

**WATER AND SEWERAGE SYSTEM OF
DUPAGE COUNTY, ILLINOIS
An Enterprise Fund of DuPage County, Illinois**

REPORT ON FEDERAL AWARDS

As of and for the Year Ended November 30, 2012

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WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

An Enterprise Fund of DuPage County, Illinois

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As of and for the Year Ended November 30, 2012

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INDEPENDENT AUDITORS' 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

To the Honorable Chairman and Members
of the County Board
DuPage County, Illinois

We have audited the statement of net assets of the Water and Sewerage System of DuPage County, Illinois (System), an enterprise fund of DuPage County, Illinois, as of November 30, 2012, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended and have issued our report thereon dated April 15, 2013. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the Water and Sewerage System of DuPage County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Water and Sewerage System of DuPage County's internal control over financial reporting as a basis for designing our audit procedures 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 Water and Sewerage System of DuPage County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

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 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. This material weakness is item 2012-01.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. This significant deficiency is item 2012-02.

Honorable Chairman and Members
of the County Board
DuPage County, Illinois

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water and Sewerage System of DuPage County's financial statements are free of 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*.

We noted certain matters that we reported to management of the Water and Sewerage System of DuPage County in a separate letter dated April 15, 2013.

This report is intended solely for the information and use of the Water and Sewerage System of DuPage County's management, the County Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Silly Virehow Krause, LLP

Oak Brook, Illinois
April 15, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Chairman and Members
of the County Board
DuPage County, Illinois

Compliance

We have audited the Water and Sewerage System of DuPage County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Water and Sewerage System of DuPage County's major federal program for the year ended November 30, 2012. The System's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Water and Sewerage System of DuPage County's management. Our responsibility is to express an opinion on the Water and Sewerage System of DuPage County's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Water and Sewerage System of DuPage County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the System's compliance with those requirements.

In our opinion, the Water and Sewerage System of DuPage County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended November 30, 2012.

Honorable Chairman and Members
of the County Board
DuPage County, Illinois

Internal Control Over Compliance

Management of the Water and Sewerage System of DuPage County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Water and Sewerage System of DuPage County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Water and Sewerage System of DuPage County'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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the statement of net assets of the Water and Sewerage System of DuPage County, Illinois, an enterprise fund of DuPage County, Illinois, as of November 30, 2012, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended and have issued our report thereon dated April 15, 2013 which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the Water and Sewerage System of DuPage County's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Honorable Chairman and Members
of the County Board
DuPage County

This report is intended solely for the information and use of the Water and Sewerage System of DuPage County's management, the County Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Silly Virehow Krause, UP

Oak Brook, Illinois
April 15, 2013

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2012

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
U. S. ENVIRONMENTAL PROTECTION AGENCY			
<i>Passed Through Illinois Environmental Protection Agency</i>			
Capitalization Grants for Clean Water State Revolving Funds	66.468	L174161	<u>\$ 2,457,590</u>
TOTAL U. S. ENVIRONMENTAL PROTECTION AGENCY			<u>2,457,590</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,457,590</u>

See accompanying notes to schedule of expenditures of federal awards.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2012

NOTE 1 – REPORTING ENTITY

The Water and Sewerage System of DuPage County (System) is an enterprise fund of DuPage County established under Illinois State Statutes. The System had a single audit performed for its fiscal year ended November 30, 2012, pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133.

NOTE 2 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Water and Sewerage System of DuPage County, and is presented on the accrual basis of accounting. Expenses are recognized at the time liabilities are incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 3 – OTHER

The System did not provide federal awards to any subrecipients in fiscal year 2012.

The System had no loans or loan guarantees involving Federal awards outstanding at November 30, 2012.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2012

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

 yes X no

FEDERAL AWARDS

Internal control over federal award programs:

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

Type of auditor's report issued on compliance of federal award programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

 yes X no

Identification of major federal programs:

CFDA Numbers

Name of Federal Program

66.468

Capitalization Grants for Clean Water State Revolving Funds

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

\$ 300,000

Auditee qualified as low-risk auditee?

 yes X no

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2012

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

FINDING 2012-01 – EXTERNAL FINANCIAL REPORTING

Criteria: A properly designed system of internal control would be staffed with enough people with sufficient training to provide the Water and Sewerage System of DuPage County with the ability to not only process and record monthly transactions, but also to prepare a complete set of annual financial statements including the implementation of new standards and all related disclosures.

Condition: The Water and Sewerage System of DuPage County currently relies upon the auditor for this expertise for financial statement preparation rather than preparing the document themselves.

Cause: The Water and Sewerage System of DuPage County considers it cost beneficial to rely upon the auditor for expertise in external financial reporting.

Effect: Management may not be able to present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of their audit procedures and management may not be able to prepare a complete set of year-end financial statements with the very high level of accuracy.

Recommendation: It may not be practical or cost beneficial to mitigate this weakness. Employing an individual who remains current on the ever changing accounting and reporting standards can add significant financial cost to your internal control process. As such, the Water and Sewerage System of DuPage County may choose to accept this risk.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2012

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

FINDING 2012-02 – CONTROLS OVER BILLING AND RECEIPTING

Criteria: An ideal accounting system includes many procedures and controls designed to limit the access of any one individual to assets.

Condition: There should be segregation between receipting and receivables function when possible. Our procedures identified that this control does not currently exist.

Cause: It is our understanding that the Water and Sewerage System of DuPage County considers it not practical to implement such controls due to its entity size.

Effect: Immaterial errors or irregularities may go undetected by the System and account balances may be misstated. Management must rely more heavily on direct knowledge of the systems' operations and day to day contact with employees to control and safeguard assets.

Recommendation: We recommend that the System continue to evaluate whether or not it is feasible to employ an additional individual to segregating the duties of billing and receipting. If it is not deemed feasible, Management should continue to thoroughly review the results of operations to help mitigate this risk.

WATER AND SEWERAGE SYSTEM OF DUPAGE COUNTY, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended November 30, 2012

SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS

NONE

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