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March 17, 2014

Mr. James Devine, Iroquois County and
Mr. Matthew Fitton, Ford County State's Attorneys
Ford Iroquois Public Health Department
114 N. 3rd St.
Watseka, IL 60970

Re: Ford Iroquois Public Health Department Investigative Findings

Dear Messrs. Devine and Fitton:

CliftonLarsonAllen LLP has been retained by Ford Iroquois Public Health Department Board (the Department) to perform certain forensic investigation procedures related to the financial operations and results of the Department for the year ended November 30, 2012. In accordance with your request, we have prepared this report.

The scope of our engagement, which was determined through discussions with you and Mr. Rod Copas, Iroquois County Board Chair, was to evaluate certain financial transactions, along with the underlying documentation, general ledger, payroll and New Rick system records, and credit card and bank statements for the year ended November 30, 2012, as well as employee emails for the 24 months ended June 30, 2013, to determine the extent of potential accounting irregularities with respect to allegations made by various individuals regarding apparent circumventing of policies, procedures, and statutes governing proper expenditure and accountability for taxpayer funds. Note that the work we performed was based on the limited information provided, and we cannot provide assurance that we have ascertained all significant information that should have been subjected to our analysis. We have advised you that these limitations include:

- The New Rick system is a Cobol based system that would require additional programming to provide payroll hours and costs charged to grant programs,
- Policies and procedures have been revised without available documentation of Board approval, and may not include a complete history of changes,
- Email and hard drive examination was limited by the scope of the engagement,
- One laptop thought to exist was not available for hard drive imaging,
- Former employees and contractors of the Department were unavailable for interviews, and
- Current employees were unfamiliar with the accounting, budgeting, and reporting processes used by the Department.

To the extent that this additional information is provided to us, we may, but we have no responsibility to, incorporate such additional information into any future reports. We will inform you of any additional information that comes to our attention unless it is clearly inconsequential.

This report relates only to the procedures that we performed and the related findings. It does not extend to any financial statements of the Ford Iroquois Public Health Department taken as a whole or the financial data provided to us. The procedures outlined in this report do not constitute an audit performed in accordance with generally accepted auditing standards or an attestation service as those terms are defined by the American Institute of Certified Public Accountants. Accordingly, we do not express such an opinion or any assurance on such financial information. Our engagement does not provide a legal determination on the Department's compliance with relevant laws, regulations, or contracts. Additionally, we have not made any determination as to the Department's compliance with applicable federal and state regulations relative to our findings. We also make no representation as to the adequacy of our procedures for your purposes.

We performed our work in accordance with the Statement on Standards for Consulting Services No. 1 of the American Institute of Certified Public Accountants. Fraud and irregularities by their very nature are most often hidden, and no absolute assurance can be given that all such matters will be detected.

This report is intended solely for your and the Ford Iroquois Public Health Department Board's benefit and is not intended to benefit or influence any other person or entity. It may be used only for purposes of this engagement and may not be used for any other purposes without our written consent.

Executive Summary of Findings

The following items summarize our findings which are contained in the body of this report. This summary is provided for your convenience only and should be used only in conjunction with the supporting information set forth in the body of this report and the schedules attached hereto.

Based on our interviews of employees, review of cash receipt and disbursement activity, review of emails, review of general ledger activity, examination of policies and procedures, review of the New Rick system transactions, reading of available Board minutes and grant agreements, and review of Freedom of Information Act (FOIA) requests made by Edgar County Watchdogs via emails to the Department's FOIA Officer, the Department's apparent lack of segregation of duties and trust and authority in only the Director of the Department contributed to an environment that allowed:

- Minor amounts of taxpayer money to be spent for goods and services for which it was not always intended,
- Procurement laws to be circumvented for a significant grant funded project,
- Billing errors totaling \$101,823 to occur that incorrectly charged Illinois Municipal Retirement Fund allocations (IMRF) and Social Security and Social Security Medicare (FICA) amounts to grants when these amounts were reimbursed by Ford and Iroquois Counties,
- State and federal grants to be charged for personnel hours that were not devoted to the benefit of the grants' goals,
- A budget that was not representative of how monies would actually be spent or how programs would operate,
- Policies and procedures to be revised by management without Board approval,
- Board approval of expansion into Indiana for home health services not allowed under the Illinois State Statutes,

- Confusion among current employees as to their duties,
- Department leaders that were not responsible for the financial results of their departments, and
- An apparent hostile work environment that fostered mistrust among the current employees.

Detailed information regarding the data provided by the Department, procedures performed during the investigation, the findings identified from such procedures, and recommendations to help prevent these findings for the activity of the successor Departments are presented in the following sections.

