

CITY OF EVANSTON, ILLINOIS

**SINGLE AUDIT ACT
SUPPLEMENTARY FINANCIAL
AND COMPLIANCE REPORT**

YEAR ENDED FEBRUARY 29, 2008

CITY OF EVANSTON, ILLINOIS
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2008
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Lorraine H. Morton, Mayor and
Members of the City Council
City of Evanston
Evanston, Illinois

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evanston, Illinois, as of and for the year ended February 29, 2008, which collectively comprise the City of Evanston's basic financial statements and have issued our report thereon dated September 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Evanston's internal control over financial reporting as a basis for designing our auditing procedures 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 of Evanston's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Evanston's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Evanston's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Evanston's financial statements that is more than inconsequential will not be prevented or detected by the City of Evanston's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. These deficiencies are items 2008-1, 2008-2, and 2008-3.

To the Honorable Lorraine H. Morton, Mayor and
Members of the City Council
City of Evanston

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Evanston's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies identified above, we consider items 2008-2 and 2008-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Evanston's basic 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 and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Evanston in a separate letter dated September 24, 2008.

The City of Evanston's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Evanston's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City of Evanston's management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Vivchow, Krause & Company, LLP

Oak Brook, Illinois
September 24, 2008



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Lorraine H. Morton, Mayor and
Members of the City Council
City of Evanston
Evanston, Illinois

Compliance

We have audited the compliance of the City of Evanston, Illinois, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 29, 2008. The City of Evanston's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Evanston's management. Our responsibility is to express an opinion on the City of Evanston's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Evanston's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Evanston's compliance with those requirements.

In our opinion, the City of Evanston complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended February 29, 2008.

To the Honorable Lorraine H. Morton, Mayor and
Members of the City Council
City of Evanston

Internal Control Over Compliance

The management of the City of Evanston is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Evanston's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Evanston's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evanston, Illinois, as of and for the year ended February 29, 2008, which collectively comprise the City of Evanston's basic financial statements and have issued our report thereon dated September 24, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Evanston's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

To the Honorable Lorraine H. Morton, Mayor and
Members of the City Council
City of Evanston, Illinois

This report is intended solely for the information and use of the City of Evanston's management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Vickow, Krause & Company LLP

Oak Brook, Illinois
September 24, 2008

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 29, 2008

FEDERAL GRANTOR	FEDERAL CFDA NUMBER	PASS-THROUGH IDENTIFYING NUMBER	EXPENDITURES FOR THE FISCAL YEAR
Direct Programs - Grants			
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
COMMUNITY PLANNING AND DEVELOPMENT			
Community Development Block Grant *			
Entitlement year 22	14.218	B96-MC-17-0012	\$ 1,000
Entitlement year 25	14.218	B99-MC-17-0012	2,533
Entitlement year 27	14.218	B01-MC-17-0013	28,413
Entitlement year 30	14.218	B04-MC-17-0012	15,000
Entitlement year 31	14.218	B05-MC-17-0012	38,870
Entitlement year 32	14.218	B06-MC-17-0012	210,404
Entitlement year 33	14.218	B07-MC-17-0012	<u>2,095,156</u>
Total Community Development Block Grant			<u>2,391,376</u>
Emergency Shelter Block Grant	14.231	S07-MC-17-0012	<u>84,825</u>
Total Emergency Shelter Block Grant			<u>84,825</u>
Home Investment Partnership			
HOME Program	14.239	M03-MC-17-0218	6,259
HOME Program	14.239	M04-MC-17-0218	33,654
HOME Program	14.239	M05-MC-17-0218	122,344
HOME Program	14.239	M06-MC-17-0218	339,329
HOME Program	14.239	M07-MC-17-0218	<u>3,033</u>
Total HOME Program			<u>504,619</u>
Total Department of Housing and Urban Development			<u>2,980,820</u>

* Denotes a Major Program

(Continued)

The accompanying notes are an integral part of this schedule.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 29, 2008

