

**CITY OF URBANA, ILLINOIS**

**Urbana, Illinois**

**Report of  
Federal Financial Assistance**

**For the Year Ended  
June 30, 2013**

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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

To the City Council  
City of Urbana, 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, each major fund, and the aggregate remaining fund information of the City of Urbana, Illinois as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Urbana, Illinois' basic financial statements, and have issued our report thereon dated May 20, 2014.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Urbana, Illinois' 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 of Urbana, Illinois' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Urbana, Illinois' internal control.

Our consideration of internal control was for the limited purpose described in the preceding 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. However, as described in the in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 a 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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: finding reference numbers 2013-001, 2013-002, 2013-003 and 2013-004.

**To the City Council  
City of Urbana, Illinois**

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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: finding reference numbers 2013-005, 2013-006, 2013-007, and 2013-008.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Urbana, Illinois' 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*.

**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bray, Drake, Liles + Richardson LLP*

**BRAY, DRAKE, LILES & RICHARDSON LLP**

**Urbana, Illinois  
May 20, 2014**

**BRAY, DRAKE, LILES & RICHARDSON LLP**  
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**To the City Council  
City of Urbana, Illinois**

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

We have audited the City of Urbana, Illinois' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Urbana, Illinois' major federal programs for the year ended June 30, 2013. The City of Urbana, Illinois' 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Urbana, Illinois' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 of Urbana, Illinois' 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 of Urbana, Illinois' compliance.

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

In our opinion, the City of Urbana, 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 June 30, 2013.

***Report on Internal Control over Compliance***

Management of City of Urbana, Illinois, 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 of Urbana, Illinois' 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 OMB Circular A-133, 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 of Urbana, Illinois' internal control over compliance.

To the City Council  
City of Urbana, Illinois

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.

***Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133***

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Urbana, Illinois, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Urbana, Illinois' basic financial statements. We issued our report thereon dated May 20, 2014, 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 OMB Circular A-133 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 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



**BRAY, DRAKE, LILES & RICHARDSON LLP**

**Urbana, Illinois  
May 20, 2014**

**CITY OF URBANA, ILLINOIS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Total Awards Expended</u>
U.S Department of Commerce:			
Passed Through the State of Illinois, University of Illinois:			
ARRA - Broadband Technology Opportunities Grant	11.557	NT10BIX5570044	\$ 1,133,823 *
U.S. Department of Housing and Urban Development:			
Direct Funding:			
HOME Investment Partnership Program *	14.239	M-12-DC-17-0217	1,329,950
Community Development Block Grant	14.218	B-12-MC-17-0024	680,875 *
Supportive Housing Program Grant	14.235	IL0037B5T031104	<u>195,348</u>
Total Department of Housing and Urban Development, all direct funding			<u>2,206,173</u>
U.S. Department of Energy:			
Direct Funding:			
ARRA - EECBG Grant	81.128	DE-EE0002198	238
U.S. Department of Homeland Security:			
Direct Funding:			
Fire Services Training Grant	97.044	2011-F009044	30,596
Fire Equipment	97.044	2012-F003576	<u>4,047</u>
Total U.S. Department of Homeland Security, all direct funding			<u>34,643</u>
U.S. Department of Transportation:			
Passed Through State of Illinois, Illinois Department of Transportation			
Safe Routes to Schools Grant	20.205	2011-SR-3739	29,767
U.S. Department of Justice:			
Direct Funding:			
Police Vest Program Reimb. Grant	16.607	2011-BUBX-11057146	2,412
Passed Through the City of Champaign:			
Edward Byrne Memorial Justice Grant	16.738	2011-H5025-IL-DJ	3,445
Edward Byrne Memorial Justice Grant	16.738	2012-H1096-IL-DJ	<u>16,610</u>
Subtotal U.S. Department of Justice pass-through programs			<u>20,055</u>
Total U.S. Department of Justice			<u>22,467</u>
U.S. Department of the Interior:			
Passed through State of Illinois			
Historic Preservation Agency:			
Certified Local Government Grant	15.904	IL20110011	2,011
Certified Local Government Grant	15.904	CL20120205	<u>9,371</u>
Total U.S. Department of the Interior, all pass-through programs			<u>11,382</u>
Total expenditures of federal awards			<u>\$ 3,438,493</u>

\* Denotes major program.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Urbana, Illinois under the programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular a-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Urbana, Illinois, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Urbana, Illinois.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

**NOTE C - INSURANCE**

The City of Urbana, Illinois has purchased commercial insurance to cover risks associated with torts, theft, damage to assets, errors and omissions, and natural disasters. The City of Urbana, Illinois self-insures up to \$500,000 per claim for worker's compensation claims with excess coverage by commercial insurance.

