

MCDONOUGH COUNTY, ILLINOIS

MANAGEMENT LETTER

For the Year Ended
November 30, 2014



3201 W. White Oaks Dr., Suite 102
Springfield, Illinois 62704

Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

July 23, 2015

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

Re: Management Letter

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, 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 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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operations. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate letter dated July 23, 2015 contains our communication of significant deficiencies or material weaknesses in the County's internal control. This letter does not affect our report dated July 23, 2015, on the financial statements of McDonough County.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various County officials 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 these recommendations.

This communication is intended solely for the information and use of the 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
Springfield, Illinois

MCDONOUGH COUNTY, ILLINOIS
MANAGEMENT LETTER MEMORANDUM

July 23, 2015

OTHER COMMENTS AND RECOMMENDATIONS

Accrued Vacation and Compensatory Time

We noted that the accounting for vacation days used, unused, and carried over is decentralized. Each department keeps track of vacation utilization and unused vacation for employees within the individual department. This decentralized process of recordkeeping for vacation days results in an increased likelihood of inconsistent treatment for employees in different departments, errors made in maintaining employee vacation records, and inadequate monitoring of this area. These increased risks could result in misunderstandings and conflicts with current and terminated employees regarding the amount of their vacation benefits to be paid. In addition, the above condition also makes it difficult to ensure proper accounting for compensated absences in the financial statements.

We also noted that certain employees were accruing vacation time in excess of what is allowed by their union contract/personnel manual. Although this is the current practice, and therefore, the County is liable for these amounts, we recommend that the accrual of vacation time be in accordance with the union contract/personnel manual.

We also noted that certain employees' compensated absences balances are not reviewed by a second individual. We recommend that all employees' compensated absences balances and activities be reviewed by a second individual or the Board.

We recommend that the vacation benefit recordkeeping process be reviewed and consideration be given to centralization of the accounting for unused vacation benefits. In addition, payroll reports should be revised to record vacation days taken in each pay period and report any available balance.

Unclaimed Property

During our testing of cash, we noted several outstanding checks that appeared to be older than three years and related to bond monies. Per review of 725 ILCS 5/110-17, the clerk of the circuit court, as soon thereafter as practicable, shall publish all unclaimed checks over three years and information concerning the property and how to inquire about the monies. No later than eighty-five days after the publication the abandoned property shall be placed in the custody of the Treasurer and all inquiries directed to that office. All claims over monies not filed within the five year period after transfer to the Treasury shall be forever barred. We recommend that the Circuit Clerk publish unclaimed bail monies soon after the three year timeframe to begin the unclaimed property process.

OTHER COMMENTS AND RECOMMENDATIONS – Continued

Accounting Procedures Manual

The County does not currently have a consolidated accounting procedures manual. The County should continue to formalize their accounting procedures in a manual which is board approved and documents the significant financial and accounting procedures which the Treasurer's office and other departments perform. Areas to focus on would be accounting transactions, budgeting procedures, cash balancing procedures, payroll processing procedures, and capital asset procedures. This will provide a formal set of policies and procedures which the County can use to assist both new and existing employees.

Capital Assets

During our testing of capital assets, we noted that the County has not established a formal capitalization policy concerning the acquisition and disposal of property and equipment. To ensure that all property purchases and disposals are consistent, we recommend that formal policies be adopted. The policy should also include intangible assets to comply with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The County should document the capitalization policy for the County and communicate it to those who code property invoices to ensure the policy is consistently followed. We also recommend that a physical inventory be performed over capital assets periodically.

Bond Ledger

The Circuit Clerk currently maintains two bond ledgers. One is prepared manually and the other is prepared by the computer system. The manual ledger is reconciled to the balance of cash held by the Circuit Clerk on a monthly basis. At November 30, 2014, the computer bond ledger was approximately \$2,842 out of balance as compared to the manual ledger. The computer prepared bond ledger and the manual bond ledger have been out of balance since November 2002 when the software system for the computer prepared bond ledger was purchased. We recommend that the difference be reconciled and adjusted in the bond ledger prepared using the computer software so this ledger also agrees to the cash balance. This will eliminate the inefficiency created by maintaining two bond ledgers.

Personnel Policies

During our audit we noted that there is no written policy that addresses the hiring of employees or the voluntary and involuntary employee termination procedures. To properly report payroll, employee benefits, and job descriptions we recommend that a written policy is established regarding the communication between County employees regarding the hiring and termination of employees and the implementation and cancellation of employee benefits.

