

# DuPage County, Illinois

## Report on Internal Controls

November 30, 2014

---

# DUPAGE COUNTY, ILLINOIS

## TABLE OF CONTENTS

---

	<u>PAGE</u>
Auditor's Letter	1-2
<u>County Board Comments</u>	
Material Weakness	
Finance Department	
Accounting Software/Financial Reporting	3
Bank Reconciliations	4
Investments	5
Convalescent Center	
Segregation of Duties for Cash Receipts, Review of Billing Adjustments and Prior Period Adjustment	6
Significant Deficiencies	
Finance Department	
Debt Requirements and Pledged Revenue	8
Capital Assets	9
Manual Journal Entries	12
Convalescent Center	
Capital Asset Management	13
Satisfied Significant Deficiencies	
Federal Awards	
Reimbursement Requests	14
Control Deficiencies	
General Comments for Consideration	
Federal Funding/Single Audit	15
Liability Insurance Fund	16
2001 Stormwater Bond Project Fund Balance	17
Procurement	18
Convalescent Center	
Accounts Receivable Credit Balances	19
Bank Reconciliations	20
Agency Fund – Special Account Authorized Signers	21
Agency Fund – Residents' Account Trust Bank Reconciliation	22
Bed Tax – Netting of Expenses and Revenues	23
Finance Department	
Accounting Procedures Documentation	24

# DUPAGE COUNTY, ILLINOIS

## TABLE OF CONTENTS

---

	<u>PAGE</u>
<u>Clerk of the Circuit Court's Office</u>	
Control Deficiencies	
Reconciliation of Criminal Traffic Cases	25
Outstanding Checks	26
Satisfied Deficiencies	
Cancellation of Paid Invoices	27
Timely Processing of Refunds for Overpayments	28
<u>County Clerk's Office</u>	
Significant Deficiencies	
Accounting Software	29
Accounting Procedures Documentation	30
Satisfied Deficiencies	
Segregation of Cash Duties	31
<u>State's Attorney Office</u>	
Satisfied Deficiencies	
Disbursements	32
Employee Fund Account	33
<u>Treasurer's Office</u>	
Material Weakness	
Bank Reconciliations	34
Investments	34
Significant Deficiency	
Manual Journal Entries	34
Control Deficiencies	
Updating of Authorized Bank Signers	35

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of DuPage County, Illinois (the County) as of and for the year ended November 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing 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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

The funds and operations of the DuPage Emergency Telephone Systems Board, which is included in the County's financial statements, were audited by us under separate engagements. The DuPage County Health Department, the DuPage Airport Authority and the Water and Sewerage System Fund, which are also included within the County's financial statements, were audited by other auditors. Separate reports on internal control have been furnished to those governing bodies, and thus not included herein.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 of the County's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 County's financial statements will not be prevented or detected and corrected on a timely basis.

The Honorable Chairman and  
Members of the County Board  
DuPage County, Illinois  
Page 2

A significant deficiency is a deficiency, or 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.

The comments that accompany this letter summarize the control deficiencies identified during the audit and suggestions regarding those matters. This letter does not affect our report dated October 2, 2015, on the financial statements of the County.

The County's written responses to the control deficiencies identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Members of the County Board, elected officials, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We have already discussed many of these comments and recommendations with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

*BKD, LLP*

Oakbrook Terrace, Illinois  
October 2, 2015

## MATERIAL WEAKNESSES

### FINANCE DEPARTMENT

#### Accounting Software/Financial Reporting

##### **Previously Reported Comment**

*Comment:*

The software program used to perform the various accounting functions of the County was acquired over 25 years ago. Since that time, the County has experienced significant changes in accounting requirements. The current system is unable to provide modified accrual basis financial information for governmental activities of the County. As a result, the year-end audit process includes the preparation of numerous accounting entries to prepare financial statements in accordance with generally accepted accounting principles (GAAP). These entries are developed by both the Finance Department staff and auditors.

As a result of the limitations of the system, the Finance Department cannot provide GAAP basis periodic financial reports to management or members of the County Board. The County Board's main sources of financial information include access to the Treasurer's reports, quarterly reports from the County Auditor, quarterly budget performance reports for major funds, and budget-to-actual access via the intranet.

Accounting software trends have produced more sophisticated tools to perform complex accounting functions that would better meet the needs of the County and increase productivity with respect to financial transactions. This includes improved ongoing reconciliation between the Finance Department and the Treasurer's Office, and also integrate with records maintained outside the Finance Department, such as the Sheriff, State's Attorney, Public Works, etc.

*Recommendation:*

We recommended the County proceed with working to fully implement the Enterprise Resource Planning (ERP) system.

*Current Year Status:*

The County implemented the new ERP software in fiscal year 2014. The County has been working in 2014 and subsequent to the fiscal year end to continue to make improvements to the system in order to provide the information necessary to prepare financial statements in accordance with generally accepted accounting principles (GAAP). **This material weakness is repeated.**

*Management's Response/Corrective Action Plan:*

In 2010, the County hired a consultant to evaluate needs and assist in the design and selection of the Enterprise Resource Planning (ERP) software. In November 2012, the County Board approved a contract for implementation of the Infor-Lawson ERP system. Since the beginning of 2013, County employees worked to implement the new software system and on April 25, 2014, the County began a staged rollout of the general ledger, accounts payable, cash book (treasury), procurement, fixed assets and activity modules. Beginning with the first payroll of 2015, the human resources and payroll modules went live. With completion of the 2015 audit, regular GAAP based financial reporting will begin.

