

**CITY OF WAUKEGAN, ILLINOIS**

**MANAGEMENT LETTER**

April 30, 2017





1415 W. Diehl Road, Suite 400  
Naperville, Illinois 60563

Certified Public Accountants & Advisors  
Members of American Institute of Certified Public Accountants

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, 2017, 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.

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 these comments is included in Appendix A.

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.

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 31, 2017

## **MATERIAL WEAKNESS**

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

### **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.

### **Management Response**

Due to a new Mayor sworn in May 2017, a change in external auditors was instituted following a request for proposal process. In the past, the preparation of the government wide adjusting journal entries and financial statements was outsourced to the external auditors. With the change in auditors, an effort to bring these functions in-house is being made but could not be fully accomplished within the first year. Therefore, several of the adjusting journal entries made by the auditors instead of by city staff were related to this transition. Furthermore, also related to the change in Mayoral administration, no annual budget / appropriation was prepared prior to the end of the fiscal year. Hence, when audit fieldwork would usually be the primary focus of the Finance Department in May and June, much of that time was spent crafting a proposed budget and appropriation which hindered staff's ability to sufficiently prepare in a timely manner for audit field work. This is not anticipated to reoccur for the 2018 fiscal year.

City management concurs that reconciliation of balance sheet accounts should be occurring, but does note that monthly bank, pension fund, and library fund reconciliations are already in place with proper reviews and adjustments. Many balance sheet adjustments are only done annually as most of the City's funds are appropriately maintained on a cash basis during the fiscal year and the recognition of certain revenue and expense accruals are only done at fiscal year-end. Therefore a monthly reconciliation of each balance sheet item across all funds is not necessary. An effort will be made to add balance sheet accounts that are maintained on an accrual or modified accrual basis to a monthly reconciliation process with appropriate reviews by senior accounting staff.