

CITY OF BLOOMINGTON, ILLINOIS

MANAGEMENT LETTER

April 30, 2009



November 10, 2009

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, 2009, 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Lack of oversight over grant administration

The City does not have an adequate system of controls in place in all departments to properly identify the Federal awards received and expended, or to properly identify the Federal program by Catalog of Federal Domestic Assistance (CFDA) title and number. The City incorrectly identified Federal funds as State assistance and did not provide a complete listing of all Federal programs and all expenditures related to those programs.

Individual departments within the City maintain grant agreements, request payment of Federal funds, and maintain records of expenditures. The City does not have a designated individual responsible for compiling grant information and ensure compliance with grant requirements.

We recommend the City identify an appropriate individual to oversee the management of grant agreements. Among other duties, this individual would be responsible for identifying the Federal program by CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. This information along with supporting documentation of expenditures (i.e. project worksheets, quarterly fiscal report forms, etc.) should be maintained in a centralized location to ensure timely and accurate completion of the Schedule of Expenditure of Federal Awards.

Auditee Response: The City of Bloomington will review and designate a specific City position to oversee the management of grant agreements. A specific position will be identified by December 31, 2009.

Ambulance fee write offs

During our audit, it came to our attention that there are significant account write offs for ambulance service fees. Currently there is not a formal collection process for patients using ambulance services. The procedures include sending an invoice with two follow-up letters regarding the past due balance. If the account is not paid after the second reminder letter, the account is written off after a certain time period.

We recommend the City evaluate the cost-benefit relationship of hiring a collection agency. This could help to limit the City's write offs for ambulance service fees.

Auditee Response: The City of Bloomington has issued a Request for Proposal for a collection agency to collect on unpaid ambulance fees. A recommendation is expected to be presented to the City Council by December 31, 2009

Capital assets

In gaining an understanding of the U.S. Cellular Coliseum, the Bloomington Public Library Foundation, and the Foreign Fire Insurance Board's internal control, we noted capital purchases made during the fiscal year, which met the City's definition of a capital asset, were not included in the City's listing of capital assets. The City's Finance Department relies on management of the Coliseum, the Foundation, and the Foreign Fire Insurance Board to report all capital purchases to the Finance Department to ensure all capital assets are properly recorded in accordance with the City's capitalization policy.

We recommend City management work with management of the Coliseum, Foundation, and Foreign Fire Insurance Board to accumulate a listing of capital asset additions and disposals, as defined by the City of Bloomington's capitalization policy, throughout the fiscal year.

Auditee Response: The City of Bloomington Fixed Asset Manager has met with representatives from the Coliseum, Library Foundation, and Foreign Fire Insurance Board in regards to the establishment of a formal process to record the purchase of items classified as a fixed asset beneath the City's fixed asset policy. This process has been put into place and will be reviewed on a quarterly basis by Finance personnel.

Preparation and review of bank reconciliations

In gaining an understanding of the City's internal control, we noted the general fund bank account reconciliations were prepared; however, the accounts were not completely reconciled. As of April 30, 2009 there was an unreconciled amount \$1,097.80 in the general fund bank account. Although this amount may appear not to be material to the overall financial position of the City, it may obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. We also noted the bank reconciliations are not reviewed by anyone in the Finance Department. We noted that bank fees incurred and interest earned are not recorded in the general ledger until the following month. As such, reconciliations are not prepared to the actual general ledger balance.

We recommend that unreconciled amounts be investigated and not be allowed to carry over from month to month. We further recommend that the bank reconciliations be reviewed for accuracy and completeness on a timely basis. The review should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. The composition of unreconciled differences should be determined and followed up on, and any journal entries deemed necessary as a result be recorded. If necessary, the accounting clerk who prepares the reconciliations should be given additional training and instruction on how to prepare them accurately and completely.

Auditee Response: The Finance Department will incorporate the review of the monthly bank reconciliations into the responsibility of the Chief Accountant position. Furthermore, part of these duties will ensure that bank fees and interest earned are recorded within the appropriate period. These weaknesses will be addressed by December 31, 2009.

