

# **COUNTY OF WINNEBAGO**

Rockford, Illinois

**COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT**

As of and for the Year Ended September 30, 2017

# COUNTY OF WINNEBAGO

## TABLE OF CONTENTS

---

	<u>Page No.</u>
Required Communication of Internal Control Related Matters Identified in the Audit to Those Charged with Governance	1
Health Department Financial Reporting	2
Restatement of Prior Year Financial Statements – Correction of Prior Period Errors	3
Internal Control Environment	3
Munis Permissions	4
Health Department Bank Reconciliations	5
Communication of Other Control Deficiencies, Recommendations, and Informational Points to Management That are Not Material Weaknesses or Significant Deficiencies	
Decentralized Bank Accounts – Sheriff	6
Data Processing	6
Information Technology	7
Decentralized Cash Collections	8
Informational Points	9 – 16
Required Communications by the Auditor to Those Charged with Governance	17 – 20
Summary of Uncorrected Financial Statement Misstatements	
Management Representations	

**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS  
IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE**

To the Honorable Chair and Members of the County Board and Management  
of the County of Winnebago, Illinois

In planning and performing our audit of the financial statements of the County of Winnebago as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered its 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its 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 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 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 following deficiencies in the county's internal control to be material weaknesses:

- > Health Department Financial Reporting
- > Restatement of Prior Year Financial Statements – Correction of Prior Period Errors

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 following deficiencies in the county's internal control to be significant deficiencies:

- > Internal Control Environment
- > Munis Permissions

The County of Winnebago's written response to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the auditing 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 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.

*Baker Tilly Veitchau Krause, LLP*

Chicago, Illinois  
May 23, 2018

---

## HEALTH DEPARTMENT FINANCIAL REPORTING

---

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of the county's year-end financial reporting process and preparation of your financial statements, including the schedule of expenditures of federal and state awards.

Properly designed systems of internal control provide your organization with the ability to process and record monthly and year-end transactions and annual financial reports.

Our audit included a review and evaluation of the county's internal controls relating to financial reporting. While most of this is centralized, the County Health Department is responsible for several critical financial areas that affect amounts being reported in their general ledger and the Schedule of Expenditures of Federal Awards.

During our audit, we noted the following issues when auditing amounts prepared by the County Health Department:

- > We identified a material financial statement adjustment which affected the current year financial statements
- > Inconsistencies were noted between amounts calculated by the Health Department for accrued payroll when compared to the amounts determined by the County Finance Department.
- > The year-end bank reconciliation included a \$131,356.93 deposit in transit that was recorded as a transfer to the county. However, the transfer did not occur until November of 2017, considerably beyond the time a transfer should occur when being reported as a deposit in transit.
- > The year-end bank reconciliation included a \$65,731.13 batch transit to the bank that did not occur until October 24, 2017 due to a temporary absence in the department that resulted in a delay to the transaction being timely processed.

The cumulative effect of these financial reporting deficiencies and the resulting material adjustment result in a material weakness. We recommend that the County Health Department develop procedures and controls to identify and record transactions in accordance with United States Generally Accepted Accounting Principles (GAAP). We further recommend that the county consider centralizing as many of the financial reporting responsibilities as possible, or implement more oversight and review of these decentralized transactions.

### ***Management's Response (9/30/2017)***

The Winnebago County Health Department Director of Finance, with the Winnebago County Chief Financial Officer, will conduct regular reviews of grant receivables, accrued payroll, and bank reconciliations, including a robust targeted review of year-end receivables focused on grants, accrued balances, and accurate bank reconciliations.

---

## **RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS – CORRECTION OF PRIOR PERIOD ERRORS**

---

The county's internal controls over financial reporting should be designed to prepare financial statements in accordance with GAAP. Subsequent discovery of material financial reporting errors and the required correction of previously issued financial statements indicate that there is a material weakness in the county's financial reporting system.

As described in Note IV.L. of the county's financial statements, a restatement of prior year financial statements was necessary to:

- > Record material amounts held as inventory in the Motor Fuel Tax Fund
- > Correct revenue recognized in 2016 for accrued receivables that have not been collected
- > Reclassify the Animal Services enterprise fund to a special revenue fund. This reclassification was proposed by the County's current management, but was incorrectly reported by the County in previous years.
- > Reduce amounts previously reported as capital assets in the governmental activities because they were prior year deletions that were not recorded. This correction was identified by the County's current Finance Department requesting that various departments review current listings of capital assets to identify capital assets no longer owned. These deletions were not reported in the year disposed.

Overall, the total governmental activities net position was overstated by \$1,169,971, business-type activities was overstated by \$1,377,165, the Motor Fuel Tax Fund was understated by \$144,214, and the Animal Services special revenue fund was understated by \$509,854.