**NOTE D - SUBRECIPIENTS**

Of the federal expenditures presented in this schedule, the City of Urbana, Illinois provided federal awards to subrecipients as follows:

	<u>CFDA Number</u>	
HOME Investment Partnership Program:	14.239	
City of Champaign, Illinois		227,505.21
Homestead Corporation of Champaign-Urbana		18,750.00
Homestead Corporation - 1107 Gregory		7,637.00
Homestead Corporation- 510 Beardsley		141,679.17
Ecological Construction Laboratory - 1302 Dublin		47,806.57
Neighborhood Alliance		27,528.00
Neighborhood Alliance - AHP c/o		165,572.51
CHDO OP - unobligated		67,511.75
Champaign County		<u>271,234.15</u>
Total HOME Investment Partnership Program		<u>975,224.36</u>
Community Development Block Grant:	14.218	
Public Facilities:		
Champaign-Urbana Independence Center		11,953.50
Center for Women in Transition/A Woman's Place		11,851.00
MHC of CC Housing Corporation		14,879.95
Urbana Neighborhood Connection Center		1,917.66
City Infrastructure		172,500.00
Neighborhood Streetlights		77,780.18
Lanore Adams Fairlawn Multi-use Path		34,076.27
Public Services:		
CCRPC - Senior Services		2,999.92
Greater Community Aids Project		2,000.00
Roundhouse		3,000.00
Total Community Development Block Grant		<u>332,958.48</u>
Supportive Housing Program Grant:	14.235	
A Woman's Fund		62,912.00
Center for Women in Transition		103,917.00
The Salvation Army		<u>25,373.95</u>
Total Supportive Housing Program Grant		<u>192,202.95</u>
<b>TOTAL</b>		<u><u>\$ 1,500,385.79</u></u>



**CITY OF URBANA**  
Urbana, Illinois

**Schedule of Findings and Questioned Costs**  
For the Year ended June 30, 2013

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Urbana, Illinois.
2. No significant deficiencies or material weaknesses disclosed during the audit of the financial statements are reported in the **Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.**
3. No instances of noncompliance material to the financial statements of City of Urbana were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the **Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.** No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for the City of Urbana, Illinois, expresses an unqualified opinion on the major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:  
ARRA – Broadband Technology Opportunities Grant, CFDA No. 11.557  
Community Development Block Grant, CFDA No. 14.218
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Urbana, Illinois did not qualify as a low-risk auditee.

**B. FINDINGS-FINANCIAL STATEMENTS AUDIT**

**Significant Deficiencies**

**2013-005 – Year-end workpapers for outside auditors**

- Condition:* The year-end workpapers provided by the finance department to the outside auditors should be complete, accurate, and understandable, as well as reference support as needed.
- Criteria:* The yearend workpapers were not always clear and they also did not always tie to the general ledger. They were also difficult to locate in some cases.
- Cause:* Change in personnel at the end of the year being audited.
- Effect:* Extra audit time was required to correct workpapers and the new personnel had no standard place to locate such workpapers.

*Recommendation:* Policies should be adopted requiring a standard filing method of such workpapers and that should be documented.

*Views or responsible officials:* Staff will implement new review and filing practices, including filing structure for all future workpapers.

#### **2013-006 – Lack of institutional memory and standard documented processes**

*Condition:* Loss of key personnel and lack of documentation of accounting processes and procedures.

*Criteria:* Good internal control requires that accounting processes and procedures should be documented and recorded in a manner that allows for the loss and replacement of key personnel.

*Cause:* A key accounting supervisor was not retained as of the end of the fiscal year; as a result the Comptroller at the time resigned at that same Council meeting.

*Effect:* A large amount of extra audit time by both the outside auditors and the new personnel hired to replace them was required to complete the audit. The audit was delayed five months from the normal completion time.

*Recommendation:* There should be a significant effort made to document the entire accounting system, including all specific day-to-day processes and month-end processes in writing and the position and title of responsible personnel. Cross-training of functions should be developed.

