grants for Clean Water State Revolving Funds program (CFDA #66.458). Expenditures incurred for the program are reimbursed with a combination of federal and non-federal funds by the IEPA and, for those costs reimbursed with federal funds, included in the Schedule. The balance of the loans outstanding at April 30, 2019, including both federal and non-federal portions, is \$9,158,225.

# CITY OF GENEVA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended April 30, 2019

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### SECTION I – SUMMARY OF AUDITORS' RESULTS

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#### *FINANCIAL STATEMENTS*

Type of report the auditor issued: Unmodified

Internal control over financial reporting:

- > Material weakness (es) identified?             yes        X   no
- > Significant deficiency (ies) identified?        X   yes             none reported

Noncompliance material to financial statements noted?

       yes        X   no

#### *FEDERAL AWARDS*

Internal control over major programs:

- > Material weakness (es) identified?             yes        X   no
- > Significant deficiency (ies) identified?             yes        X   none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance?

       yes        X   no

Auditee qualified as low-risk auditee?

       yes        X   no

Identification of major federal programs:

CFDA Number(s)

66.458

Name of Federal Program or Cluster

Clean Water State Revolving  
Fund Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

# CITY OF GENEVA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended April 30, 2019

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### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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#### ***Finding 2019-001: Segregation of Duties - Payroll***

**Criteria:** A cornerstone of effective internal control is the existence of policies to support segregation of duties; this involves separation of the initiation, execution, approval and recording of responsibilities for transactions.

**Condition:** In the payroll cycle, the same individual is responsible for changing pay rates and benefits, processing payroll, and generating payroll checks. This presents a segregation of duties concern as one individual has significant control over a majority of the payroll cycle. In an ideal control environment, the duties of entering employee information and time reporting would be separate from the person responsible for processing payroll. We recommend segregating these responsibilities among multiple employees and limiting access within the system such that segregated responsibilities could not be circumvented.

**Cause:** Due to the relatively small size of the City's Finance Department.

**Effect:** Increased risk that unauthorized employees could be created and pay rates could be changed from previously approved pay rates. We noted that the risks associated with this deficiency were mitigated by compensating controls. Specifically, we noted that the City Administrator performs a reconciliation of the payment confirmations to the payroll run reports and comparison of the payroll run totals to the prior payroll run. Placing reliance on these controls mitigates the risk of material misstatement; however, they do not completely eliminate the risks associated with the deficiency identified above. As such, we are still required to report a significant deficiency on this matter.

**Recommendations for Corrective Action:** We recommend the implementation of additional reviews and allocation of duties were deemed possible.

**Management's Response:** With a recent separation of the payroll specialist, the process went a thorough review of the payroll process to determine how to create the best segregation of duties. The new duties are segregated between two separate individuals. One individual is responsible for maintaining the employee's rates and benefits while a second individual is responsible for importing the time and processing payroll. The financial system limits each individual to his or her specific tasks as part of the payroll process.

# CITY OF GENEVA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended April 30, 2019

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### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS (CONT.)*

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#### ***Finding 2019-002: Segregation of Duties – Utility Billing***

**Criteria:** A cornerstone of effective internal control is the existence of policies to support segregation of duties; this involves separation of the initiation, execution, approval and recording of responsibilities for transactions.

**Condition:** In the utility billing process, the same employee is responsible for setting up new accounts, entering account information and changes, manual usage reads and entering account adjustments into the City's billing system. The same employee also handles utility billing cash collections and there was no evidence to indicate a review of the process by an employee independent of the process. The accounting clerks responsible entering payments and preparing daily deposits are also collecting cash receipts at the City.

**Cause:** Due to the relatively small size of the City's Finance Department.

**Effect:** Increased risk that unauthorized employees could be created and pay rates could be changed from previously approved pay rates. We noted that the risks associated with this deficiency were mitigated by compensating controls. Specifically, we noted that management completes a monthly review of financial performance, including an analysis of budget to actual results. Placing reliance on these controls mitigates the risk of material misstatement; however, they do not completely eliminate the risks associated with the deficiency identified above. As such, we are still required to report a significant deficiency on this matter.

**Recommendations for Corrective Action:** We recommend the implementation of additional reviews and allocation of duties were deemed possible.

**Management's Response:** The Finance division has made several changes to improve segregation of duties and move towards establishing adequate internal controls. As stated in the FY 2019 budget document, the Finance Division reviewed security and internal controls within the financial software to improved segregation of duties using existing staff where possible. Using security within the financial software, the City has created a dual approval process for billing and adjustments.

# CITY OF GENEVA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended April 30, 2019

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### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS (CONT.)*

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#### ***Finding 2019-003: Segregation of Duties – Journal Entries***

**Criteria:** A cornerstone of effective internal control is the existence of policies to support segregation of duties; this involves separation of the initiation, execution, approval and recording of responsibilities for transactions.

**Condition:** While journal entries are reviewed and approved by someone other than the original preparer, we noted multiple employees have access to prepare, approve and post journal entries to the financial accounting system without the required approval. The system does not require secondary review prior to posting to the system.

**Cause:** Due to the relatively small size of the City's Finance Department.

**Effect:** While journal entries are reviewed and approved by someone other than the original preparer, we noted multiple employees have access to prepare, approve and post journal entries to the financial accounting system without the required approval. The system does not require secondary review prior to posting to the system.

**Recommendations for Corrective Action:** We recommend the implementation of additional reviews and allocation of duties were deemed possible.

**Management's Response:** The Finance division used existing resources and modify current processing to require a secondary employee to review the journal entry before posting to the system.

**CITY OF GENEVA, ILLINOIS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended April 30, 2019

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

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None noted.