



**CITY OF NAPERVILLE, ILLINOIS**

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SINGLE AUDIT REPORT

For the Year Ended December 31, 2017

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**CITY OF NAPERVILLE, ILLINOIS**  
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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***

The Mayor and City Council  
City of Naperville, Illinois

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Naperville, Illinois (the City), as of and for the year ended December 31, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 21, 2018. Our report includes a reference to other auditors who audited the financial statements of the Firefighters' Pension Fund, as described in our report on City of Naperville, Illinois' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*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 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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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 the 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*.

### **Purpose of the Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sikich LLP*

Naperville, Illinois  
June 21, 2018

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

The Mayor and City Council  
City of Naperville, Illinois

**Report on Compliance for Each Major Federal Program**

We have audited the City of Naperville, Illinois' 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 year ended December 31, 2017. The City of Naperville, Illinois' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion compliance for each of the City of Naperville, Illinois' major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Naperville, Illinois' 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the City of Naperville, Illinois' compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City of Naperville, Illinois' complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the City of Naperville, Illinois is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the City of Naperville, Illinois' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance 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. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Naperville, Illinois as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Naperville, Illinois' basic financial statements. We issued our report thereon dated June 21, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Sikich LLP*

Naperville, Illinois  
June 21, 2018

**CITY OF NAPERVILLE, ILLINOIS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2017

<b>Federal Grantor</b>	<b>Pass-Through Grantor</b>	<b>Grant Name</b>	<b>Federal CFDA#</b>	<b>Grant Number</b>	<b>Expenditures</b>
Department of Housing and Urban Development	N/A	Community Development Block Grant Program	14.218*	B-16-MC-17-0031	\$ 273,183
		Community Development Block Grant Program	14.218*	B-17-MC-17-0031	<u>77,250</u>
		Total Community Development Block Grant Program and Department of Housing and Urban Development			<u>350,433</u>
Department of Homeland Security	Illinois Emergency Management Agency	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.042	N/A	22,195
		Mutual Aid Box Alarm System	97.067	N/A	47,269
	Illinois Law Enforcement Alarm System	97.067	N/A	<u>18,960</u>	
	Total Homeland Security Grant Program			<u>66,229</u>	
	Total Department of Homeland Security			<u>88,424</u>	
Department of Justice	N/A	Equitable Sharing Program	16.922	N/A	<u>1,708</u>
		Total Department of Justice			<u>1,708</u>
Department of Transportation	Illinois Department of Transportation	Highway Planning and Construction Cluster	20.205*	N/A	258,314
		Enhanced Mobility of Seniors and Individuals with Disabilities			
	Regional Transportation Authority	- Transit Services Programs Cluster	20.513	N/A	129,736
	Illinois Department of Transportation	State and Community Highway Safety - Highway Safety Cluster	20.600	N/A	<u>49,084</u>
		Total Department of Transportation			<u>437,134</u>
<b>TOTAL ALL FEDERAL AWARDS</b>					<u><u>\$ 877,699</u></u>

**Notes to Schedule of Expenditures of Federal Awards**

\* Denotes major program

Note A - The accompanying schedule of expenditures of federal awards is a summary of the activity of the City's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when the qualifying expenditure has been incurred and expenditures have been recognized when the fund liability has been incurred.

Note B - Of the federal expenditures presented in this schedule, the City provided federal awards to subrecipients under CFDA# 14.218 in the amount of \$335,364.

Note C - The City did not receive any federal insurance or non-cash assistance. The City also did not have any federal loans or loan guarantees.

Note D - The City did not elect to use the federal 10% de minimus indirect cost rate for the year ended December 31, 2017.

**CITY OF NAPERVILLE, ILLINOIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended December 31, 2017

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**Section I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal Control over major federal programs:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

Type of auditor's report issued on compliance for each major federal program: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
20.205	Highway Planning and Construction Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?  yes  no

**CITY OF NAPERVILLE, ILLINOIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

For the Year Ended December 31, 2017

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**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

**2017-001: Community Development Block Grant - CFDA # 14.218**

Criteria

Subrecipient monitoring requirements are contained in 2 CFR Section 330, 331, and 501(h). To comply with the subrecipient monitoring requirement, the City is required to evaluate each sub recipient's risk of noncompliance for purposes of determining appropriate subrecipient monitoring activities of the subaward.

Condition

We noted two instances where the subrecipient's most recent audit reports were not requested and received until after the payments on the projects were disbursed to the subrecipients. Additionally, we noted two instances where a statement was not obtained from the subrecipient that no single audit was required in their most recent audit period prior to being awarded a subaward.

Questioned Costs

There are no questioned costs related to this finding.

Context

This finding relates to the Community Development Block Grant award B16MC170031. Of the 5 subawards selected for testing, it was noted that the subrecipient's most recent audit reports were not requested and received until after the payments on the projects were disbursed to the subrecipients for two of the five subawards tested. Additionally, it was noted that single audits were not required for four of the five subrecipients. In two of these four instances, statements were not obtained from the subrecipients stating that no single audit was required.

**CITY OF NAPERVILLE, ILLINOIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

For the Year Ended December 31, 2017

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**Section III - Federal Award Findings and Questioned Costs (Continued)**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)

**2017-001: Community Development Block Grant - CFDA # 14.218 (Continued)**

Cause The City does not utilize a standardized Single Audit Report Review Checklist to review single audit reports received from subrecipients. Additionally, the City does not obtain a statement from subrecipients stating whether the subrecipient required a single audit for their most recent fiscal year end prior to the City awarding a sub award.

Effect Lack of appropriate review of subrecipient single audit reports could result in the City failing to properly monitor the resolution of prior subrecipient single audit findings.

