

**CITY OF EVANSTON, ILLINOIS**

**MANAGEMENT LETTER**

December 31, 2015





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Certified Public Accountants & Advisors  
Members of American Institute of Certified Public Accountants

The Honorable City Mayor  
Members of the City Council  
City of Evanston, Illinois

In planning and performing our audit of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Evanston, Illinois (the City) as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we have identified certain deficiencies in internal control that we consider to be material weaknesses.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

The City's written response to the material weaknesses and other comments identified in our audit has not been subjected to the audit procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it. In addition, we reviewed the status of the deficiencies dated December, 31, 2014. The status of these is included in Appendix A.

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

A handwritten signature in dark ink, appearing to read 'Sikich LLP'.

Naperville, Illinois  
August 5, 2016

## **MATERIAL WEAKNESSES**

### **1. Daily Deposit of Receipts**

During the course of our internal control documentation, it was noted that the daily cash balancing and deposit was back logged from approximately February 5, 2016 to March 11, 2016. City staff had been storing the daily receipt packages in the filing cabinet in the revenue manager's office until each package could be balance, posted and then deposited. We recommended that all deposits be made as soon as possible and the reconciliations take place as soon thereafter as possible. Staff made all deposits within the following three days. We recommend that all receipts be deposited by the day after receipt in order to minimize the possibility of theft, fraud or accidental destruction.

#### **Management Response**

Daily deposits during and immediately after the wheel tax deadline have lagged behind in the past. The City took action and implemented the recommendation above on March 11 and 14. The delay in deposits was caused by staff turnover and miscommunication as a result. This situation has been corrected. A new Revenue Manager has been hired and is also in the process of implementing the recommended changes.

### **2. Long-Term Debt Adjustments**

While performing our audit procedures, we noted that the City's accrued interest payable and unamortized premium/discounts on bonds had not been updated from the prior years. The City had relied upon the prior auditors to maintain the amortization schedules for the premium/discounts. We recommend that the City add these areas to its year end closing and audit preparation processes.

#### **Management Response**

The Chief Financial Officer reviewed the prior period debt schedules referenced by Sikich. Errors in the table included the carrying forward of an error in accrual information. This was discussed in detail and the CFO worked directly with Sikich to complete the table. The error was not material, and staff will prepare the schedule as a part of normal audit preparation for 2016 and going forward.

### **3. External Reporting Support**

During the course of our audit, we noted that the City's general ledger required significant adjustments to reconcile to the prior year audited financial statements. The City utilized Excel spreadsheets to adjust the amounts posted to the general ledger to track significant differences in the City's monthly financial reporting to the external reporting. For example, the City is primarily on the cash basis for property tax revenue recognition, but for the external financial report, an additional sixty day period was used in the recognition of revenue. The City did not post this to the general ledger, but rather to the internally prepared spreadsheets. Additionally, the City does not utilize its general ledger software to track governmental capital assets or long-term debt. We believe that the general ledger is the historical documentation for all of the City's financial transactions and should be used to support the external financial reporting. We recommend that the City discontinue the use of the reconciling spreadsheets and instead mirror the external financial reporting policies in its internal general ledger.

## **MATERIAL WEAKNESSES (Continued)**

### **3. External Reporting Support (Continued)**

#### **Management Response**

Previous CAFRs have not matched directly with the City's internal general ledger for a variety of reasons, most of which deal with the presentation of accrual basis data in the CAFR, versus cash basis reporting during the fiscal year. Most of the differences referenced refer to closing entries which reclassify activities.

The City has implemented the New World Software Asset tracking but it was not done in time for this audit. Staff will complete the entry of all assets into the accounting system for 2016. As noted above the recognition of property taxes will be changed to eliminate the 60 day accrual.

### **4. Insurance Pool Accounting**

We found that the City had not been recording its deposits that are available to be withdrawn from the Intergovernmental Personnel Benefit Cooperative (IPBC) in accordance with GAAP. Annual the IPBC moves excess funds into the terminal reserve account for each of its members. Because this amount is available for withdrawal, the City should be reflecting this as an asset and reduction of expenses in its general ledger. We recommended a prior period adjustment and the City recorded this to reflect the prior and current years' affect on the Insurance Fund. We recommend that the City record its terminal reserves with IPBC on an annual basis.

