

COUNTY OF WINNEBAGO, ILLINOIS

MANAGEMENT LETTER

September 30, 2016





401 W. State Street, Suite 509
Rockford, Illinois 61101

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

The Honorable Frank Haney,
County Board Chairman
Members of the County Board
County of Winnebago, Illinois

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the notes to the financial statements which collectively comprise the basic financial statements of the County of Winnebago, Illinois (the County) as of and for the year ended September 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 were not identified. However, as discussed in the following pages, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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. 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.

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

This communication 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.

Sikich LLP

Rockford, Illinois
March 30, 2017

MATERIAL WEAKNESS

1. Health Department Receivables, Unearned and Unavailable Revenues, Revenues, and Grant Expenditures

Criteria: The County Health Department's general ledger should support all information in the annual financial statements and the Schedule of Expenditures of Federal Awards. Internal controls should be in place to record all material transactions in the general ledger of the County Health Department. If material audit adjustments are proposed and recorded (since external auditors cannot be considered a part of internal controls) by definition, a material weakness has occurred. It is the responsibility of management to record all transactions necessary to generate financial statements and disclosures in accordance with generally accepted accounting principles (GAAP).

Condition/Context: During our audit, we identified material financial statement adjustments which affected the current year financial statements and the Schedule of Expenditures of Federal Awards. The entries and support to record grant-related receivables, unearned and unavailable revenues and the corresponding impact on revenue were not provided by the Health Department until January 2017. Our testing of this summary indicated additional adjustments were necessary to properly reflect these accruals. An audit adjustment was proposed and accepted by management.

Effect: If material audit adjustments are proposed and recorded (since external auditors cannot be considered a part of internal controls) by definition, a material weakness has occurred.

Cause: Management did not properly record all transactions necessary to generate their financial statements and disclosures in accordance with GAAP. Also, management did not properly identify the correct amounts on their Schedule of Expenditures of Federal Awards.

Recommendation: We recommend the County Health Department develop procedures to identify and record transactions in the proper period to ensure that all transactions are accounted for in accordance with GAAP. In addition, we recommend that procedures are implemented by management to ensure that the correct amount of federal expenditures are reported in the Schedule of Expenditures of Federal Awards.

Management Response

The Health Department fully implemented an accounts receivable system and report beginning in August 2016 as part of the corrective action to the Material Weakness Finding 2015-001. The Finance Committee of the Board of Health as in Fiscal Year 2015, believes the failure of the Illinois legislature to pass a budget for State Fiscal Year 2016 (July - June) resulted in the majority of aged receivables greater than 90 days impacting the County Fiscal Year 2016 (October - September). The staff accountant position was vacant for approximately six months and was filled in December of 2016. While the vacancy would create an issue of timeliness, it should not contribute to a concern with accuracy. The Health Department will work with the Chief Financial Officer of Winnebago County to integrate and standardize finance operations moving forward.

SIGNIFICANT DEFICIENCIES

1 Health Department Bank Reconciliations

Criteria: Timely completion and review of bank reconciliations is considered to be an important part of the County's internal controls and monthly close process. Timely completion and review of bank reconciliations reduces the risk that errors or adjustments will not be identified and corrected in a timely manner and ensures that all cash transactions are properly recorded in the County's accounting system and general ledger.

Condition/Context: During our testing of health department cash accounts, we noted that bank statements were accumulated for approximately five months before they were reconciled to the general ledger. Health department bank reconciliations for the months of May 2016 through September 2016 were not completed until January 2017, approximately three months after year end.

Effect: If bank reconciliations are not completed and reviewed in a timely manner it increases the risk that errors or other problems might not be recognized and resolved in a timely manner. Additionally, there is a risk that not all cash transactions are properly recorded in the County's accounting system and general ledger and that interim financial information could be incomplete or misstated.

Cause: The health department did not reconcile cash accounts for the period May 2016 through September 2016 until January 2017. Additionally, the internal controls over review of bank reconciliations and the monthly close process did not identify that these reconciliations were not being completed in a timely manner until January 2017.

Recommendation: We recommend that the health department reconcile all cash accounts on a monthly basis and in a timely manner. Additionally, we recommend that the County evaluate existing controls over the health department bank reconciliation and monthly close processes to ensure that bank accounts are being reconciled in a timely manner.

Management Response

Bank reconciliation is now required through internal processes to be completed within five (5) working days of receipt. Bank reconciliation is current through February 2017 and will be monitored by the Health Department's Finance Director. The internal mechanism of bank reconciliation is being addressed to streamline the current process of reconciling the bank statement with the batch deposits in MUNIS.

2. MUNIS Permissions

Criteria: When segregation of duties is inadequate, there is an increased risk of intentional fraud or unintentional errors occurring and going undetected. A crucial part of maintaining proper segregation of duties is ensuring that employees are restricted to appropriate applications and that their access rights are limited to those necessary to performing their job requirements. Additionally, administrator rights over accounting system access should be properly controlled and limited an individual outside of the County's finance department.

SIGNIFICANT DEFICIENCIES (Continued)

2. MUNIS Permissions (Continued)

Condition/Context: At September 30, 2016, we noted that there were four MUNIS “Full Access Administrators.” The Chief Deputy Auditor and three Department of Information Technology employees had “Full Access Administrator” rights in MUNIS.

We also noted that there are various “super user” groups within MUNIS. At September 30, 2016, there were 41 “workflow super users”, 13 “payroll super users”, 20 “personnel super users”, 12 “fixed asset super users”, and 40 “super users” (revenue systems - utility billing). Additionally, we noted that there were 15 generic “Users” within MUNIS.

Potential segregation of duties issues due to inappropriate access rights were noted in various degrees throughout the County’s departments. We noted several specific instances within Finance where employees had MUNIS access rights that did not appear to be required based upon the employee’s job title. Specific exceptions are noted below:

- Chief Deputy Auditor: Payroll access, AR access, add/maintain vendors, administrative access rights.
- Sr. Payroll Technician: Post journal entries, approve PO’s, edit payroll rates, maintain direct deposit, AR access, add/maintain vendors.
- Payroll Manager: Post journal entries, approve PO’s, edit payroll rates, maintain direct deposit, AR access, add/maintain vendors.
- Senior Accountant: Add/maintain vendors, post invoices, approve PO’s.
- County Clerk: Post journal entries.

Effect: This deficiency did not result in any adjustments to the financial statements for the year ended September 30, 2016. However, this deficiency in internal control could result in a misstatement to the financial statements that would not be prevented or detected.

Cause: At September 30, 2016, the County did not maintain effective controls over the segregation of duties over their accounting system access controls. Administrative access rights were not restricted to an individual outside of the County’s Finance department. Additionally, employee access rights do not appear to be properly controlled and reviewed as numerous instances were noted where employees did not appear to have appropriate access rights based on their job requirements.

Recommendation: We recommend only a member of the IT department have administrative access rights. Additionally, we recommend the County review access rights and appropriately restrict employee access rights based on their job requirements.

Management Response

The Chief Financial and Budget Officer and the Department of Information Technology are perfecting the permission based roles for MUNIS. These roles and implementation will be completed and implemented by September 30, 2017. All permissions will be reviewed and converted to the revised/new schema.