FEDERAL GRANTOR	FEDERAL CFDA NUMBER	PASS-THROUGH IDENTIFYING NUMBER	EXPENDITURES FOR THE FISCAL YEAR
DEPARTMENT OF JUSTICE			
OFFICE OF COMMUNITY ORIENTED POLICING SERVICES			
Title V Delinquency Program	16.548	11G6627000	\$ 46,973
Justice Assistant Grant	16.592	2006-DJ-BX-0689	58,232
Law Enforcement Prosecutor Based Victim Assistance Grant	16.575	206045	45,760
MDC Equipment Program Grant	16.579	403581	10,199
Community Service Prog Grant	16.523	505029	<u>26,000</u>
Total Department of Justice			<u>187,164</u>
Pass-Through Programs - Grants and Loans			
DEPARTMENT OF AGRICULTURE			
Passed through State of Illinois Department of Public Health			
Summer Lunch Program	10.559	14-016-510P-00	88,012
Summer Food Inspection Program	10.559	78281027	<u>600</u>
Total Department of Agriculture			<u>88,612</u>
DEPARTMENT OF TRANSPORTATION			
Passed through Chicago Metropolitan Agency for Planning			
Bike System Plan	20.205	BP02040897	<u>28,894</u>
Total Department of Transportation			<u>28,894</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES			
Passed through the Illinois State Library			
Library Services and Technology Act	45.310	08-5166	<u>10,602</u>
Total National Endowment for the Humanities			<u>10,602</u>
ENVIRONMENTAL PROTECTION AGENCY			
OFFICE OF WATER			
Passed through the Illinois Environmental Protection Agency			
Water Pollution Control Revolving Loan*	66.458	L17273600/7100	<u>2,169,139</u>
Passed through State of Illinois Department of Public Health			
Beachwater Testing	66.472	75380151	<u>4,617</u>
Total Environmental Protection Agency			<u>2,173,756</u>

* Denotes a Major Program

(Continued)

The accompanying notes are an integral part of this schedule.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 29, 2008

FEDERAL GRANTOR	FEDERAL CFDA NUMBER	PASS-THROUGH IDENTIFYING NUMBER	EXPENDITURES FOR THE FISCAL YEAR
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
PUBLIC HEALTH SERVICE - I			
OFFICE OF HUMAN DEVELOPMENT SERVICES			
Passed through Suburban Area Agency on Aging			
Ombudsman (Older Americans Act Title III B)			
Special Programs for the Aging	93.633	A13-119	\$ <u>59,858</u>
Passed through State of Illinois Department of Human Services			
Family Planning	93.994	11G7095000	<u>13,500</u>
Total Public Health Service - I			<u>73,358</u>
HEALTH CARE FINANCING ADMINISTRATION			
PUBLIC HEALTH SERVICE - II			
Passed through State of Illinois Department of Human Services			
Family Case Management	93.994	11G7095000	<u>41,600</u>
Teen Pregnancy Prevention	93.994	11G7095000	35,800
Teen Pregnancy Prevention	93.994	11G8095000	<u>18,200</u>
Total Teen Pregnancy Prevention			<u>54,000</u>
Teen Parent Services	93.667	11G8095000	<u>38,500</u>
Passed through State of Illinois Department of Public Health			
Oral Health Grant	93.994	63481083/73480151	<u>1,031</u>
Family Case Management Administration Reimbursement	93.778	None	<u>121,574</u>
Total Public Health Service - II			<u>256,705</u>
Bio Terrorism Grants			
Bio Terrorism Preparedness	93.283	87181027	51,726
Cities Readiness Initiative (CRI)	93.283	67081020	<u>19,514</u>
Total Bio Terrorism Grants			<u>71,240</u>
Vector Prevention Grant	93.283	75380119	<u>3,000</u>
Total Department of Health and Human Services			<u>404,303</u>

* Denotes a Major Program

(Continued)

The accompanying notes are an integral part of this schedule.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 29, 2008

FEDERAL GRANTOR	FEDERAL CFDA NUMBER	PASS-THROUGH IDENTIFYING NUMBER	EXPENDITURES FOR THE FISCAL YEAR
FEDERAL EMERGENCY MANAGEMENT AGENCY			
STATE AND LOCAL PROGRAMS AND SUPPORT			
Passed through the Illinois Emergency Services and Disaster Agency			
2007 Northern Illinois Severe Storms	97.036	172903124582-00	\$ 209,831
Emergency Management Assistance Program	97.XXX	497-58830-4400	<u>23,485</u>
Total Federal Emergency Management Agency			<u>233,316</u>
Total Federal Financial Assistance			\$ <u>6,107,467</u>

* Denotes a Major Program

(Concluded)

The accompanying notes are an integral part of this schedule.

