

COUNTY OF WINNEBAGO

Rockford, Illinois

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended September 30, 2018

COUNTY OF WINNEBAGO

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**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, 2018, 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 a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency in the county's internal control to be a material weakness:

- > Restatement of Prior Year Financial Statements – Correction of Prior Period Error

The County of Winnebago's written response to the material weakness 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 Virchow Krause, LLP

Chicago, Illinois
March 26, 2019

RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS – CORRECTION OF PRIOR PERIOD ERROR

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. K. of the county's financial statements, a restatement of prior year financial statements was necessary to correct a receivable and revenue recorded in the County Highway Fund during 2018 that should have been recognized as revenue during 2017.

Overall, the total governmental activities net position and the County Highway Fund balance were understated by \$468,433.

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, 2017 financial statements, which resulted in the restatements as described above.

Management's Response (9/30/2018)

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. Procedures are being developed to ensure the accounts receivable activity for all departments are performed utilizing the county's accounting software to ensure activity is recorded accurately and timely.

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

CURRENT YEAR COMMENT

RIVER BLUFF NURSING HOME FINANCIAL REPORTING

As part of our audit procedures performed at the River Bluff Nursing Home each year we focus considerable effort testing the year-end receivables and the related revenue accounts. Due to the inherent nature of the receivable balances, an allowance is calculated each year for amounts that are estimated to be uncollectible. The county determines this allowance by using a percentage-based approach to each of the pay sources such as private pay, Medicare Part A, Hospice, etc. We recommend the nursing home also perform a look-back analysis as a basis to determine the appropriate amount to record as an allowance and the related write-off expense each year. Performing a look-back analysis allows for an improved estimate since it is based upon the most recent collection data.

River Bluff also accounts for inventory at the nursing home for items such as pharmaceuticals, dietary items, and supplies. While the nursing home does perform a physical count once a year, each department performs their own count and there is no independent verification of those items. Pricing is determined using the most recent cost, which is not an allowable costing method by Generally Accepted Accounting Principles (GAAP). In addition, there is not a formal process to monitor variances between inventoried items and those counted. We recommend that the nursing home implement additional controls around the inventory count procedures currently being used and that a pricing method consistent with GAAP be used going forward.

Management's Response (9/30/2018)

The county will be exploring options to improve the receivable process for River Bluff Nursing Home which will include improved collection and more accurate reporting of receivables on an ongoing basis. This will result in the ability to perform look-back analysis in order to provide a basis for estimating the allowance for receivables.

The county will implement procedures at River Bluff Nursing Home to ensure that inventories are performed on a periodic basis and are priced using a costing method allowed by generally accepted accounting principles.

PRIOR YEAR RECOMMENDATIONS

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 an 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 2017 audit, we noted the following issues when auditing amounts prepared by the County Health Department:

- > We identified a material financial statement adjustment.
- > 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.

We recommended 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 recommended that the county consider centralizing as many of the financial reporting responsibilities as possible, or implement more oversight and review of these decentralized transactions.

Status (9/30/2018)

During the audit of the County Health Department, our testing included following up on all of the above identified issues. Overall, we noted improvements with their financial reporting responsibilities, but areas remain that should be strengthened. To summarize:

- > We identified an adjustment similar to the prior year but it was not material.
- > Inconsistencies still exist between accrued payroll amounts calculated by the Health Department and the amount determined by County Finance. This difference is the result of internal reporting needs of the Health Department for grant reporting versus external reporting objectives of the County Finance Department.
- > Regarding the year end bank reconciliation items, we did not note any unusual reconciling items or delayed deposits in transit. In addition, bank reconciliations were being prepared timely.
- > In addition, we noted that the receivables and related deferred revenues and associated revenue accounts in the MUNIS system had not been adjusted by the Health Department since September 30, 2017.

PRIOR YEAR RECOMMENDATIONS (cont.)

HEALTH DEPARTMENT FINANCIAL REPORTING (cont.)***Status (9/30/2018) (cont.)***

We continue to recommend the suggested areas of improvement as noted above. We also recommend the County Health Department adjust year-end balances more timely based upon their internal analysis and support.

Management's Response (9/30/2018)

Winnebago County has reorganized its Finance Department with a Staff Accountant and Accounting Clerk under the Director of Finance dedicated to fiscal grants management and a Staff Accountant and Accounting Clerk dedicated to fees and levy funds management. This increase in staffing and specialization will support tighter controls and timely reconciliation.

Accounts receivable and related deferred revenues will be reconciled with corresponding journal entries and supporting documentation in the MUNIS system on a quarterly basis.

- > October – December (County Fiscal Quarter 1/State Fiscal Quarter 2)
- > January – March (County Fiscal Quarter 2/State Fiscal Quarter 3)
- > April – June (County Fiscal Quarter 3/State Fiscal Quarter 4)
- > July – August (County Fiscal Quarter 4/State Fiscal Quarter 1)

The Finance Department will work with the Health Department to ensure consistency in accrued payroll reporting as well as ensuring adjustment of year end balances in the accounting system.

