

# **CITY OF URBANA, ILLINOIS**

REPORT ON FEDERAL AWARDS

For the Year Ended June 30, 2014

# CITY OF URBANA, ILLINOIS

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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*

Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council  
City of Urbana, Illinois

We have audited, in accordance with 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 Urbana, Illinois as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Urbana's basic financial statements and have issued our report thereon dated June 5, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Urbana'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 of Urbana's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Urbana'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 or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described 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. 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 certain deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. These material weaknesses are items 2014-001, 2014-002, 2014-003, and 2014-004. We consider other deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. These significant deficiencies are items 2014-005 and 2014-006.

Honorable Mayor and Members of the City Council  
City of Urbana

### **Compliance and Other Matters**

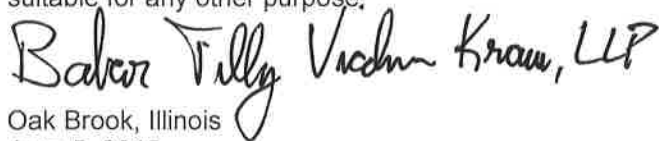
As part of obtaining reasonable assurance about whether the City of Urbana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

### **City of Urbana's Response to Findings**

The City of Urbana's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Urbana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.



Baker Tilly Victor Kraus, LLP

Oak Brook, Illinois  
June 5, 2015

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133

Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council  
City of Urbana, Illinois

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

We have audited the City of Urbana's 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 the City of Urbana's major federal program for the year ended June 30, 2014. The City of Urbana's major federal program is identified in the summary of auditors' 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the City of Urbana's major federal program 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'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 the major federal program. However, our audit does not provide a legal determination of the City of Urbana's compliance.

The Honorable Mayor and Members of the City Council  
City of Urbana, Illinois

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

In our opinion, the City of Urbana complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-007 and 2014-008. Our opinion on the major federal program is not modified with respect to these matters.

### **City of Urbana's Response to Findings**

The City of Urbana's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Urbana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Management of City of Urbana 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'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 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's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*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 a combination of deficiencies, in internal control over compliance such that there is 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-007 to be a material weakness.

The Honorable Mayor and Members of the City Council  
City of Urbana

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-008 to be a significant deficiency.

### **City of Urbana's Response to Findings**

The City of Urbana's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Urbana's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

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.

### ***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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Urbana, Illinois as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Urbana's basic financial statements. We issued our report thereon dated June 5, 2015, 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.

  
Oak Brook, Illinois  
July 17, 2015

**CITY OF URBANA, ILLINOIS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2014

Federal Grantor/Pass Through Grantor/Program or Cluster Title	CFDA Number	Grant Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development:</b>			
<i>Direct Funding:</i>			
Home Investment Partnership Program (M)	14.239	M-13-DC-17-0217	\$ 1,283,708
Community Development Block Grant	14.218	B-13-MC-17-0024	293,156
Supportive Housing Program	14.235	IL0037L5T031306	<u>189,203</u>
<i>Subtotal Direct Funding:</i>			1,766,067
<i>Passed through Illinois Department of Human Services:</i>			
Emergency Solutions Grant Program	14.231	3-272015	<u>36,458</u>
<b>Total U.S. Department of Housing and Urban Development:</b>			<u>1,802,525</u>
<b>U.S. Department of Transportation:</b>			
<i>Passed through Illinois Department of Transportation (IDOT):</i>			
<i>Highway Planning and Construction Cluster</i>			
Main Street Bike & Pedestrian Improvements	20.205	C-95-341-12	26,124
Main Street & Race Street Intersection Improvement	20.205	C-95-341-12	20,970
Goodwin Avenue & Green Street Intersection Improvement	20.205	C-95-303-13	16,930
Lincoln Avenue Location Study Grant	20.205	P-95-328-11	22,932
Safe Routes to Schools Grant - Urbana City Wide Bike Network	20.205	C-95-313-13/C-95-302-13	<u>27,277</u>
<i>Subtotal Highway Planning and Construction Cluster:</i>			<u>114,233</u>
<b>Total U.S. Department of Transportation:</b>			<u>114,233</u>
<b>U.S. Department of Homeland Security:</b>			
<i>Direct Funding:</i>			
Assistance to Firefighters Grant Equipment (Hose/Nozzle Replacement)	97.044	EMW2012-FO-03576	<u>46,218</u>
<b>U.S. Department of Justice:</b>			
<i>Direct Funding:</i>			
Bulletproof Vest Partnership Program	16.607	2013-BUBX-13069019	2,036
<i>Passed Through the City of Champaign, Illinois:</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-H4299-IL-DJ	<u>13,602</u>
<b>Total U.S. Department of Justice:</b>			<u>15,638</u>
<b>Total expenditures of federal awards:</b>			<u>\$ 1,978,614</u>