CITY OF EVANSTON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended February 29, 2008

NOTE 1 – REPORTING ENTITY

This report on Federal Awards includes the federal awards of the City of Evanston, Illinois. The reporting entity for the city is based upon criteria established by the Governmental Accounting Standards Board.

The City of Evanston is the primary government according to GASB criteria.

NOTE 2 – BASIS OF PRESENTATION

The accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

NOTE 3 – SUBRECIPIENTS

Of the federal expenditures presented in the schedule of expenditures of federal awards, the City of Evanston provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Emergency Shelter Block Grant	14.231	\$81,318
Community Development Block Grant (CDBG)	14.218	\$500,919

CITY OF EVANSTON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended February 29, 2008

NOTE 4 – PROGRAM INCOME

The City of Evanston received the following program income amounts for the year ended February 29, 2008. The balances of receipts are from letter of credit drawdowns for the program. The program expenditures for the year include expenditures of this program income. Program income is not included in the award amount.

<u>Program</u>	<u>CFDA No.</u>	<u>Amount</u>
Community Development Block Grant (CDBG)	14.218	\$104,559
HOME Investment Partnership (HOME)	14.239	\$66,503

NOTE 5 – LOANS RECEIVABLE OUTSTANDING

The City of Evanston had the following loan receivable balances outstanding at February 29, 2008:

<u>Program</u>	<u>CFDA No.</u>	<u>Amount</u>
Community Development Block Grant (CDBG)	14.218	\$1,637,052
HOME Investment Partnership (HOME)	14.239	\$3,039,495

NOTE 6 – IEPA LOANS PAYABLE

During the year ended February 29, 2008, the City has 26 outstanding loans from the IEPA. Federal funds are commingled with the IEPA loan balances. The city will repay loans solely from revenues derived from the sewer system; the loans do not constitute a full faith and credit obligation of the City. They will be repaid with equal installments consisting of principal plus simple interest, on unpaid principal balances, over a period of 20 years. Initial balances will consist of disbursements and interest accrued during construction. Repayments begin not later than six months after completion of the construction.

CITY OF EVANSTON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended February 29, 2008

Fiscal Year ending <u>February 28</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 7,534,224	\$ 2,771,347
2010	7,791,791	2,575,069
2011	8,019,014	2,347,755
2012	8,252,971	2,113,703
2013	8,371,194	1,872,709
2014 - 2018	3,5312,564	6,120,640
2019 - 2023	20,346,086	2,248,441
2024 - 2028	7,722,421	433,060
2029 - 2033	<u>60,622</u>	<u>758</u>
Total	\$ <u>103,410,887</u>	\$ <u>20,483,482</u>

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	X yes	_____ no
Significant deficiency(s) identified not considered to be material weaknesses?	X yes	_____ none reported
Noncompliance material to financial statements noted?	_____ yes	X no

Federal Awards

Internal Control over major programs:		
Material weakness(es) identified?	_____ yes	X no
Significant deficiency(s) identified not considered to be material weaknesses?	_____ yes	X none reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ yes	X no

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Community Development Block Grants (CDBG)	14.218
Capitalization Grants For Clean Water State Revolving Funds	66.458

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	_____ yes X no

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Section II-Financial Statement Findings

Finding number: 2008-1

Criteria: The City must have functioning internal controls over information technology.

Condition: Significant deficiencies in internal control over information technology were found during our audit.

Context: During the course of our audit, we assessed the internal controls over information technology (IT). Several information technology deficiencies were found such as weak passwords, lack of a system lifecycle policy or software acquisition policy, lack of review of access or permissions of the City's systems, lack of obtaining SAS 70 reports for the effectiveness of controls of third party providers, lack of a procedure to handle information technology emergencies, and lack of a formal IT operations schedule in place.

