

CITY OF NAPERVILLE, ILLINOIS

SINGLE AUDIT REPORT

For the Year Ended
April 30, 2014



CITY OF NAPERVILLE, ILLINOIS
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Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

**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 April 30, 2014, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 29, 2014. 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 of Naperville, Illinois' internal control over financial reporting to determine the 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.

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 entity'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 significant deficiencies or material weaknesses, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. We consider 2004-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Naperville, Illinois' 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 basic 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*.

The City's response to the 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 the financial statements and, accordingly, we express no opinion on it.

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.



Naperville, Illinois
August 29, 2014



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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 *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2014. 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 the requirements of laws, regulations, contracts and grants applicable to its major 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 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 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 April 30, 2014.

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 OMB Circular A-133, 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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 April 30, 2014, 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 August 29, 2014, 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 OMB Circular A-133 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.

Purpose

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose

Handwritten signature in cursive script that reads "Silich LLP".

Naperville, Illinois
August 29, 2014

CITY OF NAPERVILLE, ILLINOIS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended April 30, 2014

Federal Grantor	Pass-Through Grantor	Grant Name	Federal CFDA#	Grant Number	Revenues	Expenditures
Department of Housing and Urban Development	N/A	Community Development Block Program	14.218	B-10-MY-17-0031	\$ 53,451	\$ 53,451
		Community Development Block Program	14.218	B-11-MY-17-0031	83,739	83,739
		Community Development Block Program	14.218	B-12-MY-17-0031	66,538	66,538
		Community Development Block Program	14.218	B-13-MY-17-0031	251,028	251,028
					<u>454,756</u>	<u>454,756</u>
Department of Homeland Security	Illinois Emergency Management Agency	Disaster Grants - Public Assistance Grants	97.036	N/A	36,675	36,675
	Illinois Emergency Management Agency	Energy Management Performance Grants	97.042	11NBEMNAPE	49,813	49,813
	N/A	2013 SAFER Grant	97.083	EMW-2013-FH-00317	24,157	24,157
	N/A	Police Secret Service Account	97.000	N/A	4,059	4,059
Department of Justice	IL Criminal Justice Information Authority	Drug Forfeiture Grant	16.579	N/A	183,901	183,901
	N/A	Federal Asset Forfeitures	16.579	N/A	100,114	100,114
					<u>284,015</u>	<u>284,015</u>
	N/A	Police Technology Grant	16.738	2012-DJ-BX-1200	10,637	10,637
Department of Transportation	Regional Transportation Authority	Job Access Reverse Commute	20.516	JARC 2009	137,019	137,019
TOTAL ALL FEDERAL AWARDS					<u>\$ 1,001,131</u>	<u>\$ 1,001,131</u>

Notes to Schedule of Expenditures of Federal Awards

- 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 in the amount of \$548,043.
- 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.

CITY OF NAPERVILLE, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended April 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:
Significant deficiency identified? X yes no
Significant deficiency(s) identified
considered to be a material weakness? yes X no

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
considered to be material weaknesses? yes X no

Type of auditor's report issued on compliance
for major programs: *unmodified*

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

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes no

CITY OF NAPERVILLE, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2014

Section II - Financial Statement Findings

2014-001 Escrow Deposits

Condition: During our review of the City's escrow fund, it came to our attention that some of the City's escrow balances had not been reviewed to determine if the balances were still valid escrows. The City reviewed these balances and determined that many of the escrow accounts contained funds that were not valid liabilities. Rather, some of the funds collected should have been reported as revenue at the time of receipt. As a result, a prior period adjustment was recorded to increase fund balance in the General Fund

Criteria: The City's financial reporting process should record developer contributions as revenue but deposits as liabilities.

Cause: It appeared that an inadequate review of each cash receipt had been performed at time of receipt, therefore causing certain items to be recorded as liabilities that should have recorded as revenues.

Effect: A prior period adjustment was recorded to properly report the prior year revenues.

Recommendation: We recommend the City review its policies for opening escrow liability accounts and formalize the policies and train staff in its implementation.

Corrective Action Plan:

The City is implementing a formal policy to recognize developer contributions as revenue and escrow/returnable deposits as liabilities. The implementation of the formal policy will include staff training on opening escrow liability accounts.

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Prior Year Audit Findings

None