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August 20, 2018

Mr. William M. Mayer, Supervisor
And the Board of Trustees
DuPage Township
241 Canterbury Lane
Bolingbrook, Illinois 60440

RE: Forensic examination

Dear Mr. Mayer:

We have completed our forensic examination of DuPage Township (the Township) as a result of certain allegations that have come to the attention to the Township. Our examination was conducted in accordance with lawful forensic examination techniques, which include, but are not limited to, examination of books and records, voluntary interviews of appropriate personnel, and other such evidence-gathering procedures as necessary under the circumstances.

The accompanying report includes an Executive Summary, the Scope and Examination, and our Recommendations and Process Improvement Opportunities.

Sincerely,

Andrew L. Mace, CPA, CFE
Klein Hall CPAs

Executive Summary

Although we noted numerous instances of weaknesses in internal control and failure to employ best accounting practices, we did not identify any instances of fraud. However, because we did not look at all transactions of the Township, fraud may exist that has not been identified.

Our audit included transactions from 2015 to 2018 and we addressed the various issues by completing:

- In person, phone and written interviews with key Township employees who we believed may have information regarding the issues to be addressed;
- Documentation of the current procedures in place surrounding the issues;
- Testing of individual transactions to address the specific items under examination.

Below are the individual questions and issues brought to our attention during the audit, along with our audit results and findings.

Scope and Examination

1. What is the procedure for disbursements and is it being followed? This is especially true for profits from the banquet facilities. There is a question of unauthorized transactions with staff entering into arrangements without the board's knowledge or consent. The disbursement account is the only account used to cut checks. Funds are transferred from other accounts to cover the exact amount of expenses to be paid from that fund. There have been issues annually regarding reconciling the disbursement account.

Audit Examination:

The Township has no formal written policy on the disbursement process, but all purchases typically accompany a Purchase Order form which is not pre-numbered and not generated from the accounting system. Purchases go directly to the Township's Assistant to the Supervisor and/or the Township Supervisor for approval. Per Linda Youngs, if the purchase is already approved in the budget, then it is presented at the board meeting for final approval. During audit inquiry, it was observed that the approval of disbursements is also obtained verbally or by text message.

Per Terri Bethune, the Township has always had difficulty in reconciling the disbursement account due to the volume of transactions going through this account. It was noted during the audit that reconciliation of bank accounts have not been completed since November 2017 and reconciliations are not prepared on all Township bank accounts. The disbursement account has never been reconciled within the accounting system module, rather, it is done on an excel spreadsheet outside of the accounting system. Per Linda Youngs, the bank reconciliations were done on a timely basis during the 2016-17 audit year. Terri Bethune was responsible for completing the bank reconciliations at that time, however, per the auditor recommendation of segregation of duties, this task was assigned to Amy Albright in April 2017.

2. The Township has a number of events where there is cash revenue. What are all of the possible sources of cash revenue and what is the procedure followed for keeping track of such revenue and depositing it into Township bank accounts? There appear to have been situations where cash revenue was not deposited for over one year and cash from another event from March 2017 was not deposited until July 2017. Are there proper checks and balancing for the receipt of cash revenue? Are there receipts created for acceptance of cash and do those receipts have a numerical designation so that one can track the order in which cash is received (as opposed to someone just created a paper trail on the same day by falsifying written receipts for cash received over a long time period)? If there are numerical designations on the receipts, does the number order match up with when cash should have been received and deposited into the Township's bank account?

Audit Examination:

The Township collects cash in the following areas:

Levy Center

Senior Trips - registrations through "My Senior Center" (cash/check/cc)

Bus Trips - cash only, \$2/person, no log maintained

Exercise classes - cash only, \$2/person, manual daily log kept

Banquets

Banquet cash bar in addition to the booking of deposits for events (cash/check/cc)

Township

Breakfast with Santa – tickets sold in advance \$5/person, no log maintained

Fish Fry's – no log maintained

Marriage licenses – turned in daily and deposited into the County's bank account. Amy Albright keeps a spreadsheet on activity.

