DUPAGE COUNTY, ILLINOIS

Wheaton, Illinois

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended November 30, 2016

DUPAGE COUNTY, ILLINOIS

TABLE OF CONTENTS

REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE

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

In planning and performing our audit of the financial statements of DuPage County, Illinois as of and for the year ended November 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

A separate Report on Internal Control was issued to the DuPage County Health Department, the Water and Sewerage System of DuPage County, the DuPage Clerk of the Circuit Courts, and the Emergency Telephone System Board of DuPage County. The information contained in those reports is not included with this report.

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 discussed below, 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 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 following deficiency in the DuPage County's internal control to be a material weakness:

- > County Board – Convalescent Center
  - External Financial Reporting

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 following deficiency in DuPage County's internal control to be a significant deficiency:

- > County Board - Finance
  - Manual Journal Entries
  - Non-Treasurer Held Bank Accounts
- > County Board – Convalescent Center
  - Patient Billing

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

The management of DuPage County's written responses to the material weakness and the significant deficiencies identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the County Board, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
May 26, 2017

MATERIAL WEAKNESS – COUNTY BOARD – CONVALESCENT CENTER

External Financial Reporting

In the prior year, audit procedures revealed that the Convalescent Center Fund was improperly presenting long-term liabilities and unavailable revenue on the modified accrual fund financial statements. Adjustments were recorded in the prior year to properly reflect the modified accrual basis of accounting and a material weakness in external financial reporting was reported. During our audit procedures in the current year, it was determined that unavailable revenue was properly recorded as a deferred inflow of resources but the long-term liabilities were included on the modified accrual fund financial statements. Audit adjustments were made to remove the long-term liabilities from the fund financial statements. These adjustments indicate a material weakness in the financial reporting system. We recommend the Convalescent Center incorporate additional internal controls over financial reporting to appropriately report the activities on the modified accrual basis of accounting.

Management Response:

In the past, the Convalescent Center's internal financial statements have always been prepared on a full accrual basis due to State reporting requirements, and have been converted to modified accrual during the audit process. The County is aware of the necessary adjustments to convert internal statements from accrual to modified accrual accounting. A complete review by both the Convalescent Center financial services manager and the Finance Department will be performed to ensure the internal financial statements are prepared on the modified accrual basis of accounting.

SIGNIFICANT DEFICIENCY – COUNTY BOARD – FINANCE

Manual Journal Entries

An effective internal control system should include robust review procedures and segregation of duties throughout significant transaction cycles, including month-end close processes. In particular, controls around journal entries are vital to the integrity of a strong control environment. We've noted the following deficiency in the month-end close processes.

- The Finance Department and the County Treasurer utilize a form that requires the preparer, reviewer, and releaser to be three separate staff. However, the system does not require secondary review prior to posting to the general ledger which allows the County to circumvent the use of the form. Ideally, the system would require approval of all journal entries prior to posting by an individual who did not enter the journal entry into the system.

  This deficiency was reported to the County in the prior year which resulted in the County implementing procedures where an employee outside of the journal entry process performs a monthly completeness check to ensure that all manual journal entries entered into the general ledger are accompanied by a completed form. This completeness check was documented through initials of the reviewer and was retroactively implemented to encompass the entire fiscal year.

  It was also noted in the prior year that two of the journal entries selected for testing did not contain supporting documentation or a memo documenting the reasoning for the entry. After this was reported to the County, additional controls were implemented to ensure supporting documentation was maintained with each journal entry. During our current year testing, one of the forty selected journal entries did not contain supporting documentation or a memo documenting the reasoning for the entry. This journal entry was posted prior to the County receiving our comment in the prior year.

SIGNIFICANT DEFICIENCY – COUNTY BOARD – FINANCE (cont'd)

This comment was classified as a material weakness in the prior year, but based upon the implemented internal controls during the year, this comment has been classified as a significant deficiency in the current year.