Data Provided

We obtained hard drives from current employee computers, interviewed current employees, and for the year ended November 30, 2012, we obtained the Department's:

- General ledger,
- Payroll register,
- New Rick system activity,
- Credit card statements,
- Bank statements,
- Bank deposit slips,
- Receipt logs, and
- Grant applications.

For the 24 months ended June 30, 2013, we retrieved employee emails based on the following search terms:

- Bonus,
- Budget,
- Distribution,
- Edgar County Watchdog,
- Flood,
- Grants,
- Override,
- Raise,
- Solar panels,
- Time study,
- Tobacco,
- Iroquois County, and
- Multiple employee names.

For the 12 months ended November 30, 2012, the Department provided spreadsheets, the Program Cost Reporting Summaries and the County Claim Billing Summaries, supporting the amounts of IMRF and FICA charged to both of the Counties as well as to the granting agencies for the following ten grant programs:

- Public Health and Preparedness for Bioterrorism
- Illinois Tobacco Free Communities
- Healthy Families Illinois
- Local Health Protection
- Family Case Management
- Diabetes Prevention and Control Program
- Supplemental Nutrition Program for Women, Infants and Children
- West Nile Virus
- Coordinated School Health
- Illinois Breast and Cervical Cancer

Procedures Performed

Our specific investigative procedures included:

- Interviews of current employees,
- Comparison of bank deposit slips and bank statements for agreement of amounts and date of deposit for the entire year,
- Comparison of daily receipt logs to bank deposit slips for agreement of amounts and date of deposit for 25 days in the year ended November 30, 2012,
- Extraction and summarization of number of payrolls by employee and research of additional payrolls, when applicable,
- Extraction and summarization of disbursements for the following descriptions and/or account names:
 - Gifts,
 - Hotel,
 - Meal,
 - Tuition,
 - Tobacco,
 - Jewelry,
 - Rent,
 - Phone,
 - Miscellaneous,
 - Staff,
 - Board, and
 - Tanning.
- Extraction and summarization of:
 - Disbursements made by credit cards to vendors based on description and vendor name,
 - Checks dated before invoice dates,
 - Debits charged to revenue corresponding to check payments,

- Payments made to employees from accounts payable, and
 - Internet transfer activity to cash accounts.
- Obtained a download of the time sheets entered into the New Rick system, and applied the hourly rates from the payroll register to the hours from the time sheets by category/grant to calculate the amount of benefit. The calculated amount was compared to the amount charged to grant detail by individual where available. This procedure was done on a test basis for two grants.
- Comparison of employee time sheets to New Rick payroll activity for the limited New Rick activity that was available for comparison,
- Extraction and review of emails meeting search terms,
- Review of policies and procedures to determine appropriateness of payroll and other cash disbursements selected from listings produced from the above searches,
- Agreement of cash disbursements selected for testing as a result of the procedures above to supporting documentation as to amount, description and approvals, and comparison of nature of the activity to approved purposes as outlined in the Department's policies provided by the Department's staff, and
- Review of available Board minutes to support approvals of transactions from listings produced from the above searches.
- Summarization of IMRF and FICA charged to both the Counties and funding agencies for the year ended November 30, 2012, from the Program Cost Reporting Summaries used to prepare grant submissions. The total amount of IMRF, FICA, and Medicare charged to the Counties was agreed to the payroll register and to the respective general ledger accounts each month. The general ledger amounts were agreed to the County Claim Billing Summaries for the amounts billed in total to the respective Counties.

Detailed Findings

As discussed in the Executive Summary, our investigation identified a number of internal control issues related to the control environment and application controls that allowed taxpayer money to be disbursed not in compliance with the Department's policies or Illinois State Statutes.

- State Statutes over procurement for the grant funded Solar Panel project: Schedule 1 sets forth a timeline developed from review of employee emails for the award of this project prior to the publication of the request for proposal. Amounts paid to vendor totaled \$95,430 before State grant reimbursement. Vendor is partly owned by the husband of an employee. Bids were received from Day and Night Solar, but the contract was awarded to a related entity, CMS Renewables.
- Of the gift and gift card purchases, at least three of these purchases totaling \$408 were for gifts presented during dinners. Additionally, at least one gift card totaling \$500 was improperly used to compensate an individual for services provided.
- Rent payments totaling \$2,400, including \$800 deposit, for rental of offices in Indiana for the months of September, October, and November 2012. Note that the Department is not allowed under Statute to expend Illinois taxpayer funds to provide services to benefit citizens of other states.
- Earned time of 42.80 hours valued at approximately \$1,400 was gifted from one employee to another due to a hardship with the approval not given in writing as required by policy.

