

DuPage County, Illinois

Management Letter

**For the Year Ended
November 30, 2006**

Wolf & Company LLP
Certified Public Accountants

DUPAGE COUNTY, ILLINOIS

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The Honorable Chairman and the
Members of the County Board
DuPage County, Illinois

In planning and performing our audit of the basic financial statements of DUPAGE COUNTY, ILLINOIS for the year ended November 30, 2006, we considered the County's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

The funds and operations of the DuPage County Health Department, included within the County's financial statements, were audited by us under a separate engagement. A separate Management Letter has been furnished to the governing body of the Health Department, and thus not included herein.

During our audit we became aware of various matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated May 18, 2007, on the financial statements of DuPage County, Illinois.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Wolf & Company LLP

Oak Brook, Illinois
May 18, 2007

CLERK OF THE CIRCUIT COURT

Computer Operations -

The Circuit Court Clerk should address the following areas regarding its computer operations:

- Currently, a formal written contingency plan has not been implemented for continued operations in the event of a major disaster impacting clerical and computer activities. The need for such a plan is recognized. The Circuit Court Clerk has made significant progress in developing a contingency plan but has not yet finalized, approved, and tested the plan. Management anticipates completion of the plan in 2007.

We recommend, as we have in the past, that the Circuit Clerk expedite the completion and implementation of a practical plan which includes the following major elements:

- ♦ List of key individuals in the recovery process
- ♦ Identification of critical applications
- ♦ Technical requirements to replicate operations
- ♦ Emergency operational and administrative procedures
- ♦ Potential alternative backup/recovery sites
- ♦ Backup/recovery procedures and individual duties
- ♦ Contractual commitments for backup site
- ♦ Action plan to test elements of the contingency plan

In addition, the Circuit Court should conduct a comprehensive test of the contingency plan, document the test results, and revise the plan as necessary.

- The Circuit Clerk's current security practices and policy are sound based on the general controls review in this audit. However, many security issues can only be identified through a more detailed review of network and firewall configuration and settings, security software configuration, and actual user practices. We recommend, based on the increased external access due to new application development, that the Circuit Clerk retain a qualified independent security professional or firm to conduct regular (at least annual) technical security audits, including internal and external intrusion testing. This audit will provide additional assurance and will allow the Circuit Clerk to evolve security practices as technology and related factors change.

Liability Reconciliation -

The Clerk of the Circuit Court, which collects fees in criminal traffic cases, does not perform monthly reconciliations from the detailed liability documentation to the amount of cash available to be disbursed at month end for the Criminal Traffic account fund.

Failure to properly perform monthly reconciliations to the cash balance may result in insufficient funds to cover the liability.

We recommend, as we have in the past, that the Clerk of the Circuit Court perform monthly reconciliations from the detailed liability documentation to the amount of cash available.

COMMUNITY SERVICES

Seniors Grant --

During our examination of participant files, it was noted that several participants needed reassessments that were overdue, either from a change in status or an annual reassessment. Management has represented that a system is in place to identify reassessments scheduled; however, personnel shortages have resulted in delays in performing the reassessments.

We recommend that a system be implemented to better track participants who are in need of an annual reassessment, as well as, to track participants who are placed on hold and are nearing the 90 day threshold. Implementation of such a system would expedite this process and eliminate participants who may not be in need of services any longer.

CONVALESCENT CENTER

Segregation of Duties --

We noted that there is limited staffing for certain functions in the business office of the Convalescent Center. This has a direct impact on the allocation and segregation of duties in relation to internal controls over cash receipts and accounts receivable. One individual opens the mail, sorts the payments by payer, applies payments to receivables, and can make adjustments to receivables.

The basic premise for good internal control is that no one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. Therefore, we recommend that management consider restructuring responsibilities to allow for compliance with this control.

Adjustments to Receivables --

During our discussions with personnel, we became aware that adjustments to receivables are approved by the Center's controller on the actual supporting documentation without use of a standard credit memo form. In addition, the controller reviews a monthly period detail report (bad debt report) but does not print and initial a copy of this report. There is no evidence this review was performed.

We recommend that the business office consider using a pre-numbered standard form (along with the supporting documentation) for approval of adjustments or "write-off" of accounts receivable. At the end of each month, these forms should be compared by the controller to the monthly period detail report to insure that no additional unapproved transactions have taken place. The report should be printed and initialed to indicate a review has occurred as part of each month's closing process.