## MATERIAL WEAKNESSES

### FINANCE DEPARTMENT (Cont.)

#### **Bank Reconciliations**

*Comment:*

Bank and investment reconciliations were not fully reconciled to the general ledger (Lawson) on a timely and regular basis. The bank and investment statements were being reconciled to a separate module Cash Book, but were not reconciled to the general ledger system resulting in multiple material audit adjustments at year end and delays in the audit process. Adjustments were identified and recorded as late as July 2015 for the fiscal year ending November 30, 2014. In addition, several bank reconciliations had multiple reconciling items which were recorded due to previous errors. These errors were identified by the Treasurer's Office subsequent to the completion of the reconciliation; however, as a result of these errors, some final bank reconciliations were not completed and provided for audit until almost four months subsequent to fiscal year end.

*Recommendation:*

We recommend that the County implement procedures and policies requiring bank reconciliations to be fully reconciled to the general ledger on a timely and regular basis. Reconciliations should be documented and include documented review and approval. The reconciliation of the separate module to the general ledger should take place on a monthly basis. This will require coordination of both Finance and the Treasurer's Office staff.

*Management's Response/Corrective Action Plan:*

The ERP system was implemented in phases, which resulted in detailed general ledger cash code, necessary to the reconciliation of the cash book and general ledger modules, not being completed until three months after fiscal year end. The Treasurer's Office and Finance Department developed a short-term process to reconcile the two modules on a monthly basis during fieldwork. This process will be formalized and documented with the completion of the fiscal year 2014 and fully implemented before the fiscal year 2015 year end.

## MATERIAL WEAKNESSES

### FINANCE DEPARTMENT (Cont.)

#### **Investments**

*Comment:*

Audit adjustments were needed to correct investments for the following matters:

- Investments were not recorded at fair value as of November 30, 2014;
- Adjustments were not recorded to allocate cost and interest among the funds; and
- Accrued interest was not recorded as of November 30, 2014.

*Recommendation:*

We recommend that the County implement policies and procedures to ensure that all investment balances and related year-end accruals are appropriately recognized.

*Management's Response/Corrective Action Plan:*

The implementation of detailed general ledger cash codes, completed in February of 2015, was a necessary first step before investment related adjustments could be manually recorded. The Treasurer's Office, in conjunction with the Finance Department and the investment module software company, is developing a reasonable and automated methodology to allocate interest earnings across funds. The interface between the investment system and the ERP's general ledger has been started and is expected to be completed by the end of fiscal year 2015. The investment system integration will allow the Treasurer's Office to record the fair value of investments and accrued interest for the year-end financial statements.

## MATERIAL WEAKNESSES

### CONVALESCENT CENTER

#### Segregation of Duties for Cash Receipts, Review of Billing Adjustments, and Prior Period Adjustment

##### **Previously Reported as Control Deficiency**

*Comment:*

At present, mail is opened in the Accounting Department and cash receipts are recorded directly in the general ledger from the checks received.

*Recommendation:*

To provide proper control over cash receipts, we recommend that all mail be opened by someone outside the Accounting Department and that a list of receipts be prepared by the person opening the mail. All remittance advices, letters, or envelopes that accompany the receipts, should then be given directly to the Accounting Department. The list of receipts should be compared and agreed with the bank deposit receipt after the deposit is made. Proper segregation of duties over cash receipts requires that access to cash receipts be limited to someone who does not have access to the accounting records.

*Prior Year Status:*

The mail is still opened by the accounting department. In addition, it was noted that the accounting department bills and re-bills without supervisory review. The trial balance summary by postdate printed in the month-end binder reports do not agree with the newly printed trial balance patient summary by postdate. It appears that items that were considered charge adjustments are now included in the charge column. Therefore, it is difficult to track what accounts were adjusted or totals adjusted. In addition, numerous individual patient accounts are not reconciled and closed timely. Corrected billings may not take place for months or years. This is partly due to waiting for information to be provided by federal agencies. However, it was also noted that for accounts totaling approximately \$425,000, the patient has been discharged from the facility over one year. In prior years, the accounting department tracked what accounts were submitted to the States Attorney Office (SAO) for collection. However, this is no longer performed. Items are written off once the SAO notifies the Convalescent Center that there are no further collections available. The actual write-off may take place up to four months later. The total amount of potential bad debt is not readily available to assess the adequacy of the allowance for doubtful accounts.

*Current Year Status:*

The patient is billed for room and board prior to the month of service. The software utilized does not account for the pre-billing at the end of the year and no adjusting entry was made. Each year December room and board is billed in November and accounted for in the incorrect period. Revenue was net overstated by approximately \$325,000 in fiscal year 2014. In addition, Medicare adjustments are retroactive and are not provided to the Center on a timely basis. These billing adjustments occur subsequent to year end, but were for services provided during the fiscal year. The software utilized does not account for the adjustments subsequent to year end and the Center does not make an adjusting entry. Revenue is net understated by approximately \$2,300. Total effect of pre-billing and billing adjustments was an overstatement of revenue of \$323,000. Billing issues also resulted in a prior period adjustment to correct revenue recognition in the amount of \$709,689. **As a result, this comment is now considered a material weakness.**

## MATERIAL WEAKNESSES

### CONVALESCENT CENTER (Cont.)

#### **Segregation of Duties for Cash Receipts and Review of Billing Adjustments (Cont.)**

*Management's Response/Corrective Action Plan:*

The Convalescent Center management has authorized additional hours to the process of analyzing patient accounts to ensure accurate balances are reflected in the detail resident account balance. Currently, over one third of the reconciliations necessary have been performed. Due to limited staffing and the need to ensure that all payments for patient services are properly received, a Business Office representative goes through the mail to glean out account payments, prior to the mail being sorted and distributed throughout the building. Mail addressed specifically to residents who are alert and oriented may not be opened prior to distribution to them without their consent. Payments received via the mail are in the form of a check. Due to the nature of a check the chance of misappropriation is significantly limited. Deposits are made twice weekly with the Treasurer's Office; corresponding reports are sent to the County's Finance Department. Payments applied to patient accounts are compared to the Treasurer's reports both on a weekly and monthly basis. The Financial Services Managers reconciles the monthly Treasurer's report to the accounts receivable software on a monthly basis. Prior to deposit, payments received are kept in the Business Office safe and are in the form of checks. These payments are applied to the resident accounts, which show up on the resident statements. Any discrepancies between payments made and the account statements would be noted not only by the payer, but also by the Business Office through monthly collection meetings with the State's Attorney's Office.

