

CITY OF URBANA, ILLINOIS

REPORT ON FEDERAL AWARDS

For the Year Ended June 30, 2017

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

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 Urbana, Illinois as of and for the year ended June 30, 2017, 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 December 20, 2017. The financial statements of the Urbana Free Library, the City of Urbana Police Pension Fund, and the City of Urbana Firefighters' Pension Fund were not audited in accordance with *Government Auditing Standards*.

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 opinion 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness.

Honorable Mayor and Members of the City Council
City of Urbana

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 as items 2017-002, 2017-003 and 2017-004 to be significant deficiencies.

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 Responses to Findings

The City of Urbana's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Urbana'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 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 Virchow Krause, LLP

Oak Brook, Illinois
December 20, 2017

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL EXPENDITURES REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for the Major Federal Program

We have audited the City of Urbana's compliance with the types of compliance requirements described in the *OMB 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

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 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 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.

Opinion on the 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, 2017.

Report on Internal Control Over Compliance

Management of the 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 of Urbana'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 a 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.

Honorable Mayor and Members of the City Council
City of Urbana

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 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 of Urbana, Illinois as of and for the year ended June 30, 2017, 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 December 20, 2017, 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 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.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
December 20, 2017

CITY OF URBANA, ILLINOIS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

Federal Grantor/Pass Through Grantor/Program or Cluster Title	CFDA Number	Grant Number	Federal Expenditures	Passed Through To Subrecipients
U.S. Department of Housing and Urban Development:				
<i>Direct Funding:</i>				
Home Investment Partnerships Program (M)				
Home Investment Partnerships Program	14.239	M-16-DC-17-0217	\$ 145,796	\$ 30,000
Home Investment Partnerships Program	14.239	M-15-DC-17-0217	97,963	97,963
Home Investment Partnerships Program	14.239	M-14-DC-17-0217	77,094	210
Home Investment Partnerships Program	14.239	M-13-DC-17-0217	<u>217,688</u>	<u>294,572</u>
Subtotal Home Investment Partnerships Program (M):			538,541	422,745
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants				
Community Development Block Grant	14.218	B-16-MC-17-0024	275,494	37,262
Community Development Block Grant	14.218	B-15-MC-17-0024	42,362	42,362
Community Development Block Grant	14.218	B-14-MC-17-0024	<u>54,017</u>	<u>54,017</u>
Subtotal CDBG - Entitlement Grants Cluster:			371,873	133,641
Supportive Housing Program	14.235	IL0037L5T031508	89,036	87,170
Subtotal Direct Funding:			999,450	643,556
<i>Passed through Illinois Department of Human Services:</i>				
Emergency Solutions Grant Program				
Emergency Solutions Grant Program	14.231	FCSVH03755	27,470	23,667
Emergency Solutions Grant Program	14.231	FCSUH03755	<u>3,080</u>	<u>3,080</u>
Subtotal Emergency Solutions Grant Program:			30,550	26,747
Total U.S. Department of Housing and Urban Development:			<u>1,030,000</u>	<u>670,303</u>
U.S. Department of Transportation:				
<i>Passed through Illinois Department of Transportation (IDOT):</i>				
Highway Planning and Construction Cluster				
Highway Planning and Construction				
Lincoln Avenue Location Study	20.205	R-95-310-15	<u>141,754</u>	-
Subtotal Highway Planning and Construction Cluster:			<u>141,754</u>	-
Total U.S. Department of Transportation:			<u>141,754</u>	-
U.S. Department of Justice:				
<i>Direct Funding:</i>				
Bulletproof Vest Partnership Program				
Bulletproof Vest Partnership Program	16.607	2015-BUBX-15079224	3,244	-
Bulletproof Vest Partnership Program	16.607	2016-BUBX-16084254	<u>756</u>	-
Subtotal Bulletproof Vest Partnership:			4,000	-
<i>Passed through City of Champaign:</i>				
Edward Bryne Memorial Justice Assistance Grant				
Edward Bryne Memorial Justice Assistance Grant	16.738	2015-H2782-IL-DJ	617	-
Edward Bryne Memorial Justice Assistance Grant	16.738	2016-H2728-IL-DJ	<u>5,374</u>	-
Subtotal Edward Bryne Memorial Justice Assistance Grant:			<u>5,991</u>	-
Total U.S. Department of Justice:			<u>9,991</u>	-
National Endowment for the Arts				
<i>Direct Funding:</i>				
Promotion of the Arts - Grants to Organizations and Individuals	45.024	16-4292-7101	<u>22,945</u>	-
Total expenditures of federal awards:			<u>\$ 1,204,690</u>	<u>\$ 670,303</u>

(M) Denotes major program.

CITY OF URBANA, ILLINOIS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of the City of Urbana, Illinois under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the 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). 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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual or modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. 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.

NOTE 3 – INDIRECT COST RATE

The City of Urbana has not elected to use the 10% de minimis indirect cost rate.

