



Union County Board of Commissioners

Bobby Toler Jr., Chairman

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Management Response to Audit Findings FY 2015 Audit

June 22, 2017

We have reviewed the FY2015 audit of Union County Government conducted by Hudgens & Meyer, LLC. Attached is the corrective action plan for each finding.

2015-1 Audit Finding:

Union County Government has not assigned fund balance categories in accordance with Governmental Accounting Standards Board's Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions. Governmental Accounting Standards Board's Statement No. 54 requires that the *Non-spendable* fund balance category include amounts that are not available for spending, either now or in the future, because the amount is offset by assets that are not in spendable form. *The restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications. Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that

determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

Union County Government's General Fund does not have a formal stabilization plan in the event emergency situations or when revenue shortages or budgetary imbalances arise.

Auditor Recommendation:

It is recommended that the County Board review, understand and properly classify all of its fund balances in accordance with Governmental Accounting Standards Board's Statement Number 54.

It is recommended that the County Board establish a formal stabilization plan to set aside funds for use in emergency situations, or when revenue shortages, or budgetary imbalances arise. The stabilization plan should include provisions and controls that dictate the circumstances under which they can be spent. The stabilization plan should include amounts for budget or revenue stabilization, working capital needs, contingencies or emergencies, compensated absences, Courthouse repairs and maintenance and other designated purposes. A six-month operating reserve for the County's General Fund is recommended.

The Board should also review stabilization funds for the County Highway Department and County Ambulance Service. These Departments operate outside of the County's General Fund and incur material operating and capital equipment expenses each year. The County Highway Engineer and the County Ambulance Director should be consulted in order to determine the appropriate level of stabilization funds for each Department.

Management Response:

The County maintains the following to hold reserves; General Fund Reserve Fund, Capital Improvements Fund, Compensated Absences Fund & Courthouse Repairs & Maintenance Fund. We project at the end of FY2017 these funds will have an aggregate balance of approximately \$1,300,000. The County acknowledges the need to grow this reserve balance and will continue to appropriate money to reserves during the budget process.

In addition, the County is in the process of drafting a formal fund balance policy which will identify targeted reserve balances needed for each fund and specify how those reserves may be used. In addition, this plan will classify each fund into the appropriate category in accordance with GASB No. 54. These changes should be implemented by the end of FY2017.

2015-2 **Audit Finding:**

We noted that departments receiving fines and fees are not submitting reports of fines and fees collected to the County Board.

Auditor Recommendation:

We recommend that the departments receiving fines and fees develop, prepare and submit, at a minimum, semi-annual reports to the County Board for fines and fees received. The departments that appear to receive fines and fees are: County Clerk, Circuit Clerk, State Attorney, Animal Control, Sheriff's Department, Coroner and Ambulance Service. If the departments and County Board find it beneficial, shorter reporting segments or time periods can be presented. In addition to statutory compliance, the filing and acceptance of these fine and fee reports will develop an historical trend for fines and fees received in these departments.

Management Response:

The County acknowledges this deficiency. The County will communicate to department heads the requirement to deliver monthly reports of fines and fees.

2015-3 **Audit Finding:**
Audit Finding:

Currently, payroll hours are submitted for paycheck preparation for staff every other Monday. The payroll hours that are submitted for paycheck preparation every other Monday are to calculate paychecks through the upcoming Friday. There is no delay or calculation period between the end of a payroll period and the submission of hours to pay staff. Since hours are submitted on Monday to pay staff through the upcoming Friday, this increases the risk that payroll costs will be expended for non-worked hours and it increases the risk that accrued time off for the employees will be misstated.

Auditor Recommendation:

The County should consider implementing a calculation time period between the end of a payroll period and the calculation of employee paychecks. The written payroll process should ensure that employees have worked the hours before being paid or that the appropriate sick, vacation or other approved time off have been properly charged.

Management Response:

The County previously identified a multitude of payroll related threats and deficiencies. The County hired a Human Resource Director tasked with developing a formal plan to address these many issues. The Human Resource Director has already identified features provided by the County's current payroll system that were not being utilized.

In addition, the County is working towards a system which would allow a calculation period between the end of the payroll period and pay date. Since this implementation will require funds not appropriated in the FY2017 budget the anticipated implementation date is FY2018.

2015-4

Audit Finding:

Audit Finding:

The County does not maintain centralized detailed records on a perpetual basis for the accrued time off for employees.