## SIGNIFICANT DEFICIENCIES

### FINANCE DEPARTMENT

#### **Debt Requirements and Pledged Revenue**

*Comment:*

Various bond issuances of the County carry specific pledged revenue requirements. One of the requirements on the County's Drainage Bonds mandate that a portion of the taxes received be transferred to fund debt service. Once funded, the remainder (which is residual savings from a previous refunding) goes to fund capital projects (Capital Project Fund). We noted three months during the fiscal year in which receipts were not properly coded in the general ledger, in accordance with pledged revenue requirements.

*Recommendation:*

We recommend that the County implement policies and procedures for the review of pledged bond requirements. This review should be performed on a quarterly basis, at a minimum and should be formally documented. We also recommend that the County develop policies and procedures requiring the monthly review over state taxes, including the proper coding in the general ledger, in order to meet pledged revenue requirements.

*Management's Response/Corrective Action Plan:*

A spreadsheet had been developed at the time of bond issuance to allocate the proper amount of sales taxes (pledged revenue) to the proper debt service and capital project funds on a monthly basis. This spreadsheet is being used as a guide for the Treasurer to make the proper split. This procedure has been in use since 2001. As part of the learning process of the new ERP system, an error occurred in the allocation for three months as noted. The Finance Department identified the allocation and made an adjustment during the year; the proper amount of pledged revenue was available to make the July 1, 2014 debt service payments for the related drainage bonds.

## SIGNIFICANT DEFICIENCIES

### FINANCE DEPARTMENT (Cont.)

#### Capital Assets

##### **Previously Reported Comment**

*Comment:*

We noted that the County does not currently have formal accounting policies or a procedures manual regarding capital assets. The County has a number of informal policies that are used in the recording of capital assets. However, these policies are not formally documented. A good policies and procedures manual should aid in the training and transition of new employees, ensure that transactions are treated consistently, and insure that the treatment of transactions and the records produced are in accordance with generally accepted accounting principles and management's intent.

*Recommendation:*

We recommend that a capital asset policies and procedures manual be developed. The manual should include all custodial and accounting procedures necessary to insure that the capital asset records are complete and accurate at year end. This should include all procedures which require coordination with other departments. In addition, the manual should document the informal policies that the County uses in determining the treatment of capital asset and potential capital asset transactions. The following is a list of informal policies noted during the audit that should be documented:

- The Finance Department's handling of Board of Elections assets, Water and Sewerage Special Service Area assets and Convalescent Center assets should be formally documented. These assets are generally tracked separately by the other departments and require coordination with Finance in order to insure that all assets are accounted for, that assets are not recorded twice, and that year-end financial reports can be prepared on a timely basis.
- The County's policy of immediately deducting 3% of road-related capital assets upon transfer from Construction in Progress to Infrastructure should be formally documented. The rationale and support for this estimate should also be documented in order that it may be reassessed in future years.
- The County's policy of allocating cost between land and infrastructure for a project should be formally documented. The support for any estimates and assumptions made should also be documented.
- The County's policy of determining the treatment of transactions related to road repaving projects should be formally documented.
- The County's treatment of costs associated with Intergovernmental Agreements and instances where the resulting capital assets will not be owned by the County, or where only a portion of the assets will be owned by the County, should be formally documented.
- The County's treatment of Phase I and Phase II engineering costs (generally not capitalized) should be formally documented.

## SIGNIFICANT DEFICIENCIES

### FINANCE DEPARTMENT (Cont.)

#### Capital Assets (Cont.)

##### *Recommendation:* (Cont.)

- The County's treatment of proceeds from the sale of capital assets should be formally documented. It was noted during the audit that sales proceeds are not being tracked into the capital asset records. We recommend requesting this information from departments as a part of the regular disposal forms already being used and recording the proceeds as part of the capital asset records. This insures that gains or losses on the disposal of capital assets can be calculated correctly.

##### *Current Year Status:*

During fiscal year 2014, the County implemented a new general ledger system, including a new system for tracking of capital assets. Due to this transition, the following issues were identified:

- Due to the system transition, the capital asset detail initially provided tied in total but did not tie by asset class when comparing opening balances to prior year balances. When capital assets were brought over to the new system, asset types were changed in error.
- The initial capital asset spreadsheet provided did not include decreases to construction in progress. This resulted in an adjustment to the spreadsheet totaling \$1,953,586.
- The County did not include capital contributions in the information provided, which resulted in adjustment of additions in the amount of \$1,072,684.
- The initial capital asset spreadsheet incorrectly included a negative \$329,194 in additions. The spreadsheet incorrectly identified fiscal year 2013 accruals as land improvements resulting in the negative balance. The spreadsheet was subsequently adjusted for this error.
- Additional retainage was identified during the audit in the amount of \$124,327.
- Depreciation expense was not recorded for fiscal year 2014 additions resulting in an adjustment totaling \$211,048.
- Historically, the County has used a 10% salvage value for capital assets (excluding infrastructure). For fiscal year 2014, the initial capital asset detail provided was from the new system and did not account for the 10% salvage value. This resulted in inconsistencies in the depreciation calculation.
- During testing over disposals, it was noted that vehicles were disposed as trade-in for purchases of new vehicles. The new vehicles are recorded at the reduced cost (cost less trade-in value) instead of actual cost. This did not result in any material adjustments but should be considered in the future to ensure more accurate reporting.

**This control deficiency is repeated.**

## **SIGNIFICANT DEFICIENCIES**

### **FINANCE DEPARTMENT** (Cont.)

#### **Capital Assets** (Cont.)

##### *Management's Response/Corrective Action Plan:*

The culmination of a new system and new personnel resulted in a protracted learning curve. Data migration issues and constraints on prior period asset entry restricted the value of the new system, resulting in reverting back to the old manual system and procedures. For the 2015 audit, the County will be cleaning up the asset logs and drafting new policies and procedures for adoption in 2016.