Passport Money – cash processing fee \$30-35 , no log maintained

Food Pantry

Pallet sales

Donations are made to the "Friends of the Food Pantry" to help pay for turkeys at Thanksgiving and other things to benefit the patrons on the food pantry.

Per review of the various cash receipts, we noted that deposits are taken to the bank twice a month with the exception of events and transactions where cash is collected. In review of the Fish Fry monies, we noted a five month lag of when the event occurred and when the monies were deposited. Per discussion with Terri Bethune, the reason for the lag time of depositing the funds was due to a disagreement with Linda Youngs on where the funds should be deposited. Terri Bethune did not deposit the monies timely since she believed they should be deposited into the Township's bank account instead of the Youth and Friends bank account since the expenditures related to the event were paid out of the Township.

In review of the passport application fees, we noted that the total fees collected since June of 2017 totaling \$735 was not deposited until July of 2018. We were

unable to verify pallet money deposits, however, per review of the cash box where the pallet money was kept along with disbursement receipts, it appears pallet money is used by the Township as another form of petty cash.

The senior center registration system generates a receipt out of the system, but the Township does not have a pre-numbered cash receipt process in place for other areas cash is collected.

Per interview with Dave Locke at the Food Pantry, the only cash donation that the Food Pantry solicits directly is during Christmas time at the Bolingbrook Promenade. Dave and four other individuals worked this event and collected \$310 in cash which was then given directly to Linda Youngs at the Township office. Per inquiry with Linda Youngs on where the funds from that event were deposited, she stated she didn't recall what she did with the envelope and was unsure if the funds got deposited.

3. Related to #2, what controls exist for the banquet cash bar? There are reports of \$10,000 in liquor purchases but only \$1,000 in profit which is not in line with the liquor markup for events.

Audit Examination:

Per review of the banquet process with Kelly Lizardo, typically three to four employees are staffed for each event. Two cash registers are maintained – one register runs the “tab” and one register is used for the cash purchases that maintains \$300 at all times. At the close out of the event, two people count the cash as a check and balance. After the event, the money is kept in a locked fire proof drawer in Kelly's office until the deposit is made.

There is not a tracking system in place to determine profitability on individual banquet events. Kelly Lizardo manages the liquor inventory and manages the purchases of inventory based on upcoming events to ensure the bar is adequately stocked. The liquor is kept in locked cabinets when events are not taking place. The Township has an inventory listing with the current unit cost listed. Terri Bethune reviews vendor invoices and updates the cost on the inventory sheet as prices change. At the close out of each event, Kelly performs an inventory count and forwards to Terri Bethune who records an entry in the accounting system.

4. Have financial reports been changed after they were posted for public view? If so, why?

Audit Examination:

Per review of the annual Supervisor's report, the beginning fund balance that is published does not agree to the prior year financial statements. With the exception of fund balance, all of the other line items agreed in the accounting system to what was published. In review of the bookkeeper's process, the annual report is generated out of the accounting system and is exported into Excel. The fund balance amount for the report as of 3/31/2018 was overrode in Excel.

In comparing the audited financial statements to the accounting system, it was noted that the year-end audit entries for last fiscal year have not been posted into the accounting system.

5. While this is outside the 3 year span, there apparently was a burglary in July 2013 where a significant amount of cash was stolen but not reported to the police in their report. How was this loss of cash accounted for?

Audit Examination:

Per review of the Bolingbrook Police Department Incident report received on 6/18/18, the incident occurred on 7/15/2013 at the Levy Center. The incident report contained no report of cash stolen and stated no entry was made in the safe where the money is kept. The case was closed on 1/20/2015.

6. Has the Township implemented recommendations of best practices from past audits? If not, why not?

Audit Examination:

The Township has not implemented all recommendations of best practices from past audits. Per inquiry with Linda Youngs, Terri Bethune would receive the audit management letter comments by email each year and would discuss with her to come up with solutions for each comment. In regards to the comments from the March 31, 2017 audit, bank recs were given to Amy Albright to perform. In regards to the auditors comment on written policies and cross training, Linda Youngs stated that Terri Bethune refused to cross train anyone for payroll, but she did cross train Amy Albright on Accounts Payable. The plan was that once new accounting software was implemented, more cross training would take place.

7. Is the Township's accounting system adequate? The system can only generate reports on a cash basis and cannot provide all of the reports required when utilizing fund accounting. On one instance three different reports all had different information regarding the beginning fund balance for the same fund. What type of backup exists to ensure that records are not lost?

Audit Examination:

The Township uses the municipal software, American Municipal Software (AMS). The system can generate reports used for fund accounting and is capable of accrual basis statements if accruals are being recorded. Per review of the accounting system, the system allows a user to edit beginning balances in the system. Terri Bethune does not enter the audit journal entries in the accounting software, rather she edits the beginning balances in the system to make the accounting system agree to the year-end audited financial statements after auditor instruction.

Terri Bethune backs up the software on an external hard drive once every other month, but not on a set schedule. The backup is kept in a locked fireproof file cabinet in Bethune's office.

8. During the budget review for the current year budget in several funds the ending balance on 3/31 and the beginning fund balance on 4/1 did not match and one was off by close to \$80,000.

Audit Examination:

We performed a fund balance tie out and noted the beginning fund balance amount is an amount entered by Terri Bethune manually at the beginning of the year per direction of the auditors (as noted in item 6 above). Currently the beginning fund balance as of 4/1/17 doesn't agree to the ending fund balance as of the 3/31/17 audited financial statements. However, beginning fund balance ties out in the prior year. Per Terri Bethune, each year the auditors would direct her to enter (or edit) the beginning balances in AMS which would include the previous year-end audit entries since it hasn't been Township practice to enter the auditor entries into the accounting system. Not entering the audit entries from previous audits causes variances in fund balance in the accounting system.

Additionally, the variance also was caused by an improper entry that was recorded to establish the Capital Fund.

9. Who in the Township do you recommend oversee the annual audit process? Should the Township Supervisor be involved, should the trustees be involved? Currently, there appears to be no management oversight.

Audit Examination:

The Board of Trustees is ultimately responsible for the fair presentation of the financial statements, as well as the maintenance of internal controls relevant to the preparation and fair presentation of the financial statements. The Township Supervisor along with the trustees can delegate certain audit process responsibilities to the Township employees that are involved in the day to day operations of the township. Currently the auditors work with Terri Bethune in obtaining items needed for the audit and only involve the Assistant to the Supervisor if they are missing items not received from the bookkeeper.

10. Do the 3 nonprofit entities: Friends of the Food Pantry, Youth and Friends, and Friends of the Levy have adequate recordkeeping and oversight? Do they comply with the requirements of 501(c)(3)? Do their boards regularly? Is it permissible for the Township to be financially supporting these entities? Who has the authority to write checks for these entities? There is an allegation that a check request was for \$4,000 and the notes section of the ledger was written "unknown" reason. The bank account may have had less than \$5,000 in it when the check was written. Section 85-13 of the Township Code provides that the township board may enter into a cooperative agreement or contract with a not-for-profit corporation or non-profit community service association to provide certain types of services to the residents of the township (including health, recreation and social services for the poor and elderly). 60 ILCS 1/85-13. Is there such a written contract and, if not, is that proper? Can you determine the source and funding of these organizations and what services they are providing residents to comply with the law. Are there any restrictions or prerequisites to the Township's funding of these organizations?

Audit Examination:

Boards do not meet regularly for the Friends of the Food Pantry or the Youth and Friends, however, there are bylaws established and regular board meetings held for the Friends of the Levy. Per our review, Annual reports have been filed for all three nonprofit entities.

The records are kept via checkbook and/or spreadsheet for the nonprofit entities. The checkbooks for the Friends of the Food Pantry and Youth and Friends are kept in Terri Bethune's office. Checks are written by Linda Youngs or Terri Bethune, and signed by the treasurer of each of the respective entities per the direction of Linda Youngs.

Per review of the Youth and Friends files, Check 2145 dated 2/28/17 was written to Bolingbrook Park District Foundation and cleared on 3/17/17 per BMO Harris Bank. No memo was noted on the copy of the cleared check.

