

ADVISORY COMMENTS
AND
RECOMMENDATIONS

JACKSON COUNTY, ILLINOIS

NOVEMBER 30, 2014



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In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Jackson County, Illinois as of and for the year ended November 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Jackson County's internal control over financial reporting (internal control) 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 Jackson County, Illinois' internal control. Accordingly, we do not express an opinion on the effectiveness of Jackson County, Illinois' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed on subsequent pages, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We consider the following deficiencies in Jackson County, Illinois' internal control to be significant deficiencies.

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UPDATE TO PRIOR YEAR COMMENTS

SIGNIFICANT DEFICIENCIES

Segregation of Duties

Our review of internal controls over cash receipts noted the following during the fiscal year 2013 audit:

- An individual in the County Clerk's, Sheriff's and Mental Health 708 Board's Offices is responsible for bank reconciliations and is involved in the cash receipt function.

The Sheriff's Department and the Mental Health 708 Board have reorganized personnel and/or procedures to correct the problems as noted from the prior year.

- An individual at the Highway Department and the Mental Health 708 Board is involved in the cash receipt functions and is responsible for posting the transactions to the books and records.

The Highway Department has implemented an additional reconciliation procedure to help mitigate the control issue; however the individual's responsibility remains unchanged from prior year.

- There is not an independent review of general ledger journal entries.

The County Clerk's office and County Board office procedures remained unchanged from prior year. This is due to limited personnel making proper segregation of duties impossible or cost prohibitive.

As noted in the 2013 audit, these departments believe they have sufficient mitigating controls to reduce the risk of a fraudulent act occurring and not being detected in a timely manner.

OTHER MATTERS

Accounts Receivable - Rehab & Care Center

During our audit of 2013, we noted accounts receivable from the Medicare program had increased significantly. The increase was due to certain billing issues encountered during the year. During the 2014 audit, we noted the following:

- The Rehab and Care Center continued to experience billing issues with the Medicare Program which has resulted in a large Medicare balance at year end.
- The Rehab and Care Center is in the process of finalizing a Medicaid audit in which funds are due back to the Medicaid Program.
- Private pay residents with credit balances were issued refunds after year end.
- There was no bad debt expense recorded at year end.

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Accounts Receivable - Rehab & Care Center - Continued

A large allowance for bad debts was recorded at year end to account for these uncertainties and issues.

Depositing and Reconciliation Processes

It was noted during the 2013 audit that in the Assessment department, there were no procedures for documenting, receipting or reconciling procedures for fees collected.

As noted in 2013, the Assessments office is in the process of eliminating cash collections in their office in favor of processing all transactions online. In addition, the Assessment office now prepares receipts for all transactions, but there is still no process for reconciling fees collected.

Financial Accounting Software

It was noted that the county uses a variety of different software programs in the accounting system. This results in duplication within the accounting process. The following are some examples:

- The Treasurer's and County Clerk's Offices use Quicken to manage their bank accounts and perform reconciliations. This information is transferred to Harris General Ledger software and recorded there as well.
- Tax accounts receivable receipts are recorded in the DevNet system. The transactions are transferred to Quicken to manage the bank activity. The transactions are also brought into the Harris General Ledger software.
- The Highway department keeps its own financial records in cash basis using its Quicken software. Those records are given to the courthouse, converted to accrual basis and recorded again in the Harris General Ledger software.

The situation is unchanged from prior year. As noted in 2013 and if budget allows, the County is exploring different comprehensive accounting software packages, which would include features and functionality in order to combine the accounting processes in to one software package eliminating duplicate steps in the accounting process.

Vacation Accrual

A formula error was noted in the vacation accrual spreadsheet at the Ambulance which resulted in an individual accruing at an incorrect rate.

The 2014 audit noted the county has corrected this issue.

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Fixed Asset Depreciation

During testing of fixed assets, it was noted that certain assets located in the Rehab & Care Center were not being depreciated. It is our understanding that the problems occurred during the initial set up of the detail fixed asset records into the current fixed asset software. We identified and adjusted the larger fixed asset items.

The Rehab and Care Center closed in fiscal year 2014. The county intends to sell the fixed assets along with the building during fiscal year 2015.