CITY OF URBANA, ILLINOIS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2017

NOTE 4 – 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		\$ 56,900
Champaign County		85,122
Habitat for Humanity		165,463
Courage Connection		6,036
Highland Green		76,884
Rosecrance		32,340
Total Home Investment Partnership Program		<u>422,745</u>
Community Development Block Grants:	14.218	
Property Acquisition/Demo		75,102
Senior Repair		6,948
Emergency/Access Grant		46,591
Consolidated Social Services		
Champaign County RPC		2,000
PACE		3,000
Total Community Development Block Grant		<u>133,641</u>
Supportive Housing Program	14.265	
Center for Women in Transition (AWP)		12,468
Center for Women in Transition (EF)		74,702
Total Continuum of Care Program		<u>87,170</u>
Emergency Solutions Grant Program:	14.231	
Crisis Nursery		6,240
Rosecrance		20,507
Total Emergency Solutions Grant Program		<u>26,747</u>
	TOTAL	\$ <u>670,303</u>

CITY OF URBANA, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2017

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: 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? yes X no
- > Significant deficiency (ies) identified? yes X 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 2 CFR 200.516(a) of the Uniform Guidance? yes X 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 Partnerships Program

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

CITY OF URBANA, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2017

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

Finding No. 2017-001 (reported in the prior year as finding 2016-001)

Criteria: The City does not maintain an external financial reporting department or function, but relies on its audit firm for this purpose.

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.

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

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. Professional Finance staff will continue to engage in professional development activities related to financial reporting during the course of the year. 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, 2017

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

Finding No. 2017-002 (reported in the prior year as finding 2016-002)

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. The City has implemented compensating review controls to partially mitigate the risks from lack of segregation of duties.

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.

Management's Response: *The Accounting Supervisor reviews payroll before checks are issued, paying specific attention to exceptions to budget, changes in pay rates, and revisions to department time entry. The Account Clerk assigned to prepare payroll does not have the ability to process the payroll and run checks. Access to those processes has been restricted to management staff, and this task is normally performed by the Accounting Supervisor.*

Additional controls related to changes in pay rates and benefits will be part of a new financial management system. Changes in pay rates and benefits are currently performed by the account clerk responsible for payroll. However, the new financial management system will include a human resources component, which will allow Human Resources staff to initiate those changes and electronically route them for approval. Upon final approval, they will become active, requiring no entry by the account clerk.

City staff prepares a quarterly financial report comparing budget to actual within 30 days of the end of each quarter. As part of preparation of the report, budget to actual information is reviewed for reasonableness and interfund transfers are updated. In addition, the report is distributed to the City Council for their review. Internal reports comparing budget to actual are produced on a weekly basis.

CITY OF URBANA, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2017

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

Finding No. 2017-003 (reported in the prior year as finding 2016-003)

Criteria: An effective internal control system should include segregation of duties around journal entries, including the restriction of access within the financial accounting software.

Condition: While journal entries are reviewed and approved by someone other than the original preparer, multiple employees at the City can prepare and post journal entries into the financial accounting system without the required review and approval.

Context: The financial accounting system does not have the capability to require secondary review prior to posting to the system.

Effect: The lack of access restrictions within the financial accounting software present a significant risk that inappropriate activity may take place and be hidden through malfeasant journal entries.

Recommendation: We recommend that access to post journal entries to the financial accounting software be restricted to necessary employees only.

Management's Response: *All journal entries are now reviewed by at least one manager, in addition to the person preparing the journal entry. There is no system control requiring secondary review prior to posting. However, that will be part of a new financial management system. At the end of each week, the Finance Director reviews and approves a listing of all journal entries processed during the week and follows up, if appropriate.*

The new financial management system will allow electronic routing of journal entries for approval, with posting permitted only after final approval.

CITY OF URBANA, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2017

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

Finding No. 2017-004 (reported in the prior year as finding 2016-005)

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, periodic restorations of backups, and all financially impacted applications should have a login which is unique and not shared.

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 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 has agreed to review and consider a policy on change management. However, benefits are reduced by the lack of documentation on the status quo. Ultimately, this concern will be addressed by using a standardized financial management system, in which changes are controlled by an outside vendor. Staff is in the process of implementing a new financial management system to replace the current custom-built system, and expects to go live with financials on that system on February 5, 2018, and payroll on April 1, 2018.*

IT staff has implemented complex password rules for the financial management system and other applications on the Power7 computer.

Review of access rights to the financial management system is complicated by the complicated nature of controls over access and has not been completed, although some adjustments have been made. The new financial system will provide a complete audit trail of all changes, which will be reviewed on a regular basis.