## **SIGNIFICANT DEFICIENCIES**

### **FINANCE DEPARTMENT (Cont.)**

#### **Manual Journal Entries**

*Comment:*

The County utilizes manual entries to record certain transactions outside of the automated functions, which include correction and reclass journal entries. Manual entries can be created and posted by both the Finance Department and the Treasurer's Office. During testing, it was noted that supporting documentation for manual entries was not always consistent. The Finance Department did develop a journal entry form to use, which includes the purpose and to document those preparing and approving the entries. However, the form was not always used on consistent basis. In addition, a secondary reviewer and approver was not always documented on the supporting form. Not having a consistent and formal process increases risk of incorrect and/or unauthorized manual journal entries. In addition, in times of staff turnover, there is a risk that there may be problems identifying the purpose of the entry if there is not a formal process that clearly documents the purpose of the entry as well as the preparer and the approver.

*Recommendation:*

We recommend that the County develop consistent policies and procedures over manual entries. The County should consider utilizing a hardcopy or electronic form/report that documents the purpose of the entry, the preparer and the approver. Any other related documentation should be kept with the form/report to ensure supporting documentation is retained for the manual entries.

*Management's Response/Corrective Action Plan:*

For manual journal entries, one consistent journal entry form is now being used by the Finance Department. In addition, a separate reviewer and approver are now required to initial the form. Supporting documentation on all journal entries has been and will continue to be stapled to the journal entry form and filed by month and year in the Finance Department. The Treasurer's Office will adopt a consistent journal entry process to include electronic journal entry forms. Hard copies of journal entries will be filed chronologically with attached supporting documentation and approved initials. As necessary, entries will be saved electronically with additional back-up documentation (i.e, Lawson release or ledger reports in pdf. format).

## SIGNIFICANT DEFICIENCIES

### CONVALESCENT CENTER

#### Capital Asset Management

##### **Previously Reported Comment**

*Comment:*

The County tracks construction in progress items for the Convalescent Center if they are paid for using grant funds. When these items are placed into service, they are transferred to the Convalescent Center's books at the end of the fiscal year through an audit entry. Total assets transferred and entered into the books for fiscal year 2013 was \$174,592.

We were also made aware of deficiencies in capital assets by the DuPage County Auditor. In their 2013 report, it was noted that numerous assets are recorded and tracked that are less than the current capitalization policy of \$2,500. At the end of fiscal year 2013, assets tracked that were less than the capitalization policy totaled \$1,761,075 with accumulated depreciation of \$1,619,133 at year end. In 2013, the auditor also noted various assets totaling \$232,302 that were not located and discovered to be disposed of. A vehicle was transferred between another County department and the Convalescent Center and the asset was not recorded on the Center's books. It was also noted that a physical inventory of capital assets has not taken place in 25 years.

*Recommendation:*

We recommend that procedures be implemented to ensure accurate recording of the Convalescent Center's capital asset recording. Assets should not be capitalized if less than the capitalization threshold. Inventories should be performed on an annual basis. Policies and procedures should be established regarding the disposal of assets and identification of those assets to accounting.

*Current Year Status:*

Processes and time frames for a complete physical inventory are currently being developed. Total assets transferred and entered into the books for fiscal year 2014 was \$0. The fiscal year 2014 capital asset detail includes assets with costs of less than \$500 totaling approximately \$158,000. **This significant deficiency is repeated.**

*Management's Response/Corrective Action Plan:*

With the conversion to the recently implement ERP software, the Convalescent Center management has begun the process of removing the assets recommended by the County's internal auditing department from its capital book. Processes and time frames for a complete physical inventory are currently being developed. County policies and procedures exist regarding the disposal of assets and are followed in the disposal of any fixed assets by the Convalescent Center. The Convalescent Center Finance Manager is notified once a fixed asset has been taken out of service or disposed of and the item is taken off the capital book and a journal entry is made to reflect the change on the Convalescent Center's trial balance.

## SATIFIED SIGNIFICANT DEFICIENCY

### FEDERAL AWARDS

#### Reimbursement Requests – Illinois Department of Healthcare and Family Services for the Child Support Enforcement Program

##### **Previously Reported Comment**

*Comment:*

The County's agreement with the Illinois Department of Healthcare and Family Services for the Child Support Enforcement Program (Agreement No. 2008/11-55-015-K1/2/3) requires that the County submit expenditure reports no later than the 15<sup>th</sup> day of the month following the month of service.

The County contracts with Robert F. Lyons and Associates to submit reimbursement requests to the Illinois Department of Healthcare and Family Services for the Title IV-D Program. Several expenditure reports did not meet the 15<sup>th</sup> day of the month deadline. Reimbursement requests for a large portion of fiscal year 2009, fiscal year 2010 and fiscal year 2011 were not submitted in accordance with the grant agreement. During our discussion with DuPage County personnel, they rely on the submission of required documentation from the contractor before a request for reimbursement can be made.

*Recommendation:*

We recommend that reimbursement requests comply with requirements and be submitted no later than the 15<sup>th</sup> day of the month following the month of the service.

*Current Year Status:*

This grant ended June 30, 2013. **This significant deficiency is not repeated.**

## CONTROL DEFICIENCIES

### GENERAL COMMENTS FOR CONSIDERATION

#### Federal Funding/Single Audit

##### **Previously Reported Comment**

*Comment:*

Each year, the County is subject to an audit of Federal funding in accordance with *OMB Circular A-133*. All Federal dollars, whether material or immaterial, must be reported on the Schedule of Expenditures of Federal Awards, and may be subject to additional audit procedures not performed during the normal course of the financial statement audit. Every year, additional time is spent by the external auditors and County Finance Department personnel determining what amounts are truly federal funds. The County's financial records do not consistently identify, in detail, amounts that are direct Federal or Federal amounts that pass-through a State agency. A significant amount of time is spent contacting personnel in other County departments, locating Federal or State agreements, contacting Federal or State agencies, and gathering other additional information needed for the Schedule of Expenditures of Federal Awards.