Auditor Recommendation:

We recommend that the County consider utilizing the payroll process to track each employee's accrued time off, inclusive of the additions to accrued time off and accrued time used. The accrued balance would then be reported to each employee on his or her paycheck each pay period. The accrued time off for each staff member should be kept on a perpetual basis.

Management Response:

The County previously identified a multitude of payroll related threats and deficiencies. The County hired a Human Resource Director tasked with developing a formal plan to address these many issues. The Human Resource Director has already identified features provided by the County's current payroll company that were not being utilized. Features providing for the tracking of accrued time off are now being utilized.

2015-5

Audit Finding:

Upon inquiry, there has been no formal policy regarding the prohibition of personal use of County owned assets. Union County Government, Illinois has several fixed asset items that could be used for personal use.

Auditor Recommendation:

We recommend that Union County Government develop and implement policies that prohibit the personal use of all County-owned assets by employees, except as provided by a board resolution covering personal use of County owned assets.

Management Response:

The County acknowledges the need for this policy. This will be included as part of the County employee handbook which will be completed by the end of FY2017.

2015-6

Audit Finding:
Audit Finding:

Upon inquiry and inspection, the County did not appear to have a travel expense or travel expense reimbursement policy. The County should consider adopting a policy and notifying the respective office holders of the policy and that the business purpose of travel and expense reimbursements should be indicated on the claim form.

Auditor Recommendation:

We recommend that Union County Government, Illinois develop and implement policies that detail the County's policy and procedures for travel related expenses.

Management Response:

The County had an ordinance regarding travel (Chapter 1- Article 6) that was not regularly enforced. On February 24, 2017 the County Board approved updating this ordinance to be in compliance with the Local Government Travel Expense

Control Act (50 ILCS 5/150-1 et seq.). A copy of the ordinance was distributed to all department heads and was enforced immediately.

2015-7

Audit Finding:

For the fiscal year ended November 30, 2015, individual fixed asset records were reconstructed from purchasing records. While this procedure provided details on current year fixed asset purchases, it does not provide the level of control, detail, and efficiency that can be achieved with a computerized asset system. Also, Union County Government, Illinois did not calculate its annual depreciation expense on its fixed assets.

Auditor Recommendation:

To ensure that all property and equipment purchases and disposals are properly documented, we recommend that formal policies be adopted.

- Establish a Fixed Asset Capitalization Policy - We noted that the County does not have a set policy for capitalization of fixed assets. We recommend that the Board establish a policy whereby all property purchases above a board-established dollar threshold and having a useful life of one year or more are capitalized. Purchases costing less than the established amount or having a useful life of less than one year should be expensed, since the cost of maintaining depreciation records for such items would exceed the benefits. The County should document the capitalization policy and communicate it to those who code property invoices to ensure the policy is consistently followed.
- Establish Detailed Property Records - The preparation of detailed property records aid in the accounting for property disposals, substantiating insurance claims for lost or damaged items, providing information for properly filing annual informational returns and provides controls to safeguard the assets. We recommend a written procedure statement that would require the preparation of a detailed property record for each asset and a property identification number to be assigned to each asset.
- For asset acquisitions and dispositions, at a minimum, the detailed property records should include the following information:
 - Description, asset number, and location.
 - Acquisition cost and date of acquisition.
 - Assigned life and method of depreciation.
 - Depreciation taken on an annual basis with accumulation thereof.

- Serial and model numbers
- Any assets traded
- We recommend that the County use the fixed asset module in its newly acquired accounting software program to track fixed assets on hand, future asset acquisitions and dispositions and calculate the County's annual depreciation expense. The maintenance of a proper record keeping will also aid in the County's depreciation calculation.
- We recommend that periodic physical counts of property, especially removable equipment items, be taken and compared to the detailed fixed asset records. Affixing identifying tags with identification numbers will aid in any fixed asset inspection. The fixed asset inspections will also assist in detecting the loss or unauthorized use of County-owned fixed assets.

Management Response:

The County acknowledges this deficiency. Since this implementation will require funds not appropriated in the FY2017 budget, the anticipated implementation date is FY2018.

2015-8

Audit Finding:
Audit Finding:

The County does not maintain the detailed records necessary for making a precise accrual for compensated absences either perpetually or at year-end. Our audit estimate for this unrecorded liability has been significant in the past.

Auditor Recommendation:

We recommend that the County maintain compensated absences information on a perpetual method and that someone outside each department be assigned to monitor and reconcile the balances as they accrue as well as maintain supporting documentation. Computer software programs for maintaining such records are available.