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.

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.

Status (9/30/2018)

Our testing evidenced that journal entries are now being independently reviewed. In addition, trial balances are being evaluated on a regular basis. We consider this portion of the comment resolved and no management response is necessary.

PRIOR YEAR RECOMMENDATIONS (cont.)

INTERNAL CONTROL ENVIRONMENT (cont.)***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.

Status (9/30/2018)

This portion of the comment is still valid.

Management's Response (9/30/2018)

The County's Finance Department will continue to 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.

As part of previous county audits, 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.

Status (9/30/2018)

The Finance and Information Technology Departments completed a review and restructuring of access rights and resulting roles within the MUNIS system as of December 31, 2017. We encourage the county to continue this review on a defined periodic basis. This comment is resolved and no management response is necessary.

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.

PRIOR YEAR RECOMMENDATIONS (cont.)

DECENTRALIZED BANK ACCOUNTS – SHERIFF (cont.)

- > 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 2017 audit, 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.

Status (9/30/2018)

This comment is still valid as no changes took place.

Management's Response (9/30/2018)

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

Status (9/30/2018)

This comment is still valid.

Management's Response (9/30/2018)

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.

PRIOR YEAR RECOMMENDATIONS (cont.)

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 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 recommended 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 at least 8-10 characters, require strong (complex) passwords, and password history should be remembered so users cannot reuse recent (8-24) previous passwords. User accounts should lock after 3-5 failed login attempts. A password policy should be outlined and any exceptions to the password policy should be documented.

User access reviews have not been completed for the 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 16 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.

Status (9/30/2018)

These comments are still valid.

PRIOR YEAR RECOMMENDATIONS (cont.)

INFORMATION TECHNOLOGY (cont.)**Management's Response (9/30/2018)****Logical and Physical Access Security**

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 March 2019, the Winnebago County Administrator and River Bluff Nursing Home Administrator received the PCC SSAE16 Letter dated December 31, 2018 and the PCC SOC1 Report of 2018, and have read and understand these documents. These reports will be reviewed on an annual basis.

INFORMATIONAL POINTS

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

INFORMATIONAL POINTS (cont.)

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.

CYBER SECURITY MANAGEMENT

The sources of cyber threats continue to grow in number and sophistication. We have seen social engineering, including email phishing, and ransomware attacks cause disruption and monetary losses in the government landscape. Cybersecurity controls are imperative and may be of several different types:

- > Preventative – activities that make attacks more difficult such as user access and password controls
- > Detective – activities conducted to discover security incidents such as automated or manual reviews of firewall and server logs
- > Responsive – activities performed once an incident has been identified such as a communication plan

Step one in determining which types of controls are best suited for your government is completing a data classification. This process includes identifying what types of data exist, determining data location, and measuring costs associated with the loss of data (i.e. – operational downtime, regulatory fines, or civil lawsuits). This information will help management and those charged with governance be able to evaluate the cost-benefit of control implementation. Even if your government has chosen to obtain cyber liability insurance to mitigate risk, the data classification remains an important exercise to help evaluate the policy coverage, pricing, and what, if any, exposure remains outside of your policy.

Data classification is only one piece of a sustainable cyber security management plan. We have professionals dedicated to cyber security and information technology risk to assist with your cyber security questions, assessments, and programs.

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 which may impact you in the next year:

- > GASB 83 provides accounting and financial reporting for asset retirement obligations, effective for reporting periods beginning on or after June 15, 2018
- > GASB 84 improves guidance regarding the identification of fiduciary activities and how they should be reported, effective for reporting periods beginning on or after December 15, 2018

INFORMATIONAL POINTS (cont.)

GASB UPDATES (cont.)

- > GASB 88 improves certain disclosures related to debt, including direct borrowings and placements, effective for reporting periods beginning on or after June 15, 2018
- > GASB 90 clarifies accounting and financial reporting for majority equity interests, effective for reporting periods beginning on or after December 15, 2018

Other GASB pronouncements on the horizon, while the implementation dates is in the near term these are anticipated to have significant impacts on many government financial statements:

- > GASB 87 improves accounting and financial reporting for leases, effective for reporting periods beginning on or after December 15, 2019
- > GASB 89 provides guidance for accounting for interest cost incurred before the end of a construction period, effective for reporting periods beginning on or after December 15, 2019

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

- > Conceptual Framework
 - Disclosure
 - Recognition
- > Major Projects
 - Financial Reporting Model
 - Revenue and Expense Recognition
 - Public-Private Partnerships
- > Practice Issues
 - Conduit Debt
 - Deferred Compensation Plans
 - Secured Overnight Financing Rate
 - Subscription-Based IT arrangements
 - Implementation Guidance
- > Pre-Agenda Research
 - Going Concern
 - Compensated Absences
 - Prior-Period Adjustments, Accounting Changes and Error Corrections

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.