*Recommendation:*

We recommend, as we have in the past, that the County adopt procedures to accumulate Federal funds reporting, including how they are identified and reported in the County's financial records, what documents should be maintained in (or available to) the Finance Department, and who is responsible for the financial reporting of the funds to the respective Federal or State agency. Ideally, the Schedule of Expenditures of Federal Awards should be prepared by the County prior to audit fieldwork. Proper accumulation of this information will not only improve the efficiency of Federal funds financial reporting, but also expedite the identification and required auditing processes at year end.

*Current Year Status:*

The Finance Department has taken significant steps in fiscal 2011, 2012, 2013 and 2014 to accumulate grant information and prepare the Schedule of Expenditures of Federal Awards (SEFA). However, various changes and additions to the Schedule were made during the audit process. **This control deficiency is repeated.**

*Management's Response/Corrective Action Plan:*

For fiscal year 2014, the SEFA is being reported on a modified accrual basis of accounting rather than the cash basis of accounting of past years, which was then adjusted by the auditors. We anticipated the restatement of prior figures to implement the conversion of methods would require additional adjusting entries in 2014, but will put us on a strong footing for 2015. The provided accruals did change after submission as a result of the auditor's search for unrecorded accounts payable found during field work. Finance accounting personnel will be more cognizant of potential payable adjustments made after submission of the draft SEFA to the auditors.

## CONTROL DEFICIENCIES

### GENERAL COMMENTS FOR CONSIDERATION (Cont.)

#### Liability Insurance Fund

##### **Previously Reported Comment**

*Comment:*

The Liability Insurance Internal Service Fund accounts for the payment of worker's compensation and liability insurance related items. Net position in this fund has decreased from \$(3,064,395) at November 30, 2012, \$(5,561,548) at November 30, 2013, and to \$(3,534,087) at November 30, 2014. Therefore, costs incurred in the Internal Service Fund are not being charged/allocated to other funds or activities until a later date.

*Recommendation:*

We recommend that the County continue to assess the current revenue sources and evaluate the funding requirements in this fund.

*Current Year Status:*

The net position at November 30, 2014, is \$(3,534,087). **This control deficiency is repeated.**

*Management's Response/Corrective Action Plan:*

The County is aggressively resolving worker's compensation and liability insurance related claims as is exemplified by the reduced expenditures and liability as well as the improved fund balance.

## CONTROL DEFICIENCIES

### GENERAL COMMENTS FOR CONSIDERATION (Cont.)

#### **2001 Stormwater Bond Project Fund Balance**

##### **Previously Reported Comment**

*Comment:*

The 2001 Stormwater Bond Capital Project fund balance was originally funded with bond proceeds for a specific project. Subsequently, additional grant funds were awarded and assisted with the funding of the project. This resulted in unspent funds and a positive fund balance of \$17,889 for the year ended November 30, 2014, \$207,711 for year ended November 30, 2013, and \$351,397 for year ended November 30, 2012.

*Recommendation:*

We recommend that the County review options and spend the funding on allowable projects in order to meet bond issue requirements.

*Current Year Status:*

The fund balance at November 30, 2014, is \$17,889. **This control deficiency is repeated.**

*Management's Response/Corrective Action Plan:*

Expenditures continued in 2014 and the remaining balance is appropriated and expected to be spent by the end of fiscal year 2015.

## CONTROL DEFICIENCIES

### GENERAL COMMENTS FOR CONSIDERATION (Cont.)

#### Procurement

##### **Previously Reported Comment**

*Comment:*

Procurement procedures are governed by the County Procurement Ordinance. Based on inquiry with procurement department, a checklist form is used to ensure procurement steps have been followed and that appropriate documentation is retained for the file. The checklist is signed by appropriate members of management. The State of Illinois' Secretary of State website is also used to check for issues with vendors and bad standing with the state. 12 purchases were selected for testing in 2013 and the following issues were noted:

1. 7 did not have documentation in the file showing that the vendor was reviewed using the Illinois Secretary of State website for good standing.
2. 1 project was missing the signature of the procurement manager on the procurement checklist. The checklist was signed but then changes were made and the revised form was not re-signed.
3. 1 project was for fingerprint background check services. The vendor agreements did not have clear terms or clear prices. The purchase order had two change orders and in the case of the first change order, the agreement was re-signed during the three-year period. The new agreement did not specifically list out the term and only stated that it was effective for three years. This was incorrect in that the term was from the original date of the agreement. In addition, the re-signed agreement only listed out one of the prices and should have been revised to include the second rate. This first change order was signed by the Human Resource Director before being approved by the Finance Committee. The agreement was signed July 17, 2013, and the Finance Committee approved August 14, 2013. The agreement was for a change order totaling \$7,560. Change orders over \$5,000 are required to be approved by the appropriate committee, and therefore, the agreement should not have been signed before the committee approved.

*Recommendation:*

We recommend that the County ensure that all projects include the Secretary of State verification to ensure vendors used are in good standing with the State. All final procurement checklists should be appropriately signed by members of management. All agreements and contracts should not be signed until after the appropriate committee and/or Board has approved. In addition, all agreements and contracts should include clear terms – specifically term dates and rates.

*Current Year Status:*

1 out of 10 procurement files reviewed did not have the State of Illinois vendor review. **This control deficiency is repeated.**

*Management's Response/Corrective Action Plan:*

Only one piece of supporting documentation was missing from the purchases reviewed in 2014. The County expects this deficiency to be resolved in fiscal year 2015.

