

CITY OF NAPERVILLE, ILLINOIS

**AUDITOR'S COMMUNICATION
TO THE CITY COUNCIL**

For the Year Ended
April 30, 2014

CITY OF NAPERVILLE, ILLINOIS
AUDITOR’S COMMUNICATION TO CITY COUNCIL
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Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

August 29, 2014

The Honorable Mayor
Members of the City Council
City of Naperville
400 South Eagle Street
Naperville, Illinois 60540

Ladies and Gentlemen:

As part of our audit process we are required to have certain communications with those charged with governance at the beginning of our audit process and at the conclusion of the audit. Those communications include information related to the planned scope and timing of our audit, as well as other information required by auditing standards. Our communication at the beginning of our audit process along with our questionnaire regarding consideration of fraud in a financial statement audit was sent to you on April 30, 2014.

In addition, auditing standards requires the communication of internal control related matters to those charged with governance. Our management letter, as well as a listing of future pronouncements that may affect the City, are enclosed within this document.

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

Sincerely,

A handwritten signature in cursive script that reads 'Sikich LLP'.

Sikich LLP

By: Brian D. LeFevre, CPA, MBA
Partner



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Naperville, Illinois 60563

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August 29, 2014

The Honorable Mayor
Members of the City Council
City of Naperville
400 South Eagle Street
Naperville, Illinois 60540

Ladies and Gentlemen:

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 (except for the Firefighters' Pension Fund, which was audited by other auditors), which collectively comprise the basic financial statements of the City of Naperville as of and for the year ended April 30, 2014 and have issued our report thereon dated August 29, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 25, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended April 30, 2014 except for the implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* during the year ended April 30, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no particularly sensitive estimates made by management during our audit of the financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statements users. We noted no particularly sensitive disclosures. The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarized uncorrected misstatements of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 29, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

We applied certain limited procedures to the required supplementary information as listed in the table of contents which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund financial statements and schedules, which accompany the financial statements but are not RSI. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction of Use

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

Sincerely,



Sikich LLP

By: Brian D. LeFevre, CPA, MBA
Partner

City of Naperville
Year End: April 30, 2014
Adjusting Journal Entries
Date: 5/1/2013 To 4/30/2014

Number	Date	Type	Name	Account No	Debit	Credit
AJE #01	4/30/2014	N	BUILDINGS	204-0000.166 30 00 MIS-99		-120,905.21
AJE #01	4/30/2014	N	BUILDINGS	204-0000.166 30 00 MIS-99	960,371.00	
AJE #01	4/30/2014	N	BUILDINGS	204-0000.166 30 00 MIS-99	293,682.19	
AJE #01	4/30/2014	N	BUILDINGS	204-0000.166 30 00 MIS-99	8,536.00	
AJE #01	4/30/2014	N	BUILDINGS	204-0000.166 30 00 MIS-99	906.85	
AJE #01	4/30/2014	N	ACCUMULATED DEPRE.-F.A.	204-0000.167 10 00 MIS-99	218,959.24	
AJE #01	4/30/2014	N	ACCUMULATED DEPRE.-F.A.	204-0000.167 10 00 MIS-99		-275,628.24
AJE #01	4/30/2014	N	DEPRECIATION EXPENSE	204-6101.455 90 01 MIS-99		-218,959.24
AJE #01	4/30/2014	N	DEPRECIATION EXPENSE	204-6101.455 90 01 MIS-99	275,628.24	
AJE #01	4/30/2014	N	FIXED ASSETS CONTRA ACCT	204-6101.455 90 99 MIS-99	120,905.21	
AJE #01	4/30/2014	N	FIXED ASSETS CONTRA ACCT	204-6101.455 90 99 MIS-99		-960,371.00
AJE #01	4/30/2014	N	FIXED ASSETS CONTRA ACCT	204-6101.455 90 99 MIS-99		-293,682.19
AJE #01	4/30/2014	N	FIXED ASSETS CONTRA ACCT	204-6101.455 90 99 MIS-99		-8,536.00
AJE #01	4/30/2014	N	FIXED ASSETS CONTRA ACCT	204-6101.455 90 99 MIS-99		-906.85
To reverse original entry and adjust library FA to actual						
AJE #02	4/30/2014	N	UNRESERVED	301-0000.270 00 00 CP-301		-1,195,146.32
AJE #02	4/30/2014	N	CONTRI.FRM PRIVATE SOURCE	301-0000.367 15 00 CP-301	76,925.61	
AJE #02	4/30/2014	N	TAMARACK REIMB	301-0000.367 90 00 CP-301	1,118,220.71	
To record PPA for prior year contributions						

