

CITY OF BLOOMINGTON, ILLINOIS

MANAGEMENT LETTER

April 30, 2011





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

October 27, 2011

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, 2011, 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 the City has an employee designated to enter journal entries in the general ledger software, however this employee does not review the information prior to entry. In addition, there is no formal review of nonstandard journal entries performed by a separate employee. 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: City staff has a staff member review journal entries, but sometimes this is done after the transaction was posted to the general ledger. The workload of the Finance staff has resulted in this finding. The City is converting to a new ERP system effective November 1, 2011, and the system is being set up such that all journal entries will be reviewed by a supervisor independent of the person who drafted the journal entry prior to posting to the general ledger.

Preparation of financial statements

During the audit, we recommended numerous material 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.

The City has continued to make improvements in recording all transactions over the past several years. We recommend that the City implement controls to ensure that all transactions are accounted for.

Auditee Response: The City has not been able to prepare fully adjusted trial balances on a monthly basis nor an annual basis in preparation for the annual audit. The Finance Department has not been able to do so due to there not being enough staff in the Accounting Division. It is anticipated that a request will be made for an accountant position in the 2012/13 annual budget, which will allow the Finance Department to produce more accurate and timely financial reports. 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 in improving financial reporting.

Below is three years of comparative data:

	Entries Provided by Client	Sikich Proposed Entries	Reclassification Entries
2009	3	45	2
2010	6	24	3
2011	5	19	2

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 general fund bank reconciliation provided by the City did not agree to the trial balance. An updated reconciliation was not provided until August 2011.

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

Auditee Response: The general fund bank reconciliations did not always agree to the general ledger due to adjusting journal entries resulting from the bank reconciliation being posted to the wrong accounting period. This procedure has been clarified, and the appropriate Finance Department trained, to avoid this problem 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: Under the existing financial software, separate subsidiary ledgers were maintained, requiring reconciliation to the main general ledger. There were situations where the subsidiary ledger did not agree with the main ledger, due to timing issues and errors. The City's new ERP system will eliminate most of the separate subsidiary ledgers, resulting in fewer discrepancies and errors.

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: According to the Water Department Supervisor, adjustments are now being reviewed by a supervisor independent of the employees who receive the payments. The Supervisor signs off on a proof list of the adjustments each month.

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 City did not reconcile cash collected and the number of towed cars in FY 2011, but will do so in FY 2012. The new ERP system will have recording of cash receipts automated which will make reconciling cash receipts to the number of towed cars easier to complete.

Inadequate segregation of duties over payment processing

In gaining an understanding of internal control, we noted the Support Staff responsible for printing checks also has access to set up new vendors and modify existing vendors. We recommend this level of access be restricted for employees processing payments.

Auditee Response: The City used to allow the Support Staff responsible for printing checks to set up new vendors and modify existing vendors. A procedure has now been put in place where the Purchasing Agent now enters new vendors and modifies existing vendors, separate from the Support Staff who prints checks.

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, appearing to read "Sikich LLP".

Sikich LLP
Springfield, Illinois

RECOMMENDATIONS FOR IMPROVEMENTS

Cash and Investments

Collateral Issues

During our audit, we noted the collateral agreement entered into with Commerce Bank did not require the collateral pledged by Commerce Bank to be held exclusively in the City's name at a different financial institution.

We recommend the City revise their collateral agreement with Commerce Bank to require the collateral pledge be held exclusively in the City's name at a different financial institution.

Auditee Response: The Finance Department will work with Commerce Bank on establishing a thirty-party collateral agreement with another bank or the Federal Reserve Bank.

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's Human Resources acknowledges that the Employee Handbook needs updating. The Department does not anticipate being able to update the Handbook until after the Munis ERP conversion scheduled for November 1, 2011. Due to staffing issues, the Department is not able to assist in the implementation of Munis and work on the Employee Handbook revisions simultaneously. Also, the department feels there might be changes to the manual that are identified during the Munis conversion.

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 new ERP system will elevate this need citywide. Also all non-exempt employees are provided time sheets on a weekly or bi-weekly basis. The time sheets list all leave time and by signing this time sheet it would signify accuracy of the document. The time sheet and leave system are one in the same. If an employee has leave time listed on their time sheet it will be in the leave benefits tracking system and vice versa. In addition, both nonexempt and exempt employees are given monthly leave reports that show all accruals and deductions from their leave balance.