Interfund Receivable Payables

Interfund receivables and interfund payables must equal. In some instances there are interfund receivables and payables which are not segregated and separately identifiable on the general ledger. This makes the process of balancing the interfund transactions difficult.

In the current year, the interfund receivables and payables agreed; however, there were still some accounts not segregated from other accruals.

Cash Disbursements

It was noted during the testing of internal controls that blank checks and signature facsimile stamp in the County Clerk's Office are not kept under lock and key, and are easily accessible by all County Clerk Staff.

The 2014 audit noted the blank checks and stamp are now secured. In addition, the County Clerk is signing all checks manually.

Bank Reconciliations

In 2013, it was noted there is no formal review of the bank reconciliations performed in the County Clerk's Office and the Mental Health 708 Board.

Changes in the personnel and procedures at the 708 Board have corrected the issue. Procedures are unchanged at the County Clerk's office, but due to limited personnel, proper segregation of duties may not be possible or cost effective

Also noted in 2013, there is a two part process in the posting of checks in the Circuit Clerk's Office. They first must be posted into the case management software and then reconciled to QuickBooks. It was noted that certain bank accounts in the Circuit Clerk's Office were not being reconciled to QuickBooks within 30 days.

During 2014, we were not able to determine when the bank reconciliations were prepared because the automated date stamp on the bank reconciliations was removed.

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Investments

The Circuit Clerk is ordered by the Court, from time to time, to hold in trust certain monies on a court case. The funds in these trust accounts are held until the cases are resolved and the Court orders the disbursement of the monies. It was noted in this year's bank account confirmation that the Circuit Clerk's Office is holding three certificates of deposit and one cash account in her capacity as trustee.

This issue is unchanged from the 2013 audit.

Timeliness of the Month and Year End Close

Financial information for the County Highway department was not complete or posted to the general ledger until several months after the fiscal year end.

The 2014 audit noted this issue was corrected.

Compliance with Debt Covenants

The debt covenants for the 2010A, 2010B, and 2010C General Obligation Bonds state that amounts to cover the principal and interest payments on the bonds shall be credited monthly to the debt service accounts and that such funds shall be held separate and apart in cash investments. The County does not maintain any separate cash accounts for debt service and records all of its debt service activity at year end.

It is our understanding that the County has complied with the debt covenants starting in fiscal year 2015.

2014 MANAGEMENT COMMENTS

SIGNIFICANT DEFICIENCIES

Bank Accounts

During our audit we noted a cash account on the bank confirmations that was not included on the county's general ledger. This account was set up by the ambulance service in fiscal year 2013 and contained \$1,000 of donation money. The county has procedures in place to control who can open bank accounts or sign checks. These procedures were not properly followed in this instance.

Recommendation - We recommend the County follow its procedures for creating bank accounts, ensure only authorized personnel can sign checks, and transactions are properly recorded on the general ledger.

Restricted Cash Accounts

During our review of the restricted cash accounts, we noted several restricted expenditures which were recorded as an unrestricted expense. It is important to properly segregate the transactions between restricted and unrestricted cash accounts.

It is our understanding the County intends to separate several of its major restricted cash accounts into separate special revenue funds on the general ledger consistent with 2014 audit report. This will reduce the risk of incorrectly posting transactions to the general ledger.

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OTHER MATTERS

Contractual Allowances - Health Department

During our audit we noted that contractual allowances were not recorded to offset the medical insurance accounts receivable at the Health Department. Accounting standards require that receivables be reported at their net realizable value.

Recommendation - We recommend the Health Department develop a method of reasonably calculating and recording the contractual allowances on their insurance receivables.

Bad Debt Write Off - Ambulance

During our audit of the Jackson County Ambulance Service, we noted an increase in bad debt write offs compared to the prior year. This was due to a shortage of staff at the end of 2013 and follow up procedures were not performed on all the accounts.

During 2014, the follow up procedures were caught back up and a large number of accounts were sent to collections.

Compliance with IMRF Regulation

In September 2014, the County underwent an audit of its compliance with the regulations of the IMRF pension plans. This audit noted eleven instances of non-compliance. As of April 2015, ten of these findings remain unresolved.

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

Kuhn, Eck + Brackel LLP

Carbondale, Illinois
April 13, 2015