Recommendation We recommend that the City utilize a standardized Single Audit Report Review Checklist to review single audit reports received from subrecipients. Additionally, we recommend that the City obtain a statement from subrecipients stating whether the subrecipient required a single audit for their most recent fiscal year end prior to the City awarding a sub award. If applicable, the City should obtain and review a copy of the subrecipiepent's most recent single audit report and review it for findings in order to properly monitor subrecipients in accordance with 2 CFR Section 330, 331, and 501(h).

Views of Responsible Officials Management agrees with this finding and their response is included within the Corrective Action Plan.

**Section IV - Summary Schedule of Prior Audit Findings**

**2016-001: Bank Reconciliations**

Criteria The City is responsible for maintaining a system of internal controls over the preparation of financial statements. Monthly and year-end financial statements should be prepared in a timely manner and should be free of material errors. As part of this process, all cash transactions should be posted to the general ledger in a timely manner and bank reconciliations should be completed timely and accurately.

**CITY OF NAPERVILLE, ILLINOIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

For the Year Ended December 31, 2017

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**Section IV - Summary Schedule of Prior Audit Findings (Continued)**

**2016-001: Bank Reconciliations**

<u>Criteria</u>	The City is responsible for maintaining a system of internal controls over the preparation of financial statements. Monthly and year-end financial statements should be prepared in a timely manner and should be free of material errors. As part of this process, all cash transactions should be posted to the general ledger in a timely manner and bank reconciliations should be completed timely and accurately.
<u>Condition/Context</u>	During our audit of the financial statements, we noted that the City's main operating account was not fully reconciled until after the trial balance was provided to the auditors. A significant number of journal entries were proposed by management to record cash transactions and reconcile the operating account to the general ledger.
<u>Effect</u>	Significant adjustments were proposed by management to reconcile cash to the City's general ledger. The City's unadjusted trial balances and financial statements were not free of material misstatement.
<u>Cause</u>	Bank reconciliations were not performed in a timely manner.
<u>Recommendation</u>	We recommend that the City reconcile cash in a timely manner each month. All cash transaction should be posted to the general ledger in a timely manner and bank reconciliations should be free from material unreconciled differences.
<u>2017 Status</u>	This comment is considered implemented for the year ended December 31, 2017

**CITY OF NAPERVILLE, ILLINOIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

For the Year Ended December 31, 2017

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**Section IV - Summary Schedule of Prior Audit Findings (Continued)**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

**2016-002: Community Development Block Grant - CFDA # 14.218**

<u>Criteria</u>	Subrecipient monitoring requirements are contained in 2 CFR Section 330, 331, and 501(h). To comply with the subrecipient monitoring requirement, the City is required to evaluate each sub recipient's risk of noncompliance for purposes of determining appropriate subrecipient monitoring activities of the subaward.
<u>Condition</u>	We noted one instance where the subrecipient had a single audit in their most recent audit period prior to being awarded a subaward. The single audit report was not obtained and reviewed by the City prior to the City awarding the subrecipient with the subaward. Additionally, we noted four instances where a statement was not obtained from the subrecipient that no single audit was required in their most recent audit period prior to being awarded a subaward.
<u>Questioned Costs</u>	There are no questioned costs related to this finding.
<u>Context</u>	This finding relates to the Community Development Block Grant awards B14MC170031, B15MC170031, and B16MC170031. Of the 5 subawards selected for testing, it was noted that single audits were not required for four of five subrecipients and single audits were required but not obtained by the City for one of five sub recipients.
<u>Cause</u>	The City does not utilize a standardized Single Audit Report Review Checklist to review single audit reports received from subrecipients. Additionally, the City does not obtain a statement from subrecipients stating whether the subrecipient required a single audit for their most recent fiscal year end prior to the City awarding a sub award.
<u>Effect</u>	Lack of appropriate review of subrecipient single audit reports could result in the City failing to properly monitor the resolution of prior subrecipient single audit findings.

**CITY OF NAPERVILLE, ILLINOIS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

For the Year Ended December 31, 2017

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**Section IV - Summary Schedule of Prior Audit Findings (Continued)**

**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)**

**2016-002: Community Development Block Grant - CFDA # 14.218 (Continued)**

**Recommendation**

We recommend that the City utilize a standardized Single Audit Report Review Checklist to review single audit reports received from subrecipients. Additionally, we recommend that the City obtain a statement from subrecipients stating whether the subrecipient required a single audit for their most recent fiscal year end prior to the City awarding a sub award. If applicable, the City should obtain and review a copy of the subrecipient's most recent single audit report and review it for findings in order to properly monitor subrecipients in accordance with 2 CFR Section 330, 331, and 501(h).

**2017 Status**

This comment is repeated as finding 2017-001 for the year ended December 31, 2017



Corrective Action Plan  
For the Year Ended December 31, 2017

**2017-001: Community Development Block Grant - CFDA # 14.218**

Condition

We noted two instances where the subrecipient's most recent audit reports were not requested and received until after the payments on the projects were disbursed to the subrecipients. Additionally, we noted two instances where a statement was not obtained from the subrecipient that no single audit was required in their most recent audit period prior to being awarded a subaward.

Corrective Action Plan

The City finance department will be implementing procedures and a checklist for subrecipient monitoring related to the City's Community Development Block Grants. Payments to subrecipients will not be processed without first obtaining copies of the most recent audits as well as statements that no single audits were required for subrecipients, as applicable. Only when this necessary documentation has been obtained will the City finance department approve payments to subrecipients. Proof of the documents is to be provided by the grant manager and provided to the finance department with request for payment.

Contact Person Responsible for Corrective Action

Rachel Mayer, Finance Director

Anticipated Completion Date

This will be implemented by August 31, 2018.