Control over Cash Receipts --

Certain types of collections are direct deposits to the County accounts. The remaining collections are usually received via mail at the Convalescent Center. Mail is delivered in a post office container at the reception desk and held until picked up by an individual from the business office. This individual sorts the mail for all departments and then opens the finance department's mail. Payments that have been received are sorted by payer and then put in an expandable folder and placed in the safe. At least three people know the combination to the safe. Twice a week this folder is removed by another individual who prepares the Treasurer's report. The cash receipts are not entered into the system until the Treasurer's report is prepared. Due to lack of staffing, there are limited personnel who can enter the different types of cash receipts.

CONVALESCENT CENTER (CONT.)

Control over Cash Receipts (cont.) –

We recommend that an individual independent of the accounts receivable bookkeeping function open the mail and immediately prepare a list of payments received. We also recommend that any payments listed are compared to the Treasurer's report and cash that is applied to general ledger accounts. In addition, the current process allows for unrecorded cash receipts to be accessed by at least three people which increases the risk of misappropriation. Cross-training of personnel so that the functions of every job are performed when personnel are on vacation is another internal control that should be considered.

Reconciliation of Pharmacy/Health Department Receivables –

The Convalescent Center supplies various Health Department satellite locations with pharmaceutical supplies. Billed amounts to be recorded are supplied by the pharmacy to the business office to record as a receivable. In the past, the Health Department sent payments to the business office which did not include remittance detail for the payments. The business office would subsequently apply the payment to the oldest receivable if they could not identify where to apply the payment. Currently, the business office has changed its procedure and appropriately contacts the Health Department if support is not received for the payment in order to apply cash to the correct billed amount. If the Health Department is unable to collect on certain accounts, a re-bill to public aid is prepared by the pharmacy. There is no reconciliation performed for these amounts with the outstanding Health Department receivable.

We recommend that the process of re-billing is coordinated with the business office so that receivables do not become overstated. We also recommend an analysis of balances already included in the account.

ECONOMIC DEVELOPMENT & PLANNING DEPARTMENT

Environmental Education Issues Fund –

The Environmental Education Issues Fund had no expenditures during the past three fiscal years ended November 30, 2006, 2005 and 2004. This fund was created to account for expenditures relating to the education of governments and individuals concerning important issues about the physical environment of DuPage County. The fund balance in this fund at November 30, 2006 was \$11,486.

We recommend that the County Board assess the status of this fund and determine how these funds may be expended in future years. A budget for the expenditure of this balance was approved for fiscal 2007.

FINANCE

Reimbursement Requests –

The Finance Department submits reimbursement requests to the Illinois Department of Health and Human Services for the Title-IV D program that is contracted with Robert F. Lyons and Associates. Requests for this reimbursement for a large portion of the 2006 fiscal year were not submitted until February 2007.

Timely and more frequent requests for reimbursement would increase availability of funds for expenditures or investment purposes. Therefore, we recommend that reimbursements be submitted no less frequently than on a quarterly basis, as with most grant reimbursement requests.

MIS DEPARTMENT

Contingency Planning –

The County's disaster recovery policy of constructing shell sites is based on an adverse cost/benefit of establishing a full off-site disaster recovery facility. While this policy was a sound economic option in the past, we recommend that the County formally review this policy and develop a comprehensive disaster recovery/business continuity plan based on a business impact analysis, as recommend in the Information Technology Assessment and Strategic Plan Report. This review should be conducted tri-annually or when significant changes to computer systems are implemented.

OFFICE OF EMERGENCY MANAGEMENT

Grant Reporting –

The Federal Emergency Management Assistance funds received by the County during the year are based upon an agreed-upon contract and quarterly reports that are submitted to the federal agency. During the past couple of years, due to an annual charge on the final report, fourth quarter expenditures have exceed the maximum amount allowable per quarter and therefore, not all eligible expenditures have been reimbursed.

We recommend that the annual charge being presented in the fourth quarter be divided among all four quarters to maximize the amount of reimbursement the County receives.

PUBLIC WORKS

Itasca Special Service Area #1 Debt Service –

The Itasca Special Service Area #1 Debt Service Fund #78-231 fund was created to account for accumulations of resources for, and the payment of, principal, interest and related costs for Special Service Area Bonds used to finance sewer projects. The fund made its final principal and interest payments during the 2005 fiscal year. The fund has a remaining fund balance of \$2,969 as of November 30, 2006.

We recommend that the County Board assess the status of this fund and determine the disposition of the balance.