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: Currently the City's time keeping software and financial software do not interface. This will be resolved when the Munis ERP system is implemented in Fiscal 2011/12.

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 recommend that City's 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.

Auditee Response: The City is planning on revising and updating its Purchasing Policy in 2011/12. The revised policy will make it clear that departments are to document on the invoice or packing slip when the goods or services are received.

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 Human Resources Department states that they will work with the Legal Department to establish a whistleblower policy.

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 revised Purchasing Policy that is expected to be completed in 2011/12 will clearly state that all non-emergency purchases are not to be made until a purchase requisition has been submitted and approved, and a purchase order has been issued.

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 Library will be asked to initiate a procedure whereby reconciliation is performed between cash receipts and overdue accounts balances. Any write-off's of delinquent accounts should require a supervisor's review and approval.

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 Finance Department will work with the Parks and Recreation Department to establish procedures that document and support the outstanding balance of gift cards and rain checks. The Finance Department will also review with the Parks and Recreation Department the long-outstanding liabilities and determine if any should be written off.

Fund Balances

During our audit, we noted operating expenses exceeded operating revenues in the Solid Waste fund, U.S. Cellular Coliseum fund, Golf Operations fund, and Parking fund. Operating expenses also exceeded operating revenues in fiscal year 2010 in the U.S. Cellular Coliseum fund and Parking fund. We recommend the City review the operations of these funds to ensure each fund is operating at an adequate level.

Auditee Response: The City will review all enterprise funds to determine where operating expenses are expected to exceed operating revenues, and consider options to eliminate the deficit spending.

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 will establish a formal disaster recovery plan after the Munis ERP conversion in 2011/12. Tyler Technologies, the company offering Munis ERP software, does have a disaster recovery plan and back-up procedures given that its clients no longer house the data on local servers.

Fleet Management Satellite Fueling Stations

In gaining an understanding of the City's internal control, we noted there are controls in place to limit access to the main fueling station at Fleet Management. In addition to the main fueling station, there are five satellite above-ground fueling stations throughout Bloomington without controls to prevent unauthorized access. An absence of controls over fuel, particularly in a time of high gas prices, could result in pilferage of City property.

We recommend the City review the controls over access to fuel and take steps necessary to prevent unauthorized access.

Auditee Response: The remote fueling stations are secure from the public. The remote fueling stations do not have monitoring and tracking capability to know who is pumping gas, and for which vehicle. The City plans to include funds for installation of fuel monitoring systems at the remote stations in the 2012/13 budget.

Fleet Service Inventory

During our audit, we conducted test counts of inventory at Fleet Services based on preliminary inventory listings. When we subsequently compared our counts to that of the final inventory listing, we noted variances on forty percent (2 of 5) of items we counted.

We recommend, as part of year-end inventory counting procedures, inventory variances be investigated and approved prior to adjustment.

Auditee Response: The auditors found discrepancies in two of the five test counts they performed. Both of the discrepancies were in parts that are held outside the secure stock room due to space limitations. The City also feels there might have been multiple locations for the two parts for which discrepancies were noted. Fleet Services will update its inventory data base with more accurate location descriptions.

Preparation of the Schedule of Expenditure of Federal Awards

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 did not provide a complete listing of all Federal programs and all expenditures related to the Public Safety Partnership and Community Policing program. OMB Circular A-133, Subpart C, Section 310 states, "the auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity." OMB Circular No. A-133, Subpart C, section 310 further states, "the auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements."

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 Finance Department will be requesting a new Accountant position in the 2012/13 annual budget. One of this person's responsibilities will be to track all federal and state grants received, and ensure departments are complying with all grant requirements.

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. 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. 59, *Financial Instruments Omnibus* (Issued 6/10) provides updates and improvements to existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement is effective for the fiscal year ending April 30, 2012.

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. This statement is effective for the City's year ending April 30, 2013.

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. This statement is effective for the City's year ending April 30, 2014.

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. This statement is effective for the City's year ending April 30, 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance on the reporting of the consumption of net assets by the government that is applicable to a future reporting period (deferred outflows), and the acquisition of net assets by the government that is applicable to a future reporting period (deferred inflows). This statement is effective for the City's year ending April 30, 2013.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement is effective for the City's year ending April 30, 2013.

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.