

DEKALB COUNTY, ILLINOIS

MANAGEMENT LETTER

December 31, 2010



Certified Public Accountants & Business Advisors



998 Corporate Boulevard • Aurora, IL 60502

The Honorable Chairman
Members of the Board of County Commissioners
DeKalb County
Sycamore, Illinois

In planning and performing our audit of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of DeKalb County, Illinois as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of a County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, we reviewed the status of the comments from the December 31, 2009 audit. The status of these comments is included in Appendix A.

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 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. 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 County's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses

This report is intended solely for the information and use of the Chairman, the Board of County Commissioners and the management of the County and is not intended to be and should not be used by anyone other than those intended parties. We are available to discuss any of these comments and to assist in their implementation if requested.

Aurora, Illinois
May 6, 2011

A handwritten signature in black ink, appearing to read 'AHL 2/11'.

DEFICIENCIES

We believe that the following constitute deficiencies:

1. Nursing Home

During our testing of the Nursing Home, we noted that the Nursing Home general ledger had not been reconciled with the County general ledger. While we understand that certain differences exist due to various cost reporting requirements that are applicable to the Nursing Home but not recorded by the County, we recommend that the County and Nursing Home review and reconcile significant accounts as part of the year-end close process. Additionally, we noted that the Nursing Home administration performs a monthly review of the general ledger and approves the monthly financials electronically. However, this communication is informal and not always maintained as part of the monthly financial reporting package. We recommend printing the approval e-mail and filing with the monthly financials in order to maintain an appropriate level of documentation.

Also, we noted various opportunities for improvement in the Nursing Home internal controls. First, for the coding of accounts payable invoices, the clerk is coding invoices based on their knowledge of what the invoice relates to, and there are no account codes listed on the requisition or invoice. We recommend the department/individual generating the purchase should list the appropriate account code on the purchase documents. Next, we noted that after an original requisition (purchase order) has been approved, there is no further review of the invoice/voucher related to the purchase to ensure accurate amounts were received and are being properly billed. We recommend a department head review invoices received and verify the proper items were received and billed correctly. Last, we noted during our review of internal controls over payroll that only timesheets are being reviewed and approved by supervisors. Once the time is manually keyed into Pentamation, there is no additional review of the edit report before the checks are issued. We recommend a supervisor or another individual in the Nursing Home finance office review and approve the edit reports generated by the County before authorizing the issuance of payroll.

2. Internal Controls - Health Department

We noted during our review of the Health Department's internal control for payroll that a coordinator or supervisor is required to approve their employee's timestudy or time calendar by initialing these documents. In our walkthrough of this control, we noted two instances in two pay periods where the regular hours were not approved by the supervisor (we did note that the supervisor approved overtime on a separate page). We recommend that the Health Department review its internal control over the payroll function and institute a process to ensure that payroll amounts are not finalized until all of the required approvals have been obtained.

DEFICIENCIES (Continued)

3. Property Tax Receivable/Deferred Revenue

We noted during our testing of the property tax receivable and deferred revenue that the County had understated the receivable/deferred revenue in the General Fund by \$1,000,000. This understatement occurred as a result of the calculation not including all of the components of the General Fund levy. We recommend that the County compare the adjusted general ledger balances to the levy and verify that all amounts are properly recorded.

4. Capital Assets

During our testing of capital assets, we noted several opportunities for the County to improve the recording of accurate capital asset amounts. First, we noted that the opening, unadjusted capital asset balances recorded on the general ledger did not agree to the prior year audited financial statements. We reviewed these differences with the County and posted an adjusting journal entry to correct the opening balances. We recommend that the County, after posting any audit adjustments, review its capital asset schedules and general ledger balances to ensure that the amounts recorded by the County match what is reported in the audited financial statements.

Additionally, we noted that the County did not properly capitalize costs related to its fiber optic network which should have been recorded as construction in progress as of December 31, 2010. We discussed with the County and proposed a journal entry to record the capital asset addition.

Last, we noted that the County did not record capital assets related to amounts contributed for joint road projects by the Illinois Department of Transportation. We discussed with the County and proposed a journal entry to record the contributed assets on the County general ledger. We recommend that the County Finance Department and County Highway Department develop a process to ensure that the proper amounts are capitalized for joint road projects in which the County will own the completed road.

OTHER COMMENTS

1. Future Accounting Pronouncements

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

GASB Statement No 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Statement No. 54 is effective for the County's fiscal year ending December 31, 2011.