The proper internal controls were not in place at the county to ensure that all activity and the appropriate accounting information was reflected in the county's general ledger and ultimately in its financial statements. The absence of these controls resulted in errors not being detected in the September 30, 2016 financial statements which resulted in the restatements as described above. The specific dollar amounts are reflected in the restatement footnote.

### ***Management's Response (9/30/2017)***

The County's Finance Department and Administration continue to develop internal controls over financial reporting that will ensure that the County's financial statements are free from misstatement. Several of the restatements described above were identified by the County's Finance Department and Administration.

---

## **INTERNAL CONTROL ENVIRONMENT**

---

A properly designed system of internal control includes adequate staffing as well as policies and procedures to properly segregate duties. This includes systems that are designed to limit the access or control of any one individual to your government's assets or accounting records, and to achieve a higher likelihood that errors or irregularities in your accounting processes would be discovered by your staff in a timely manner.

There are certain controls that are not currently in place related to significant transaction cycles. As a result, there is a risk that erroneous or unauthorized transactions or misstatements could occur without the knowledge of management or the governing body. Our recommendations for strengthening controls are listed below. We are reporting a significant deficiency related to the internal control environment due to the cumulative effect of these items.

---

**INTERNAL CONTROL ENVIRONMENT (cont.)**

---

***CONTROLS OVER MONTHLY AND YEAR-END ACCOUNTING***

- > Adjusting journal entries and supporting documentation should be reviewed and approved by an appropriate person who is not the original preparer.
- > Trial balances reporting actual amounts to date and budgetary and prior year amounts should be periodically reviewed to identify any unusual balances, errors, or necessary adjustments.

***CONTROLS OVER HIGHWAY INVENTORY***

- > There should be a process to perform periodic and year-end physical inventory counts to ensure accuracy for amounts reported as inventory and to strengthen controls over inventory management.

Since the controls listed above or other compensating controls are not currently in place, errors or irregularities could occur as part of the accounting processes that might not be discovered by management or the governing body. Therefore, the absence of these controls is considered to be a significant deficiency.

We recommend that a designated employee review the risks and these potential controls and determine whether additional controls should be implemented. This determination should take into consideration a cost / benefit analysis.

***Management's Response (9/30/2017)***

Beginning in October 2017, the County Administrator/CFO began reviewing journal entries prepared by the Finance Director. The Finance Director reviews all other journal entries prior to their being posted in the County's general ledger.

Individual departments review their respective budget versus actual reports extracted from the County's financial software.

The County's Finance Department has developed procedures to record accruals for major revenues and expenditures on a quarterly basis. Budget versus actual reports for the General and Public Safety Sales Tax Funds were provided to the Board for their review beginning in June 2018.

The County's Finance Department will work with the Highway Department to develop procedures to properly monitor and account for significant inventories.

---

**MUNIS PERMISSIONS**

---

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 within financial accounting systems 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 to an individual outside of the County's Finance Department.

During the prior year's audit, it was noted that there was an excessive number of individuals that had either "Full Access Administrator" rights or "super user" rights within the MUNIS financial accounting system. In addition, employee access rights were not being reviewed and updated to the extent that adequate controls would require.

---

**MUNIS PERMISSIONS (cont.)**

---

***Status (9/30/2017)***

The Finance and Information Technology Departments completed a review and restructuring of access rights and resulting roles within the MUNIS system. This was not completed until December 31, 2017 and therefore, is still being reported as a significant deficiency for this year's audit.

***Management's Response (9/30/2017)***

Access rights for all employees were reviewed and revised to correspond with their specific job duties and to ensure strong internal controls are maintained. Standard clerk roles for receipts and payables were developed and access above these standard roles are expanded based on job responsibilities. All MUNIS access rights are reviewed and approved by the County Administrator/CFO.

---

**HEALTH DEPARTMENT BANK RECONCILIATIONS**

---

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.

During the prior year's audit, the testing of the health department's cash accounts 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.

***Status (9/30/2017)***

Our testing of bank reconciliations indicated that they are up to date and being reviewed. This comment is resolved and no management response is necessary.

**COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS,  
AND INFORMATIONAL POINTS TO MANAGEMENT THAT  
ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

---

## **DECENTRALIZED BANK ACCOUNTS - SHERIFF**

---

On August 16, 2017, the County of Winnebago's Auditor's office released its report regarding the decentralized bank accounts maintained by the County Sheriff's department. Several recommendations were noted as part of that internal audit that should be addressed to strengthen internal controls and result in reporting the activity according to Generally Accepted Accounting Principles (GAAP). Those recommendations included:

- > Reporting the Jail Commissary fund as a special revenue fund in the county's comprehensive annual financial report rather than as an agency fund as it is now. This would include reporting all of the collections (revenues) and disbursements (expenditures) throughout the year similar to other funds of the county.
- > Improving segregation of duties over each of the decentralized accounts so as to ensure the integrity of the funds by strengthening controls.
- > Moving the accounting and financial reporting responsibilities for some of the accounts to the Finance Department. The expenditure of these funds should then be appropriated and approved by the County Board. Disbursements would be subject to the same controls as other claims against the county.
- > Several accounts should be closed because there does not appear to be any authoritative guidance or business purpose requiring them to be open. Funds should then be turned over to the County Treasurer and reported by the Finance Department along with other county funds.

As part of our audit this year, we performed a site visit to follow-up on the recommendations made by the County Auditor's office. It did not appear that any of the recommendations made by the County Auditor's office were implemented. We recommend that the County Sheriff's department implement the recommendations made within the County Auditor's report to prevent potential misstatements to the financial statements of the county, to strengthen internal controls, and to comply with all state and federal regulations.

### ***Management's Response (9/30/2017)***

County Administration has requested the County Sheriff's department implement the recommendation of the County Auditor. The County Sheriff has declined this request.

---

## **DATA PROCESSING**

---

During our information technology risk assessment procedures, we noted several county departments that utilize subsidiary financial systems outside of the county-wide MUNIS financial accounting system. These departments include the County Treasurer's office and the County Clerk's office using QuickBooks for collections, and River Bluff nursing home which utilizes Sage for various cash accounts and social security funds of its residents. For amounts recorded in QuickBooks, it then has to be posted once again in the MUNIS system. For amounts reported in Sage, this activity is not getting posted to MUNIS at all. Utilizing multiple systems increases the risks associated with error, misappropriation of funds, and inaccurate financial reporting. It can also result in a duplication of effort by spending staff time and valuable county resources maintaining two systems.

We recommend the county work with these departments to determine if these subsidiary systems and any others that the county is aware of can be eliminated.

### ***Management's Response (9/30/2017)***

The County Finance Department and Administration will continue to work with these departments to fully utilize the MUNIS financial software and reduce or eliminate the need for these subsidiary financial systems.

---

## **INFORMATION TECHNOLOGY**

---

As part of our 2017 audit, we evaluated information technology controls as they relate to financially significant applications. Our procedures primarily focused on documenting and evaluating general computer controls, including:

- > Logical access to data and applications
- > Change and incident management
- > System development and deployment
- > Data backup and recovery

From our review, we have identified the following areas where we recommend controls be reviewed and potentially strengthened.

### ***LOGICAL AND PHYSICAL ACCESS SECURITY***

Data center locations are controlled by key card access. However, per review of the access card listing we noted that the room access may not be appropriately limited or reviewed on a regular basis. We recommend that the county review all data center access rights at least annually and restrict access to only those with a need.

County network and application passwords are not in line with best practice recommendations for expirations. Passwords related to Point Click Care (PCC) software at the River Bluff nursing home and DevNet do not follow best practice requirements. Passwords should be changed every 90 days, require a minimum of 6 characters, require strong (complex) passwords, and password history should be remembered so users can't reuse recent (3-6) previous passwords. Additionally, user accounts should lock after 3-5 failed login attempts.

User access reviews have not been completed for the county network, PCC system, or DevNet. Formal user access reviews should be conducted on an annual basis for all systems.

### ***USER ACCOUNT MANAGEMENT***

The PCC system used at the River Bluff nursing home lacks a formal process for documenting and approving changes in user access. We recommend implementing a formal process for documenting and approving changes in the user access or at a minimum, work with the vendor to locate a log report for changes in access that can be periodically reviewed by an appropriate person.

### ***THIRD-PARTY SERVICE PROVIDER***

The PCC system is a cloud-based software that is managed by a third-party service provider. In order to ensure that the necessary controls are in place with this vendor, the county should obtain an SSAE report from the vendor if available. At a minimum, the county should gain an understanding of responsibility as it relates to the data within the PCC software.

---

## INFORMATION TECHNOLOGY

---

### *Management's Response (9/30/2017)*

#### **LOGICAL AND PHYSICAL ACCESS**

Key card access to the Main Data Facility has been reviewed and altered to restrict. A calendar reminder has been entered into the help desk to review key card access annually.

Password management will be revised to conform to best practices.

User access reviews will be conducted on an annual basis for all systems.

#### **USER ACCOUNT MANAGEMENT**

River Bluff nursing home management has also been provided with PCC specific instructions for generating logs. River Bluff nursing home will develop an access review protocol within PCC.