Management Response:

As noted in the paragraph above, stronger internal controls over the manual journal entry process were enacted during Fiscal Year 2016 with appropriate documentation accompanying all manual journal entries.

SIGNIFICANT DEFICIENCY – COUNTY BOARD - FINANCE

Non-Treasurer Held Bank Accounts

As reported in the prior year, a properly and effectively designed system of internal control should encompass all operational activity of the County. This includes decentralized transactional activity and bank accounts maintained by the various departments and offices of the County other than the County Treasurer.

We noted that several departments and offices utilize bank accounts that are not reported in the County's general ledger software throughout the year. In the prior year, entries by the Finance Department and audit entries were necessary to properly record these accounts into the general ledger. In the current year, the Finance Department provided the appropriate entries and audit entries were not necessary. These "off-book" accounts consisted of governmental fund accounts and agency accounts in which the County held fiduciary responsibility for monies required to be distributed to other entities.

While some departments and offices maintain their own systems of internal controls, the maintenance of accounts outside the County's internal control procedures ensures that the accounts and related activity do not go through the County's centralized review and approval procedures. Specifically, the County's multi-office monthly review of bank reconciliations, and review and approval process over disbursements.

By operating outside the auspices of the County's primary system of internal controls, there is a risk that the County's financial statements would exclude transactional activity and existing bank account balances without the knowledge of management or the County Board. Additionally, errors or fraud could occur in these accounts without being discovered that would have otherwise been identified within the primary control procedures.

We recommend that all bank accounts opened in the name of the County or department/office of the County be maintained and operated through the County's general ledger software. Transactions related to these accounts should also be recorded in the general ledger on a timely basis. If it is not feasible for transactional activity to be processed through the County's primary control procedures, each department and office maintaining "off-book" accounts should document and implement internal control procedures to ensure that bank reconciliations are prepared on a monthly basis and reviewed by someone other than the preparer and disbursements from the accounts be reviewed and approved before the transaction takes place.

SIGNIFICANT DEFICIENCY – COUNTY BOARD – FINANCE (cont'd)

Management Response:

As previously stated, management agrees with Baker Tilly's recommendation, and will continue to strongly encourage all offices that have separate cash accounts to bring those accounts "on-line", when appropriate, by processing transactions through the County's general ledger system on a timely basis and to be subject to the County's internal control procedures. Management understands that due to the nature of some of these accounts, they will not be brought "on-line". Until such appropriate accounts are brought "on-line", management will strongly encourage all offices having such accounts to adhere to internal control procedures that include the following requirements: for bank reconciliations to be prepared on a monthly basis, for reconciliations and disbursements to be reviewed and approved by a second party, and for reconciliations and transaction reports to be submitted to the Finance Department on a quarterly basis for review. Although we recognize that elected officials are not required to comply with these requirements, we encourage them to do so in order to achieve the highest standard in internal control. The Finance Department will continue to work with the County Treasurer to advocate for the above changes.

SIGNIFICANT DEFICIENCY – COUNTY BOARD – CONVALESCENT CENTER

Patient Billing

As reported in the prior year, the Convalescent Center receives delayed information regarding when patients are admitted into Medicare and could receive information after the County's financial statements have been issued. As such, it is necessary for the Convalescent Center to prepare retroactive billings once information regarding Medicare patients is received. Currently, the Convalescent Center is behind in preparing the retroactive billings which results in this comment being repeated. The result of these occurrences is:

> Before patients are admitted into Medicaid they are billed as private pay residents which is at a higher rate than Medicare patients and

> When reimbursements are received from Medicaid, the Medicaid receivable account is reduced for the payment. If the payment is received prior to the retroactive billing adjustment, the bill is still included in the Private Pay receivable account. At year end, this resulted in the Medicaid receivable account having a negative balance offset by a Private Pay receivable balance that was overstated.

In the prior year, we noted that the Financial Services Manager prepares the journal entry to adjust the general ledger account balances to agree to the Convalescent Center's patient billing software. While we did not note and discrepancies during our review of the entry, we recommend the entry be reviewed by someone other than the original preparer to ensure its accuracy. In the current year, the entry was reviewed by someone other than the original preparer.

