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Honorable Mayor and Members of the City Council
City of Sandwich, Illinois
Sandwich, Illinois

In planning and performing our audit of the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandwich, Illinois (the City) as of and for the year ended April 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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.

Material weaknesses

We consider the following deficiencies in the City's internal control to be material weaknesses.

- **Financial Statement Preparation and Audit Adjustments**

  The City Council and management share the ultimate responsibility for the City's internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced.

  The City engages CliftonLarsonAllen LLP (CLA) to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the City's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the City reviews the financial statements and disclosures to ensure they are complete and accurate. The City's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the City's financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

  Additionally, during the course of our audit we proposed several adjustments that had material effects on the City's financial statements. A significant portion of the adjustments related to transfers, capital asset, and long-term liability activity.

- **Segregation of Duties**

  Due to the size of the City's finance department and for sound economic reasons, it functions with a limited number of office personnel. The limited number of personnel makes it difficult to achieve ideal internal control at all times through the segregation of employee duties. Examples include no review of journal entries by a separate individual from the preparer and the utility clerk has the ability to record and mail out bills, receive payments, and record receipts. Additionally, there is no separate review of any receipts, disbursements, or cash and investment balances in the police pension fund. The concentration of closely related duties and responsibilities, by a limited number of individuals makes it difficult to establish, at all times, an ideal system of automatic internal checks on accounting record accuracy and reliability. We realize that with a limited number of office employees, segregation of duties is difficult. However, a lack of proper segregation of duties could allow errors or irregularities to occur and go undetected. Currently, management's and the City Council's close oversight and review of accounting information are the best means of preventing and detecting errors and irregularities. As part of this oversight function, known control deficiencies should be re-evaluated periodically in order to determine if the internal control system can be changed to better segregate duties.

- **Bank Reconciliation Preparation**

  During our audit, we became aware that the City's bank reconciliations were not being performed correctly and currently have no review procedures in place. As bank reconciliations are not properly performed or reviewed, material errors or omissions could occur and go undetected, affecting the City's financial statements. We recommend the City implement procedures to ensure that unreconciled items within the bank reconciliations are addressed in a timely manner and proper reviews take place and documented.

Other deficiencies in internal control and other matters

During our audit, we became aware of other deficiencies in internal control and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. While the nature and magnitude of the other deficiencies in internal control were not considered important enough to merit the attention of the City Council, they are considered of sufficient importance to merit management's attention and are included herein to provide a single, comprehensive communication for both those charged with governance and management.

- **Policies and Information Technology Procedures**

  We have also noted there are no formal policies and procedures related to the City's information technology (IT). Regarding information technology procedures specifically, we noted there is no periodic review of access performed, and no offsite storage of backup data.

  We recommend that management assign responsibility to ensure that user access privileges are reviewed at least annually to ensure they are appropriate.

  We also recommend that management develop a plan for offsite storage of data. Such a plan will provide for necessary financial data in the event of a disaster.

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

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Peoria, Illinois
November 6, 2018