DUPAGE COUNTY, ILLINOIS

Wheaton, Illinois

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended November 30, 2017

DUPAGE COUNTY, ILLINOIS

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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, 2017, 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 – Care 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 deficiencies in DuPage County's internal control to be significant deficiencies:

> County Board - Finance
- Non-Treasurer Held Bank Accounts

> County Board – Care 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 24, 2018

MATERIAL WEAKNESS – COUNTY BOARD – CARE CENTER

External Financial Reporting

In the prior year, audit procedures revealed that the Convalescent Center Fund was improperly presenting long-term liabilities on the modified accrual fund financial statements. Audit adjustments were made to remove the long-term liabilities from the fund financial statements and a material weakness in external financial reporting was reported. During our audit procedures in the current year, it was determined that long-term liabilities were properly removed from the modified accrual financial statements, but unavailable revenue and unearned revenue were improperly reported. Audit adjustments were made to correct the unavailable revenue balance and remove the unearned revenue no longer applicable from the fund financial statements. These adjustments indicate a material weakness in the financial reporting system. We recommend the Care Center incorporate additional internal controls over financial reporting to appropriately report activities on the modified accrual basis of accounting.

Management Response:

Due to State reporting requirements, the Care Center's internal financial statements have always been prepared on a full accrual basis and converted to modified accrual during the audit process. County management is aware of the necessary adjustments to convert internal statements from accrual to modified accrual accounting. A complete review by both the Care Center's Financial Services Manager and the Assistant Financial Services Administrator-Audit/Accounting in the County's 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

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 both the current year and prior 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.

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

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.

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 subjected to the County's internal control procedures. Management understands that due to the nature of some of these accounts, some accounts 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: preparation of monthly bank reconciliations; review by a second party of monthly bank reconciliations and disbursements, and review by the Finance Department of quarterly reconciliations and transaction reports. Although we recognize that elected officials are not required to comply with these requirements, we encourage them to do so, 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 – CARE CENTER

Patient Billing

As reported in the prior year, the Care 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 Care Center to prepare retroactive billings once information regarding Medicare patients is received. Currently, the Care 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.

Management Response:

Medicaid funding is the payor of last resort for the financially indigent in the State of Illinois. A majority of the Care Center's patient population is either funded through the state's Medicaid program, or has applied for acceptance into the program. To be eligible for Medicaid, a skilled nursing resident must have spent down their assets below specific amounts. The State of Illinois then considers the resident eligible for Medicaid, and begins funding the skilled nursing facility. The majority of the "spend down" is made directly to the skilled nursing facility at a private pay rate. It is often the case, that the state is grossly delinquent in approving residents for Medicaid (even after they are eligible thru the spend down process), during which time the resident remains in private pay status for billing purposes. Once notification of Medicaid approval is received, the

SIGNIFICANT DEFICIENCY – COUNTY BOARD – CARE CENTER (cont'd)

private pay charges entered in the billing software during the pending period must be analyzed and re-established under the Medicaid payor source at the appropriate rates. These rates are adjusted quarterly and consider such things as patient income and income offsets. The analysis and reclassification of billing is a time-consuming process. The monthly amount paid for each resident receiving Medicaid benefits is not constant, and changes, at a minimum, quarterly, coupled with the state's delay in approving eligible residents into the program, and the task can be daunting. The Care Center has committed to training an additional 3 employees to support the analysis and retroactive payor source changes in FY 2018.

PRIOR YEAR COMMENT – 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.
>
> 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

Current Year Status:

Currently, the system does not require a secondary review of a journal entry prior to posting. The Systems Administrator in Finance will determine if this is a control weakness inherent within the system, or, if the system can be modified to require a secondary review prior to posting.

In fiscal year 2016, the Finance Department implemented stronger internal controls over the manual journal entry process to ensure supporting documentation was maintained with each journal entry, as a result, there were no deficiencies identified in the current fiscal year.

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. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	November 30, 2018	This standard has 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 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 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.

GASB UPDATES (cont.)

Task or Event	Effective Date	Impact
GASB 87 - Leases	November 30, 2021	The objective of this statement is to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.
GASB 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	November 30, 2019	The objective of this statement is to the improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.
Current Agenda Project: Financial Reporting Model	Invitation to Comment Redliberations began June 2017	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.
Current Agenda Project: Revenue and Expense Recognition	Invitation to Comment issued in February 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: Equity Interest Ownership Issues	The GASB is scheduled to issue in August 2018	The objective of this project is to consider improvements in financial reporting related to the reporting of majority equity ownership in legally separate entities.
Current Agenda Project: Capitalization of Interest Cost	The GASB is scheduled to issue in June 2018	The objective of this project is to reconsider the accounting and financial reporting standards for capitalization of interest cost, with the goal of enhancing the relevance of capital asset information and potentially simplifying financial reporting.

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, 2017, and have issued our report thereon dated May 24, 2018. 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 dated March 12, 2018.

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. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2018. 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.

Difficulties Encountered in Performing the Audit

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

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

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 decrease unavailable revenue by $592,598 and remove unearned revenue of $785,922 in 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, 2017, 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 24, 2018

MANAGEMENT REPRESENTATIONS