Management Response:

~~The Audit Finding~~ supports the results of a Treasurer's office review previously

provided to the County. In response, the Treasurer's office has developed a mechanism for tracking compensated absence obligations. The accuracy of this mechanism is dependent upon accurate time and attendance data.

The Human Resource Director has already identified features provided by the County's current payroll company that were not being utilized. Features providing for the tracking of accrued time off are now being utilized.

2015-9

Audit Finding:

Payroll calculations and withholding amounts for tax liabilities and fringe benefits are not reconciled. Errors in withholdings and payment amounts have been noted. Errors, unintentional and intentional, can occur as a result.

Auditor Recommendation:

It is recommended that a staff member other than the payroll clerk routinely review payroll withholdings and fringe benefit payments for accuracy.

Management Response:

These conditions were identified by the Treasurer's office during FY2016. Errors, including retiree benefits provided without reimbursement, were identified during the reconciliation of the Employee Benefit Fund. Benefits have been reconciled monthly since the start of FY2016, and the improper benefits terminated.

In response, the County hired a Human Resource Director tasked with the responsibility of benefits management.

The County turned over these findings to the Auditor and State's Attorney to determine if the errors were intentional or unintentional and the possibility of restitution.

2015-10

Audit Finding:
Audit Finding:

At present, the payroll processing system in the County is not appropriately designed for the volume, complexity and types of payroll transactions that occur.

Auditor Recommendation:

We recommend that the County develop and implement a payroll system that is appropriate for the volume, complexity and types of payroll transactions that occur.

We recommend that the County perform a careful review of the payroll register (that is, the schedule showing the calculation of gross pay, deductions, and net pay) and payroll check register can highlight several types of payroll fraud. We recommend that an appropriate person, other than the payroll clerk, periodically make such a review, being alert for unusual matters that might suggest fraud, such as the following:

- Duplicate names or addresses.
- Names of former employees.
- Math errors (which may indicate diversion of payroll or payroll taxes).
- Unusual pay rates or numbers of hours worked.
- Factors that may indicate ghost employees.

Management Response:

The County previously identified a multitude of payroll related threats and deficiencies. The County hired a Human Resource Director tasked with developing a formal plan to address these many issues. The Human Resource Director has already identified features provide by the County's current payroll company that were not being utilized.

The County is reviewing options for implementing a new payroll/record keeping system which would require daily time tracking.

2015-11

Audit Finding:

The following deficiencies were noted in the cash receipts procedures for the Sheriff's Office when handling fees and bonds:

- Cash receipts were not deposited intact daily. After the secretary's separation from service, it was determined that the secretary accumulated cash receipts in a safe by her desk and did not make regular bank deposits. Cash was stored in the Sheriff's office without the Officeholder's knowledge or consent.

No list of receipts was prepared for subsequent review to the deposit slip. Therefore, there is not a complete record of the fees and bonds received by the Sheriff's Office to compare to the bank deposits that were made.

Fees collected were not delivered or transmitted to the County Treasurer's Office in a timely manner.

Bonds collected were not delivered or transmitted to the Circuit Clerk's Office in a timely manner.

Multiple cash receipts were not supported with sufficient detail to identify the source and are currently in the Sheriff Department's Bank Account.

- Our review of the Sheriff's Office's procedures indicated that there is a lack of control in the receiving, depositing and recording of cash receipts.

Auditor Recommendation:

We recommend that deposits be made on a daily basis both to improve cash flow and to reduce the risk of loss.

To provide effective control it would be necessary to separate each of these duties, as well as the reconciling of the bank accounts, whereas at the present time one employee's duties include all of these functions.

Cash receipts should be entered in the cash receipts journal in detail including identification as to the individual payers, and a permanent record maintained showing the source of the receipts. We also recommend that preprinted, pre-numbered receipts be given for all receipts and that copies are retained for audit purposes.

A disposition needs to be determined for the cash identified subsequent to the secretary's separation of service from the County.

Management Response:

These conditions were identified by the Treasurer's office during FY2016. Inconsistencies between cash received and deposits were turned over to the external Auditor for further investigation.

Per the Sheriff's office, a system is now in place to record all payments received and disbursements of these payments to the respective departments. In addition, the Sheriff's office deposits are now being made daily. Pre-numbered receipts are given for all cash received and a duplicate copy is retained.

The County turned over the investigation of these inconsistencies to the Auditor and State's Attorney to determine if the possibility exists that the findings constitute a criminal misuse of public funds. The County continues to await the results of this investigation.

Audit Finding:

2015-12

Audit Finding:

At present, the County's internal controls over time and attendance are not appropriately designed for the number of employees and locations.