Per review of the funding sources for the Friends of the Food Pantry from 2015-2018, sources include individual donors, pallet money and corporations such as Albertsons, Jewel, and FedEx. Per review of the funding sources for the Youth and Friends from 2015-2018, sources include individual and corporate donors along with monies received from Township fish fry fundraisers.

11. Is the Township properly allocating funds and expenditures to the proper accounts? In the past few years close to 20% of the budget was moved to General Assistance "home relief" line item. The amount of that line item was \$108,924 in the 2015-16 budget and this year's budget is now \$251,300. What expenditures are permitted for "home relief" and are the disbursements from that fund consistent with the requirements? Similarly, the Town Fund has budgeted \$1,318 for the Food Pantry in the 2015-16 budget and this year's budget is now \$10,000. The General Assistance fund is 100% controlled by the Township Supervisor and the Town Fund is controlled by the entire board and not just the Supervisor. Is that an area of concern that money is being shifted to a fund that does not have the same level of oversight as other funds?

Audit Examination:

Per discussion with the Township Supervisor, the Home Relief line item has increased in recent years due to contributions that were formerly funded out of the town fund, that have been shifted to being funded out of the General Assistance Fund.

In review of the General Assistance fund's social services account from 4/1/2015-3/31/2018, the Township spent approximately \$90,000 in donations to various organizations such as Heart Haven Outreach, The H.E.A.R.T. Organization, and the Bolingbrook Park District.

12. Is it proper for employees to perform work for the food pantry and receive pay for such work through the snow plow budget line item? There is a claim that a current employee did additional work at the food pantry and was paid through the snow plow fund.

Audit Examination:

Per discussion with Terri Bethune and Dave Locke, the time that is spent by Robert Martin and William Bitto that is near the food pantry location is related to

maintenance work. The maintenance shed is located onsite near the pantry and serves as the base of operations for the Township maintenance department. Per Dave Locke and Terri Bethune, William Bitto volunteers at the pantry on Saturdays (unpaid by the Township) but to their knowledge no employee is performing work for the food pantry and being paid out of the snow plow budget line item.

13. Has the Township been using best practices for the petty cash account? Was the Township's auditor told of the existence of this account and is it reflected in the audit?

Audit Examination:

Per our review and inquiry, cash was found in Linda Youngs office drawer containing money that was related to Food Pantry pallet sales, undeposited change from an old pop machine, and also cash received from processing passports.

Per Terri Bethune, she keeps a separate petty cash box of \$600 in her office and the auditors were made aware. Per review of petty cash, receipts of transactions are accounted for and coded to the general ledger when replenished, however there is not a petty cash account reflected on the balance sheet of the Township. Due to the dollar amount, this amount was likely deemed immaterial by the external auditors and not included in the scope of their audit.

In reviewing the pallet sales, and discussion with Dave Locke at the Food Pantry, there is no formal written policy on handling the pallet sales. Prior to spring of 2018, the pallet sales were taken as cash, and the Pantry would write up a receipt (but not always have the person's name). Cash would be turned into Linda Youngs who would keep it in a petty cash box. Dave was not aware of where these funds were kept, deposited, or what they were used for. Beginning in April 2018, Dave only accepts money orders from individuals for pallet sales.

14. Does the Township use best practices for determining organizations that it will provide monetary donations to support? Are they required to only donate to 501(c)(3)s and, if so, has that been the past practice? What is the standard used for making those decisions? There has been a recent allegation that an individual was offered "guaranteed" sponsorship in exchange for some favors. Is there evidence to support this allegation and is it proper?

Audit Examination:

Per interview with Township Supervisor, the township donates to a variety of organizations including: Heart Haven Outreach, H2O, Bolingbrook Valley View School District, Trojan Football, and Bolingbrook Park District. This is discussed and determined at the annual budget process and is approved by the Trustees.