Account reconciliations with general ledger software

During our testing of permit revenue, we noted the revenue recorded in the general ledger did not agree to the detail provided by the City of each permit type issued. While we noted differences in the types of permit revenues, the overall difference between the general ledger and the detail provided by the City was immaterial. We noted a similar situation when reviewing the lake lot lease revenues where the amount recorded in the general ledger did not agree with billing details obtained from the Finance Department. These both appear to be caused by incorrect and inconsistent coding of revenues. Furthermore, we noted when reviewing the new loans issued during fiscal year 09 that the amount recorded as new loans by the City did not agree to the detail obtained from the Community Development department.

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

Auditee Response: This deficiency will involve multiple departments and personnel within the City of Bloomington. The Finance Department will take the lead to coordinate a plan of action which will assist multiple departments in the reconciliation of transaction conducted on information systems software separate from the City's General ledger system. Procedures will be established where the specific items included in the deficiency is reconciled on a timely basis and the appropriate documentation is filed, maintained, and reviewed. The City expects to complete this process by the end of February 2010.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Inadequate segregation of duties over payroll processing

In gaining an understanding of the City's internal control, we noted the payroll clerk is responsible for entering time into the system, reviewing the payroll register, and agreeing the payroll register to employee timesheets. We also noted that time and other adjustments must be manually entered into the payroll processing system because the City's timekeeping system does not interface with the payroll processing system.

We recommend that all payroll registers be reviewed by an individual independent of the payroll processing function prior to generating all payroll checks.

Auditee Response: The City of Bloomington Finance and Personnel Department has established procedures as of September 2009 where a separate employee reviews (checks hours worked, pay scale, etc) the payroll register on a weekly basis.

Inadequate segregation of duties over the 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 following changes will be implemented: Any adjustments that are made are to be printed weekly and will be reviewed and initialed by either the Team Leader or Customer Service Manager on a monthly basis. We will also be requiring that any documentation to explain the necessary adjustment be included in the adjustment batch. In addition we will be limiting the staff that has the ability to make adjustments to a water account. It is the Finance Director's recommendation that the City engages Sikich LLP to conduct an Agreed upon Procedures Engagement to review the internal control procedures used in the billing and cash collection processes currently in all City Departments. This engagement should be completed by March 2010.

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: The Finance Department will incorporate the review of nonstandard journal entries into the responsibility of the Chief Accountant position. Furthermore, part of these duties will ensure that bank fees and interest earned are recorded within the appropriate period. These weaknesses will be addressed by December 31, 2009.

Review data submitted to the actuary

During our audit, we noted the information reported to the actuaries to determine the City's Other Post Employment Benefit obligation in accordance with GASB Statement 45, did not agree to underlying records. The actuary provided revised calculations based on corrected information.

We recommend the City review data to be submitted to the actuary to ensure the actuarial valuation is performed using accurate and complete information.

Auditee Response: The Finance Department in conjunction with the Personnel Department will establish a procedure where data submitted to actuaries whether for Other Post Employment Benefits and/or Pension costs are formally reviewed by personnel separate from those who prepare the data. These control procedures will be implemented by January 2010.

Preparation of financial statements

During the audit, we recommended numerous material adjustments, including prior period adjustments, to present financial statements in accordance with the 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 of Bloomington Finance Department will seek to address this deficiency in a combination of methods. First, the City will shift its focus to hire personnel with a background focused and knowledgeable in generally accepted accounting principles. This skill set will assist in the annual preparation of financial statements as well as minimize any potential material adjustments. This plan is demonstrated through the recent hiring of a CPA as the City's Chief Accountant who has several years of government accounting experience. Second, the City will look to incorporate on-line and site training offered by the Illinois Government Finance Officers Association to supplement the knowledge of current employees in regards to government accounting practices. These solutions have been implemented into the Finance Department and will continue on an ongoing basis.

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 black ink that reads "Sikich LLP". The signature is written in a cursive, flowing style.

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).

Billing detail for construction projects

Per review of the City's records of payments for construction projects, a lack of documentation concerning services performed and date or period of performance was noted.

We recommend that the City maintain with their bill payment forms project inspection reports that describe services performed and date or period of performance. 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.