RECORDER'S OFFICE

Cash Receipts Procedures –

The following weaknesses were noted in the cash receipts procedures:

- Cash, credit card, and check payments are received by any of the 13 employees that work in the front of the office, but if not available, anyone in the Recorder's Office can accept payments. This function is performed by specified employees under the direction of the Front Desk Supervisor and recorded in the office's receipting program.
- Payments received are kept in a cash drawer during the day which any of the employees have access to and then are locked in a file cabinet overnight. Cash drawers are reconciled daily.
- The supervisor of bookkeeping prepares the deposit slip after reconciling to the receipting system and takes the deposit to the bank. We have been notified that prospectively, deposits will be made by the Deputy Recorder or Chief Deputy Recorder.

RECORDER'S OFFICE (CONT.)

Cash Receipts Procedures (cont.) –

We recommend that payments received in the Recorder's Office should be handled by only a limited number of employees. The number of employees available to receive receipts should be enough to cover for others during absent times (i.e. during lunch, breaks, illness, or vacations). When payments are received, they should be kept in a lock box at all times. Only a limited number of employees should have a key for the lock box. A fireproof safe should be obtained to keep cash receipts in overnight. We also recommend that the person who prepares the bank deposit be an individual who has no access to the accounting ledgers. The receiving, depositing, and recording of cash receipts should be performed by separate individuals to provide effective internal controls and reduce the risk of errors or fraud.

SHERIFF'S DEPARTMENT

Inmate Account –

Money collected from incoming inmates is deposited to a checking account, held in trust for the inmate to be used for commissary purchases or similar uses. We noted that at the time of our fieldwork, recordkeeping was performed manually, and reconciliations of individual accounts to the bank balances were incomplete. We also noted that certain individuals were responsible for both initiating cash transactions and performing recordkeeping and reconciliations.

We understand that, subsequent to our fieldwork, the Sheriff has implemented a new prison software – "Offender Track." This software will integrate with a new accounting software to provide tracking of all cash transactions, including reconciliation to the bank account.

We recommend that management continue to be mindful of its responsibility to safeguard money held for others, and maintain controls, including segregation of duties, to ensure accurate accounting.

STATE'S ATTORNEY

Segregation of Duties –

Subsequent to fiscal year 2005, it was discovered by the County Auditor that an employee was conducting fraudulent activity with restitution monies held by the office as agent for victims of crimes. The matter was handled in quick fashion and the employee prosecuted accordingly. Although specific procedures had been developed and documented to prevent such an occurrence, it appears that those procedures were not followed completely. These stated procedures include approval of all disbursements and subsequent reviews of bank statements and canceled checks by personnel not involved with the initiation of such transactions.

We recommend that a continuing review of internal controls be a priority of the State's Attorney office. We also recommend that all County departments consider fully procedures to mitigate risks involved with limited segregation of duties in similar types of transactions.

Welfare Fraud Forfeiture Fund –

The Welfare Fraud Forfeiture Fund (#101-421) had no expenditures during the five previous fiscal years. This fund was created to account for the receipt and expenditure of monies recovered by the State and distributed to the County which are to be used solely in enforcement matters relating to the detection, investigation or prosecution of recipient fraud or vendor fraud. The fund balance in this fund at November 30, 2006 was \$66,204. A budget for the expenditure of this balance was approved for fiscal 2007.

STATE'S ATTORNEY (CONT.)

Welfare Fraud Forfeiture Fund (cont.) –

We recommend that the State's Attorney assess the status of this fund and determine how these funds may be expended in future years.

TREASURER'S DEPARTMENT

Contingency Planning –

The Treasurer's Office has a long-standing relationship with its technology vendor, Comtek, to provide an alternate processing site and associated resources to ensure continued operations during a contingency. Comtek conducted a test at the alternate site during 2005, but the Treasurer's Office did not participate. In addition, the Treasurer's Office has not produced an updated written document for the contingency plan.

We recommend that the Treasurer's Office develop a formal contingency plan document outlining the policies and procedures for operating under a contingency, including staff roles and responsibilities, technical resource requirements, application program restoration and priorities, and a formal agreement with Comtek for performance during alternate site operation. In addition, we recommend that the Treasurer's Office conduct a comprehensive contingency plan test with the vendor to verify the plan and document the test results. This test should verify the operation of all critical functions and document the results in writing. The test should be conducted annually until all major systems undergoing conversion have been included in a test. Thereafter, the plan can be tested when major changes are made to the hardware or software environment.