OTHER COMMENTS AND RECOMMENDATIONS – Continued

Information Technology Disaster Recovery Plan

During the audit, we noted that the County does not have a formal IT disaster recovery plan. We recommend that the County document specific recovery procedures of its critical hardware and applications in the event of a disaster or other events that could disrupt its information systems for a prolonged time period.

The following are some of the issues that an IT disaster plan should address:

- Communication with personnel essential to recovery.
- Communication with vendors.
- Relocation if the County's premises are damaged or destroyed, or if access to the premises is unavailable.
- Restoration of interrupted communication services, including phone, Internet, email, and surface mail.
- Restoration of critical business systems.
- Acquisition of furniture, equipment, and computers.
- Re-creation of electronic or other files and records.
- Acquisition of outsource services to replace disrupted activities.

The disaster recovery plan should be documented and at least one copy stored in a secure, off-site location. We suggest that the documentation include the following:

- A list of key contacts, including all employees and their emergency contacts, insurance companies, key suppliers and customers, and important professional services such as restoration specialists.
- A current schematic showing how the computer system is designed and connected.
- A current, complete set of documentation for all of the operating systems and application software (including version numbers).
- A copy of the schedule for the off-site storage of backup data and programs.
- A list of safety and community services that might be needed.
- A list of pre-arranged temporary alternative work sites.
- A list of probable equipment and supplies that would be needed for recovery operations and related vendors.

OTHER COMMENTS AND RECOMMENDATIONS – Continued

Information Technology Disaster Recovery Plan – Continued

We recommend that the disaster recovery plan should be reviewed, updated, and tested at least annually. This will allow the County to assess the plan's continued appropriateness and feasibility in light of current conditions and to become familiar with implementing each step of the plan so that they could act more quickly and decisively at the time of the disaster.

Information Technology Policy

During the audit, we noted that the County does not have a formal IT policy for its users. The County should consider developing a formal IT policy for its users. The policy should address the following:

- Physical Security
- Hardware and Software Usage
- Password Controls
- Email and Internet Usage
- User Responsibilities
- Data Backup
- Virus Prevention
- Reporting Security Breaches

Implementation of a formal IT policy enables the County to clearly communicate its expectations to users concerning its information systems and hardware. We recommend that users sign an acknowledgement that they have read the IT Policy as part of their initial employment orientation process.

Cash Disbursements

During the audit, we noted that the November Township Motor Fuel Tax Fund and the County Highway Fund claims did not include documentation of the General Claims Committee review and approval. It was noted that the claims reports were separated from the other Highway Department claim sheets and did not get signed by the General Claims Committee documenting their review. While the claims had already been reviewed and approved by the Road and Bridge Committee, we recommend that the claim sheets be reviewed to verify documentation of the required review process before the checks are issued.

Future Accounting Pronouncements

The Governmental Accounting Standards Board has issued a number of pronouncements that may impact the County in the future.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which replaces Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and No. 50, *Pension Disclosures-an amendment of GASB No. 25 and No. 27*, requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and requires new note disclosures and required supplementary information. This statement is effective for the fiscal year ending November 30, 2015.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Statement No. 69 is applicable for the fiscal year ending November 30, 2015.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. This Statement is to be applied simultaneously with the provisions of GASB Statement No. 68 and effective for the fiscal year ending November 30, 2015.
- GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Statement No. 72 is applicable for the fiscal year ending November 30, 2016.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for financial statements for fiscal years beginning after June 15, 2016. Statement No. 73 is applicable for the fiscal year ending November 30, 2016.

Future Accounting Pronouncements - Continued

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The statement builds upon the existing framework for financial reports of defined benefit OPEB plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 74 enhances note disclosures and RSI for both defined benefit and defined contribution OPEB plans. Statement No. 74 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. Statement No. 74 is applicable for the fiscal year ending November 30, 2017.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments and replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as they relate to governments that provide benefits through OPEB plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 75 requires governments providing defined benefit OPEB to recognize their long-term obligation for OPEB as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). Statement No. 75 is applicable for the fiscal year ending November 30, 2018.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, identifies – in the context of the current government financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement No. 76 is applicable for the fiscal year ending November 30, 2016.