(M) Denotes major program.



# CITY OF URBANA, ILLINOIS

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2014

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### NOTE 1 – BASIS OF PRESENTATION

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The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal grant activity of the City of Urbana, Illinois under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, 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.

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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Expenditures reported on the schedule are reported on the modified 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 allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The underlying accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

## CITY OF URBANA, ILLINOIS

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2014

#### **NOTE 3 – SUBRECIPIENTS**

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

Grant Program / Subrecipient	CFDA Number	Amount
HOME Investment Partnership Program:	14.239	
City of Champaign, Illinois		\$ 156,086
Champaign County		134,309
Habitat for Humanity 1107 Hill & 1208.5 Dublin		70,000
Habitat for Humanity 1007 Berkley		37,910
Habitat for Humanity 810 E Park		35,000
Habitat for Humanity Operating		28,000
Courage Connection (formerly Center for Women in Transition)		45,000
Community Elements		32,000
Total HOME Investment Partnership Program:		<u>538,305</u>
Community Development Block Grant:	14.218	
Property Acquisition		58,148
Lanore Adams Fairlawn Multi-use Path		16,021
Public Services:		
Courage Connection		4,000
Roundhouse		1,000
Total Community Development Block Grant:		<u>79,169</u>
Supportive Housing Program:	14.235	
A Woman's Fund		56,835
Courage Connection		106,250
Total Supportive Housing Program:		<u>163,085</u>
Emergency Solutions Grant Program:	14.231	
Community Elements - TIMES Center		7,703
Crisis Nursery		3,894
Greater Community AIDS Project (GCAP)		1,287
The Salvation Army		15,254
Courage Connection		6,917
Total Emergency Solutions Grant Program:		<u>35,055</u>
	<b>TOTAL</b>	<b>\$ 815,614</b>

# CITY OF URBANA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2014

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### SECTION I – SUMMARY OF AUDITORS' RESULTS

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#### *FINANCIAL STATEMENTS*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

       yes        X   no

#### *FEDERAL AWARDS*

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

  X   yes             no

Auditee qualified as low-risk auditee?

       yes        X   no

Identification of major federal programs:

CFDA Number(s)  
14.239

Name of Federal Program or Cluster  
Home Investment Partnership Program

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

# CITY OF URBANA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 3014

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### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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#### **Finding No. 2014-001**

**Criteria:** The City does not maintain an external financial reporting department or function, but relies on its audit firm for this purpose, including the correction and review of the Schedule of Expenditures of Federal Awards.

**Condition:** The City has outsourced the preparation of the financial statements to the auditors due to lack of funds for training and the small size of the City's accounting department. This outsourced service includes a review of the Schedule of Expenditures of Federal Awards and the correction of errors identified in the original prepared document.

**Context:** The City relies heavily on their external auditor to draft the individual fund statements, make conversion entries, draft the government-wide statements, prepare note disclosures, and prepare the schedule of expenditures of federal awards.