CITY OF URBANA, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 3017

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

A secondary machine has been readied as a backup for the Power7 computer. The backup process has been automated and the fail-over process has been tested. The secondary machine has been moved off site so that conditions, such as a sustained power outage or natural disaster, affecting the current machine will be unlikely to affect the secondary machine. The new financial system is hosted at an out of State location and will automatically fall over to a backup location in the event of an outage at the primary site.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

NONE

CITY OF URBANA, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 3017

SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

<u>Finding Number</u>	<u>Condition</u>	<u>Current Status</u>
2016-001	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.	The City continues to rely on Baker Tilly to prepare the Comprehensive Annual Financial Report.
2016-002	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. The City has implemented compensating review control to partially mitigate the risks from lack of segregation of duties.	The City modified controls by having different employees printing & distributing checks.
2016-003	Multiple employees at the City can prepare and post journal entries into the financial accounting system.	The ability to prepare and post journal entries within the financial accounting system without the required review and approval still exists at the City. All journal entries are reviewed by the Finance Director at the end of each week, and she signs off on a list.
2016-004	There are four individuals in the Finance Department who have access to a user ID profile for the financial accounting system specifically created and used to generate checks. This profile has unrestricted access to the processing of payment requests and running checks.	During the year, the City restricted the user ID profile to only be able to approve payment requests. The user ID profile can no longer create a purchase order or process checks.
2016-005	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.	The City made no changes during the fiscal year due to the fact that the City will be implementing new general ledger software during 2018.



**CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT**

**CORRECTIVE ACTION PLANS
For the Year Ended June 30, 2017**

Finding No.: 2017-001

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.

Plan:

Current staffing levels are not adequate to prepare financial reports at the end of each year. Professional Finance staff will continue to engage in professional development activities related to financial reporting during the course of the year. 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.

Name of Contact Person: City of Urbana Finance Director



CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT

CORRECTIVE ACTION PLANS
For the Year Ended June 30, 2017

Finding No.: 2017-002

Condition:

The same individual is responsible for changing pay rates and benefits, updating time records for hourly employees, and processing payroll. The City has implemented compensating review controls to partially mitigate the risks from lack of segregation of duties.

Plan:

The Accounting Supervisor reviews payroll before checks are issued, paying specific attention to exceptions to budget, changes in pay rates, and revisions to department time entry. The Account Clerk assigned to prepare payroll does not have the ability to process the payroll and run checks. Access to those processes has been restricted to management staff, and this task is normally performed by the Accounting Supervisor.

Additional controls related to changes in pay rates and benefits will be part of a new financial management system. Changes in pay rates and benefits are currently performed by the account clerk responsible for payroll. However, the new financial management system will include a human resources component, which will allow Human Resources staff to initiate those changes and electronically route them for approval. Upon final approval, they will become active, requiring no entry by the account clerk.

City staff prepares a quarterly financial report comparing budget to actual within 30 days of the end of each quarter. As part of preparation of the report, budget to actual information is reviewed for reasonableness and interfund transfers are updated. In addition, the report is distributed to the City Council for their review. Internal reports comparing budget to actual are produced on a weekly basis.

Name of Contact Person: City of Urbana Finance Director



CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT

CORRECTIVE ACTION PLANS
For the Year Ended June 30, 2017

Finding No.: 2017-003

Condition:

While journal entries are reviewed and approved by someone other than the original preparer, multiple employees at the City can prepare and post journal entries into the financial accounting system without the required review and approval.

Plan:

All journal entries are now reviewed by at least one manager, in addition to the person preparing the journal entry. There is no system control requiring secondary review prior to posting. However, that will be part of a new financial management system. At the end of each week, the Finance Director reviews and approves a listing of all journal entries processed during the week and follows up, if appropriate.

The new financial management system will allow electronic routing of journal entries for approval, with posting permitted only after final approval.

Name of Contact Person: City of Urbana Finance Director



**CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT**

**CORRECTIVE ACTION PLANS
For the Year Ended June 30, 2017**

Finding No.: 2017-004

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, periodic restorations of backups, and all financially impacted applications should have a login which is unique and not shared.

Plan:

IT staff has agreed to review and consider a policy on change management. However, benefits are reduced by the lack of documentation on the status quo. Ultimately, this concern will be addressed by using a standardized financial management system, in which changes are controlled by an outside vendor. Staff is in the process of implementing a new financial management system to replace the current custom-built system, and expects to go live with financials on that system on February 5, 2018, and payroll on April 1, 2018.

IT staff has implemented complex password rules for the financial management system and other applications on the Power7 computer.

Review of access rights to the financial management system is complicated by the complicated nature of controls over access and has not been completed, although some adjustments have been made. The new financial system will provide a complete audit trail of all changes, which will be reviewed on a regular basis.

A secondary machine has been readied as a backup for the Power7 computer. The backup process has been automated and the fail-over process has been tested. The secondary machine has been moved off site so that conditions, such as a sustained power outage or natural disaster, affecting the current machine will be unlikely to affect the secondary machine. The new financial system is hosted at an out of State location and will automatically fall over to a backup location in the event of an outage at the primary site.

Name of Contact Person: City of Urbana Finance Director