## CONTROL DEFICIENCIES

### CONVALESCENT CENTER

#### Accounts Receivable Credit Balances

##### **Previously Reported Comment**

*Comment:*

Credit balances in accounts receivable have increased over the past year. These balances represent overpayments and similar credits due to current and former residents and are, in part, the result of delays by the Medicaid system in their reconciliation of the information. Some of the patient discharge dates listed are over five years ago.

*Recommendation:*

We recommend that discharged patients' accounts be reconciled and settled within a reasonable period of time. This will require coordination with the State's Medicaid systems in providing information in a timely manner.

*Current Year Status:*

The reconciliation process is not yet complete. **This control deficiency is repeated.**

*Management's Response/Corrective Action Plan:*

Staff time has been allocated to the reconciliation procedure. Currently, one-third of the outstanding balances have been reconciled or are in the process of being reconciled.

## CONTROL DEFICIENCIES

### CONVALESCENT CENTER (Cont.)

#### **Bank Reconciliations**

*Comment:*

It was noted when reviewing the Convalescent Center Fund bank reconciliation as of November 30, 2014, that checks were being written to cash. Writing checks to cash is an undesirable practice because checks made out to cash may be cashed by unauthorized persons, and the bank cannot be held liable for cashing them. In addition, we noted old, uncleared reconciling items, dating back to 2000, are being carried on monthly cash reconciliations.

*Recommendation:*

We recommend that checks be made payable to the person authorized to cash the checks. We also recommend that uncleared reconciling items that are over one year old be investigated and removed from the bank reconciliation and that the original transaction be reversed. Research should be done periodically to eliminate old items being carried from month to month.

*Management's Response/Corrective Action Plan:*

Management agrees that when the need arises for cash at the Convalescent Center, checks will be made out to persons authorized to obtain cash on behalf of the Convalescent Center. The Convalescent currently reconciles all agency cash accounts on a monthly basis. Part of the bank reconciliation is the review of the outstanding checks at the end of the month. All outstanding checks are reviewed and eliminated as warranted.

## CONTROL DEFICIENCIES

### CONVALESCENT CENTER (Cont.)

#### Agency Fund – Special Account Authorized Signers

##### **Previously Reported Comment**

*Comment:*

The Special Account is used as a clearing account for pharmacy credit card receipts and transfers from U.S. Funds for credit card receipts from dietary and gift shop. The previous Administrator and Financial Services Supervisor who were no longer employed by the County as of March 2013 and December 2012, respectively, were listed as authorized signers for the Special Account. Therefore, authorized signers have not been appropriately updated.

*Recommendation:*

We recommend that additional procedures are implemented to ensure that authorized signers for all accounts are updated in a timely manner.

*Current Year Status:*

Check signer updates have been completed. **This control deficiency is satisfied.**

## CONTROL DEFICIENCIES

CONVALESCENT CENTER (Cont.)

### Agency Fund – Residents’ Trust Account Bank Reconciliation

#### **Previously Reported Comment**

*Comment:*

The Residents’ Trust Account’s book balance is reconciled to the bank balance on a monthly basis. The November 2013 reconciliation noted approximately \$63,000 of deposits in the bank, but not recorded in the books, resulting in an understatement of this amount in both cash and agency funds payable.

*Recommendation:*

We recommend that additional procedures are implemented to ensure all activity is properly identified and recorded in the correct fiscal year.

*Current Year Status:*

The process of recording ACH credits through 3<sup>rd</sup> of the current month has been reviewed. Since the majority of the ACH credits are received prior to the 4<sup>th</sup> of the month, management still feels posting the credits for the majority earlier in the month allows quicker access to funds for most residents. Credits received after the 3<sup>rd</sup> of the month are still closely monitored and receipted promptly the following month. Bank reconciliations are performed within 15 days after the close of the month. **This control deficiency is satisfied.**

## CONTROL DEFICIENCIES

### CONVALESCENT CENTER (Cont.)

#### Bed Tax – Netting of Revenues and Expenses

##### **Previously Reported Comment**

*Comment:*

During the current year testing, it was identified that the bed tax expense assessed by the State is netted against the State's Medicare payment for licensed and occupied beds. While these revenues and expenses are related, these items should not be netted. Fiscal year 2013 bed tax expense approximated \$200,000.

*Recommendation:*

We recommend that bed tax expense be recorded in an expense account and not be netted with the State's Medicare payment, in order to properly present revenues and expenses.

*Current Year Status:*

For purposes of cost report preparation and filing, the Convalescent Center has historically offset the associated revenue. In Fiscal Year 2014, the Convalescent Center has budgeted the Bed Tax as an expense appropriation, due to a change in reimbursement methodology. Therefore, the expense payment will now be made by the County's Finance Department, rather than satisfied as a reduction in the Convalescents Center's monthly Medicaid receipt. **This control deficiency is satisfied.**

## CONTROL DEFICIENCIES

### FINANCE DEPARTMENT

#### Accounting Procedures Documentation

##### **Previously Reported Comment**

*Comment:*

We noted that the County does not have a comprehensive accounting procedures manual. Written procedures, instructions and assignments of duties provide a key element of control to help prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to insure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs. Areas that we found to have substantial amounts of written documentation within the Finance Department were for the cash disbursement/accounts payable and revenue functions. In addition, Human Resources Department documentation of payroll reporting procedures is used by Finance Department personnel.

*Recommendation:*

Action should be taken by the County to establish priorities and set a timetable for the completion of a comprehensive accounting manual encompassing existing information discussed above, along with all other financial processes. It will take some time and effort for management to develop a manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for developing a manual, management may discover procedures that can be eliminated or improved to make the system more efficient and effective. The manual should include all key accounting functions performed throughout the County, including those performed outside of the Finance Department and those performed in the elected officials' offices.