#### **THIRD-PARTY SERVICE PROVIDER**

In May 2018, the Winnebago County Administrator and River Bluff Nursing Home Administrator received the PCC SSAE16 Letter dated December 31, 2017 and the PCC SOC1 Report of 2017, and have read and understand these documents. These reports will be reviewed on an annual basis.

---

## DECENTRALIZED CASH COLLECTIONS

---

Many governments collect cash at numerous decentralized locations that are separate from the primary system of accounting procedures and controls. The opportunity for theft is often higher at those locations because one person is frequently involved in most, if not all, aspects of a transaction (i.e. lack of segregation of duties).

Examples in your county that fit this situation may include the following:

- > Court Services
- > Probation
- > Highway
- > Human Resources
- > Animal Services
- > County Clerk
- > Recorder
- > Regional Planning and Economic Development
- > Sheriff
- > River Bluff Nursing Home
- > Health Department

Management is responsible for designing and implementing controls and procedures to detect and prevent fraud. As a result, we recommend that management review its decentralized cash collection procedures and controls on a periodic basis and make changes as necessary to strengthen the internal control environment. Reviewing the adequacy of the controls is a responsibility of the governing body.

Below are example procedures and controls to help mitigate the risk of loss at decentralized cash collection points:

- > Implement a centralized receipting process with adequate segregation of duties
- > For cash collections, ensure pre-numbered receipts are being used and all receipts in the sequence are being reviewed by someone other than the person receipting the cash and receipts tie to deposits

---

## **DECENTRALIZED CASH COLLECTIONS (cont.)**

---

- > Perform surprise procedures at decentralized locations (cash counts, walkthrough of processes, etc.)
- > Require regular cash deposits to minimize collection on-hand
- > Limit the number of separate bank accounts
- > Segregate duties as much as possible – the person receipting cash should be separate from the person preparing deposits and the person reconciling bank accounts should be separate from the cash collection activity
- > Perform a month-to-month or year-to-year comparisons to look for unusual changes in collections
- > If collecting from a drop box site, consider sending two people to collect the funds, especially during peak times

As always, the cost of controls and staffing must be weighed against the benefits of safeguarding your assets.

---

## **INFORMATIONAL POINTS**

---

### ***CYBER SECURITY***

Cybersecurity continues to be a top concern and is critical for governments of all sizes and types. Information demands from the board and directors, citizens/customers, investors and analysts, and industry regulators continue to increase which makes it critical to ensure key data is protected. Potential business impacts on security incidents can include:

- > Lost IP
- > Business interruption
- > Regulatory fines and penalties
- > Legal and PR fees
- > Remediation costs
- > Reputation

AICPA has recently developed a cybersecurity risk management reporting framework that includes a new System and Organization Controls (SOC) for Cybersecurity engagement, through which the enterprise-wide cybersecurity risk management program is reviewed. Although not required for governments, this new standard can be used to help the county begin to put in place a cybersecurity program.

We recommend reviewing this new standard and performing an initial cyber-risk assessment to identify the types and location of data on your system as well as considering the sensitivity or potential regulations associated with your data. Once this is done the cybersecurity program objectives can be further defined so informed decisions can be made.

Our professionals are also available to assist with your cybersecurity questions, assessments, and programs.

---

## **INFORMATIONAL POINTS (cont.)**

---

### ***GOVERNMENT FRAUD PREVENTION AND DETECTION: NOW IS THE TIME TO ACT***

When it comes to preventing and detecting fraud in government, being proactive is critical. In fact, government is the second most likely industry to be impacted by fraud. According to the audit standards, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. To get started, your government should conduct a fraud risk assessment to identify where and how fraud might occur and what individuals may be in a position to commit fraud. Once you've identified your entity's fraud risk areas, the next step is to develop a fraud risk assessment and investigation policy.

As you begin your fraud risk assessment or develop tools to prevent and detect fraud, it is important to keep in mind the following information provided by the Association of Certified Fraud Examiners:

- > Misappropriation of assets accounts for 80 percent of fraud
- > The primary internal control weaknesses observed are lack of internal controls, lack of management review, override of existing internal controls and poor tone at the top
- > A tip is the most effective tool to catch a fraudster followed by management review
- > The professional requirements and objectives of a financial audit are different than a forensic audit. Due to the nature of a financial audit, less than 10 percent of frauds have been discovered as a result of a financial audit conducted by an independent accounting firm.

If your government has not gone through a fraud risk assessment and does not have a plan to prevent and detect fraud, we recommend that this be done and then updated on a regular basis. We are available to assist you with this process.

### ***GOVERNMENT FRAUD PREVENTION AND DETECTION: VENDOR FRAUD***

Vendor fraud poses a unique threat to governments. Due to the public and transparent nature of operations, government entities have an increased susceptibility for this type of criminal activity. Since governments publish a significant amount of information online — for example, meeting minutes, which often contain vendor names, contract amounts and project status — it is easier for fraudsters to create falsified documents.