Management Response:

The Convalescent Center has trained an additional two employees to prepare the proper retroactive billings as necessary. This change in procedure has been implemented since June 2016 to more timely account for the retroactive billings.

All journal entries currently prepared and submitted by the Convalescent Center's Financial Services Manager are released and posted by the County's Finance Department after review and sign-off by Finance Department personnel.

PRIOR YEAR COMMENT – COUNTY BOARD - FINANCE

External Financial Reporting

Properly designed systems of internal control provide your organization with the ability to process and record accurate monthly and year-end transactions and annual financial reports.

Our audit includes a review and evaluation of the internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

> There is adequate staffing to prepare financial reports throughout the year and at year-end.

> Material misstatements are identified and corrected during the normal course of duties.

> Complete and accurate financial statements, including footnotes, are prepared.

> Financial reports are independently reviewed for completeness and accuracy.

Our evaluation of the internal controls over financial reporting has identified control deficiencies that are considered material weakness surrounding the preparation of financial statements and footnotes and adjusting journal entries identified by the auditors. Management has not prepared financial statements that are in conformity with generally accepted accounting principles. In addition, material misstatements in the general ledger were identified during the financial audit.

Attaining this high level of internal control over financial reporting is a difficult task for most governments. The County does not maintain an external financial reporting department or function, but relies on its audit firm for this purpose.

Our audit procedures in the current year identified material journal entries to:

> Properly present the Liability Insurance Fund as a special revenue fund. The fund had been reported as an internal service fund in prior years.

> Reclass transactions relating to the current year refunding bonds from other financing uses to principal and interest expenditures to reflect the transactions as a current refunding.

> Reclass benefit expenditures to functional categories as they are direct expenditures of employees charged to those functions.

> Reclass employee and employer share of premium revenue of the Employee Life/Health Insurance Fund.

> Record an additional month's receivable and unavailable revenue related to County Motor Fuel Tax Revenue to property reflect when the revenue is earned by the County.

These entries, other entries noted later on in this document, and other immaterial entries detected by our audit procedures have been corrected by management and reflected in the County's fiscal year 2015 financial statements.

Additionally, the County discovered that material donated capital assets were improperly excluded from the County's capital asset records in prior years. While the County discovered these excluded assets and the County has restated net position as of November 30, 2014 to correct for the error, internal controls did not detect the misstatement in a timely manner. Therefore, we are required to report the weakness in internal controls.

PRIOR YEAR COMMENT – COUNTY BOARD – FINANCE (cont'd)

Current Year Status:

In the current year, audit procedures did not detect material adjustments to the County's trial balances for accounts maintained by the Finance Department. While the auditors prepared the financial statements as a service to the County, it is our belief that based on the skills, knowledge and experience of the Finance Department they could have prepared financial statements that were reasonable in all material respects.

PRIOR YEAR COMMENT – COUNTY BOARD – FINANCE

Bank Reconciliations

Due to the current setup of the County's financial accounting system, the County Treasurer reconciles bank statements to the Cash Book module of the system and not the general ledger. The financial accounting system allows the County to record adjustments to cash and investment accounts on the general ledger that do not flow through to the Cash Book. As a result, the risk exists that reconciliations of cash and investments may not incorporate adjustments reported to the general ledger. To ensure that adjustments entered through the general ledger to cash and investment accounts are recorded properly in all ledgers, the County should perform a monthly reconciliation of cash and investments on the general ledger to cash and investments on the Cash Book module. This reconciliation will allow the County to detect misstatements in the general ledger on a timely basis and provide assurance that bank accounts are reconciled to general ledger balances.

Current Year Status:

Reconciliations of the County's Cash Book module of the system to the general ledger were performed on a timely basis during fiscal year 2016. As such, this comment is not repeated.