**Effect:** The financial results of certain funds within the City's financial statements could be materially misstated.

**Recommendation:** We recommend the City consider providing increased training to accounting staff and, if budgetary constraints allow, hire sufficient staffing to prepare the financial statements. Given the economic situation of the City and most municipalities in Illinois, relying upon the auditors to prepare the financial statements with City accounting staff completing a review of the reports may be the most practical option in lieu of hiring additional staffing.

**Management's Response:** Current staffing levels are not adequate to prepare financial reports at the end of each year. However, additional training for accounting staff would be beneficial, and we will incorporate additional review to catch misstatements.

Additional funds will be allocated for training in the FY16 Finance Department budget by reallocating funds from other line items. The priority will be on additional training specific to government accounting, which is provided by the Government Finance Officers Association. The City will continue to rely on Baker Tilly to prepare the Comprehensive Annual Financial Report because of the significant effort involved in that work. It may be appropriate to review that decision in the future, when a new financial system has been implemented and processes have been streamlined.

# CITY OF URBANA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 3014

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### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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**Finding No.** 2014-002

**Criteria:** Material misstatements were identified in the financial statements for the year ended June 30, 2013 which required the financial statements to be restated.

**Condition:** The City does not have a function system of controls over external financial reporting.

**Context:** The absence of this control resulted in errors not being detected in the June 30, 2013 financial statements which resulted in restatements of certain material amounts.

**Effect:** The financial results of certain funds within the City's financial statements could be materially misstated.

**Recommendation:** We recommend the City consider providing increased training to accounting staff and, if budgetary constraints allow, hire sufficient staffing to prepare the financial statements. Given the economic situation of the City and most municipalities in Illinois, relying upon the auditors to prepare the financial statements with City accounting staff completing a review of the reports may be the most practical option in lieu of hiring additional staffing.

**Management's Response:** Numerous errors were identified and corrected during the course of the audit. Many of these errors were undetected in previous audits, which may have led staff to believe that these items were being handled appropriately. Staff now has a clear understanding of how to properly handle these situations.

In the future, staff will consult with Baker Tilly about the handling of any unusual transactions or situations, if there is any question about how to properly record those accounting transactions.

The City will continue to conduct a separate audit of Police and Fire Pension funds because it would not be prudent to accept the report provided by the auditor engaged by the pension funds when we know that receivables are not being reported consistent with current accounting standards.

# CITY OF URBANA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 3014

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### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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#### **Finding No.** 2014-003

**Criteria:** The City does not have proper segregation of duties around the payroll process.

**Condition:** The same individual is responsible for changing pay rates and benefits, updating time records for hourly employees, processing payroll, and printing, signing and distributing checks. Also, there is no review of payroll after it has been processed.

**Context:** The City currently does not have the staffing levels for these segregation of duties to exist.

**Effect:** The absence of these controls could result in errors to financial data or could allow the misappropriation of City assets to be concealed.

**Recommendation:** We recommend segregating responsibilities among multiple employees and limit access within the system such that segregated responsibilities could not be circumvented. Also, We recommend that the review of payroll be completed before distribution of checks, focus on rate changes and new employees, and compare to budget expectations. Evidence of the review should be documented through signature or initials.

**Management's Response:** Payroll will be reviewed by the Deputy Comptroller before checks are issued. This will include a review of all exceptions to budget and changes to pay rates. Finance staff will work with IT staff to develop a report that incorporates all relevant review items into one report to make this review less cumbersome.

Finance staff will review work assignments in accounting and will determine whether printing, signing, and distributing payroll checks can be assigned to another employee. Staff will also review security settings in the financial system and make changes to limit access to specific functions, consistent with appropriate segregation of duties.

# CITY OF URBANA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 3014

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### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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#### **Finding No. 2014-004**

**Criteria:** An effective internal control system should include robust review procedures and segregation of duties, specifically around journal entries and monthly bank reconciliations.