Effect: Deficiencies in control over information technology could result in system errors or the compromise of the City's systems and thus impact the financial information of the City.

Cause: This finding was caused by deficiencies in the information technology systems and procedures.

Recommendation: We recommend that management evaluate their internal controls over information technology and develop controls to prevent and detect system errors or breaches. Management or information technology staff may consider seeking additional training in this area.

Management Response: Access to the City's network and applications begins with the requirement of a "network" username and password which is stored in Active Directory. The audit report inaccurately states that there is no complexity requirement for network passwords. We follow industry standards in our network password management: passwords must be eight or more characters, can not be in the dictionary and must contain 3 different types of characters (upper case, lower case, special character, number). In addition, they must be changed every 90 days. Once a person has logged in to the network with their network username and password, then they are eligible to log in to applications stored on our network systems such as MSI, CryWolf and IRIS. These applications are purchased applications and the City has no ability to alter the password management for these applications. We should note that:

- MSI is being replaced by a new, purchased application that will allow Active Directory management of usernames and passwords.
- An anticipated IRIS upgrade will enable it to integrate with Active Directory for user and password management.
- PowerPark is no longer used at the City. It has been replaced by an outsourced system provided by Duncan Solutions.

Implementation of these items will mean that the only major system at the City without industry standard password management will be RecTrac.

We should also note that organizations as small as the City of Evanston do not generally have a separate organization to handle network access. Any change to our current responsibilities can not be determined by BPAT as we do not have the authority to assign this to another department.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Section II-Financial Statement Findings

Finding number:

2008-1, cont.

The City does very little software development. Implementing and documenting a software development life cycle policy would be costly and would not provide a significant benefit in an organization our size.

While the City does not have a "software acquisition" policy, we do follow a rigorous process when acquiring software. This process involves purchasing, application and technical personnel in a coordinated way to acquire the best software possible for the City. BPAT provides environmental requirements and reviews the vendor's technical specifications.

The City has no policy or process for periodic review of application user logins. We agree that this would be an excellent thing to do. This would require the Department responsible for each application to perform the audit. BPAT would be happy to assist in any way we can. Appropriate application access is determined by department management, not by BPAT.

It is correct that Kubra has not provided a current SAS-70 to the City. They provided one for 2006 and were in the process of performing an SAS 70 type 2 at the time of the request (February 2008). We have spoken with Kubra and they will be sending us their 2008 updated SAS-70.

While it was correct that there was no written, defined, formal process for "emergency" changes to the financial system; it should be noted that we have created and documented an emergency policy and procedure as a result of the audit.

There are three operational BPAT activities which are regularly scheduled. These are payroll, accounts payable checks, and nightly/weekly backups. While it is correct that there is no formal, separate, documented schedule for BPAT operations, this is because there are only three regularly scheduled activities.

The audit incorrectly states that there is no formal process for authorizing new hires or changes in access for current employees. The City has a formalized, automated procedure for identifying which individuals should be authorized to access the network as well as application systems. In order for a person to be added to our network, a Department head or designee must authorize the individual, delineate what kind of access this individual can have and identify the application systems that the person should be allowed access to. In addition, the person must sign the "City of Evanston – Information Technology Resources Policy on Acceptable Use" agreement prior to gaining access to the City's network.

The City does not have an ironclad procedure or policy for terminating user network or application accounts when a person's employment with the City is terminated. We do have an automated system that extracts terminated employees from IRIS (the City's ERP system) and an attempt is made from that report to identify network accounts that are affected. This is not a guaranteed process. BPAT has repeatedly requested that such a process be put in place and would absolutely encourage and support the development and implementation of such a procedure.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Section II-Financial Statement Findings

Finding number: 2008-2

Criteria: The City must have functioning internal controls over its various transaction cycles.

Condition: The City has material weaknesses in its internal controls over cash disbursements and accounts payable, payroll and human resources, licenses permits and fees, utility billing, and account reconciliations. The City also has weaknesses in its entity level controls.

Context: Below is a list of controls that should be in place to achieve a higher level of reliability that errors or irregularities in the City's processes would be discovered by its staff. Our procedures identified that these controls do not currently exist for the City of Evanston.