PRIOR YEAR COMMENT – COUNTY BOARD – COMMUNITY SERVICES

External Financial Reporting

The County receives funding under the CDBG and HOME programs and enters into loan agreements with third parties for the development of affordable housing within the County. The loans that are to be repaid to the County under the terms of the loan agreements should be recorded as a receivable. In prior years, the County did not report grant funded loans receivable in the Department of Housing and Urban Development Fund or in Governmental Activities. As a result, the beginning fund balance of the Department of Housing and Urban Development Fund and the beginning net position for Governmental Activities have been restated to properly present these receivables. Material journal entries as a result of audit procedures in the current year indicate that there is a material weakness in the financial reporting system.

In order to properly account for the receivable, the County analyzed the various loans and prepared an analysis for audit purposes. We recommend that this analysis be maintained and a reconciliation of annual activity prepared and reviewed to ensure that loans receivable are properly recorded.

Current Year Status:

The County has maintained the analysis of the loans receivable which includes annual activity and reconciles to the County's trial balances and audited financial statements. This comment is not repeated in the current year.

OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.

b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:

   > Identify types of potential misstatements.
   > Consider factors that affect the risks of material misstatement.
   > Design tests of controls, when applicable, and substantive procedures.

   We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

d. We address the significant risks of material noncompliance, whether due to fraud or error, through our detailed audit procedures.

e. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material noncompliance related to the federal awards whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of the federal awards and to determine whether they have been implemented. We will use such knowledge to:

   - Identify types of potential noncompliance.
   - Consider factors that affect the risks of material noncompliance.
   - Design tests of controls, when applicable, and other audit procedures.

   Our audit will be performed in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, and OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

   We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with *Government Auditing Standards*, and the Uniform Guidance, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and the Uniform Guidance in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

f. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for reporting material noncompliance while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the entity's federal awards. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material noncompliance, whether caused by error or fraud, is detected.

g. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, which we also audit.

h. In connection with our audit, we intend to place reliance on the audit of the financial statements of the DuPage Airport Authority, a discretely presented component unit of DuPage County, as of December 31, 2017 and for the year then ended completed by Sikich, LLP. All necessary conditions will be met to allow us to make reference to the component auditors.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont'd)

We are very interested in your views regarding certain matters. Those matters are listed here:

a. We typically will communicate with your top level of management unless you tell us otherwise.
b. We understand that the County Board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
e. Have you had any significant communications with regulators or grantor agencies?
f. Are there other matters that you believe are relevant to the audit of the financial statements or the federal awards?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the County concerning:

a. The County's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of December or January. Our final financial fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-8 weeks after final fieldwork, but may vary depending on a number of factors. We typically perform the single audit fieldwork immediately following the financial audit. After single audit fieldwork, we wrap up our single audit procedures at our office and then issue drafts of our report for your review. Final copies of our Report on Federal Awards are issued after approval by your staff. This is typically 3-4 weeks after single audit fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

COMMUNICATION OF INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES

INFORMATIONAL POINTS

The following is a schedule of GASB projects:

Task or Event	Effective Date	Impact
GASB No. 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68	November 30, 2017	Part I extends the approach of GASB 68 to all pensions (with some modifications). Part II clarifies certain requirements of GASB 67 and 68.
GASB No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans GASB No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	November 30, 2017 November 30, 2018	These standards have similarities to the previous OPEB standards, most notably the definition of an OPEB and the option of the alternative measurement method for small governments. However, the calculation and reporting of the OPEB liability and various required disclosures will change under the new standards, becoming similar to the pension standards.
GASB 80 – Blending Requirements for Certain Component Units an Amendment of GASB Statement No. 14	November 30, 2017	This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

GASB UPDATES (cont.)