Fraud specialists have noted recent fraud cases where criminals falsified vendor change requests for legitimate vendors, including company addresses and bank account information for Electronic Fund Transfers (EFT). When governments unwittingly process these fraudulent changes, the perpetrators can collect payments on legitimate and approved vendor invoices — while legitimate vendors go unpaid. Preventing vendor fraud completely may be impossible; however, governments can go a long way towards protecting themselves by taking appropriate safety and control measures.

Help ensure your vendor transactions are secure and authentic by:

- > Performing a risk assessment that focuses on vendor accounts payable activities.
- > Periodically revisiting your control activities
- > Educate your employees on potential fraud schemes
- > Identify which vendors may be high-risk targets.

Our fraud experts are also available to assist with your fraud risk questions, assessments, and programs.

---

## **INFORMATIONAL POINTS (cont.)**

---

### ***RESOURCES FOR STATE AND LOCAL GOVERNMENT BOARDS***

Expectations and accountability are at all-time high and the knowledge required to be an effective board member is substantial. As a benefit to our clients, we have compiled a number of resources dedicated to educating state and local government board members. Go to our Board Governance Resource Center at [www.bakertilly.com/board-governance](http://www.bakertilly.com/board-governance).

The Resource Center includes the following short informative videos:

1. Government financial statements 101
2. Understanding your government's fraud risk
3. Financial ratios and benchmarks
4. Fund balance and other financial policies
5. Benefits of a fraud risk assessment
6. Understanding utility finances

We encourage you to subscribe to our complimentary newsletter "Government Connection" to stay abreast of the latest issues impacting state and local governments. You can do so by clicking on the "subscribe" button and indicating "State and Local Government" as an area of interest on the subscription form. Also, if you or your board members have suggested topics to feature on our Board Governance webpage or Government Connection newsletter, we invite you to submit your ideas in person or online.

### ***GASB UPDATES***

The Government Accounting Standard Board (GASB) has been very active in recent years, issuing new standards at a fast pace. Over the next few years, your government will have many new standards to evaluate and implement. Here are the standards likely to impact you the most in the upcoming year:

- > GASB 75 covers the employer reporting of Other Post Employment Benefits (OPEB)
- > GASB 86 provides guidance for accounting for Certain Debt Extinguishment Issues

There were two significant GASB statements issued in 2017. While the implementation dates for these are a few years away, they are anticipated to have significant impacts on many government financial statements:

- > GASB 84 improves guidance regarding the identification of Fiduciary Activities and how they should be reported, effective for the county year ending September 30, 2020
- > GASB 87 improves accounting and financial reporting for Leases, effective for the county year ending September 30, 2020

Looking even further ahead, the Technical Agenda, below, outlines significant areas GASB is currently working on:

- > Major Projects
  - Financial Reporting Model
  - Revenue and Expense Recognition
- > Practice Issues
  - Capitalization of Interest Cost
  - Conduit Debt
  - Debt Disclosures
  - Equity Ownership Issues
  - Implementation Guidance

---

## **INFORMATIONAL POINTS (cont.)**

---

### ***GASB UPDATES (cont.)***

- > Pre-Agenda Research
  - Going Concern
  - Cloud Computing
  - Note Disclosure reexamination
  - Public-Private Partnerships
  - Social Impact Bonds

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects.

Full lists of projects, as well as many resources, are available on GASB's website which is located at [www.gasb.org](http://www.gasb.org).

### ***PROCUREMENT RULES FOR EXPENDITURES UNDER FEDERAL GRANTS NOW IN EFFECT***

In December 2013, the US Office of Management and Budget (OMB) issued comprehensive grant reform rules titled "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards." With that issuance, there were important updates made to various areas of federal grants management. Procurement is one of the areas that had significant changes for some entities. In order to allow time for implementation, the procurement rules were given a two year grace period, which has now expired. Therefore, you must be compliant with the new guidelines beginning October 1, 2018. The new guidelines apply to all purchases made with federal funding.

The procurement sections of the Uniform Guidance can be found online in 2 CFR 200.318. Some of the highlights include:

- > Written conflict of interest policies are required
- > The organization must document the procurement steps and activities required to be completed, which includes the basis for the type of procurement, contract type and basis for the contractor selection
- > Procurement must be done in a manner that prohibits the use of geographical preference, except in certain cases
- > The five methods of procurement outlined are:
  - Micro-purchase – purchases where the aggregate dollar amount does not exceed \$3,000 (adjusted by the Federal Acquisition Regulation). No competitive quotes are required if management determines that the price is reasonable. When practical, the entity should distribute micro-purchases equitably among qualified suppliers.
  - Small purchase – includes purchases up to the Simplified Acquisition Threshold, which starts out at \$150,000 but is periodically adjusted for inflation. Price or rate quotes must be obtained from an adequate number of sources.
  - Sealed bids – used for purchases over the Simplified Acquisition Threshold. Formal solicitation is required and the fixed price is awarded to the responsible bidder who conformed to all material terms and is the lowest in price.