CONTROLS OVER CASH DISBURSEMENTS AND ACCOUNTS PAYABLE

1. The Accounts Payable Clerk has the ability to create new vendors.

CONTROLS OVER PAYROLL AND HUMAN RESOURCES

1. There is a lack of segregation of duties in the payroll department. Individuals have full access to the payroll module and can add and modify employee information, specifically pay rate changes.
2. There was inadequate, inconsistent documentation of payroll salary worksheets within Human Resource employee files. The City's policy is to document any increase in pay through a standard form. Our testing indicated incomplete or missing change forms for employees employed for a number of years.

CONTROLS OVER LICENSES, PERMITS, AND FEES

1. There are no segregation of duties over the cash receipts and revenue recording process. The cashier both collects payments and enters the cash receipts information into the general ledger or supporting ledger system.

CONTROLS OVER UTILITY BILLING

1. The City does not have a process to review new utility accounts to ensure that they were created appropriately in the system.
2. The City's detailed utility accounts receivable records did not agree with the general ledger control accounts.

CONTROLS OVER THE RECONCILIATION PROCESS

1. Due to staffing and responsibility constraints, we noted that monthly bank reconciliations are not performed on a timely basis. As of July 17, 2008, a number of March 2008 bank reconciliations were not performed.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Section II-Financial Statement Findings

Finding number: 2008-2, cont.

ENTITY LEVEL CONTROLS

1. The ability to prepare and enter journal entries is delegated to various levels of finance; however there is no formal review process of non-routine transactions. Therefore, an entry could be made without the knowledge of the appropriate supervisor.
2. The City has established code of conduct which is communicated to all employees upon hiring, but is not communicated or emphasized to employees on an annual basis.

Effect: Lack of proper internal controls could result in a potential material misstatement of the financial statements.

Cause: This material weakness was caused by a lack of adequate staffing and procedures in place to have an effective system of internal controls.

Recommendation: We recommend that management review these control deficiencies and decide which controls management can implement to address these deficiencies.

Management Response: ***Controls Over Cash Disbursements and Accounts Payable***

The City concurs with this finding but believes the operational efficiency outweighs the internal control concern. It is the City's belief that Staff review Council approval of the bills list prior to disbursement of funds serves as an adequate control measure. These processes have been reviewed by the Auditor.

Controls Over Payroll and Human Resources

All pay rate changes are performed by Human Resources. In addition, it is City policy that a personnel change form be completed for all pay adjustments, excluding across-the-board annual cost of living increases which are approved in total after being reviewed by Finance and Human Resources staff.

Controls Over Licenses, permits, and fees

The City concurs that cash collection and batch posting are performed by employees in the Collections Division but the City believes that the cash balancing/reconciling procedures followed by staff provide adequate controls for cash handling.

Controls over Utility Billing

The City concurs with item #1, although it is not normal practice for municipalities to review newly created utility accounts by a second staff member and does not believe this causes any security or financial concerns. Utility billing accounts receivable often vary from the general ledger due to individual account adjustments but it is of the City's opinion that this should not be considered an internal control issue.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Section II-Financial Statement Findings

Finding number: 2008-2, cont.

Controls over the Reconciliation process

The City concurs that during audit season bank reconciliations are not completed on a timely basis due to severe time constraints of accounting staff. This issue was further exacerbated due to the Finance Department having four vacancies during the time referenced in the comment.

Entity level controls

#1 Due to a rather small staff of accounting personnel, the City concurs that there is no formal process of journal entry review by a second accountant. The City believes its accounting staff is competent to enter journal entries, routine and non-routine, without the requirement of approval by a supervisor. City funds are reviewed on a monthly basis to ensure funds are in balance by the appropriate supervisory personnel. Journal entry errors are corrected during the preparation of financial reports and also reviewed again in creating audit workpapers and corrected prior to audit field work.

#2 The City feels that the code of ethics currently in place is proper and is this code is communicated to all employees.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Section II-Financial Statement Findings

Finding number: 2008-3

Criteria: The City must have functioning internal controls over external financial reporting.

Condition: Material audit entries were required for the financial statements to be properly stated as of February 29, 2008.

Context: During the course of our audit, material misstatements of the financial statements were found, resulting in audit adjustments. The adjustments to the financial statements included the following:

1. Calculation of the compensated absences payable from the General Fund and Governmental Activities.
2. Correction of the closing entry for the Mayor's Special Housing Fund into the Affordable Housing Fund.
3. Correction of the reconciling entry of unsettled investments purchased.
4. Interfund borrowing for funds with cash deficit balances in commingled cash accounts.
5. Recognition of a non-exchange transaction – the property held for resale within the CDBG Fund.
6. Correction of the current portion of claims payable in the Insurance Internal Service Fund.
7. Allocation of operating grants and contributions, premiums, deferred amount on refunding, and amortization of premiums and discounts within Statement of Activities
8. Improper recognition of revenue and fund balance applied within the Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund.

Effect: Management was unaware of material errors to their financial statements.

Cause: This finding was caused by insufficient internal controls over the external financial reporting process.

Recommendation: We recommend that management evaluate their internal controls over financial reporting and develop controls to prevent and detect material misstatements in the financial records. Management might consider seeking additional training in this area.

Management Response: In the past, the City has worked with our Auditors to ensure the above entries are made after the close of the fiscal year. Due to the Auditor's increased regulatory responsibilities these types of entries need to be made without consultation with the Auditor. Please see a detailed response following:

1. The amount of \$479,861 represents a reduction of accrued payouts to the employees who have opted for ERI after 2/29/08.
2. This adjustment is due to a consolidation of the two Funds and required for presentation purposes only.
3. This adjustment corrected the fact that cash was not reduced for a security purchased and recorded as an investment due to a timing difference between the purchase and settlement dates.
4. This adjustment is for financial statement presentation purposes only. At times a Fund/s may have a negative cash balance if there is a pooling of cash with other Fund having positive cash balances. This adjustment eliminated the negative cash balance in three Funds and rather presented these deficit cash balances as interfund liabilities.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Section II-Financial Statement Findings

Finding number: 2008-3, cont.

5. This adjustment capitalizes the City's (lessor) repossession of City owned property due to lessee contract non-compliance.
6. Reclassification required to change reporting of liability (claims payable) from long to short term. This entry required for financial report presentation purposes only.
7. This adjustment was to change revenue expense classification/category for financial reporting purposes only.
8. This entry adjusts the financial report presentation by eliminating the use of "applied fund balance" as a revenue source on the statement of Revenues, Expenditures and Changes in Fund Balance.

CITY OF EVANSTON, ILLINOIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED FEBRUARY 29, 2008

Section III-Federal Award Findings and Questioned Costs

None reported.

CITY OF EVANSTON, ILLINOIS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED FEBRUARY 29, 2008

<u>Finding</u>	<u>CFDA#</u>	<u>Program</u>	<u>Questioned Costs</u>
06-01	14.218	Community Development Block Grant	None

Finding/Noncompliance

Wages should be monitored to insure that the provisions of the Davis-Bacon Act are met. The City could not locate support for two of the thirteen disbursements tested to show that Davis-Bacon Act monitoring took place and that the wage requirements were met. Subsequent testing determined that prevailing wage rates were met or exceeded in all instances tested. Support for the monitoring should be maintained for at least three years. The City should develop standard procedures for record retention that include the amount of time to keep the files (a minimum of three years) and what information should be maintained in those files.

Corrective Action Taken: All applicable Davis Bacon documents are now retained by the City. This is not a repeated finding in fiscal year 2008.

<u>Finding</u>	<u>CFDA#</u>	<u>Program</u>	<u>Questioned Costs</u>
07-03	14.218	Community Development Block Grant	None

Finding / Noncompliance

Wages should be monitored to insure that the provisions of the Davis-Bacon Act are met. The City could not locate support for three of the thirty two disbursements tested to show that Davis-Bacon Act monitoring took place and that the wage requirements were met. Subsequent testing determined that prevailing wage rates were met or exceeded in all instances tested. Support for the monitoring should be maintained for at least three years. The City should develop standard procedures for record retention that include the amount of time to keep the files (a minimum of three years) and what information should be maintained in those files.

Corrective Action Taken: All applicable Davis Bacon documents are now retained by the City. This is not a repeated finding in fiscal year 2008.