Auditor Recommendation:

We recommend that the County develop and implement internal controls to effectively monitor the time and attendance for all County employees.

Management Response:

As mentioned in 2015-04 & 2015-10, the County previously identified a multitude of payroll related threats and deficiencies. The County hired a Human Resource Director tasked with developing a formal plan to address these many issues. The Human Resource Director has already identified features provided by the County's current payroll company that were not being utilized.

The County is currently reviewing options for implementing a new payroll/record keeping system which would require daily time tracking.

Audit Finding:

2015-13

Audit Finding:

The Union County Circuit Clerk's Office receives child support administration fees and a federal award passed through the Illinois Department of Healthcare and Family Services. The federal award and the child support administration fees are deposited into a Separate Main! & Child Support Fund. On September 19, 2014, a disbursement (check #214) was issued from the Separate Maint & Child Support Fund in the amount of \$27,510 to the Union County General Fund. The signed claim for this disbursement indicated that this payment was to fund 6 paychecks (9/19/14, 10/3/14, 10/17/14, 10/31/14, 11/14/14, & 11/28/14) at full pay for (4) Union County Circuit Clerk's Office employees. It appears that this disbursement was made in response to the Union County Circuit Clerk's Office's General Fund budget for the year ending November 30, 2014 being exhausted. However, the Circuit Clerk reported to us during the course of the audit that only one of these employees spent a small portion of her time on child support payments and that her primary role was that of the Union County Circuit Clerk's Office's bookkeeper. In a follow-up meeting with the Circuit Clerk and two staff members, it was indicated that four employees are involved in the child support administration process. Also, upon inquiry, the Circuit Clerk indicated that there has not historically been and currently, there is not a formula or method for determining the allocable costs associated with administering the child support program.

As there is no calculation or other support indicating the amount of time spent by each employee on the child support administration payments, the \$27,510 disbursement does not appear to be in compliance with 750 ILCS 5/705 *Support payments; receiving and disbursing agents* which states that fees are to be collected as costs for administering the collection and disbursement of child support payments.

Historically, it appears that Union County's General Fund and fringe benefit funds have incurred the costs of personnel administering the child support program, however, the child support administration fees received by the Circuit Clerk's Office have not been used when received to reimburse the General Fund and fringe benefit funds for payroll and fringe benefit costs associated with administering the child support program by the Circuit Clerk's office. The fees have instead accumulated in the Separate Main! & Child Support Fund. As of November 30, 2014, the Separate Maint & Child Support Fund had a reconciled bank balance of \$8,037.22. This reconciled bank balance is subsequent to the \$27,510

disbursement to the Union County General Fund on September 19, 2014.

Auditor Recommendation:

We recommend the following:

- 1) The Union County Board of Commissioners should repay the \$27,510 payment made to the Union County General Fund by the Separate Maint & Child Support Fund from the Union County General Fund.
- 2) The Union County Board, Union County Circuit Clerk, Union County Treasurer and Union County States Attorney should together review the historical records that are available as supporting documentation for costs incurred in administering child support payments by the Union County Circuit Clerk's Office. The Union County Board, Union County Treasurer and Union County State's Attorney should all be provided with the past, current and future signed federal award notices, contracts, and relevant statutes in order to further establish and support an understanding of the income sources and appropriate disbursements in this area.
- 2) Based upon the joint review, as stated in number 2 above, of historical records and supporting documentation that are determined to be representative of the costs incurred in administering child support payments by the Union County Circuit Clerk's Office, the Union
- 3) County Circuit Clerk should prepare the appropriate reimbursement claims and disbursement checks to the appropriate Union County funds. The County Board and Circuit Clerk should be of the same understanding regarding the timing of the reimbursement claims.
- 4) The Union County Circuit Clerk should develop a reimbursement calculation that is reflective of time spent and the respective cost of administering child support payments in the Union County Circuit Clerk's Office. This reimbursement calculation should be provided to the Union County Board, Union County Treasurer and Union County States Attorney's Office.
- 5) The Union County Circuit Clerk should send a copy of the

reimbursement calculation to the Treasurer's Office along with the reimbursement check from the Separate Maint & Child Support Fund. The County Board and Circuit Clerk should be of the same understanding regarding the timing of the reimbursement claims.

Management Response:

The County repaid the \$27,510 on 9/18/2015 as recommended to do in the FY2014 audit.

To date the Circuit Clerk's office has been non-compliant in providing the information necessary to support the transfer of these funds.

Audit Finding: