



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

March 9, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released a Report on the Status of Findings and Recommendations from the City of Geneva's Periodic Examination Report dated October 30, 2017. The engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and covered the period April 1, 2018 through March 31, 2019.

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. While the City corrected seven of the fifteen findings reported in the Periodic Examination Report dated October 30, 2017 and partially corrected five of the findings, three of the findings are reported as "not corrected." One additional finding identified during the follow-up procedures is also included in this report.

A copy of the City of Geneva's Report on the Status of Periodic Examination Findings and Recommendations is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF GENEVA

**AUDITOR OF STATE'S INDEPENDENT REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
APRIL 1, 2018 THROUGH MARCH 31, 2019**

City of Geneva



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February 12, 2020

Officials of the City of Geneva
Geneva, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the follow-up report on the Status of Periodic Examination Findings and Recommendations for the City of Geneva, Iowa for the period April 1, 2018 to March 31, 2019.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Geneva throughout the follow-up 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". The signature is stylized and written in a cursive-like font.

Rob Sand
Auditor of State

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City of Geneva

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Sean Porter	Mayor	Jan 2018	Jan 2020
Nancy Irons	Council Member	Aug 2018	Nov 2019
Larry Kreimeyer	Council Member	Jan 2018	Jan 2020
Todd Pilchard	Council Member	Jan 2018	Jan 2020
Raymond Silver	Council Member	Jan 2018	Jan 2020
Jim Zacharias	Council Member	Jan 2018	Jan 2020
Erica Nolte	City Clerk/Treasurer		Indefinite
Brian D. Miller	Attorney		Indefinite

City of Geneva



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Rob Sand
Auditor of State

Auditor of State's Independent Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor and Members of the City Council:

The Office of Auditor of State issued a Periodic Examination Report dated October 30, 2017 on the City of Geneva, Iowa covering the period April 1, 2016 through March 31, 2017 pursuant to Chapter 11.6 of the Code of Iowa. The report included findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated October 30, 2017 and the current status of the City's implementation of the recommendations included in that report. It also includes an additional finding and recommendation for an additional issue identified during our follow-up procedures. This report covers the period April 1, 2018 through March 31, 2019.

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.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

The purpose of this report is to report on the current status of the City's implementation of the recommendations included in the Periodic Examination Report dated October 30, 2017. 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 Geneva during the course of our follow-up procedures. Should you have 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 "Marlys K. Gaston".

Marlys K. Gaston, CPA
Deputy Auditor of State

February 12, 2020

**Report on the Status of Periodic Examination
Findings and Recommendations**

City of Geneva

Report on the Status of Periodic Examination Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

Findings Reported in the Periodic Examination Report dated October 30, 2017:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
 - (3) Disbursements – purchasing, invoice processing, check writing, check signing, mailing, reconciling and recording.
 - (4) Payroll – recordkeeping, preparing and distributing.
 - (5) Utilities – billing, collecting, depositing and posting.
 - (6) Financial reporting – preparing and reconciling.
 - (7) Accounting System – Performing all general accounting functions and having custody of assets.
 - (8) Bank reconciliations – Although prepared monthly, there is no independent review of the bank reconciliations.

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.

Current Status – Partially corrected. For the period reviewed, the Mayor and City Council performed independent reviews of the bank reconciliations. The recommendation is repeated for items (1) through (7).

- (B) Payroll – Timesheets were not maintained for all employees and there is no independent review of timesheets that were completed. We could not locate City Council approval for the City Clerk, or the City Water Superintendent pay rates.

Recommendation – Timesheets should be prepared by all employees. All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. The City Council should approve pay rates for all City employees. The approval should be documented in the minutes record.

Current Status – Corrected. During the period reviewed, timesheets were required to be prepared by all employees and were reviewed and approved by a supervisor. The City Council also passed a resolution approving pay rates for all City employees.

City of Geneva

Report on the Status of Periodic Examination Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (C) Computer System – The following weaknesses in the City’s computer system were noted:

The City does not have written policies and procedures for:

- Password privacy and confidentiality.
- Requiring password changes because the software does not require the user to change logins/passwords periodically.
- Requiring backups be performed daily and stored off site.

Also, the City does not have a written disaster recovery plan for its computer system.

Recommendation – The City should develop written policies and procedures addressing the above items to improve the City’s control over its computer system. Also, a written disaster recovery plan should be developed and tested periodically.

Current Status – Partially corrected. On January 9, 2018, the City approved a resolution for a password policy that requires passwords be kept confidential, requires passwords to be changed at least once every 90 days and requires backups of the accounting software to be stored on a separate drive. However, the written policy does not require backups to be stored off site and the City has not approved a written disaster recovery plan. The recommendation is partially repeated.

- (D) Bank Reconciliations – Although monthly bank reconciliations were prepared for individual accounts, they were not reconciled to book balances. At June 30, 2016, the City’s general ledger was \$1,966 less than the reconciled bank and investment balance. In addition, there was no evidence of review by an independent person.

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. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

Current Status – Partially corrected. For the period reviewed, bank and investment account balances were reconciled to the general ledger and the independent reviewer documented their review. However, the independent reviewer did not document the date of the review. The recommendation is partially repeated.