Task or Event	Effective Date	Impact
GASB 81 – Irrevocable Split-Interest Agreements	November 30, 2018	The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
GASB 82 – Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73	November 30, 2017	The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73. Specifically, this Statement addresses issues regarding (1) presentation of payroll-related measures in RSI, (2) selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements.
GASB 83 – Certain Asset Retirement Obligations	November 30, 2019	This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs).
GASB 84 – Fiduciary Activities	November 30, 2020	The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
GASB 85 – Omnibus 2017	November 30, 2018	The objective of this Statement is to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements.
GASB 86- Certain Debt Extinguishments Using Existing Resources	November 30, 2018	The objective of this statement is to improve existing guidance related to debt extinguishments using existing resources. This statement also adds an additional disclosure to defeasance transactions that have a right of substitution on investments held in escrow. Debt extinguishments connected with troubled debt restructurings and bankruptcy, which are addressed in other pronouncements, are not included.
Current Agenda Project: Leases	Exposure Draft issued January 2016; expected Statement issued in June 2017	The objective of this project is to reexamine issues associated with lease accounting, considering improvements to existing guidance.

GASB UPDATES (cont.)

Task or Event	Effective Date	Impact
Current Agenda Project: Revenue and Expense Recognition	The GASB Board is scheduled to issue an Invitation to Comment in January 2018	The objective of this project is to develop a comprehensive application model for the recognition of revenues and expenses that arise from nonexchange, exchange, and exchange-like transactions, including guidance for exchange transactions that have not been specifically addressed in the current literature.
Current Agenda Project: Debt Disclosures – Including Direct Borrowing	The GASB Board is scheduled to issue an Exposure Draft in June 2017	The objective of this project is to consider improvements to the existing guidance related to debt extinguishments using existing resources.
Current Agenda Project: Financial Reporting Model	Invitation to Comment issued in December 2016	The objective of this project is to make improvements to the financial reporting model, including Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other reporting model-related pronouncements. The objective of these improvements would be to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government's accounting and address certain application issues, based upon the results of the pre-agenda research on the financial reporting model.

Full lists of projects, as well as many resources, are available on GASB's website which is located at www.gasb.org.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

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

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of DuPage County for the year ended November 30, 2016, and have issued our report thereon dated May 26, 2017. This letter presents communications required by our professional standards.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, and the Uniform Guidance

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards,* and OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the County Board of their responsibilities.

We considered DuPage County's internal control over financial reporting 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 DuPage County's internal control over financial reporting. We also considered internal control over compliance with types of requirements that could have a direct and material effect on a major federal program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a 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.

As part of obtaining reasonable assurance about whether DuPage County's financial statements are free of 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. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about DuPage County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the purpose of expressing an opinion on DuPage County's compliance with those requirements. While our audit provides a reasonable basis for our opinion on compliance, it does not provide a legal determination on DuPage County's compliance with those requirements.

We have issued a separate document which contains the results of our audit procedures to comply with the Uniform Guidance.

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

Other Information in Documents Containing Audited Financial Statements

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter March 21, 2017.

Qualitative Aspects of the Entity's Significant Accounting Practices

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by DuPage County are described in Note I to the financial statements.

As described in Note I to the financial statements, DuPage County changed accounting policies related to financial reporting for investments by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 72, *Fair Value Measurement and Application.*

We noted no transactions entered into by DuPage County during the fiscal year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The estimate of the self-insurance claims liabilities, which are based on a historical claim's analysis and report prepared by the County's third party administrators.
- The estimate of the other post-employment benefits liability, which is based on an actuarial study.
- The estimate of the net pension liabilities, which are based upon actuarial studies.
- The estimate of depreciation expense, based on estimated useful lives.
- The estimate of the allowance for doubtful accounts, which is based upon historical collection experience.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The material financial statement misstatement (audit adjustment) was to remove $412,149 in long-term liabilities from the Convalescent Center Fund modified accrual fund financial statements.

A description of uncorrected financial statement misstatements is included in the management representation letter which follows this required communication. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and DuPage County that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of DuPage County for the year ended November 30, 2016, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to DuPage County in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to DuPage County other than audit services provided in connection with the audit of the current year's financial statements and the following non-audit service which in our judgment does not impair our independence.

