



**CITY OF WAUKEGAN, ILLINOIS**

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**SINGLE AUDIT REPORT**

**For the Year Ended April 30, 2019**



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**CITY OF WAUKEGAN, ILLINOIS**  
**TABLE OF CONTENTS**

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	<u>Page(s)</u>
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	1-2
Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance .....	3-5
Schedule of Expenditures of Federal Awards .....	6-7
Notes to the Schedule of Expenditures of Federal Awards .....	8
Schedule of Findings and Questioned Costs.....	9-12
Corrective Action Plan.....	13

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 15, 2019. The financial statements of the Waukegan Public Library, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*, and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Waukegan Public Library.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002, that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The City's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sikich LLP*

Naperville, Illinois  
October 15, 2019

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Waukegan, Illinois' (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended April 30, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the City of Waukegan, Illinois complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2019.

## **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited 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, as of and for the year ended April 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated October 15, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Sikich LLP*

Naperville, Illinois  
October 15, 2019

**CITY OF WAUKEGAN, ILLINOIS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended April 30, 2019

<b>Federal Grantor</b>	<b>Pass-Through Grantor</b>	<b>Program Title</b>	<b>Federal CFDA Number</b>	<b>Program/Grant Number</b>	<b>Expenditures</b>	<b>Amount Provided to Subrecipients</b>
		CDBG - Entitlement Grants Cluster				
U.S. Department of Housing and Urban Development	N/A	Community Development Block Grants/Entitlement Grants	14.218*	N/A	\$ 715,224	\$ 103,832
		Total CDBG - Entitlement Grants Cluster			715,224	103,832
U.S. Department of Housing and Urban Development	Lake County Consortium	Home Investment Partnership Program	14.239	N/A	75,779	-
		Total US Department of Housing and Urban Development			791,003	103,832
U.S. Department of Justice	N/A	Edward Byrne Memorial Justice Assistance Grant Program (2015)	16.738	2015-DJ-BX-0107	4,809	-
U.S. Department of Justice	N/A	Edward Byrne Memorial Justice Assistance Grant Program (2016)	16.738	2016-DJ-BX-0243	2,975	-
U.S. Department of Justice	N/A	Edward Byrne Memorial Justice Assistance Grant Program (2017)	16.738	2017-DJ-BX-0522	21,321	-
		Total Edward Byrne Memorial Justice Assistance Grant			29,105	-
U.S. Department of Justice	N/A	Bulletproof Vest Partnership Program (2016)	16.607	41-1458127	1,705	-
U.S. Department of Justice	N/A	Bulletproof Vest Partnership Program (2017)	16.607	41-1458127	14,248	-
		Total Bulletproof Vest Partnership Program			15,953	-
U.S. Department of Justice	N/A	Equitable Sharing Program	16.922	N/A	330,685	-
		Total U.S. Department of Justice			375,743	-
		Highway Safety Cluster				
U.S. Department of Transportation	Illinois Department of Transportation	FFY 2018 Sustained Traffic Enforcement Program (STEP Grant)	20.600	OP-18-159	42,631	-
		FFY 2019 Sustained Traffic Enforcement Program (STEP Grant)	20.600	OP-19-174	26,309	-
		Total Highway Safety Cluster			68,940	-
		Highway Planning & Construction Cluster				
U.S. Department of Transportation	Illinois Department of Transportation	Belvidere Road Bridge Rehabilitation	20.205	BRM-9003 (11)	49,694	-
		Total U.S. Department of Transportation			118,634	-

**CITY OF WAUKEGAN, ILLINOIS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

For the Year Ended April 30, 2019

Federal Grantor	Pass-Through Grantor	Program Title	Federal CFDA Number	Program/Grant Number	Expenditures	Amount Provided to Subrecipients
U.S. Department of Environmental Protection Agency	Illinois Department of Natural Resources	Facilitation of Waukegan Waterfront Working Group	66.469	GLRI 16-003	\$ 12,442	\$ -
		Waukegan Waterfront Working Group Sustainability Grant	66.469	GLRI 16-007	4,151	-
		Total U.S. Department of Environmental Protection Agency			<u>16,593</u>	<u>-</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>					<u>\$ 1,301,973</u>	<u>\$ 103,832</u>

\*Denotes major federal program

## CITY OF WAUKEGAN, ILLINOIS

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended April 30, 2019

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#### **Note A - Basis of Accounting**

The accompanying schedule of expenditures of federal awards has been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). It is a summary of the activity of the City's federal award programs prepared on the accrual basis of accounting. Accordingly, expenditures are recognized when the liability has been incurred and revenues are recognized when the qualifying expenditure has been incurred.

#### **Note B - Subrecipients**

Of the federal expenditures presented in this schedule, the City provided federal awards to subrecipients from the Community Development Block Grants/Entitlement Grants Program (CFDA #14.218) in the amount of \$103,832.

#### **Note C - Other Information**

The City did not receive or provide any federal insurance, free rent, or noncash assistance during the year ended April 30, 2019.

#### **Note D - Community Development Block Grant Loans (CFDA #14.218)**

The amount of loans outstanding at April 30, 2019 under the Community Development Block Grants/Entitlement Grants Program (CFDA #14.218) was \$1,239,068. Current year disbursements totaled \$164,044. The current year loan disbursements are included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards. The loans have no continuing compliance requirements aside from loan repayment.

#### **Note E - 10% De Minimis Indirect Cost Rate**

The City has not elected to use the 10% de minimis indirect cost rate as permitted by 2 CFR Section 200.414.

**CITY OF WAUKEGAN, ILLINOIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended April 30, 2019

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**Section I - Summary of Auditor's Results**

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with Generally Accepted Accounting Principles (GAAP): *Unmodified*

Internal control over financial reporting:

Material weakness(es) identified?  yes  no  
Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?  yes  no  
Significant deficiency(ies) identified?  yes  none reported

Type of auditor's report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants/Entitlement Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?  yes  no

# CITY OF WAUKEGAN, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2019

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### Section II - Financial Statement Findings

#### 2019-001: Internal Control over Financial Reporting

##### Repeat of Finding 2018-001 (MATERIAL WEAKNESS)

*Criteria:* Statement on Auditing Standards (SAS) No. 115 requires auditors to communicate weaknesses in the City's internal control, and to report a material weakness if material journal entries are detected as a part of the financial audit, or the auditor prepares the annual financial statements and notes.

*Condition:* We noted a lack of review of certain documentation which contained clerical errors. Material journal entries were also identified during the course of the audit and we, as the auditors, assisted in the preparation of the annual financial statements. This Single Audit finding is a repeat finding and is also reported in Section IV - Prior Year Audit Findings as Single Audit Finding 2018-001.

*Cause:* City staff was not able to identify certain adjusting journal entries that would be necessary to record in order for the City to produce accurate financial statements.

*Effect:* The financial statements need to contain all of the required disclosures and account balances without material changes by the auditors.

*Recommendation:* We recommend that the City put in place procedures in order to reduce the amount of errors noted and the risk of material journal entries, as well as determining if resources would be available to prepare a complete set of financial statements.

*Views of Responsible Officials:* Management agrees with the single audit finding and a response is included in the corrective action plan.

# CITY OF WAUKEGAN, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2019

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### Section II - Financial Statement Findings (Continued)

#### **2019-002: Internal Control over Cash Drawdowns of Program Funds (Material Weakness)**

*Criteria:* The City administers the federal CDBG program, which is funded on a reimbursement basis. OMB Compliance Requirements state that program costs must be paid for with City funds before reimbursement is requested from the Federal Government. This requirement suggests that program expenditures should match program revenues.

*Condition:* The City does not have proper internal controls over cash drawdowns in place. Statistical sampling was not used within making sample selections.

*Context:* We tested the City's cash drawdown report and compared to expenditures related to the CDBG program. We noted significant difficulties in reconciling revenues to expenditures. The City did not reconcile drawdowns to expenditures at year end, resulting in variances between reimbursements and expenditures.

*Effect:* The City could pay for program expenditures with City funds and not receive reimbursement.

*Recommendation:* The City should implement a process that ensures that reimbursement requests are submitted for all eligible program expenditures and that program expenditures match program revenues, and the City's financial accounting system, at year-end.

*Views of Responsible Officials:* Management agrees with the single audit finding and a response is included in the corrective action plan.

**CITY OF WAUKEGAN, ILLINOIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

For the Year Ended April 30, 2019

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**Section III - Federal Award Findings and Questioned Costs**

None

**Section IV - Summary Schedule of Prior Audit Findings**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)**

**2018-001: Internal Control over Financial Reporting**

**2019 Status Update**

This finding is repeated and is included in Section II as Finding 2019-001.

**2018-002: Internal Control over Cash Receipts**

**2019 Status Update**

No similar findings were noted in the current year. This item has been satisfactorily addressed.

**2018-003: Internal Control over Cash Drawdowns of Program Funds**

**2019 Status Update**

This finding is repeated and is included in Section II as Finding 2019-002.



## Corrective Action Plan

For the Year Ended April 30, 2019

### **2019-001 Internal Control over Financial Reporting**

#### Corrective Action Plan

Before fiscal year ending April 30, 2017, the preparation of the government wide adjusting journal entries and financial statements was outsourced to the external auditors. With the change in auditors, there is an ongoing effort to bring these functions in-house and substantial improvement is made each year. The number of adjusting journal entries made by the auditors, instead of by city staff, continues to be reduced annually and errors identified are isolated.

The City has had certain controls in place for quite some time including, but not limited to, properly segregating monthly bank, pension fund, and library fund reconciliations. During the 2019 fiscal year additional reconciliations were added including the reconciliation of accounts receivables subsystems to the general ledger, payroll and employee benefit subsystems to the general ledger, and third-party administrator property, casualty and workers compensation claims payments to the general ledger.

Going forward, capital assets, pension liability and debt-related fiscal year-end reports and adjustments will be subject to a dual-review process prior to entries being made and more functions will be delegated to staff accountants, allowing the Finance Director to take on the role of review versus making entries herself. These processes will be instituted with appropriate reviews currently.

Due to budgetary limitations the city does not anticipate investing in software to allow for the in-house preparation of the full financial statements and notes; however, certain entries to convert the individual fund activity to government-wide statements are now done in-house. Therefore, the auditor assistance in preparing the annual financial statements will continue.

### **2019-002 Internal Control over Cash Drawdowns of Program Funds**

#### Corrective Action Plan

On a quarterly basis, the Finance Director or her designee will reconcile program expenditures and federal reimbursements submitted via HUD draw-down reports to the City's general ledger. Any discrepancies found will be reported to the CDBG Department to rectify.