GASB Statement No 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, is intended to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers) by clarifying certain requirements for OPEB plans with fewer than 100 total plan members as defined in Statement No. 45. Statement No. 57 is effective for the County's fiscal year ending December 31, 2012.

GASB Statement No. 59, *Financial Instruments Omnibus*, is intended to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. Statement No. 59 is effective for the fiscal year ending December 31, 2011.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* is intended to improve financial reporting by establishing recognition, measurement and disclosure requirements for service concession arrangements (SCA), which are types of public-private or public-public partnerships. This statement provides accounting and financial reporting guidance for governments serving as transferors and those serving as operators in SCAs. Statement No. 60 is effective for the fiscal year ending December 31, 2012.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, is intended to improve guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as part of the primary government. Statement No. 61 is applicable for the fiscal year ending December 31, 2013.

OTHER COMMENTS (Continued)

1. Future Accounting Pronouncements (Continued)

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, is intended to improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This Statement intends to provide more consistent application of applicable guidance in financial statements of state and local governments. Statement No. 62 is applicable for the fiscal year ending December 31, 2012. Earlier application is encouraged.

APPENDIX A
STATUS OF COMMENTS FROM DECEMBER 31, 2009

DEFICIENCIES

1. American Recovery and Reinvestment Act Funding

During our testing of the Community services block grant it was noted that the revenues and expenditures incurred through the American Recovery and Reinvestment Act (ARRA) were not being recorded in separate general ledger accounts as required by the Act. We recommend the County inform all departments that receive grant funds that they need to be aware of the requirements for these grants (including specific general ledger reporting requirements and quarterly filing of ARRA reports).

Status - Comment implemented at December 31, 2010.

2. Fund Balance

During our testing of beginning balances of net asset and fund balance, we noted certain funds in which the beginning net asset/fund balance amounts on the County's general ledger did not agree to the prior year audited amounts. In the Nursing Home Fund, this was caused by certain audit entries from the prior years that were not posted to the general ledger. The General Fund also had an immaterial difference in the current year that was written off. We recommend that the County perform a tie out of net assets/fund balance after all year-end audit entries have been posted to ensure that the ending amounts reported in the audited financial statements agree to what is recorded on the general ledger system.

Status - Comment implemented at December 31, 2010.

3. Internal Control over Payroll

During our walkthrough of the County's internal controls over payroll, we noted that the current payroll module set-up allows all accounting personnel in the Finance Office the ability to access and to review and/or make changes to individual employee information in the payroll module in Pentamation. We believe that this constitutes a weakness in internal controls and we recommend that the County restrict access to only the employees who perform payroll functions and those who are in positions to review payroll.

Status - Comment still applicable at December 31, 2010.

DEFICIENCIES (Continued)

4. Health Insurance

The County has recorded health insurance contributions to other funds and health insurance buyouts to employees in the same expenditure accounts, which diminishes the County's ability to reconcile these accounts to the revenue in the internal service fund. We recommend that payments to other funds for health insurance be segregated from payments to employees in the general ledger.

Status - Comment in the process of being implemented at December 31, 2010.

5. Single Audit - Schedule of Federal Expenditures

During our testing of the client-prepared Schedule of Federal Expenditures, we noted that many of the amounts on the schedule were not adjusted to match actual revenues and expenditures received/incurred by the County. We recommend that the County coordinate with other departments during the preparation of the schedule to ensure accurate amounts are reported and that the schedule includes all expenditures of federal funds.

Status - Comment in the process of being implemented at December 31, 2010.

6. Mental Health Department

During our review of the mental health board's funding guidelines governing disbursements of funds, we noted that they do not incorporate current governmental standards for fiscal oversight of tax dollars. We recommend that the guidelines be reviewed and clarified. In addition, we recommend that the board require an annual compliance audit or a limited procedures engagement to test compliance with the funding requirements and funding objectives in addition to the current financial audit that is performed.

Status - Comment in the process of being implemented at December 31, 2010.

7. Benefit Tracking

During the last several audits we noted that PHO hours and compensatory time for the Health Department, Public Defender, State's Attorney, Sheriff's Office and the Clerk of the Circuit Court are tracked by those individual departments. The Finance Office is now centrally tracking hours for the Sheriff's Office, all Health Department employees except part-time employees, and for both the Public Defender and the State's Attorney's Offices. We continue to recommend that the remaining employees (which are the part-time Health Department employees and all employees of the Clerk of the Circuit Court) be tracked centrally through the payroll system to improve internal controls.

Status - Comment still applicable at December 31, 2010.