CITY OF NAPERVILLE, ILLINOIS

MANAGEMENT LETTER

April 30, 2014





1415 W. Diehl Road, Suite 400
Naperville, Illinois 60563

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

The Honorable Mayor
Members of the City Council
City of Naperville
400 South Eagle Street
Naperville, Illinois 60540

In planning and performing our audit of 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 as of and for the year ended April 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Naperville's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 first 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 deficient may exist that were not identified. However, as discussed on the following page, we identified a deficiency in internal control that we consider to be a significant deficiency. Also, we identified certain matters that are opportunities for strengthening internal controls and operating efficiency, of which management should be aware. In addition, we reviewed the status of the recommendations for the fiscal year ended April 30, 2013. The status of these recommendations is included in Appendix A.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 responses to the significant deficiency and other comments identified in our audit have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

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

Silich LLP

Naperville, Illinois
August 29, 2014

SIGNIFICANT DEFICIENCY

1. Escrow Deposits

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

Management Response

We are 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.

OTHER COMMENTS

1. Ethics Training

During our interviews conducted in accordance with Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, we noted that there is currently no formal ethics training at the City. We recommend that the City consider annual ethics training for all employees. We also recommend that ethics training be incorporated into new employee orientation and training.

Management Response

The City's Ethics Officer, Legal and Human Resource Departments will be reviewing City policies and programs in order to identify ethics developmental and training opportunities.

2. 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. 67, Financial Reporting for Pension Plans, replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension 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. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 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. Statement No. 67 is applicable for the fiscal year ending April 30, 2015.

OTHER COMMENTS (Continued)

2. Future Accounting Pronouncements (Continued)

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). Statement No. 68 is applicable for the fiscal year ending April 30, 2016.

GASB Statement No. 69, Government Combinations and Disposals of Government Operations. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Statement No. 69 is applicable for the fiscal year ending April 30, 2015.

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees intends to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Statement No. 70 is applicable for the fiscal year ending April 30, 2015.

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date amends GASB Statement No. 68, Accounting and Financial Reporting for Pensions and requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 71 is applicable for the fiscal year ending April 30, 2016.

APPENDIX A
STATUS OF COMMENTS FROM APRIL 30, 2013

DEFICIENCIES

1. Accounts Payable

During our testing of accounts payable, we noted one invoice which was incorrectly excluded from accounts payable at April 30, 2013. We proposed a journal entry to correct the accounts payable balance which was reviewed and approved by management. We recommend the City review its year processes for identifying accounts payable to ensure proper cutoff of expenditures at year end.

Management Response (prior year)

Finance has a year end accounts payable cut off procedure; however, over the years the departments focus on the process has declined. In addition to this one invoice noted by the auditors, the finance team had already identified several invoices that missed the standard cut off procedure and were able to get them properly accrued.

The Directors Leadership Team discussed the year end accounts payable process issues at the September meeting. The Finance Director and City Manager reviewed the importance of the financial cut off and raised the Director's awareness of the importance of the Department role in the process. A special reminder will be sent to the Directors in advance of the FY14 year end. In addition for FY14, a process change will be made to require support for all capital related open purchase orders before they are recorded as encumbrances.

Status

Comment implemented as of April 30, 2014.

Sikich Snapshot

Organization

Sikich is a dynamic professional services firm specializing in accounting, technology, investment banking and advisory services. Founded in 1982, we are now one of the country's Top 35 largest CPA firms and among the top 1 percent of all enterprise resource planning solution partners in the world.

Industries

Sikich provides services and solutions to a wide range of industries. We have devoted substantial resources to develop a significant base of expertise and experience in:

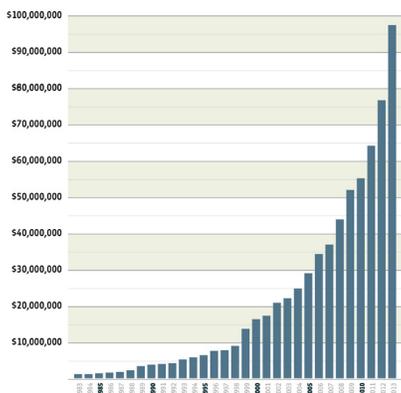
- › Agriculture
- › Construction
- › Government
- › Health Care
- › Higher Education
- › Manufacturing & Distribution
- › Not-for-Profit
- › Oilfield Services
- › Professional Services
- › Real Estate
- › Retail

Statistics

2013 Revenues	\$99M
Total Partners	92
Total Employees	543
Total Personnel	635

Personnel count as of May 31, 2014

Sikich Total Revenues



Awards

- › *Accounting Today* Top 100 Firms: ranked 34th nationally, 2014
- › *Accounting Today* Regional Leaders – Top Firms: Great Lakes: ranked 4th, 2014
- › *INSIDE Public Accounting* Top 50 Largest Accounting Firms: ranked 32nd nationally, 2014
- › Microsoft Dynamics Inner Circle and President's Club, 2014
- › *Milwaukee Business Journal* Largest Management Consulting Firms: ranked 12th, 2014
- › Best Places to Work in Indiana, 2014
- › Best Places to Work in Illinois, 2014
- › *Accounting Today* Top 100 Value Added Reseller: ranked 9th, 2014
- › Bob Scott's Top 100 Value Added Reseller, 2014
- › *Bob Scott's Insights* Value Added Reseller Stars, 2014
- › *Inc. Magazine's* Inc. 500|5000: ranked 4,627th fastest-growing private company nationally, 2013
- › *Crain's Chicago Business* Fast Fifty: ranked 49th, 2013
- › Alfred P. Sloan Award for Excellence in Workplace Effectiveness & Flexibility, 2013
- › *Daily Herald Business Ledger* Book of Lists: ranked 5th, "Accounting Firms;" Chicago Western Suburbs, 2013
- › *Springfield Business Journal* Book of Lists: ranked 1st, "Accounting Firms;" Springfield, Illinois, 2013
- › *Chicago Tribune's* Chicago's Top Workplaces, 2013
- › *Crain's Chicago Business* Top 25 Firms: ranked 11th in Chicagoland, 2013

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Sikich Snapshot

Certifications

All professional accounting staff with more than one year of experience have earned or are working toward earning the Certified Public Accountant designation. Sikich is a member of the American Institute of Certified Public Accountants' Governmental Audit Quality Center and the Employee Benefit Plan Audit Quality Center. We adhere to the strict requirements of membership which assure we meet the highest standards of audit quality. In 2011, Sikich LLP received its 8th consecutive unmodified ("pass") peer review report, the highest level of recognition conferred upon a public accounting firm for its quality control systems.



Microsoft Partner

Gold Enterprise Resource Planning

Microsoft Partner

Sikich has earned a Microsoft ERP Gold competency; ranked among the top 1 percent of all Microsoft Dynamics partners worldwide; and carries the following certifications:

- ▶ Microsoft Small Business Specialist
- ▶ MCP (Microsoft Certified Professional)
- ▶ MCSE (Microsoft Certified System Engineer)
- ▶ CCNA (Cisco Certified Network Associate)
- ▶ CCDA (Certified Cisco Design Associate)
- ▶ CCEA (Citrix Certified Enterprise Administrator)
- ▶ MRMS (Microsoft Retail Management Systems)
- ▶ CISA (Certified Information Systems Auditor)
- ▶ CNE (Certified Novell Engineer)
- ▶ MS CSM (Microsoft Customer Service Manager)
- ▶ MS CAE (Microsoft Certified Account Executive)
- ▶ MCDBA (Microsoft Certified Database Admin.)



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The Leading Edge Alliance (LEA) is the second largest international association of independent accounting firms.* The LEA is an international professional association of independently-owned accounting and consulting firms. Members are top quality firms who share an entrepreneurial spirit and a drive to be the premier provider of professional services in their chosen markets. The Alliance provides Sikich with an unbeatable combination: the comprehensive size and scope of a large multinational company while offering their clients the continuity, consistency, and quality service of a local firm.

**International Accounting Bulletin, 2011*



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