- Time charged in excess of time worked on the Public Health and Preparedness for Bioterrorism grant totaled \$1,682 and \$4,758.72 was charged in excess for the Illinois Tobacco Free Communities.
- IMRF and FICA totaling \$101,823 reimbursed by the respective Counties were charged to individual grant programs in error. We also noted inconsistencies in how grants were charged for IMRF and FICA noting that some grants were charged these amounts as reported salaries in error rather than separately as fringes.

Based on our investigation, these issues appear to have occurred and not been detected due to management's override of controls and the underlying lack of segregation of duties and lack of effective Board oversight.

Recommendations

Our recommendations focus on three main areas: improved Board oversight including Board training in State Statutes and policies and procedures under which any continuing Department will operate, modernization and centralization of financial accounting software for the general ledger and payroll functions, and reconsideration of the responsibilities of employees for initiation, authorization, and recording of financial activity, including budgeting and monthly and annual report preparation.

Health Department Board

Our investigation noted that Board members may have been unaware of their responsibility for providing oversight and approval of the strategic direction of the Department, and were further unaware of some of the statutory requirements governing their meetings as to public notice and quorum requirements. We recommend any future Board members receive guidelines and training to introduce them to their responsibilities, to the statutory requirements for county run health departments, and to establish an appropriate control environment that prohibits conflicts of interest. We further suggest that the Counties' States Attorneys work more closely with the Boards and attend all Board meetings to ensure that Illinois State Statute requirements are observed. Additionally, we suggest that the County Board Chair attend such meetings and trainings to ensure County buy in of the Health Board's organization.

Overall, we suggest the Health Department Board consider performing a business and fraud risk analysis using free fraud prevention resources available from the Association of Certified Fraud Examiners website at www.acfe.com to identify appropriate policies and procedures to prevent and/or detect failures to follow policies and misuse of taxpayer funds in the future. Such an analysis will assist the Board in establishing a code of conduct, appropriate segregation of duties and Board review, and an appropriate ethical tone for the Department.

Accounting and Financial Reporting Software

The Departments should, upon formation, begin using the accounting and financial reporting and payroll software utilized by their respective County. Further, the County should consider centralizing the accounting and financial reporting for the Department within the County Treasury function. At a minimum, the Department should either outsource their accounting or hire employees with the appropriate skills, knowledge, and experience to perform the accounting function. Software utilized

should be appropriately updated and supported, and all interfaces between general ledger and supporting modules should be functional and up to date.

Realignment of Duties and Responsibilities

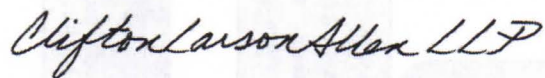
The single most pervasive reason for the override of internal controls by management we noted is that the Director of the Department was the only employee with responsibility and authority for financial and budget decisions. The accountant did not sufficiently understand the financial operations of the Department, and either was not aware of appropriate cost allocation principles and modified accrual basis accounting or followed without questions the directives of the Director. Department Heads did not sufficiently understand the budget process, had no responsibility for establishing and monitoring their department and grant budgets, and were either unaware of appropriate cost allocation principles and modified accrual basis of accounting or followed without questions the directives of the accountant and Director. There also was no functioning employee hotline to allow employees to raise questions or concerns, and Board involvement was not sufficient to allow employees an outlet for such questions and concerns. Ethical policies either did not exist or were ignored, and conflicts of interest were allowed to go unaddressed.

We recommend a total overhaul of the responsibilities and authority of the Department. All duties and computer access should be tailored to the responsibilities of the respective employee. The responsibility for initiating, authorizing, and recording all financial transactions should be appropriately segregated. The States Attorney should review policies and procedures for compliance with State Statutes. Finally, the Director should be given review and approval responsibility, but no general ledger entry responsibilities.

Grant Budgeting and Billing

The Department should calculate all over billed amounts of IMRF and FICA for all grants, and contact the granting agencies to determine if the funds need to be paid back or could be allocated to other grant funded expenditures. Additionally, the Department should revise their grant budgeting and billing procedures to ensure that they are not seeking grant reimbursements for any amounts paid by the Counties or other entities. All future grant submissions should be reviewed to ensure that all costs are net of applicable credits before submission.

We are happy to discuss these recommendations in more detail, or assist you with the consideration of your accounting policies and procedures.



CliftonLarsonAllen LLP

Bellevue, Washington
March 17, 2014

Solar Panel Timeline

