

**MCDONOUGH COUNTY, ILLINOIS**

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

November 30, 2016



July 26, 2017

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, 2016, 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,

*Sikich LLP*

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. The individual also has the ability to collect receipts, record the receipt in the system, and delete receipts from the system. Control over receipts would be improved if other individuals were responsible for making deposits, maintaining the signature stamp, and mailing checks and a documented review over transactions deleted in the system were performed periodically.

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).

## **MATERIAL WEAKNESSES (Continued)**

### **Segregation of Duties (Continued)**

During our review of cash receipt procedures at the Elms we noted that payments physically brought into the office by payees are both received and recorded by the same individual. We recommend that another individual be included in the collection process for payments brought into the office in order to have proper segregation of duties.

## **SIGNIFICANT DEFICIENCIES**

### **Bank Reconciliations**

During our testing of cash we noted that the Mobile Home Tax, Mutual Medical, Payroll Clearing, Health Payroll Clearing, Withholding Clearing, and County Health Department bank reconciliations did not agree to the trial balance. We also noted three cash accounts at the Elms for which bank reconciliations were not being properly reconciled to the general ledger throughout the year, creating unreconciled differences at year end. 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 a cash account maintained by the Sheriff's Department where the November bank reconciliation was 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. 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.

## SIGNIFICANT DEFICIENCIES (Continued)

### 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.

#### 625 ILCS 5/16-104a Illinois Vehicle Code

Statute requires an additional penalty of \$4 for each \$40, or fraction thereof, of fine imposed upon conviction of an offense reportable to the Secretary of State under the provisions of subdivision (a)(2) of Section 6-204 of the Illinois Vehicle Code. This includes violations relating to driving 26 mph or more in excess of the speed limit. The courts incorrectly imposed the penalty on the following case:

<u>Case</u>	<u>Fee per Statute</u>	<u>Actual Assessed</u>
16TR00713	\$16	\$17.50

#### 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 failed to assess this fee on the following cases:

<u>Case</u>	<u>Fee per Statute</u>	<u>Actual Assessed</u>
16OV00161	\$10	\$ -
16OV00303	\$10	\$ -
16OV00388	\$10	\$ -

#### 705 ILCS 105/27.3a.1.5 Clerks of Courts Act

Statute requires any court that imposes a fee pursuant to 705 ILCS 105/27.3a.1, shall charge and collect an additional fee in an amount equal to the amount of the fee imposed pursuant to subsection 1, except the fee imposed under subsection 1.5 may not exceed \$15. The fee imposed under subsection 1 was increased from \$10 to \$25 in 2015, however, the court did not increase the fee under subsection 1.5 to the maximum of \$15 in accordance with statute. This resulted in approximately \$6,824 of incorrectly imposed penalties collected for various cases in Fiscal Year 2016.

<u>Case</u>	<u>Fee per Statute</u>	<u>Actual Assessed</u>
Various	\$15	\$10

## **SIGNIFICANT DEFICIENCIES (Continued)**

### **Fines and Fees Penalty Computation (Continued)**

#### **725 ILCS 5/110-7(i) Code of Criminal Procedure of 1963**

Statute requires that when a court appearance is required for an alleged violation under the Criminal Code of 1961 or the Criminal Code of 2012, and if the accused does not appear in court on the date set for appearance and the court issues an arrest warrant for the accused, the accused upon his or her admission to bail shall be assessed by the court a fee of \$75. The courts failed to assess this fee on the following case:

<u><b>Case</b></u>	<u><b>Fee per Statute</b></u>	<u><b>Actual Assessed</b></u>
15CM00345	\$75	\$ -

#### **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 failed to assess this fee on the following case:

<u><b>Case</b></u>	<u><b>Fee per Statute</b></u>	<u><b>Actual Assessed</b></u>
16CF00055	\$5	\$ -

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

Statute requires there shall be added to every fine imposed in sentencing for a criminal or traffic offense, except an offense relating to parking or registration, or offense by a pedestrian, an additional penalty of \$15 for each \$40, or fraction thereof, of fine imposed. The courts incorrectly imposed the penalty on the following cases:

<u><b>Case</b></u>	<u><b>Fee per Statute</b></u>	<u><b>Actual Assessed</b></u>
16CM00189	\$70	\$63
16CM00073	\$266	\$225
16CF00055	\$196	\$162
16CV00009	\$36	\$45
16OV00161	\$280	\$243
16OV00303	\$238	\$198
16OV00388	\$98	\$77
16TR00713	\$56	\$45