

PEORIA COUNTY, ILLINOIS

**COMMUNICATION OF MATERIAL WEAKNESS
AND SIGNIFICANT DEFICIENCY
IN INTERNAL CONTROL**

December 31, 2016



To the Members of the Peoria County Board,
and Management
Peoria County, Illinois
Peoria, Illinois

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Peoria County, Illinois (County) as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that are 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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in the County's internal control listed on the following pages to be material weaknesses.

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 deficiencies in the County's internal control listed on the following pages to be significant deficiencies.

The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Sincerely,

Sikich LLP

Sikich LLP
Springfield, Illinois
June 29, 2017

MATERIAL WEAKNESSES

Bank Accounts

During our testing of cash, we received bank confirmations, prepared by the County, which contained accounts that were not recorded in the general ledger and did not have related bank reconciliations. We recommend that the County maintain an up-to-date log of all cash accounts in the County's name to ensure that all accounts are recorded on the general ledger. We also recommend the County perform bank reconciliations for all bank accounts for which they are custodian, to ensure the general ledger is accurate.

Management Response:

There are some bank accounts that are prepared and tracked separately by various Peoria County Elected Officials. While these items are tracked by the offices and appeared in the bank confirmations, these items do not appear on the County's general ledger. The Finance Department will reach out to the County's Elected Officials to make sure that all accounts appear on the County's general ledger. However, as independently elected offices, this compliance would be voluntary in nature as this action cannot be forced upon the offices.
- Eric Dubrowski, Chief Financial Officer

SIGNIFICANT DEFICIENCIES

Segregation of Duties

A lack of segregation of duties is common among local governments. However, it does increase the risk that errors may occur and go undetected and it increases the risk of fraud. Fraud could occur where employees have access to financial records and/or assets of the County, and could perpetrate fraud for their personal financial benefit. During our audit we noted instances where employees have access to financial records and/or assets of the County. Specifically, we noted a lack of segregation of duties over the billing process at Heddington Oaks and over network, application, and database user access.

It was noted that Heddington Oaks patient invoices are automatically generated by the Matrix Care system each month. The invoices are reviewed by an employee, however, that employee has the ability to make changes to the billing system, without subsequent review or approval. We recommend that the individual reviewing the patient invoices not have the ability to modify the billing system.

We also noted during our testing of user access controls in the Pentamation system that several users did not appear to have properly restricted access rights. For example, we noted several users that had the ability to both enter/modify requisitions and approve requisitions. Additionally, we noted that departments are not reviewing access rights on a regular basis. User access rights should be granted on a need-to-know, need-to-do basis that considers appropriate segregation of duties. We recommend the County develop and follow formal policies and procedures to ensure appropriate user access rights. Such policies should ensure timely action relating to requesting, establishing, issuing, suspending, modifying, closing and reviewing user accounts.

SIGNIFICANT DEFICIENCIES (Continued)

Segregation of Duties (Continued)

Management Response:

The Heddington Oaks billing process has been an issue of concern because while the Matrixcare system produces the invoices and they are reviewed by the employees, those same employees currently have the ability to make changes to the bill after it has been produced by the system. This opens up the potential for fraud because too much accessibility rests with one individual. Currently, Heddington Oaks only has one full time bookkeeper handling the day to day financial matters, other individuals that are employed in other capacities assist when possible. However, reviewing bills for accuracy should be performed by a billing supervisor or the previously discussed Heddington Oaks Finance Director. A second bookkeeper (currently budgeted but vacant) could also review the bills, but it is strongly recommended that there should be two cross trained bookkeepers able to prepare the bills with a supervisor (also budgeted, but vacant) with strong familiarity with the accounts reviewing them regularly. - Eric Dubrowski, Chief Financial Officer

Security access within Pentamation is requested by the employee's manager or supervisor. Historically the access has been based on the employee's role within the department or the role of the person they are replacing. The manager or supervisor determines the security required based up the size of the department and internal processes and workflows. In some cases, it may require individuals to have both creation and approval rights within Pentamation.

Pentamation security reports are available for every user in the system but are not easily understandable. Historically Peoria County IT has contacted the vendor for all questions related to security because of the limited details within the system. IT has submitted numerous request to Pentamation regarding improving the security reporting within the system. So far, no changes have been made by Pentamation to improve this.

Peoria County IT and Finance will form a team to look closer at the segregations of duties within Pentamation. This team will work with Pentamation to determine if reports are available to better identify possible user access control issues.

Peoria County IT and Finance are currently planning a project in 2020 to replace the Pentamation Finance system. A more robust security system with reporting will be a key requirement for the new system. - Mark Little, Chief Information Officer

SIGNIFICANT DEFICIENCIES (Continued)

Bond Covenant Compliance

During our audit, we noted that the County's general obligation bonds require fractional amounts of interest and principal to be deposited monthly into the senior debt service account in an amount sufficient to pay such principal and interest. While, the County has not defaulted on bond payments, the senior debt service account is not replenished fractionally as required by bond agreements. We recommend that the County make the required fractional deposits into the senior debt service account.

Management Response:

While the County has not defaulted on bond payments, upon review it appears that the County's former bond counsel included a provision that fractionalized transfers of interest and principal take place monthly at either 1/6 or 1/12 the total amount. While transfers have been performed monthly from the General Fund to Debt Service, they were not performed monthly for transfers from the Public Facility Sales Tax due chiefly to the three month sales tax lag. Also, the amounts were for 1/12 of the total and not adjusted to 1/6 the amount as stated in the bond covenant. This transfer provision applies to the bonds from 2010 and 2011, but has not appeared in any bond covenants beyond those dates.

Going forward, the County will do a double transfer in January and monthly transfers through November at the 1/6 and 1/12 ratios mentioned in the bond covenants. It is recommended that these transfers which come from the General Fund and Public Facilities Taxes cover the amount of the federal tax rebates and any related property taxes. Once these other revenue streams are collected, the other funds can be reimbursed accordingly. While this may seem like additional steps, it is a conservative approach that will ensure compliance with the bond covenants. - Eric Dubrowski, Chief Financial Officer

Purchasing

When obtaining an understanding of internal controls and through discussions with management and employees, we noted that not all department are consistently following the purchasing policy. Per the purchasing ordinance, the Purchasing Agent is responsible for procuring and supervising the procurement of all goods and services, and construction needed by the County. Through discussions with management and employees, it was noted that not all purchases are going through the Purchasing Agent that may result in the County entering into unapproved contracts and receiving goods and services that did not receive prior approval. To help monitor the volume of purchases due to budget constraints and ensure that purchases are initiated with proper approval, we recommend all County departments follow the established purchasing policy.

SIGNIFICANT DEFICIENCIES (Continued)

Purchasing (Continued)

Management Response:

As discussed with the external auditors, the larger purchases actually have seen an appropriate level of compliance. The concern is the compliance on smaller purchases. While it is a good reminder that all County offices and departments should comply with the purchasing policy, by and large there is an acceptable level of compliance from this group. The larger issue has to do with independent Boards and Commissions which often follow their own purchasing policy, which is separate from the County's policy. It is recommended that all county offices and departments, but particularly those reporting to independent Boards and Commissions follow the County's purchasing policy and contact the County's Purchasing Agent should questions arise related to compliance. - Eric Dubrowski, Chief Financial Officer