INTERPRETING YOUR FINANCIAL STATEMENTS POST-GASB No. 75

During the current year, your government implemented GASB Statement No. 75, which required employers providing other post-employment benefits (OPEBs) to report the OPEB liability in their government-wide and proprietary fund financial statements. This standard is intended to parallel GASB Statements No. 68 and 73 for pensions, which together provide for more overall consistency and comprehensive guidance for pensions and other post-employment benefits.

INFORMATIONAL POINTS (cont.)

INTERPRETING YOUR FINANCIAL STATEMENTS POST-GASB No. 75 (cont.)

Previously, your government only reported an OPEB liability to the extent that annual contributions fell short of the actuarially estimated annual OPEB cost. In addition, the actuarially estimated annual OPEB cost included a mechanism to recognize the initial OPEB liability at the implementation of GASB Statement No. 45 over an extended period of years. Under the new standard your government is required to report the total OPEB liability as determined by the actuary. There are also OPEB-related deferred outflows and/or inflows due to the timing of benefit payments and to allow for smoothing of activity.

As of the September 30, 2018 measurement date used for your September 30, 2018 financial statements, the actuarially determined OPEB liability for your county plan is \$7.1M and is reported as a noncurrent liability.

OPEB activity under GASB Statement No. 75 is reported in the government-wide financial statements and proprietary fund financial statements, similar to long-term debt. The implementation of this new standard does not require changes to how you pay for or fund your OPEB benefits.

The accounting and reporting for other post-employment benefits has become more complex with the implementation of GASB Statement No. 75. We are available to answer questions on how this new accounting standard affects your financial statements.

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 for more information.

The Resource Center includes the following:

Podcasts

1. Managing cyber threats: Developing a sustainable cybersecurity program to address your unique risks
2. Understanding utility finances
3. Benefits of a fraud risk assessment
4. Financial ratios and benchmarks
5. Fund balance and other financial policies

Articles

1. Securitization of deposits and investments
2. Five easy internal controls your government should implement
3. Fund balance levels: What works for your government?
4. The importance of smart spending cuts

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.

INFORMATIONAL POINTS (cont.)

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 fiscal years ending on or after December 31, 2020. 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.

There are some exemptions outlined in the standard including, intangible assets, service concession arrangements and supply contracts.

We recommend a designated person at 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 fiscal years ending on or after December 31, 2019. 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

INFORMATIONAL POINTS (cont.)

NEW REPORTING REQUIREMENTS FOR FIDUCIARY ACTIVITIES (cont.)

- > Circuit court fund of a municipality or county
- > Jail inmate accounts
- > Nursing home patient accounts
- > Cemetery trust funds
- > Postemployment benefit plans

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 now. We have an archived webinar to explain the requirements, which can be found at <https://bakertilly.com/insights/fiduciary-activities-changes-affecting-existing-agency-funds/>. Along with the presentation, there is a fiduciary activities tool for you to download. These resources 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. Also, be on the lookout for the Implementation Guide to be issued by GASB in 2019.

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, 2018 and have issued our report thereon dated March 26, 2019. 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 an 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 December 6, 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. As described in Note I. B., the county changed accounting policies related to postemployment benefits other than pensions by adopting GASB No. 75 in 2018. Accordingly, the accounting change has been retrospectively applied to the prior period presented. In addition, the county changed its revenue recognition period for governmental funds from recognizing those amounts collected within 90 days of the end of the fiscal period (60 for taxes) to within one year. Accordingly, the accounting change has been retrospectively applied to the prior period presented. 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.

Management has corrected all such misstatements.

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

	<u>Amount</u>
Adjustments to receivable and fund balance	\$ 468,433

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, 2018, 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 assessment of human resources and finance
- > 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
March 26, 2019

MANAGEMENT REPRESENTATIONS



WINNEBAGO COUNTY

— ILLINOIS —

March 26, 2019

Baker Tilly Virchow Krause, LLP
205 North Michigan Avenue
Chicago, Illinois 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, 2018 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 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.
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. All known audit and bookkeeping adjustments have been included in our financial statements, 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.
19. We have a process to track the status of audit findings and recommendations.
20. 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.
21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
22. The County has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. 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.
24. 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.
25. 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. Operations 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*.

26. The County of Winnebago 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. *except for bank loan for highway equipment*
27. The County of Winnebago has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
28. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if any.
29. The financial statements properly classify all funds and activities.
30. 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.
31. 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.
32. The County of Winnebago has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
33. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
34. 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.
35. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
37. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
38. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
39. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. 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'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. We have implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and believe that all liabilities, deferred outflows and deferred inflows have been identified and properly classified in the financial statements and any other required classifications and RSI have been computed in compliance with the Standard.

49. 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, Illinois

Signed: Carla Paschal

Carla Paschal, County Administrator/CFO

Signed: Molly Terrinoni

Molly Terrinoni, Finance Director