

CITY OF BLOOMINGTON, ILLINOIS

MANAGEMENT LETTER

April 30, 2010





3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

Members of American Institute of
Certified Public Accountants

October 6, 2010

Honorable Mayor and
Members of the City Council
109 East Olive St.
Bloomington, Illinois 61702

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bloomington, Illinois (City) as of and for the year ended April 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City'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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in City's internal control to be material weaknesses:

No formal review of nonstandard journal entries

During the audit, we noted there is no formal review of nonstandard journal entries. While the City has one employee designated to enter journal entries into the general ledger software, this employee does not review the journal entry before entering it. We also noted that the description entered does not provide a clear indication of the purpose for the journal entry.

We recommend the City implement a system that would include a supervisory review of all nonstandard journal entries prior to them being posted to the system. In addition, the description entered into the general ledger software should provide a clear purpose for the adjustment.

Auditee Response: As of December 1, 2009, the City currently has a staff member who reviews all journal entries; however, this review occurs after the transaction is posted to the City's general ledger. The work load of this position has led to the delayed review of these journal entries. The City Finance department will transition this review to occur before the journal entries are posted to the City's general ledger system. Furthermore, the position will work with staff to ensure adequate descriptions are on each journal entry.

Preparation of financial statements

During the audit, we recommended numerous material adjustments, including prior period adjustments, to present financial statements in accordance with generally accepted accounting principles. The City is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP) which includes having adequately trained personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP-based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board.

We recommend that the City implement controls to ensure that all transactions are accounted for.

Auditee Response: The City has begun to retain and train personnel in regards to the compilation of financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Out of two positions (payroll and chief accountant) which were posted in fiscal year 2010, the chief accountant position was filled with an individual experienced with the preparation of financial statements in accordance with Generally Accepted Accounting Principles. This hiring brings the number of personnel experienced with these skills in the Finance Department to two (finance director and chief accountant) out of nine positions. To measure the material audit adjustments within the Finance Department, the department has established a performance measurement in terms of audit adjustments to track the department's progress.

Below is three years of comparative data:

	Entries Provided by Client	Sikich Prepared Entries	Reclassification Entries
2008	1	32	0
2009	3	45	2
2010	6	24	3

The Finance Department will continue to train the existing staff in regards to general accounting principles. This training will occur over time and over the long-term it is expected this deficiency will be eliminated or further minimized.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City's internal control to be significant deficiencies:

Preparation and review of bank reconciliations

During our audit, we noted the bank reconciliations initially provided included bank fees and interest income that were incorrectly included as reconciling items. After this was brought to management's attention they were able to correct the reconciliations. In addition, the General fund bank reconciliation was not completed until July and upon receipt did not reconcile to the general ledger.

We recommend that the bank reconciliations be completed and reviewed on a timely basis.

Auditee Response: The City has begun to review the bank reconciliation process. This process includes providing additional on hands training to the position assigned this responsibility in regards to the difference between accrual and cash basis accounting. The City has historically accounted for the bank fees and interest income as indicated; however, the chief accountant is working with the staff member to rectify this issue. Furthermore, bank reconciliations are prepared on a monthly basis; there was one reconciling item that appeared on the April bank reconciliation that was not rectified until July. This issue was reported to management and once identified internal control procedures have been implemented to prevent this issue from occurring in the future.

Account reconciliations with general ledger software

During our audit, we noted certain City subsidiary ledgers were not in agreement with the general ledger. Reconciliations from the subsidiary ledgers to the general ledger identify errors and needed corrections. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed.

We recommend that all subsidiary ledgers be reconciled to the general ledger on a periodic basis. Reconciliations are considered a control measure to ensure the accuracy of the financial statements and underlying subsidiary ledgers.

Auditee Response: The source of this significant deficiency can be linked to the multiple, separate Information Systems operated by the City of Bloomington. In fact, few of these systems, each of which contains a separate sub-ledger, are directly tied in with the City's general ledger system. The set-up of these systems is not new and has been in place within the City for over a decade. This issue was a central reason why the City considered the implementation of a new Enterprise Resource Planning (ERP) Software System. The implementation of an ERP system will allow the City to create a direct correlation between the City's general ledger system and the sub ledgers.

Inadequate segregation of duties over water billing system

In gaining an understanding of the City's internal control, we noted that all employees with access to Springbrook, the City's water billing system, can make adjustments in the system. Adjustments can be made to consumption, service rates, and billings. While all changes are tracked in Springbrook, there is no formal review of adjustments. There is also no control in place to safeguard against misappropriation of assets at the collection window located in City Hall. The ability exists to collect cash from the customer, make an adjustment in Springbrook, and not record the cash receipt.

We recommend that adjustments are reviewed on a periodic basis by the appropriate level of management. We also recommend that the ability to make adjustments in Springbrook be designated to certain individuals in the Water department.