- Financial statement preparation
- Adjusting journal entries
- Preparation of the Auditee section of the Data Collection Form

This non-audit service does not constitute an audit under generally accepted auditing standards, including *Government Auditing Standards.*

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as DuPage County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the County Board and management and is not intended to be, and should not be, used by anyone other than these specified parties.

The Baker Tilly Virchow Krause, LLP management team members that performed the County's audit this year were Joe Lightcap (Engagement Partner), Heather Acker (Engagement Quality Reviewer), Michael Malatt (Senior Manager) and Anna Wiszowaty (Manager). We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
May 26, 2017

MANAGEMENT REPRESENTATIONS

DUPAGE COUNTY

FINANCE

630-407-6100

www.dupageco.org/finance

May 26, 2017

Baker Tilly Virchow Krause, LLP
1301 W. 22nd Street
Suite 400
Oak Brook, IL 60523

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of DuPage County, Illinois as of November 30, 2016 and for the year then ended for the purpose of expressing opinions as to whether the financial statements (except for the DuPage Airport Authority, a discretely presented component unit of the County) present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of DuPage County, Illinois and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.

2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

7. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

8. We believe the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. The uncorrected financial statement misstatements are as follows:

   a. Net pension liability was derived from IMRF's actuarial valuations that varied from schedules audited by the IMRF plan auditors. As a result, Governmental Activities total liabilities and ending were understated by $6,018,235, ending net position was overstated by $6,018,235, expenses were understated by $2,312,629, and beginning net position was understated by $3,705,606.

   b. In the prior year, a receivable was not recorded for off-track betting fees owed to the County, which was collected during the current year. As a result, Governmental Activities and General Fund revenues were overstated and beginning net position / fund balance was understated by $293,898.

   c. State income tax collected after the period of availability was not deferred and reported as unavailable revenue. As a result, General Fund deferred inflows of resources were understated by $512,734, ending fund balance and revenues were overstated by $512,734.

   d. The Convalescent Center excluded the November assessment period in the bed assessment liability. As a result, liabilities and expenditures were understated by $57,969 and fund balance was overstated by $57,969.

   e. Services provided by the Convalescent Center to other departments of the County were billed, with the expectation that no payment would be made. In the prior year, these amounts were not written off, but instead written off in the current year. As a result, revenues are understated and beginning fund balance is overstated by $133,496.

9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

10. Guarantees, whether written or oral, under which the County is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
    b. Additional information that you have requested from us for the purpose of the audit.
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
    d. Minutes of the meetings of the County Board or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

    a. Management,
    b. Employees who have significant roles in internal control, or
    c. Others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

15. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

16. There are no known related parties or related party relationships and transactions of which we are aware.

Other

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

18. We have a process to track the status of audit findings and recommendations.

19. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

20. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

21. The County has no plans or intentions that may materially affect the carrying value or classification of

assets, liabilities, or equity.

22. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

23. There are no:

    a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.

    c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.

    d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.

    e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

24. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

    a. Financial statement preparation
    b. Adjusting journal entries
    c. Preparation of the Auditee section of the Data Collection Form

    None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards.*

25. DuPage County, Illinois has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

26. DuPage County, Illinois has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

27. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if any.

28. The financial statements properly classify all funds and activities.

29. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

30. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.

31. DuPage County, Illinois has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

32. Provisions for uncollectible receivables, if any, have been properly identified and recorded.

33. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

34. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.

35. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

36. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).

37. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

38. Tax-exempt bonds issued have retained their tax-exempt status.

39. We have appropriately disclosed DuPage County, Illinois's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.

40. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

41. With respect to the supplementary information, (SI):

    a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

a. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

42. We assume responsibility for, and agree with, the findings of specialists in evaluating the other postemployment benefit obligation and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

43. We assume responsibility for, and agree with, the information provided by the IMRF as audited by their Auditors relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.

Sincerely,

DuPage County, Illinois

Signed: Paul P. Rafac
Paul Rafac, Chief Financial Officer

Signed: Tom Cuculich
Tom Cuculich, Chief of Staff