---

## **INFORMATIONAL POINTS (cont.)**

---

### ***PROCUREMENT RULES FOR EXPENDITURES UNDER FEDERAL GRANTS NOW IN EFFECT (cont.)***

- Competitive proposals – used for purchases over the Simplified Acquisition Threshold when sealed bids are not appropriate. Contracts should be awards to the responsible firm whose proposal is most advantageous to the program, with price being one of the various factors.
- Noncompetitive proposals (also known as sole-source procurement) – used only when specific criteria are met. Examples include when a public emergency does not allow time for a competitive proposal process, an item is only available from one source, competition is deemed inadequate after a number of attempts were made, or the federal awarding agency authorizes noncompetitive proposals.

If your organization has not yet evaluated and/or revised your procurement policies for compliance with the requirements under Uniform Guidance when entering into procurement transactions funded with federal awards, we recommend that you do so as soon as possible. A high level of formal documentation is required to meet the standards. As always, you will need to consider compliance with state requirements as well.

### ***UPCOMING LEASE STANDARD***

In June 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This standard is effective for the county's fiscal year ending September 30, 2021. Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognize as inflows of resources or outflow of resources based on the payment provisions of the contract.

Under the new standard a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Control is defined by 1) the right to obtain the present service capacity from the use of the underlying asset and 2) the right to determine the nature and manner of use of the underlying asset. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this statement. Leases include contracts that, although not explicitly identified as leases, meet the above definition of a lease.

The following are contract exclusions and exceptions from applying lease accounting:

- > Intangible assets (mineral rights, patents, software, copyrights)
- > Biological assets (including timber, living plants, and living animals)
- > Service concession arrangements (See GASB Statement 60)
- > Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- > Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)
- > Inventory
- > Short-term leases - max possible term 12 mo or less
- > Leases that transfer ownership and do not contain termination options
- > Leases of assets that are investments
- > Certain regulated leases (e.g., airport-airline agreements)

---

## **INFORMATIONAL POINTS (cont.)**

---

### ***UPCOMING LEASE STANDARD (cont.)***

We recommend the county review this standard and start planning how this will affect your financial reporting. An inventory of all contracts that might meet the definition of a lease should be started. The contract listing should include key terms of the contracts such as:

- > Description of contract
- > Underlying asset
- > Contract term
- > Options for extensions and terminations
- > Service components, if any
- > Dollar amount of lease

In addition, the county should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

### ***NEW REPORTING REQUIREMENTS FOR FIDUCIARY ACTIVITIES***

In January 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to address how governments report fiduciary activities which is effective for the county's fiscal year ending September 30, 2020. Statement No. 84, *Fiduciary Activities*, supersedes reporting of agency funds and replaces it with a newly coined custodial fund, and requires several additional reporting requirements for fiduciary funds.

Under current guidance, Statement 34 requires that governments report fiduciary activities in fiduciary funds, but that statement does not provide a clear definition of what constitutes a fiduciary activity. GASB sought to reduce inconsistencies in reporting and provide a clear foundation for future reporting. The new guidance will impact a significant amount of local governments. Many local governments have activities that may be considered fiduciary, including:

- > Student activity funds of a school district
- > Tax collection funds
- > Circuit court fund of a municipality or county
- > Jail inmate accounts
- > Nursing home patient accounts
- > Cemetery trust funds
- > Postemployment benefit plans

---

## **INFORMATIONAL POINTS (cont.)**

---

### ***NEW REPORTING REQUIREMENTS FOR FIDUCIARY ACTIVITIES (cont.)***

Under the recently issued Statement 84, governments will need to apply specific criteria to determine if a fiduciary activity exists. The criteria focuses on determining if a government is controlling the assets of the potential fiduciary activity and determining who the beneficiaries are. A few of the major changes that will impact many governments include:

- > Pension/OPEB Plans as Fiduciary Component Units: Pension and other postemployment benefit (OPEB) plans will need to be evaluated to determine if they meet the fiduciary component unit criteria.
- > Other Fiduciary Activities: There are various other types of assets that a government controls which will need to be evaluated under the new standard. Part of this evaluation will include identification of the beneficiary of the funds, consideration of how the assets are derived and the extent of administrative or direct financial involvement with the assets.

