



CITY OF WAUKEGAN, ILLINOIS

MANAGEMENT LETTER

For the Year Ended April 30, 2018

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The Honorable Mayor
Members of the Council
City of Waukegan, Illinois

Ladies and Gentlemen:

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 Waukegan, Illinois (the City) as of and for the year ended April 30, 2018, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and therefore material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses. The status of this comment is included in Appendix A.

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

Sikich LLP

Naperville, Illinois
October 15, 2018

MATERIAL WEAKNESS

We consider the following to be a material weakness in internal control:

During our audit, it was noticed that certain Police Department cash receipts from February 2018 through April 2018 were not turned over to the City on a timely basis. This resulted in a delay from when cash was processed to when it was deposited to a financial institution. This opens the City up to the potential for fraudulent activity and misappropriation of cash due to the inherent difficulty to track cash transactions.

We recommend that cash receipts are deposited on a timely basis and include a reconciliation of each drawer at the end of each employee's shift to ensure accuracy of the drawers and to be able to localize an issue in case a drawer doesn't balance.

Management Response

Management concurs with the auditor recommendation, and has implemented new cash handling policies and enhanced control procedures as a result.

APPENDIX A
STATUS OF COMMENTS FROM APRIL 30, 2017

Internal Control over Financial Reporting

During the course of our audit, we experienced delays in receiving information that is essential to completing the audit, such as trial balances that were adjusted to agree with the City's detailed supporting schedules. Further, it was necessary for the auditors to make several material audit adjustments as noted in the governance communication to agree the trial balance to the supporting documents and also to adjust to the trial balance in order to comply with generally accepted accounting principles (GAAP), as defined by the Governmental Accounting Standards Board (GASB). We also noted clerical errors in the supporting schedules provided to us.

In order to ensure the accuracy of the City's monthly and annual financial reports, we recommend that the City reconcile general ledger accounts to supporting documentation on a monthly basis. Balance sheet reconciliations quickly 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. The City should adopt a policy requiring the monthly reconciliation of all balance sheet accounts to their subsidiary ledgers. Any reconciling differences should be resolved before the books are closed for the month end.

In addition, we recommend that all supporting documentation be reviewed by an individual that is separate from the preparer to ensure the accuracy of the supporting documentation. This review should occur prior to the reconciliation process described above.

Status - This comment is partially implemented. During the course of our audit this year, we noticed a dramatic improvement in the City's preparation and readiness for the audit. We received the trial balance prior to fieldwork and noticed a remarkably lower amount of client prepared adjustments during the current year audit. We noted that there were still a couple issues involving prior year balance sheet accounts not being adjusted and improper revenue recognition to have the trial balance be in accordance with GAAP, as defined by the GASB. Sikich recommends that the City continues on its improvement track and remain diligent in reviewing account balances at year-end. Additionally, we recommend that all supporting documentation be reviewed separate from the preparer of the accounting entry booked in the system to ensure the accuracy of the transaction.

Management Response

Management concurs with the auditor recommendation, and offers continuous feedback to all Finance Department staff regarding timeliness and accuracy of work performed and provides training opportunities to ensure the staff is adequately prepared for audit fieldwork.