Technical Security Audit –

The Treasurer's current security practices and policy are sound based on the general controls review in the 2005 audit. However, the use of external connections is increasing and many security issues can only be identified through a more detailed review of network and firewall configuration and settings, security software configuration, and actual user practices. We recommend that the Treasurer's network be included in the security audit and intrusion testing recommended for the County's Information Technology network.

These two comments above were derived from our procedures in the November 30, 2005 audit.

GENERAL COMMENTS FOR THE BOARD'S CONSIDERATION

Checking/Demand Deposit Accounts –

The County does not possess a listing of all checking accounts maintained by departments and elected officials outside of the Treasurer's Office.

Failure to maintain a complete list of checking accounts may lead to funds being set up in various departments unbeknownst to the Treasurer's Department and Finance Department. Notification and control of all checking accounts would allow the County to ensure the accounts are established properly and presented fairly in the Comprehensive Annual Financial Report.

We recommend, as we have in the past, that the County Board establish a policy that the Treasurer's Department and Finance Department be notified when a new checking account is opened. We also recommend that each department establish and communicate a listing of all checking accounts already maintained for the various operations.

GENERAL COMMENTS FOR THE BOARD'S CONSIDERATION (CONT.)

Checking Account Deposits –

It was noted during our audit, that cash collected by departments during certain busy periods may be held in the department/office safe for a lengthy amount of time; one instance was noted to be for a period in excess of two months.

As a result, not only is there risk of loss from theft, misplacement, or misappropriation, but the cash is not available for expenditures or investment.

We recommend that the County Board establish a policy that departments make routine deposits of cash collected on a timely basis, no less than once per week.

Convalescent Center –

During the fiscal year ended November 30, 2006, the County's Convalescent Center was again unable to reimburse the County for various direct and indirect costs. These direct costs include capital improvements and insurance charges. Indirect costs are allocated to the Center under the County's cost allocation plan. Capital improvements in excess of grants and other sources have also been funded by the County. The Convalescent Center receives its revenues from patient fees, whether private pay or paid through Public Aid or Medicaid, which should be sufficient to pay the expenses of operating the Center. However, these revenues were less than the operating costs, and County Management practice has been to support the operations by absorbing various costs in the General and other funds. The actual costs billed to the Center have been reported within their financial statements, while contributions have been credited with the forgiven balances.

As an Enterprise operation, the Convalescent Center should receive revenues which are sufficient to pay for its operations, including both current and capital costs. We recommend that Management continue to monitor the key financial indicators of the Center.

Employee Life/Health Insurance Fund –

Net assets in this fund have decreased from \$5,426,525 at November 30, 1997 to \$(660,791) for the year ended November 30, 2006. The net loss for fiscal 2006 was \$132,080. Revenues are generated by charges to County funds and departments, and withholdings from employees. This has been established as a County decision to keep charges to employees and departments consistent, while using reserves built up in previous years. However, the reserves have now been reduced to a level where this strategy should be reassessed in 2007.

We recommend, as we have in the past, that the County continue to assess the current contribution rate each fund and department is paying for insurance costs, along with the costs paid by the County employees.

Illinois Municipal Retirement Fund –

The Illinois Municipal Retirement Fund (IMRF) provides retirement benefits for County employees. In previous years, a separate real estate tax levy had provided sufficient monies to pay contributions. Because of an overfunded position in the County's accounts in 1999, the contributions were reduced to the minimum, and the tax levy reduced accordingly. However, in 2002, the required contributions were returned to normal funding rates. The regular member rate for 2006 was 10.35 percent of payroll.

For fiscal 2006 the IMRF received a transfer of \$7,100,000 from the General Fund, and thus ended with a fund balance of \$466,939.

GENERAL COMMENTS FOR THE BOARD'S CONSIDERATION (CONT.)

Illinois Municipal Retirement Fund (cont.) –

We recommend that the County continue to evaluate funding requirements for the IMRF, including levying of a property tax sufficient to pay the future rising cost related to this fund. The average annual expenditure (net of reimbursements from other funds) over the previous two years was \$11,946,043. A 2006 IMRF tax levy, in the amount of \$5.1 million, was approved by the Board.

Social Security Fund

The Social Security Fund also provides retirement benefits for County employees. For fiscal 2006, expenditures (net of reimbursements from other funds) exceeded revenues by \$3,825,355, resulting in a net fund balance of \$2,129,414. The 2006 property tax levy for this fund is similar to the 2005 levy, thus the fund may be requiring additional resources in fiscal 2007.

We recommend that the County continue to evaluate funding requirements for Social Security.