The following is a summary of two significant changes in the reporting requirements:

- > The standard requires that governments recognize a liability to the beneficiaries in a fiduciary fund only when an event has occurred that compels the government to disburse fiduciary resources.
- > Presentation of additions and deductions on the statement of changes in fiduciary net position for all fiduciary funds, including custodial funds

The time to start assessing your government's fiduciary activities is approaching. Start with reading the new statement and reviewing the non-authoritative flowchart provided by GASB in the appendix of the statement. This will give you an understanding of the new criteria and requirements and help you identify the fiduciary reporting changes that will impact your financial statements.

You may also be interested in listening to a Webinar Baker Tilly held in April 2018 or using a documentation tool we created to assist with your analysis. Both are available on our website at [www.bakertilly.com/insights/understanding-the-new-requirements-for-reporting-fiduciary-activities-gasb/](http://www.bakertilly.com/insights/understanding-the-new-requirements-for-reporting-fiduciary-activities-gasb/).

### ***UPDATED STANDARDS FOR OTHER POSTEMPLOYMENT BENEFITS***

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB).

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

This Statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

---

**INFORMATIONAL POINTS (cont.)**

---

***UPDATED STANDARDS FOR OTHER POSTEMPLOYMENT BENEFITS (cont.)***

The county provides OPEB benefits in the form of health care benefits for retirees and will be required to adopt Statement No. 75 for the year ending September 30, 2018. Some action items to consider during this year of implementation are:

- > Coordinating key items with your actuary, including:
  - Measurement date and valuation date
  - Actuarial assumptions
  - Timing and availability of their report
- > Assessing your responsibility for:
  - Allocating costs among departments or funds
  - Tracking of benefit payments for active employees separate from retirees
  - Accuracy of census data to be provided to the actuary
  - Assumptions used in the actuarial valuation
  - Accounting and financial reporting changes

The accounting and reporting of OPEB has become more complex with the implementation of GASB Statement No. 75. We are available to answer any questions on how this new accounting standard will affect the county's financial statements starting next year.

**REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE**

To the Honorable Chair and Members of the County Board and Management  
of the County of Winnebago, Illinois

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the County of Winnebago as of and for the year ended September 30, 2017 and have issued our report thereon dated May 23, 2018. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED  
IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS,  
AND THE UNIFORM GUIDANCE***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

We considered the County of Winnebago's internal control over financial reporting to determine the 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 of Winnebago's internal control over financial reporting. We will consider the internal control over compliance with types of requirements that could have a direct and material effect on a major federal program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

As part of obtaining reasonable assurance about whether the County of Winnebago's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also, in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about the County of Winnebago's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the purpose of expressing an opinion on the County of Winnebago's compliance with those requirements. While our audit provides a reasonable basis for our opinion on compliance, it does not provide a legal determination on the County of Winnebago's compliance with those requirements.

We will issue a separate document which contains the results of our audit procedures to comply with the Uniform Guidance.

## ***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statement related to debt issues.

## ***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audit according to the planned scope and timing previously communicated to you at our meeting about planning matters on February 1, 2018.

## ***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***

### ***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of Winnebago, Illinois are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the County of Winnebago during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts within the River Bluff Nursing Home enterprise fund is based on historical data and an analysis of the collectability of individual accounts.

The estimate of the self-insurance claims liabilities, which are based on a historical claim's analysis and report prepared by the county's third party administrators.

The estimate of the other post employment benefits liability, which is based on an actuarial study.

The net pension liability and related deferred inflows/outflows of resources reported in relation to IMRF, which is supported by actuarial studies using census date of the county's plan participants.

We have evaluated the key factors and assumptions used in developing the aforementioned estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### ***Financial Statement Disclosures***

The disclosures in the notes to the financial statements are neutral, consistent, and clear.

## ***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

We encountered no significant difficulties in dealing with management in performing our audit.

***CORRECTED AND UNCORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

A summary of uncorrected financial statement misstatements follows this required communication. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management has determined that the effect of all of these items is immaterial to the financial statements taken as a whole.

The following is a summary of material financial statement misstatements (audit adjustments):

	<u>Amount</u>
Adjustments to unavailable revenue	\$ 822,329
Adjustments to record additional revenue	588,273

***DISAGREEMENTS WITH MANAGEMENT***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the County of Winnebago that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the County of Winnebago for the year ended September 30, 2017, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the County of Winnebago in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, and we provided no services to the County of Winnebago other than audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence.

- > Financial statement preparation
- > Adjusting journal entries
- > Tax consulting
- > Operational and organizational review
- > Preparation of auditee sections of the data collection form

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

***OTHER AUDIT FINDINGS OR ISSUES***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County of Winnebago's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***OTHER MATTERS***

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

***RESTRICTION ON USE***

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

In closing, we would like to thank you for allowing us to serve you. We are very interested in the long-term success of the County of Winnebago and our comments are intended to draw your attention to issues which should be addressed for the county to meet its goals and responsibilities.