#### **Management Response**

As a member of IPBC, the City maintains reserves for claims payable at the IPBC. Reserves above this need for claims payable and listed in the Terminal Reserve account at the IPBC are assets of the City. The City's balance at the IPBC in the Terminal Reserve is \$1.4 million and this amount has been recorded in the Insurance Fund as an asset for 2015 and 2014 (this will restate the beginning balance of this fund for the 2015 year).

### **5. Year End Close Process**

During the course of the audit, we recommended and management agreed to nineteen adjusting journal entries. Several of these adjustments were materials as noted in the Required Communication with Those Charged with Governance letter. Additionally, forty journal entries prepared by City staff after the start of fieldwork were given to us to post to the trial balances. This significantly added to our workload and time required to complete the audit. We were unable to work on the preparation of the financial statements due to the additional work. A contributing factor to this was the changes to City's finance department staffing shortly before and during the audit. We understand that was not controllable by the City. We do recommend that the City develop, document and adhere to a list of year end closing procedures that would facilitate its efficient and effective closing of the year and processing of adjusted trial balances.

## **MATERIAL WEAKNESSES (Continued)**

### **5. Year End Close Process (Continued)**

#### **Management Response**

The Sikich staff team worked well with our Accounting and Finance team to help close out the 2015 without the presence of the Accounting Manager and a Senior Accountant. The City did hire back the Senior Accountant on a temporary basis to help complete the audit work papers, and as noted, this situation contributed to the delay in the completion of the report.

### **6. Long-Term Loans Receivable**

Prior City practice has been to recognize loans receivable as increase in fund equity. Revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available. We recommended adjustments and the City agreed to them that reverses prior year recognition of loans receivable as equity and reclassified them as a deferred inflow.

#### **Management Response**

The City agrees with this treatment and also agrees that the reduction in fund balances for funds with long-term loans receivable make the presentation more transparent as to the amount of resources available for current spending.

## **OTHER COMMENTS**

### **1. Future Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued a number of pronouncements that will impact the City in the future.

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Statement No. 72 is applicable for the fiscal year ending December 31, 2016.

GASB Statement 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*, establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The

## **OTHER COMMENTS (Continued)**

### **1. Future Accounting Pronouncements (Continued)**

provisions in Statement No. 73 are effective for the fiscal year ending December 31, 2016, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for financial statements for the fiscal year ending December 31, 2017.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The statement builds upon the existing framework for financial reports of defined benefit OPEB plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 74 enhances note disclosures and RSI for both defined benefit and defined contribution OPEB plans. Statement No. 74 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions in Statement No. 74 are effective for OPEB plan or sponsoring employer financial statements for the fiscal year ending December 31, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments and replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as they relate to governments that provide benefits through OPEB plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 75 requires governments providing defined benefit OPEB to recognize their long-term obligation for OPEB as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The provisions in Statement No. 75 are effective for the fiscal year ending December 31, 2018.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP: officially established accounting principles - GASB Statements (Category A) and GASB Technical Bulletins; GASB Implementation Guides; and literature of the American Institute of Certified Public Accountants cleared by the GASB (Category B). Statement No. 76 also addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Statement No. 76 is applicable for the fiscal year ending December 31, 2016 and should be applied retroactively. Earlier application is permitted.

## **OTHER COMMENTS (Continued)**

### **1. Future Accounting Pronouncements (Continued)**

GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and reduce the reporting government's tax revenues. The requirements of this statement are effective for the fiscal year ending December 31, 2016.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, establishes requirements for pensions provided to employees of state or local government employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provided defined benefit pensions to both employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The requirements of this statement are effective for the fiscal year ending December 31, 2016.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this statement are effective for the fiscal year ending December 31, 2016.

GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this statement are effective for the fiscal year ending December 31, 2017.

We will advise the City of any progress made by GASB in developing this and other future pronouncements that may have an impact on the financial position and changes in financial position of the City.