

MCDONOUGH COUNTY, ILLINOIS

**COMMUNICATION OF MATERIAL WEAKNESS
AND SIGNIFICANT DEFICIENCY
IN INTERNAL CONTROL**

November 30, 2015



July 27, 2016

To the Members of the County Board,
the Circuit Clerk and Management
McDonough County, Illinois
One Courthouse Square
No. 7
Macomb, Illinois 61455

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of McDonough County, Illinois (County) as of and for the year ended November 30, 2015, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that are not 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 on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in the County's internal control listed on the following pages to be material weaknesses.

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 deficiencies in the County's internal control listed on the following pages to be significant deficiencies.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Sikich LLP". The signature is written in a cursive, flowing style.

Sikich LLP
Springfield, Illinois

MATERIAL WEAKNESSES

Financial Statements in Accordance with Generally Accepted Accounting Principles

The County is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles which includes having adequately trained personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board. The following items were noted during the audit that could impact the presentation of the financial statements in accordance with generally accepted accounting principles.

- During our testing of capital assets, we noted that the County does not capitalize property and equipment acquisitions during the year; rather, the expenditures are recorded in various expense accounts and later capitalized when the annual financial statements are prepared. We recommend that the County maintain a separate general capital asset fund in the general ledger system to capture information on the capital assets that are necessary for the conversion to their government-wide financial statements in their annual financial statements.
- During the audit, we recommended numerous adjustments to present financial statements in accordance with generally accepted accounting principles. Included in those adjustments were year end adjustments from the cash basis to the modified accrual/accrual basis of accounting on its general ledger. We recommend that the County accumulate any year end conversion adjustments from cash to modified accrual/accrual basis of accounting and record all other necessary adjustments before the fiscal year end. We also recommend that the County's accounting department receive training to ensure that they are able to conduct a thorough review of the drafted financial statements to ensure that they are free of material misstatement and that all necessary note disclosures are included as required by GASB.
- Currently, there are several funds for which the accounting and record keeping are performed outside of the Treasurer's office. These include funds maintained at the Sheriff's office, State's Attorney office, Circuit Clerk's office, County Clerk's office, and Mental Health Board. We also noted funds that are maintained in the Treasurer's office that are not maintained on the general ledger system. These funds are outside the scope of the County's internal control structure and outside the scope of the system's controls for accuracy and completion. We recommend that if the bank accounts are to be maintained outside of the Treasurer's office for convenience, a monthly summary of activity be submitted to the Treasurer's office with enough sufficient detail to allow the entries to be recorded in the County's general ledger system. We recommend that the County maintain all funds and transactions within a computerized accounting system.

MATERIAL WEAKNESSES (Continued)

Segregation of Duties

A lack of segregation of duties is common among local governments. However, it does increase the risk that errors may occur and go undetected and it increases the risk of fraud. Fraud could occur where employees have access to financial records and/or assets of the County, and could perpetrate fraud for their personal financial benefit. During our audit we noted instances where employees have access to financial records and/or assets of the County. Specifically, we noted a lack of segregation of duties over cash disbursements. We noted that the individuals preparing the checks for vendor payment also stamped the checks with one of the two required signatures and mailed the payments. Control over disbursements would be improved if another individual maintained the signature stamp and another individual was responsible for the mailing of vendor payments.

Included in the cash disbursement process is the review of the disbursement listing and supporting documentation by the General Claims Committee. During a review of the process we noted the disbursement listing did not contain documentation of the General Claims Committee review and approval and the disbursement listing was not included with the checks submitted to the individual for their signature to verify that all disbursements were properly approved for payment. We recommend that the disbursement listing include documentation of the Committee's approval for payment and be included with the checks that are submitted for the required signatures.

During our audit we noted instances where Circuit Clerk employees have access to both financial records and/or assets. Specifically, we noted a lack of segregation of duties over cash receipts and disbursements. We noted that the same individual records transactions, makes deposits, prepares checks, has access to a stamp of the required signature, mails checks, and reconciles the bank statements. Control over receipts would be improved if other individuals were responsible for making deposits, maintaining the signature stamp, and mailing checks.

During our audit we noted a lack of controls within the payroll function. The employee responsible for payroll processing is also responsible for adding employees to the payroll system, making changes to existing employee payroll (salary changes, direct deposit information, etc.), and removing employees from the active payroll listing. We also noted that a review process is not formally performed or documented when payroll checks are generated, nor is the supporting documentation included for review by the second authorized signer. With the increase of County employees using direct deposit for checks, the lack of review or other compensating controls in the payroll process creates the potential for misappropriated funds to not be noticed in a timely manner. We recommend the County implement a review process over the payroll process or consider having other individuals responsible for editing the payroll information (entering new employees, editing current employee information, and removing employees from the payroll system).

SIGNIFICANT DEFICIENCIES

Bank Reconciliations

During our testing of cash we noted that the Mobile Home Tax, Mutual Medical, Payroll Clearing, Withholding Clearing, and County Health Department bank reconciliations did not agree to the trial balance. A cash reconciliation that reconciles the bank balance to the general ledger balance should be prepared to determine that all cash transactions have been recorded properly and to discover bank errors. If the bank reconciliations are not agreed to the trial balance, errors in the cash balance or errors in the general ledger system may go undetected which could misstate the financial statements. We recommend that all bank reconciliations with a detailed list of all outstanding checks and deposits are performed monthly where the book balance per the reconciliation agrees with the book balance per the general ledger.

In addition, during our testing of cash we noted various cash accounts maintained by the Sheriff's Department where the November bank reconciliations were not performed as of November 30. We recommend that all bank reconciliations be performed as of the last date of the month to properly show the cash balance as of the end of the fiscal year.

Grant Administration

During our testing of grants we noted that the County does not have a central administrator of grants received by the County. During our audit management was unable to provide a schedule of all federal expenditures for single audit procedures. We recommend the County implement a grant administration process to verify all payments are being properly received, all expenditures are eligible under the grant, and grant compliance occurs. We also recommend the County maintain a schedule of federal expenditures to determine if a single audit is required. This list should include grants received by all departments of the County.

Fines and Fees Penalty Computation

The McDonough County court and the Circuit Clerk's office failed to assess and collect certain fines and fees required by the Illinois Compiled Statutes on several cases selected for testing during our audit. The Clerk of the Circuit Clerk of McDonough County should ensure all fines and fees are properly assessed in accordance with the Illinois Compiled Statutes.

55 ILCS 5/4-2002 Counties Code

Statute requires a fee of \$10 be assessed for each violation of the Criminal Code of 1961 or the Criminal Code of 2012 and the Illinois Vehicle Code in which a defendant has entered a plea of guilty or a defendant has stipulated to the facts supporting the charge or a finding of guilt and the court has entered an order of supervision. The courts incorrectly imposed the penalty on the following cases:

<u>Case</u>	<u>Fee per Statute</u>	<u>Actual Assessed</u>
14CF00309	\$10	\$ -
10CM00343	\$10	\$ -

SIGNIFICANT DEFICIENCIES (Continued)

Fines and Fees Penalty Computation (Continued)

705 ILCS 105/27.3a.1.1 Clerks of Courts Act

Statute requires, pursuant to an administrative order from the chief judge of the circuit or the presiding judge of the county authorizing such collection, an additional \$10 operations fee for probation and court services department operations in addition to the fee imposed in 705 ILCS 105/27.3a.1. The courts incorrectly imposed the penalty on the following cases:

<u>Case</u>	<u>Fee per Statute</u>	<u>Actual Assessed</u>
14OV00959	\$10	\$ -
15OV00070	\$10	\$ -
15OV00238	\$10	\$ -

730 ILCS 5/5-6-3(g) Unified Code of Corrections

Statute notes that the County shall order an offender sentenced to probation or to conditional discharge and who during the term of either undergoes mandatory drug or alcohol testing, or both, or is assigned to be placed on an approved electronic monitoring device to pay all costs incidental to such mandatory drug or alcohol testing, or both, and all costs incidental to such approved electronic monitoring in accordance with the defendant's ability to pay those costs. The courts incorrectly imposed the penalty on the following cases:

<u>Case</u>	<u>Fee per Statute</u>	<u>Actual Assessed</u>
15CF00132	\$140	\$ -

730 ILCS 5/5-9-1.1 Unified Code of Corrections

Statute requires, in addition to any penalty imposed under 730 ILCS 5/5-9.1.1 subsection (a), a fee of \$5 by the court. The proceeds shall be collected by the Circuit clerk and remitted to the State Treasurer under Section 27.6 of the clerks of Courts Act for deposit into the Spinal Cord Injury Paralysis Cure Research Trust Fund. The courts incorrectly imposed the penalty on the following cases:

<u>Case</u>	<u>Fee per Statute</u>	<u>Actual Assessed</u>
15CM00114	\$5	\$ -
15CF00072	\$5	\$ -
15CF00132	\$5	\$ -

SIGNIFICANT DEFICIENCIES (Continued)

Fines and Fees Penalty Computation (Continued)

730 ILCS 5/5-9-1.4 Unified Code of Corrections

Statute requires a criminal laboratory analysis fee of \$100 be assessed for each conviction of an offense in violation of the Cannabis Control Act, the Illinois Controlled Substances Act, the Methamphetamine Control and Community Protection Act, or the Steroid Control Act. The courts incorrectly imposed the penalty on the following cases:

<u>Case</u>	<u>Fee per Statute</u>	<u>Actual Assessed</u>
15CM00114	\$100	\$ -

Traffic Ticket Allocation

During the audit we noted a ticket issued by the City of Macomb Police Department was not properly allocated to the various funds in accordance with statutes and board resolutions and instead the full amount of the ticket was paid to the City of Macomb. Therefore, the County did not receive their portion of the ticket for the Court Automation Fund, Document Storage Fund, and the General Fund, the State Police Operations Assistance Fund and the State of Illinois Treasurer did not receive their portion of the ticket. We recommend that the Circuit Clerk allocate the correct funds for all traffic tickets issued.