Auditee Response: The Finance Department has contacted the Water Department to set-up a system where these adjustments are examined by a supervisory level position within the Water Department. The Supervisor of Water Billing currently reviews these adjustments made by the cashiers. Furthermore, the Water Department has assigned the adjustment function to two clerks who are separated from the collection function.

Review of tow fees collected

During the audit, we noted that there is no reconciliation performed between cash collections and the number of towed cars that are released. We noted duties are segregated within this process at the police department. However, as cash is the only means of payment for towed vehicles, additional controls should be in place to ensure City assets are safeguarded. We recommend the Finance Department conduct monthly reconciliations between what is collected in cash and the number of towed cars that are released. In addition, we recommend that access to the software used to monitor tow fees be restricted to those whose duties require access.

Auditee Response: The Finance Department will contact the Police Department and refine the current business processes to limit or eliminate the issues raised by the external auditors in regards to the collection of the tow refunds.

In addition, we became aware of certain matters that we consider to be opportunities for improving the City's system of internal controls and operating efficiency. These matters are documented on the following pages.

The City's written responses to the significant deficiencies and material weaknesses identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Mayor, the City Council, management of the City, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Sikich LLP".

Sikich LLP
Springfield, Illinois

RECOMMENDATIONS FOR IMPROVEMENTS

Capital Assets

Capitalization threshold

Per review of the City's capital asset records, items under \$5,000 make up approximately 2% of the entire capital asset balance, but account for approximately two-thirds of the total individual capital items.

We recommend the City consider increasing their capitalization threshold. (See Government Finance Officer Association's recommended practices).

Auditee Response: The City Council approved the increase of the capitalization threshold to \$5,000 in September 2010. The change in policy will become effective on May 1, 2011. The City consulted the recommendations practices compiled by the Government Finance Officers Association for this change in accounting policy.

In-Charge Engineer documentation of authorization for payment approval

In gaining an understanding of the City's internal controls, we noted the In-Charge Engineer for City projects is not documenting approval of the Authorization for Payments before being submitted to the City Council. Per inquiry of personnel at the Engineering department, the In-Charge Engineers review the Pay Estimates before they are submitted to the City Council; however there is no indication of this review such as initialing or signature.

We recommend the In Charge Engineer's indicate their review and approval of payment by signing or initialing the Authorization for Payment prior to being submitted to the City Council. This will provide assurance that the pay estimates have been reviewed by the appropriate level of management prior to funds being disbursed.

Auditee Response: The City Finance Department will forward this recommendation to all pertinent departments within the City.

Expenditures charged to incorrect account codes

During our audit, we noted expenditures recorded in capital outlay accounts that were not capital in nature. Capital outlay accounts should be used exclusively to record transactions that meet the City's definition of a capital asset.

We recommend the City use capital outlay accounts only to record purchases of capital assets.

Auditee Response: The Finance Department has compiled an ad hoc group composed of representatives from all departments to examine and review the City's current Chart of accounts. Part of this mission of this group will be to standardize account codes across all divisions and develop an education program to train new employees on the City's account structure.

Supervision of construction projects

During our audit we noted there is concern regarding the supervision of construction contracts. Specifically, we noted concern regarding the construction contract for one of the City's fire stations. Per discussions with City personnel, there are outstanding issues with the contractor and the fire station is not in use.

We recommend the City review all contracts to determine all specifications are correct and appropriate language is included for change orders or modifications.

Auditee Response: The City Finance Department will forward this recommendation to all pertinent departments within the City.

Payroll

Update handbook for current policies

During our audit, we noted vacation time policies have changed but the Employee Handbook has not been updated accordingly. The change in the policy was communicated from management to affected employees through a memo.

We recommend the Employee Handbook be revised to reflect current policies. The Employee Handbook should serve as a reference for both management and employees and should contain current policies.

Auditee Response: The City Finance Department will forward this recommendation to all pertinent departments within the City.

Time off documentation

During our audit, we noted the City does not have a documented policy for requesting time off and retaining support for time taken by employees during the year.

We recommend the City have a standard policy across all departments requiring employee's requesting time off to fill out a standard form. This request should be approved by management and retained for recordkeeping purposes.

Auditee Response: The City Finance Department will forward this recommendation to all pertinent departments within the City. The Enterprise Resource Planning software has the potential to eliminate to minimize this issue.

Payroll interface

In gaining an understanding of the City's internal control, we noted the City's timekeeping system does not interface with the payroll processing system which makes it necessary for time and other adjustments to be manually entered into the payroll processing system. We also noted that no reconciliation is performed between the two systems to ensure that employees are paid for time worked per the timekeeping system.

We recommend the time keeping software be interfaced with the payroll processing system.

Auditee Response: The City Finance Department will forward this recommendation to all pertinent departments within the City. The Enterprise Resource Planning software has the potential to eliminate to minimize this issue.