**Condition:** The City does not have review procedures around bank reconciliations. Also, multiple employees can prepare and post journal entries into the financial accounting system.

**Context:** Management is not reviewing bank reconciliations that are prepared by the accounting department. Concerning journal entries, the financial accounting system does not require secondary review prior to posting to the system. Also, journal entries are not consistently reviewed and/or documented before or after posting to the system.

**Effect:** The lack of review and segregation of duties present a significant risk that inappropriate activity may take place and be hidden through malfeasant journal entries or inaccurate bank reconciliations.

**Recommendation:** We recommend that all bank reconciliations, having been prepared by the City's accounting department, be reviewed by management. These reviews should be completed in a timely manner and documented through written signature or initials of the reviewer. We recommend that access to post journal entries be restricted to necessary employees only. If secondary review requirements cannot be implemented within the City's financial accounting software, we recommend that management (or another appropriate individual without access to post entries) review all manual journal entries before they are entered into the system. An additional review of journal entries after posting should be completed on a monthly basis. These reviews should be documented through written signature or initials of the reviewer.

**Management's Response:** Bank reconciliations are currently prepared by the Financial Analyst and reviewed by the Deputy Comptroller.

Staff will review procedures for posting journal entries in conjunction with a review of work assignments for accounting staff. Staff will also review security settings in the financial system. Secondary review of journal entries is not a feature of the current financial system. The Finance Director will review a printed report of all journal entries monthly, and the Finance Director will not have the ability to make or post journal entries.

# CITY OF URBANA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2014

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### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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#### **Finding No.** 2014-005

**Criteria:** The City does not have proper segregation of duties around the cash disbursement process.

**Condition:** The same individual is responsible for processing purchase orders, matching purchase orders to invoices, printing checks, stamping checks with signatures, and preparing the check mailing. Also, there was no periodic review of cash disbursement listings by management or the City Council.

**Context:** The City currently does not have the staffing levels for these segregation of duties to exist. Also while purchase orders/invoices are formally reviewed prior to checks being generated by management, effective internal controls over cash disbursements should include review procedures both before and after processing of invoices. The City does have other compensating controls in place to mitigate the risk. All purchase orders and invoices are required to be approved within the financial accounting system before checks can be generated. Any effort to generate checks without approval in the system would generate an error report and checks would not be created.

**Effect:** The absence of these controls could result in errors to financial data or could allow the misappropriation of City assets to be concealed.

**Recommendation:** We recommend segregating these responsibilities among multiple employees and limit access within the system such that the segregation of responsibilities could not be circumvented. Also, we recommend that the Council formally review cash disbursement listings, documented through inclusion in consent agendas.

**Management's Response:** All payment requests are reviewed by the Finance Director before payments are processed. Payments cannot be processed until the Finance Director has given electronic approval.

Staff will develop and provide to the City Council a monthly report of cash disbursements.

As part of review of work assignments for accounting staff, staff will consider whether printing, signing, and distributing checks can be assigned to another employee. Staff will also review security settings in the financial system and make changes to limit access to specific functions, consistent with appropriate segregation of duties.



# CITY OF URBANA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 3014

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### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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#### **Finding No.** 2014-006

**Criteria:** An effective internal control system should include controls over the City's information technology. These controls would provide the appropriate security for the City's financial information to prevent unauthorized access or data loss.

**Condition:** The City relies upon the expertise of a single employee to maintain the custom-built general ledger software. This individual has unlimited access to the system, including the ability to alter source coding and financial databases. Also, the City did not have sufficient controls in place over information technology such as a formal change management policy, periodic reviews of access rights to financial accounting systems, robust password policies, periodic restorations of backups, and a formal listing of employees with physical access to servers.

**Context:** The City's financial software is extremely modified for the City's specific purposes in a very complicated manner. Furthermore, the City does not have a formal change management policy, does not have a password policy are not up to best practices standards, does not review access to the financial accounting system, does not restore backups, and does not have a formalized list of employees with physical access to the servers.