- (E) Monthly City Clerk’s Report – The monthly City Clerk’s Report presented to the City Council for approval does not include a comparison of actual disbursements to budget by function.

Recommendation – The City should ensure the monthly City Clerk’s Reports presented to the City Council for approval include a comparison of actual disbursements to budget by function.

Current Status – Corrected. During the period reviewed, the City Clerk’s Reports included a comparison of actual disbursements to budget for each department.

City of Geneva

Report on the Status of Periodic Examination Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. 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.

Current Status – Not corrected. For the period reviewed, a delinquent account listing was not prepared for each billing period (quarterly) and procedures were not established to reconcile utility billings, collections and delinquent accounts for each billing period. The recommendation is repeated.

- (G) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

Current Status – Partially corrected. On January 9, 2018, the City approved a resolution for an investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. In addition, on April 10, 2018, the City adopted a depository resolution, however, the resolution does not specify the maximum amount that may be kept on deposit in each listed depository as required by Chapter 12C.2 of the Code of Iowa. The recommendation is partially repeated.

- (H) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings, including the total disbursements from each fund, a list of claims allowed, the reason for the claims and a summary of all receipts, be published within fifteen days of the meeting. Minutes publications for all meetings tested did not include total disbursements from each fund and a summary of all receipts.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and publish City Council meeting minutes, including total disbursements from each fund and a summary of all receipts, as required.

Current Status – Corrected. During the period reviewed, all published meeting minutes included total disbursements from each fund and a summary of all receipts.

City of Geneva

Report on the Status of Periodic Examination Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (I) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, culture and recreation and general government 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.

Current Status – Corrected. Disbursements during the year ended June 30, 2018 did not exceed amounts budgeted.

- (J) Annual Financial Report – The fiscal year 2016 Annual Financial Report (AFR) total receipts, disbursements and balances do not agree with the City’s financial records. No supporting documentation was maintained by the City for reported amounts. In addition, the beginning balances did not agree with the prior year ending balances. The City moved a prior year negative Proprietary Fund balance to the Governmental Funds without documentation of an approved transfer or journal entry.

Recommendation – The City should ensure the AFR receipts, disbursements and balances agree with the City’s financial records and all transfers and/or journal entries are properly approved.

Current Status – Partially corrected. Supporting documentation for amounts reported on the fiscal year 2018 Annual Financial Report (AFR) were maintained and total disbursements agreed with the City’s financial records. However, receipts reported on the AFR were \$119 less than those reported on the general ledger causing the total ending balance to be understated by \$119. Also, although the total beginning fund balance agrees to the prior year total ending fund balance, the beginning fund balances by individual fund type do not agree with the prior year ending fund balances by individual fund type because the City reported the total beginning fund balance in the AFR’s General Fund. The recommendation is partially repeated. In addition, see finding (P).

- (K) Local Option Sales Tax – Local option sales tax (LOST) receipts were recorded in the General Fund. The ballot establishing the local option sales tax requires 100% of the receipts to be used for infrastructure. The City has not been tracking the use of LOST receipts.

Recommendation – The City should establish procedures to track LOST receipts and disbursements to ensure the funds are spent in accordance with the ballot provisions.

Current Status – Not corrected. For the period reviewed, the City attempted to track LOST receipts and disbursements. However, the City incorrectly used the fiscal year 2017 ending balance instead of the fiscal year 2018 ending balance as the fiscal year 2019 beginning balance on the LOST tracking report. In addition, the disbursements reported on the tracking report were paid from the Special Revenue, Road Use Tax (RUT) Fund and were not reimbursed with LOST funds. The recommendation is repeated.

City of Geneva

Report on the Status of Periodic Examination Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

- (L) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Corrected. During the period reviewed, the City retained an image of both the front and back of each cancelled check in an electronic format.

- (M) Transfers – The City transfers money to and from various funds periodically. However, the transfers were not always approved by the City Council prior to the actual transfer.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and transfer amounts as part of the minutes record.

Current Status – Corrected. During the period reviewed, the City approved all transfers by resolution prior to the actual transfer.

- (N) Debit Cards – The City has a debit card available for use by the Mayor and City Clerk while on City business.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. The function of a debit card is to provide immediate access to the City's funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

Current Status – Corrected. On June 1, 2018, the debit card account previously used was closed. During the period reviewed, debit cards were no longer used for City purchases.

- (O) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

Current Status – Not corrected. The recommendation is repeated.

City of Geneva

Report on the Status of Periodic Examination Findings and Recommendations

For the period April 1, 2018 through March 31, 2019

Additional Finding as a Result of Follow-up Procedures:

- (P) Financial Reports – Receipts and disbursements recorded in the monthly City Clerk’s report and the Annual Financial Report (AFR) were reported when they cleared the bank rather than when the funds were actually received or when the check was actually written.

Recommendation – The Monthly City Clerk’s report and the AFR should report receipts when the funds are received and disbursements when the check are written, rather than when these transactions clear the bank.

City of Geneva

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Suzanne R. Dahlstrom, CPA, Manager
Ashley J. Moser, Senior Auditor