Other

Document when good/services received

During our audit, we noted the City does not indicate when goods/services were received on vendor invoices. We also noted a lack of documentation concerning services performed and date of period of performance per review of the City's records of payments for construction projects.

We recommend that City's receiving procedures include documenting the date goods and services are received, and that the City maintain with their bill payment forms the project inspection reports. The information on these reports should be compared to data on the contractor's invoices and to previously paid invoices to ensure that services billed were actually provided and to prevent or detect duplicate payments. Such receiving procedures will help ensure that purchases are recorded in the proper accounting period.

Auditee Response: The Finance Department has prepared a revision of the City's purchasing policy. This recommendation will be incorporated into the revised purchasing policy. Once the policy is adopted, City staff will be trained to incorporate the date of receipt on the invoice.

Establish a Whistleblower Policy

The City encourages employees to report any suspicions of fraud or misconduct, but it does not provide an effective, practical mechanism for doing so. We believe that as a result, employees would be hesitant to report knowledge or suspicions that could prevent or detect fraud or other misconduct that could be detrimental to the City. Studies show that most frauds are known to someone in the defrauded organization and are revealed after a tip is received from someone with knowledge about the fraud. However, an employee may not report suspicions or knowledge of fraud if he or she does not know to whom to report, especially if the perpetrator is someone high up in the organization or someone to whom the employee reports. We recommend the City consider establishing a whistleblower policy to

allow confidential, anonymous submission by employees regarding concerns without the fear of retaliation.

Auditee Response: The City Finance Department will forward this recommendation to the Personnel Department within the City.

Allocate investment income to appropriate fund

During our audit, we noted the City is not allocating investment income relating to the combined cash accounts to the funds that are holding the investments.

GASB Statement No. 31, paragraph 14, indicates "The equity position of each fund or component unit in an internal investment pool should be reported as assets in those funds and component units. Often, income from investments associated with one fund is assigned to another fund because of legal or contractual provisions. In that situation, the accounting treatment should be based on the specific language of the legal or contractual provisions. If, however, the investment income is assigned to another fund for other than legal or contractual reasons - for example, management decision - the income should be recognized in the fund that reports the investments."

We recommend the City allocate investment income in the fund that reports the investments.

Auditee Response: The City has begun to allocate interest income in fiscal year 2009. However, the audit noted interest income was not being allocated to a few of the special revenue funds. The allocation will be reviewed to ensure all funds are being allocated there appropriate share on interest income.

Purchases

During our audit, we noted purchase orders are often approved after the goods have been received. An effective control system includes the approval and issuance of purchase orders prior to the goods being ordered. We recommend the City evaluate the role of the purchase orders in the purchase process.

Auditee Response: The Finance Department has prepared a revision of the City's purchasing policy. This recommendation will be incorporated into the revised purchasing policy. Furthermore, this recommendation will be reviewed as part of the Enterprise Resource Planning implementation project.

Petty Cash

During our audit, we noted petty cash at the Police Department is not being counted on a timely basis. We recommend that surprise counts of the petty cash be conducted by the Finance Department periodically throughout the year. These surprise counts should be structured in a manner that ensures all petty cash recorded on the City's accounting records is counted throughout the year.

Auditee Response: The Finance Department currently conducts an annual audit of all petty cash funds within the City. These surprise accounts will be revised and conducted periodically throughout the year.

Library Collections

During the audit, we noted there is no reconciliation performed between the cash collected and the overdue accounts written off at the Library. This presents the opportunity for an employee to credit an overdue account and keep the money collected. We recommend the Library perform reconciliation between the cash collected and the overdue accounts that are written off.

Auditee Response: The City Finance Department will forward this recommendation to the staff of the Bloomington Public Library.

Gift Certificates

During our review of gift certificates and rain checks unearned income accounts, we noted the City did not have any documentation supporting the initial and subsequent carrying values of the liabilities. We recommend that an employee be charged with the responsibility of ensuring that adequate documents are maintained. We also recommend that a responsible employee periodically review the documentation for accuracy, determine the need for any adjustments, and ensure that such adjustments are properly documented and approved. We also recommend the City adopt a policy regarding the expiration of such certificates and the impact the expiration will have on the accounting for the certificates.

Auditee Response: The City Finance Department will forward this recommendation to the staff of the Bloomington Parks and Recreation.

Fund Balances

During our audit, we noted operating expenses exceeded operating revenues in the Parking Fund. Operating expenses also exceeded operating revenues in fiscal year 2009. We recommend the City review the operations of the Parking Fund to ensure the Fund is operating at an adequate level.

Auditee Response: The City Finance Department will forward this recommendation to the administrators of the parking fund. This issue will be discussed during the compilation of the fiscal year 2012 budget.

Library reporting

We recommend the City examine reporting of the library as blended fund of the City. City libraries, under 75 ILCS 5/4-7 do possess the corporate powers defined in GASB S-14 that give them separate legal standing, which result in the libraries being reported as discretely presented component units. The only way they are treated as a fund is if the City passed an

ordinance that basically usurps ILCS and limits the powers of the library to basically that of a department of the city.

Auditee Response: The City Finance Department will forward this recommendation to the staff of the Bloomington Public Library and the City's Legal Department.

Prepare minutes on a timely basis

During our fieldwork, we noted that minutes of the meetings of the City Council were not available for all meetings held during the fiscal year. City Council meetings should be documented on a timely basis to provide verification of the actions and decisions relating to the City's policies, procedures, intentions, or actions.

We recommend the City update and maintain current City Council minutes.

Auditee Response: This recommendation is currently being addressed by the City Clerk's office.

Disaster recovery plan

The City does not have a current comprehensive information technology (IT) disaster recovery plan. Recovery procedures exist for the City's Banner software, but some of the information documented did not appear to be current. We recommend that the City document specific recovery procedures for all of its critical hardware and applications in the event of a disaster or other events that could disrupt its information systems for a prolonged time period.

The following are some of the issues that an IT disaster plan should address:

- Communication with personnel essential to recovery.
- Communication with vendors.
- Relocation if the City's premises are damaged or destroyed, or if access to the premises is unavailable.
- Restoration of interrupted communication services, including phone, Internet, email, and surface mail.
- Restoration of critical business systems.
- Acquisition of furniture, equipment, and computers.
- Re-creation of electronic or other files and records.
- Acquisition of outsource services to replace disrupted activities.

The disaster recovery plan should be documented and at least one copy stored in a secure, off-site location. We suggest that the documentation include the following:

- A list of key contacts, including all employees and their emergency contacts, insurance companies, key suppliers and customers, and important professional services such as restoration specialists.
- A current schematic showing how the computer system is designed and connected.
- A current, complete set of documentation for all recovery procedures of the operating systems and critical application software (including version numbers).
- A copy of the schedule for the off-site storage of backup data and programs.
- A list of safety and community services that might be needed.
- A list of pre-arranged temporary alternative work sites.
- A list of probable equipment and supplies that would be needed for recovery operations and related vendors.

We recommend that the disaster recovery plan be reviewed, updated, and tested at least annually. This will allow the City to assess the plan's continued appropriateness and feasibility in light of current conditions and to become familiar with implementing each step of the plan so that they could act more quickly and decisively at the time of the disaster.

Auditee Response: The City Finance Department will forward this recommendation to the staff of the Bloomington Information Service Department.

Track Outstanding Deposits

During our audit, we noted a deposit liability on the books that had been recorded since at least 2007. Per review of support, we determined that this deposit liability has been outstanding since FY04. Per the City's engineering department, this deposit was for work performed that was awaiting final inspection that could have been completed in prior years.

We recommend the City take the appropriate steps to track outstanding deposits.

Auditee Response: The City Finance Department will forward this recommendation to the staff of the Public Works Department.

Police Overtime Balances

During our audit, we noted police overtime balances are not reviewed on a monthly basis for clerical accuracy. Furthermore, the City was unable to provide adequate, accurate supporting documentation for year end police overtime balances.

We recommend that department timekeepers review supporting schedules for overtime balances. This review should include inspection of supporting documentation and recalculation to ensure clerical accuracy.

Auditee Response: The City Finance Department will forward this recommendation to the staff of the Bloomington Police Department and Personnel Department.

Worker's compensation benefits

During our audit, we noted that when a City employee is approved for workers' compensation, the City pays one-third of their salary, and CIRPA pays two-thirds of their salary. Therefore, employees receive 100% of their salary while on workers' compensation. The City policy to pay 100% of the salary may result in a lack of incentive to return to work. Further information on workers' compensation rules can be found in the Illinois Workers' Compensation Act (820 ILCS 305).

We recommend the City review their worker's compensation policy.

Auditee Response: The City Finance Department will forward this recommendation to the pertinent departments within the City of Bloomington.

Future Accounting Pronouncements

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

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes accounting and financial reporting requirements for intangible assets to reduce the inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments, and is effective for the City's year ending April 30, 2011.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes the standards for recognizing, measuring, and disclosing information regarding derivative instruments entered into by state and local governments, and is effective for the City's year ending April 30, 2011.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions, and is effective for the City's year ending April 30, 2012.

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent

employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. In addition, this Statement clarifies the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. This statement is effective for the City's year ending April 30, 2013.

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies* (Issued 12/09) provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. This statement is effective for the fiscal year ending April 30, 2011, however we do not anticipate this statement will have an effect on the City.

We will advise the City of any progress made by GASB in developing these and other future pronouncements that may have an impact on the financial position and changes in financial position of the City.