CITY OF EVANSTON, ILLINOIS

COMMUNICATION OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER COMMENTS TO MANAGEMENT

For the Year Ended December 31, 2018
COMMUNICATION OF DEFICIENCIES IN INTERNAL CONTROL
AND OTHER COMMENTS TO MANAGEMENT

Mr. Wally Bobkiewicz, City Manager
Mr. Hitesh Desai, City Treasurer/Chief Financial Officer
City of Evanston, Illinois

As part of the annual audit, we are required to communicate internal control matters that we classify as significant deficiencies and material weaknesses to those charged with governance. 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 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. A material weakness is a deficiency, or a 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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. In addition, we reviewed the status of comments from the December 31, 2017 audit. The status of these comments is included in Appendix A. This letter does not affect our report dated June 27, 2019, on the financial statements of the City.

The City’s written responses to these matters identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with Hitesh Desai, City Treasurer/Chief Financial Officer and Andrew Villamin, Accounting Manager and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

I encourage you to contact me at (630) 566-8535 should you have any questions.

Sikich LLP
Naperville, Illinois
June 27, 2019

ACCOUNTING TECHNOLOGY ADVISORY
OTHER COMMENTS

1. **Compensated Absences**

   Compensated absences balances recorded by the City related to accrued vacation, sick hours, and comp hours balances at January 1, 2019, rather than at December 31, 2018. Additionally, it was noted that the City does not maintain records of the accrued sick hours that would need to be paid out if an employee were to leave. Instead, the total accrued sick hours are tracked and then adjusted based on the terms of each employee's contract when preparing the compensated absences schedule. Sikich recommends the City ensures its compensated absences schedules is maintained and balances recorded at fiscal year end agree to the City’s calculated liability as of December 31.

   **Management Response**

   The City could not run the report as of December 31, 2018 because of Payroll/HR system restrictions. In the future, the city will run the reports as of December 31 before processing payroll in the new year. The city will review its process of recording sick time liability.

2. **Insurance Expense**

   During our testing of insurance expense and related balances, Sikich noted certain prepaid expenses and terminal reserve balances were not properly adjusted at December 31, 2018. Sikich recommended AJE 01 and AJE03 to adjust balance to actual at year end. Sikich recommends the City review accrual accounts at year end to ensure expenses are properly recognized for the fiscal year which they relate to.

   **Management Response**

   The City Finance staff reviews required year end accruals as a part of audit process. Staff will review the current procedure and will make necessary changes to ensure that accrual accounts are properly recorded.
APPENDIX A
STATUS OF COMMENTS FROM DECEMBER 31, 2017

DEFICIENCY

1. **Self Reported Taxes**

   Several of the City’s taxes are self reported, including the liquor tax, hotel/motel and marijuana taxes. Currently, the City is not auditing these and are relying on the payers to accurately report all revenues and self calculate the related taxes. We recommend that the City develop a periodic random or stratified inspection/review of the payers’ records

   **Management Response**

   The City passed Ordinance 122-O-17 that standardized all return dates and late fees. Staff now tracks all returns monthly and has started sending letters to non-compliant businesses. These returns are now tracked by the Collectors office staff monthly. A full audit of all motor fuel remitters was conducted in late Q4. A total of 6 businesses were audited.

OTHER COMMENTS

1. **Deficit Fund Balances**

   The following deficit balances were reported as of December 31, 2017:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solid Waste</td>
<td>$1,061,966</td>
</tr>
<tr>
<td>Dodge Tax Increment</td>
<td>6,009</td>
</tr>
<tr>
<td>Special Service Area #4</td>
<td>198,794</td>
</tr>
<tr>
<td>Internal Service - Insurance</td>
<td>4,338,505</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$5,605,274</strong></td>
</tr>
</tbody>
</table>

   The City should continue to monitor the deficits in the Solid Waste and Insurance Funds and consider adjusting rates to fall in line with expenses in these funds to ensure that they function as the cost-reimbursement accounting tool they are meant to be.

   **Management Response**

   The City will continue to monitor these funds to have positive fund balances.

   **Status** - Comment still applicable as of December 31, 2018.
2. **City Investments**

During our testing of investments we noted that 84% of the City’s investments were held by one financial institution. Upon review of the investment policy, one financial institute should not carry more than 50% of the City’s investments. We recommend diversifying the portfolio to reduce the amount allocated with one financial institution.

**Management Response**

The interest bearing savings account held at First Bank & Trust was not considered in the calculation. The portion held by First Bank & Trust would have been the largest holdings at approximately 44% if included in the total. Staff considers the above as an acceptable investment instrument and amendments were made to the investment policy to effectively reflect this.

**Status** - Comment implemented as of December 31, 2018.