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.

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.

Theft of capital assets from engineering department

During our testing of the City's capital assets, it came to our attention that assets from the Engineering Department were stolen or misplaced. There were two instances, one of which is known to have been caused by theft; the other may have been caused by an asset being misplaced. Since these incidents, the Engineering Department has kept high dollar survey equipment locked up and has implemented a logging system where equipment is checked out prior to use and checked back in after use.

We further recommend that a perpetual system be established to control selected capital assets that are readily convertible to personal use and items with high unit costs. Periodic physical counts should be made of these items in order to detect pilferage and the physical count should be reconciled to the perpetual records.

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.

Time off documentation

During our audit, we noted that 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.

Purchases

Document when good/services received

During our audit, we noted the City does not indicate when goods/ services were received on vendor invoices.

We recommend that City receiving procedures include documenting the date goods and services are received. Such receiving procedures will help ensure that purchases are recorded in the proper accounting period.

Federal Award Compliance Issues

Suspension and Debarment

During our audit we noted that the City has no policy or procedure for determining that a contract is not awarded to a party who has been designated as debarred or suspended by the Federal government. While we noted no contracts with parties on the Excluded Parties List, a good system of internal controls would include debarment and suspension procedures in the procurement process. The procurement policy does not address procurement made with Federal awards and therefore, does not provide procedures for determining that the City has not contracted with debarred and suspended parties.

We recommend the Organization adopt a procurement policy to address procurement with Federal funds, including a provision regarding debarment and suspension under Federal guidelines.

Reporting

The City did not submit written progress reports during the year as required by the 3190614 and 3190713 grant agreements. The grant agreements state that, "The Recipient shall submit a written progress report by the fifteenth (15th) of July, October, January and April during the Agreement Period."

We recommend that the City designate an individual with the appropriate knowledge to oversee the City's grants and ensure compliance with all requirements.

Other

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.

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.

Billing detail for insurance coverage

During our fieldwork, we noted the City received an invoice for insurance coverage that did not include detailed information on the types of insurance coverage.

We recommend the City obtain invoices that include an itemized pricing of each type of coverage and insurance administration fee charged by RIMCO.

Fund Balances

General Fund expenditures have exceeded revenues each of the past three years. As a result, the fund balance in the General Fund has been depleted by approximately \$12 million. Also, the City is not in compliance with its internal General Fund Reserve Policy, which requires the General Fund reserves to be 15% of budgeted expenditures.

The 2003 Bond Projects fund and Library Expansion fund, both capital projects funds, have deficit fund balances at April 30, 2009.

We recommend the City review the FY 10 budget to ensure that the City is spending within its means.

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 that the City update and maintain current City Council minutes.

Include significant matters in meeting summaries

During our fieldwork, we reviewed City Council meeting summaries due to minutes of the meetings not being available. During this review, we noted that not all significant matters were included in the meeting summaries. Specifically, we noted that disposals of capital assets were not included in the meeting summaries.

We recommend that matters such as the sale, contribution, or disposal of a capital asset be approved and documented by the City Council.

Investment policy

During the audit, we noted that the City's investment policy does not require collateralization of deposits to limit custodial credit risk. Rather this is optional at the Finance Director's discretion.

We recommend the City Council evaluate the City's investment policy to require collateral of deposits.

Library reporting

We recommend the City examine the 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.

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.

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.

Recording transactions

During our audit, we noted that the City pays a portion of employee monthly membership fees to Four Seasons. These expenses were erroneously netted against a miscellaneous revenue account. We also noted that grant monies received were erroneously recorded in a miscellaneous revenue account.

We recommend the City record revenues and expenses in the appropriate accounts.

Police Overtime Balances

During our audit, we noted that 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.

Workers' 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's 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.

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. 52, *Land and Other Real Estate Held as Investments by Endowments* establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value and is effective for the City's year ending April 30, 2010.

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. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. GASB S-55 was effective upon issuance (March 2009).

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (Issued 03/09). This Statement incorporates into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes *accounting* principles—related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the *preparation* of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. GASB S-56 was effective upon issuance (April 2009).

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.