*Current Year Status:*

In fiscal year 2014, the County implemented the new ERP system. The County has not developed a comprehensive accounting procedures manual. **This control deficiency is repeated.**

*Management's Response/Corrective Action Plan:*

Scripts used for ERP training are used by staff for guidance on steps for input of information into the system. Procedure documentation has started on several areas such as month-end close, account reconciliation, accounts payable, and cash deposit to name a few. A comprehensive accounting manual is planned to be complete in 2016.

## CLERK OF THE CIRCUIT COURT'S OFFICE

### CONTROL DEFICIENCIES

#### Reconciliation of Criminal Traffic Cases

##### **Previously Reported Comment**

###### *Comment:*

The Clerk of the Circuit Court, which collects fees in criminal traffic cases, does not perform monthly reconciliations from the detailed liability documentation to the amount of cash available to be disbursed at month end from the Criminal Traffic account fund.

Failure to properly perform monthly reconciliations to the cash balance may result in insufficient funds to cover the liability.

###### *Recommendation:*

We have recommended that the Clerk of the Circuit Court routinely perform monthly reconciliations of assets in the Criminal Traffic account fund to supporting documentation of the liabilities to be disbursed.

###### *Current Year Status:*

As of the close of 2014, all accounts are being reconciled through the general ledger. Within general ledger, pre-general ledger accounts continue to be worked to move case funds to a post-general ledger status. Individual case reconciliation will continue within the general ledger application until all backlog cases have been reviewed. **This control deficiency is repeated.**

###### *Management's Response/Corrective Action Plan:*

The Clerk's Office has moved all Criminal Traffic and Bond fund accounts into the general ledger application. As of the close of 2014, all accounts are being reconciled through the general ledger. Within general ledger, pre-general ledger accounts continue to be worked to move case funds to a post-general ledger status. Individual case reconciliation will continue within the general ledger application until all backlog cases have been reviewed. We have made very good progress during 2014 and the Bond accounts will be complete early 2015. Progress on the Criminal Traffic continues to be a focus area.

## CLERK OF THE CIRCUIT COURT'S OFFICE

### CONTROL DEFICIENCIES (Cont.)

#### Outstanding Checks

##### **Previously Reported Comment**

###### *Comment:*

During our 2013 audit, we noted that the Criminal Traffic account reconciliation includes 14,391 outstanding checks in the amount of \$2,178,682 that are over six months old with some checks dating back to June 2011. The Clerk's Office does not have a formal, clearly defined policy for disposition of uncashed checks. Because no policy exists, long-outstanding checks are not being handled on a consistent, regular basis.

###### *Recommendation:*

We recommend that management establish a formal, written policy concerning uncashed checks based on current State escheat laws. Such a policy should specify aging milestones with required actions. For example, this policy might specify that when checks are past 90 days old, the payee should be contacted.

###### *Current Year Status:*

The written policy is in the process of being developed. **This control deficiency is repeated.**

###### *Management's Response/Corrective Action Plan:*

During 2014, the Clerk's Office completed a review of outstanding checks and case fund amounts. This analysis has provided direction to establish a policy and process to handle the disposition of these types of funds. Several tasks are in progress to complete the effort needed to address the accounting of any outstanding unclaimed funds being held by the Clerk's Office. The written policy is being constructed based on our ability to complete the workflow and automated system changes needed to support this process. The Clerk's Office should complete these actions in the near future. Movement in regards to the investigation of old outstanding checks is still in progress however has not yet been completed. Content of the written policy is being compiled and will be completed during 2015. The end-to-end process to resolve the outstanding checks issue is still incomplete. While we did not reach our goal in 2014, the Clerk's Office intends to make progress in 2015.

## CLERK OF THE CIRCUIT COURT'S OFFICE

### SATISFIED CONTROL DEFICIENCIES

#### Cancellation of Paid Invoices

##### **Previously Reported Comment**

*Comment:*

The Clerk of the Circuit Court issues cash disbursement checks from two accounts – Child Support Maintenance and Clerk Administration. During our audit, we noted that the supporting documents for the disbursements did not contain any evidence of approval or cancellation (for example – not stamped “paid”).

*Recommendation:*

We recommend that the documents supporting disbursements be cancelled at the time the checks are issued and signed in such a manner as to render them ineffective as a support for further payment processing. The signed checks should then be forwarded for mailing to someone independent of employees preparing the checks.

*Current Year Status:*

In 2014, the Clerk's Office changed its procedures to comply with the above recommendation. All supporting documents for disbursements are signed in such a manner as to render them ineffective as a support for further payment processing. The signed checks are forwarded to a different staff member for mailing that is not the person(s) preparing the checks. **This control deficiency is satisfied.**

**CLERK OF THE CIRCUIT COURT'S OFFICE**

**SATISFIED CONTROL DEFICIENCIES** (Cont.)

**Timely Processing of Refunds for Overpayments**

**Previously Reported Comment**

*Comment:*

During our testing of cash receipts, we noted that a refund of overpayment of fees received in November 2013 had not yet been issued as of March 2014.

*Recommendation:*

We recommend that the amounts received that constitute overpayments be reviewed and refunded on a timely basis.

*Current Year Status:*

The review and processing of refunds and overpayments has been addressed. Refunds and overpayments are processed daily and no back log exists. During the review, some refunds and overpayments have been moved to an unclaimed status and will be addressed by the unclaimed outstanding policy mentioned in a previous comment. **This control deficiency has been satisfied.**

## COUNTY CLERK'S OFFICE

### SIGNIFICANT DEFICIENCY

#### Accounting Software

##### **Previously Reported Comment**

*Comment:*

Currently, the County Clerk's Office does not have accounting software to track tax sale redemptions. These transactions account for about 90% of the cash received by the County Clerk's Office. The current system is manual and does not provide for timely monthly/annual financial reporting.

*Recommendation:*

We have previously recommended that consideration be given to selecting an accounting software package that will reduce the risk of manual error and allow for automated financial information.