*Views or responsible officials:* Policies and procedures exist for certain processes, but not all, and some are out of date. All processes will be documented that don't exist, and outdated policies will be updated. Cross training is taking place to ensure at least 2 staff are familiar with all processes.

#### **2013-007 – Approval processes and enforcement of such**

*Condition:* Many significant transactions were initiated, approved, and posted or assigned to be posted by one person.

*Criteria:* Good internal control requires effective segregation of duties.

*Cause:* Over the years with the same employees performing similar functions, approval processes became lax. Proper review by other capable personnel was not enforced or required.

*Effect:* Inappropriate transactions could be posted to the general ledger and not discovered in a timely manner.

*Recommendation:* Policies for posting transactions and adjustments should be developed in writing and enforcement methods should be developed so that one person cannot initiate, approve, and post directly to the general ledger. Daily activity logs could be developed for review by proper personnel. Electronic review by proper personnel and then password approval could be initiated assure proper approval.

*Views or responsible officials:* An improved process is in place that all journal entries are reviewed by at least 2 staff. No system controls are in place to prevent journal entries by one person which is a limitation of the current accounting system.

#### **2013-008 – Standard filing processes for paper and electronic files**

*Condition:* Related to finding 2013-006, there was a general lack of effective and standard filing processes for both paper and electronic documents.

*Criteria:* Good internal control requires that documentation and support for transactions be readily available for review.

*Cause:* Failure to follow standard written procedures and lack of effective filing processes.

*Effect:* Important documentation and supporting items cannot be located in a reasonable length of time, and in some cases, are effectively lost.

*Recommendation:* Policies and procedures for filing paper and electronic documents should be developed in written form and policies for testing and enforcing such policies and procedures should be tested regularly.

*Views or responsible officials:* Systems are in place for filing certain types of documents such as invoices, payroll ledgers, bank statements, etc. Improvements will be made, however, where current systems provide ineffective retrieval.

## Material Weaknesses

### 2013-001 – Cash account reconciliations

*Condition:* Bank reconciliations were not timely.

*Criteria:* Internal controls should be in place to assure bank accounts are timely reconciled.

*Cause:* There were no known written policies to require reconciliations on a timely basis.

*Effect:* Bank accounts could become overdrawn unintentionally.

*Recommendation:* Policies should be established to require that bank accounts be reconciled by a certain date of the following month.

*Views of responsible officials:* All bank reconciliations are being done monthly by the end of the following month. Policies will be reviewed and established accordingly.

### 2013-002 - Reconciliation of payroll records to general ledger

*Condition:* Payroll records were not being reconciled to the general ledger.

*Criteria:* Internal controls should be in place to determine that the general ledger is reconciled to payroll and related records.

*Cause:* There were no known written policies to require such reconciliations on a timely basis.

*Effect:* The general ledger could end up not being supported by underlying records.

*Recommendation:* Policies should be established to require that the general ledger be reconciled to supporting payroll and related records on a timely basis, at least quarterly.

*Views of responsible officials:* All payroll will be reconciled quarterly as quarterly filings and reports are prepared.

### 2013-003 – Documentation of Journal Entries

*Condition:* Journal entries are not properly documented as to what their purpose is and approval by more than one person.

*Criteria:* Internal controls should require the specific purpose of a journal entry and be approved by a second person.

*Cause:* No standard procedures require such documentation.

*Effect:* Inaccurate and undocumented journal entries can be made.

*Recommendation:* Policies should be adopted requiring clear documentation of and approval of journal entries.

*Views or responsible officials:* All journal entries will include proper documentation and review by at least 2 staff.

### 2013-004 – Budget Documentation

*Condition:* The general ledger budget amounts did not agree with the original budget or budget amendments.

*Criteria:* Internal controls should be in effect that assure that budgets reported are accurate and approved.

*Cause:* There are no processes in place and no one person is responsible for verifying the accuracy of budget amounts in the general ledger.

*Effect:* Inaccurate and undocumented reporting.

*Recommendation:* Policies should be adopted establishing who is responsible for such matters and the procedures to verify that it is being properly implemented continually as amendments are made.

*Views or responsible officials:* Internal controls have been improved to record all approved budget amendments as documentation for all budget modifications. The Comptroller is responsible for ensuring no budget amendments are made without documentation of proper approvals.

## C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

**CITY OF URBANA**

Urbana, Illinois

**Summary Schedule of Prior Audit Findings**

For the Year ended June 30, 2013

**NONE**