This letter, by its nature, focuses on improvements and does not comment on the strong areas of the county's systems and procedures. The comments and suggestions in this report are not intended to reflect in any way on the integrity or ability of the personnel of the county. They are made solely in the interest of establishing sound internal control practices and improving the county's financial operations.

The county staff was receptive to our ideas, comments and suggestions.

We will review the status of these comments during the next audit engagement. We have already discussed the previous comments and suggestions with various county personnel and we would be pleased to discuss them with you in further detail.

*Baker Tilly Virchow Krause, LLP*

Chicago, Illinois  
May 23, 2018

**SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS**

**Winnebago County, Illinois**  
 SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

September 30, 2017

	Financial Statements Effect - Debit (Credit) to Financial Statement Total							Total Net Position/ Fund Balances	Total Revenues	Total Expenses/ Expenditures	Change in Net Position/ Fund Balances	Beginning Net Position/ Fund Balances	
	Current Assets	Noncurrent Assets	Deferred Outflows	Total Assets/ Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows						Total Liabilities/ Deferred Inflows
Governmental Activities	-	-	-	-	-	-	-	969,130	(3,285,999)	-	(3,285,999)	(3,604,801)	1,998,067
Business-Type Activities	-	-	-	-	-	-	-	69,472	(260,349)	-	(260,349)	(260,349)	190,877
Major Enterprise Fund	-	-	-	-	-	69,472	-	69,472	(69,472)	-	(260,349)	190,877	-
Remaining Funds	-	-	-	-	-	-	-	7,849	(26,465)	-	(26,465)	49,733	94,814

## **MANAGEMENT REPRESENTATIONS**



# County of Winnebago

Carla Paschal

County Administrator

May 23, 2018

Baker Tilly Virchow Krause, LLP  
205 North Michigan Avenue  
Chicago, IL 60601-5927

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the County of Winnebago, IL as of September 30, 2017 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Winnebago, IL and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

### *Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

404 Elm Street • Rockford, IL 61101

Email: CPaschal@WinColl.us

Phone (815) 319-4278 • Fax (815) 319-4226

Website: www.WinColl.us

**It is our mission to provide high quality services and promote a safe community for all people in Winnebago County.**

7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
8. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
9. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.
10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
11. Guarantees, whether written or oral, under which the County is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

12. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the County Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
16. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. There are no known related parties or related party relationships and transactions of which we are aware.

*Other*

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those we have disclosed to you.

19. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
23. The County has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
24. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
25. There are no:
  - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
  - c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
  - d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
  - e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
26. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
  - a. Financial statement preparation
  - b. Adjusting journal entries
  - c. Operational and organizational review
  - d. Preparation of auditee sections of the data collection form
  - e. Tax consulting

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
27. The County of Winnebago, IL has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

28. The County of Winnebago, IL has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
29. The financial statements include all joint ventures and other related organizations, if any.
30. The financial statements properly classify all funds and activities.
31. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
32. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
33. The County of Winnebago, IL has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
34. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
35. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
36. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
37. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
38. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
39. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated. Any known impairments have been recorded and disclosed.
40. Tax-exempt bonds issued have retained their tax-exempt status.
41. We have appropriately disclosed the County of Winnebago, IL's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.
42. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
43. With respect to the supplementary information, (SI):

- a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
44. We assume responsibility for, and agree with, the findings of specialists in evaluating the incurred but not reported liability and the other post-employment benefit liabilities accrued and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
45. We agree with the restatements presented in the current year's financial statements.
46. We assume responsibility for, and agree with, the information provided by the Illinois Municipal Retirement Fund as audited by RSM relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.
47. We have evaluated and considered all potential tax abatements and believe all material tax abatements have been properly reported and disclosed.
48. With respect to federal award programs:
- a. We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).
  - b. We acknowledge our responsibility for presenting the SEFA in accordance with the requirements of the Uniform Guidance and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
  - c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditors' report thereon.
  - d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

- e. We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are administering our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to the programs and related activities.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements including when applicable, those set forth in the OMB Compliance Supplement relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal awards.
- j. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance.
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the date as of which compliance was audited.

- r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance.
- u. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- v. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.
- w. We have charged costs to federal awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- z. We are responsible for preparing and implementing a corrective action plan for each audit finding.

Sincerely,

County of Winnebago, IL

Signed: Carla Paschal

Carla Paschal, County Administrator/CFO

Signed: Molly Terrinoni

Molly Terrinoni, Finance Director