*Current Year Status:*

**This significant deficiency is repeated.**

*Management's Response/Corrective Action Plan:*

Beginning in January 2015, the manual system previously used to track tax sale redemptions is no longer being used and an automated system was created in Excel. The County Clerk will continue to use the Excel program while the County is implementing a new ERP system. As the ERP project progresses, the County Clerk's Office will explore the possibility of implementing part of the ERP system for tracking tax sale redemptions. If it is not feasible, then the County Clerk will ask the County Board for additional funding to purchase a stand-alone system.

## COUNTY CLERK'S OFFICE

### CONTROL DEFICIENCY

#### Accounting Procedures Documentation

##### **Previously Reported Comment**

###### *Comment:*

Currently, there is no documentation of accounting policies or procedures performed in the County Clerk's Office. Documentation of significant accounting and financial reporting processes may reveal whether procedures are performed as prescribed, the types of exceptions or errors that may occur, and what actions may be taken to correct errors. In addition, documentation of accounting procedures can be useful in reinforcing established policies, evaluating performance, and training new employees.

###### *Recommendation:*

We recommend, as we have in the past, that the County Clerk's Office identify and document its significant operational and accounting policies and processes within an accounting manual.

###### *Current Year Status:*

The County Clerk met with the County Auditor and reviewed their accounting procedures. The manual is the process of being created and should be completed in November of 2015. **This deficiency is repeated.**

###### *Management's Response/Corrective Action Plan:*

In fiscal year 2014, the County Clerk's accounting procedures were reviewed with the County Auditor. The accounting manual is in the process of being created and should be complete in November of 2015.

## COUNTY CLERK'S OFFICE

### SATISFIED SIGNIFICANT DEFICIENCY

#### Segregation of Cash Duties

##### **Previously Reported Comment**

*Comment:*

Currently, bank accounts are reconciled by the same individual who prepares the daily deposit and prepares disbursements. Reconciliations for this account are not reviewed by another individual. In addition, bank statements are not opened and reviewed for reasonableness prior to being given to the individual who prepares the bank reconciliations. The current responsibilities given to one individual does not allow for optimum segregation of duties.

*Recommendation:*

Under proper segregation of duties, bank reconciliations should be performed by someone other than the preparer of the deposits and the person preparing the checks. At a minimum, we have recommended that bank reconciliations be reviewed by a member of management. This reduces the risk that misappropriation of cash could be concealed.

In addition, we recommend, as we have in the past, that someone other than the preparer of the bank reconciliations open the bank statements and review them for unusual transactions prior to giving them to accounting. Review of the bank statements will insure that unusual items are identified and investigated on a timely basis.

*Current Year Status:*

The County Clerk or the Designee reviews the bank statements, reconciliation and the final summary report. Beginning in fiscal year 2014, bank statements are opened and initialed prior to being reconciled by the bookkeeper. **This significant deficiency is satisfied.**

## STATE'S ATTORNEY OFFICE

### SATISFIED CONTROL DEFICIENCY

#### Disbursements

#### **Previously Reported Comment**

*Comment:*

1 out of 10 disbursements selected for testing from the investigative account was approved by the same employee to whom the funding was being paid. The disbursement was for a training reimbursement and is considered to be allowable and a proper business expense.

*Recommendation:*

We recommend that the County ensure procedures are in place requiring an independent review and approval for all disbursements.

*Current Year Status:*

The following changes were implemented: (1) the authorized signatures on the investigation account should not approve any checks made out to them, and (2) the employees that the investigative account check was issued to are not to approve the claim reimbursement to the investigative account. No similar issues were identified in fiscal year 2014. **This control deficiency is satisfied.**

**STATE'S ATTORNEY OFFICE**

**SATISFIED CONTROL DEFICIENCY**

**Employee Fund Account**

**Previously Reported Comment**

*Comment:*

During the current year audit, it was noted that the County's Quicken program was being used to track financial activity not relating to the County. The financial account relates to funds collected from employees to be used for holiday parties, retirement parties and memorial collections for employee family members. The account is not part of the County and should not be tracked using the system.

*Recommendation:*

We recommend that the County ensure that only allowable, applicable accounts are tracked using the County's Quicken program.

*Current Year Status:*

This account has been removed from the program. **This control deficiency is satisfied.**

## **TREASURER'S OFFICE**

### **MATERIAL WEAKNESSES**

#### **Bank Reconciliations**

See joint comment with the finance department on page 4 of this letter.

#### **Investments**

See joint comment with the finance department on page 5 of this letter.

### **SIGNIFICANT DEFICIENCIES**

#### **Manual Journal Entries**

See joint comment with the finance department on page 12 of this letter.

## TREASURER'S OFFICE

### CONTROL DEFICIENCIES

#### Updating of Authorized Bank Signers

##### **Previously Reported Comment**

*Comment:*

As a required procedure for the audit of cash, we confirmed authorized bank signers for fiscal year 2011. We received notice that a retired employee (as of March 2011) was included on the list of authorized signers at both the Illinois Funds US Bank and MB Financial Bank as of November 30, 2011. It did not appear that the retired employee authorized, initiated or approved any cash transactions.

*Recommendation:*

We recommend that all banks be notified in a timely manner to remove terminated and retired employees from authorized signer documentation.

*Prior Year Status:*

During the current year, we noted that an employee who retired prior to fiscal year end was still an authorized signer at one bank as of November 30, 2013.

*Current Year Status:*

During the current year, we noted that an employee who retired May 2014 was still an authorized signer at JP Morgan Chase Bank as of January 28, 2015. The County did provide a letter to the bank dated March 2014 asking for the removal on all accounts but the update was not made by the bank for all accounts based on the audit confirmation received. In addition, the County did not document follow up with the bank to ensure the change was made. **This deficiency is repeated.**

*Management's Response/Corrective Action Plan:*

The Treasurer's Office has provided documentation showing they did request the deletion of signers in a timely basis; however, the bank failed to remove the individual. The Treasurer's Office will adopt procedures to include a 30-day follow up with all banks that have been given account change directives.