**Effect:** With no other individuals at the City possessing the skills to maintain the general ledger system, the City would have no general ledger support if the individual were to cease employment. Also, not having an effective information technology control system, the City opens itself up to the risk of unauthorized access or data loss.

**Recommendation:** If possible, multiple individuals should be trained to maintain the general ledger software in case of emergency. We also recommend the ability to alter programming code and financial databases be completely restricted or heavily monitored. Also, the City should create an internal control structure that addresses the above control risks.

**Management's Response:** IT staff will review and consider a policy on change management. However, the benefits are reduced by the lack of documentation of the status quo. Ultimately, this concern may be best resolved by using a standardized financial management system, in which changes are controlled by an outside vendor. IT staff plans to implement complex password rules for the financial system and other applications on the Power7 computer.

IT staff has produced a list of access rights on financial and payroll systems. The Finance Director and IT Manager will review this list and make appropriate changes.

IT staff maintains a list of employees with physical access to the servers.

# CITY OF URBANA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2014

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### SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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<b>Finding No.</b>	2014-007
<b>CFDA No.</b>	14.239
<b>Program Title:</b>	Home Investment Partnership Program
<b>Federal Agency:</b>	U.S. Department of Housing and Urban Development
<b>Criteria:</b>	2014 OMB Compliance Supplement, Part 3 - Compliance Requirements, Section L. Reporting, Federal Funding Accountability and Transparency Act, "the following requirements: (1) recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds."
<b>Condition:</b>	The City did not report sub-award information to USAspending.gov although it received direct funding and disbursed over \$25,000 to subrecipients.
<b>Context:</b>	The City was not aware of this reporting requirement which is why subrecipient information was not submitted to USAspending.gov.
<b>Effect:</b>	The City could potentially lose funding due to noncompliance.
<b>Questioned Costs:</b>	N/A
<b>Recommendation:</b>	The City should create a timeline and controls for submitting subaward information to USAspending.gov after awarding funds to subrecipients.
<b>Management's Response:</b>	CD staff is now aware of the requirement to submit subrecipient information to USAspending.gov. CD staff will update their policy to make sure all reports are submitted in a timely manner as required.

# CITY OF URBANA, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2014

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### SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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<b>Finding No.</b>	2014-008
<b>CFDA No.</b>	14.239
<b>Program Title:</b>	Home Investment Partnership Program
<b>Federal Agency:</b>	U.S. Department of Housing and Urban Development
<b>Criteria:</b>	2014 OMB Compliance Supplement, Part 4 - Department of Housing and Urbana Development (HUD), Section N. Special Tests and Provisions, #2 - Drawdowns of HOME Funds, "Participating jurisdictions (or their authorized representatives) are required to have different staffs setting up projects and drawing down funds."
<b>Condition:</b>	The City does not have different employees setting up projects and drawing down funds.
<b>Context:</b>	The City has the same employee set up the HOME projects in IDIS and also prepare the HOME drawdowns within IDIS.
<b>Effect:</b>	As the Integrated Disbursement and Information System (IDIS) is used not only to collect information on compliance with program requirements but also disburse HOME funds, a single employee could submit erroneous compliance information in order to ensure they could still drawdown HOME funds.
<b>Questioned Costs:</b>	N/A
<b>Recommendation:</b>	The City should segregate the duties of setting up HOME projects in IDIS and preparing drawdown requests within IDIS. While the City currently has management reviewing the prepared drawdown requests before submission, there is no documentation of detailed review...
<b>Management's Response:</b>	Community Development Department is reorganizing Grant Division to make sure an appropriate level of segregation of duties is exercised. In the future, the CD Coordinator will set up HOME projects in IDIS and the Grants Compliance Specialist will prepare drawdown requests. Grants Manager will then review requests and make sure it is documented and finally Finance staff will reconcile and approve in IDIS.