Per Terri Bethune and Linda Youngs, there is no formal application process for supporting donations to organizations, however donations and sponsorship requests are done via email, mail or through a board member and put on the agenda as a staff recommendation for board approval. At one time Linda Youngs had implemented an application process but this is no longer being done.

In regards to the allegation that an individual was offered “guaranteed” sponsorship in exchange for favors, we would need more details on this in order to do further testing.

15. Is the Township properly segregating duties and reconciling bank accounts in a timely manner?

Audit Examination:

Per our review the bank reconciliations have not been completed since November of 2017, and reconciliations are not completed on all bank accounts. The disbursement account has never been reconciled in the accounting system module, rather it is done on an Excel spreadsheet outside of the accounting system. Per Linda Youngs the bank recs were done on a timely basis per the auditor recommendation for the 2016-17 audit year. Terri Bethune was responsible for doing bank recs at that time, however, per the auditor recommendation of segregation of duties, this task was re-assigned to Amy Albright in April 2017.

16. The Levy Center organizes trips for senior citizens. There are concerns that not all senior citizens who attend these trips have been required to pay for the trip and does the amount collected cover all of the expenses associated with the trips?

Audit Examination:

The Township doesn't have a tracking mechanism in place to determine profitability on senior trips. When the revenues and expenses are recorded, they are coded to a “holding account” (liability account) on the general ledger. At the end of the year, Terri Bethune records a journal entry to recognize the excess earned (revenue) or excess spent (expense) on each trip.

Per Lynne Woodward, there are certain trips that are special to veterans in which those individuals would not have to pay. In addition, if the Township prepays in advance for tickets for an event and the Township doesn't sell all of tickets, sometimes a Township employee is able to attend at no cost.

17. The Food Pantry and Banquet facility use an account at Gordon Food Services. Are there proper controls on who can place orders through that account and payments being accurately tracked?

Audit Examination:

Per review of this process with Terri Bethune and Linda Youngs, the Township has an authorized list of individuals that are set up to use the Gordon Food Services account. Linda Youngs initially established this account and it is used for events and supplies. When purchases are made, Linda Youngs (now Amy Albright) receives an automatic emailed receipt from the purchase. The purchaser submits their receipt, along with the PO and Terri Bethune or Linda Youngs match this up to the invoice from Gordon Food Service. Per discussion with Dave Locke, the Food Pantry does not make purchases on the Gordon Food Service account.

18. In March 2014 (and possibly still today), Jewel gave the Township \$6,450 in gift card revenue and the auditor recommended that the Township develop and implement a process to track those donations. Was that done?

Audit Examination:

Terri Bethune maintains a spreadsheet and keeps receipts to track gift cards donated and the associated activity for the Township. An entry is made during the annual audit to record the gift card activity in the accounting system.

19. The attached photo is of a donation jar at the local 7-11 for the Food Pantry. Are those cash donations accurately tracked/accounted for?

Audit Examination:

Per review with Dave Locke, he is unaware of any cash donation jar at the local 7-11 in the attached picture.

20. How far back do the receipts date that were found in a folder (pallet money). While is amount was not material for audit purposes, how could the bookkeeper report the expenses if she wasn't aware that a separate petty cash account/file was being maintained by someone else at the township?

Audit Examination:

We noted receipts dating back to 10/27/16 in the folder that contained pallet money. We noted pallet cash receipts that were not dated (primarily from Milton Chavez). Many of the disbursements accompanied a PO that was filled out and signed by Linda Youngs. It appears they were not run through the accounting system. Terri Bethune was not previously aware of the separate petty cash box for pallet money.

21. Unauthorized Board Transactions

Audit Examination:

As part of the audit, we noted instances where purchases were made prior to board approval. There was a payment made to Atecki for \$2,000 for a down payment that was charged on the Township credit card on 8/16/18 prior to the board's formal approval at the board meeting the following week. We noted another instance where work was authorized by Linda Youngs to have Atecki do website design prior to the board's approval. This invoice was subsequently authorized by the board for payment. Additionally, we found evidence supporting there was at least one individual related to a trustee member that was involved in the QuickBooks conversion that was not approved by the board prior to work being performed. We also learned of payroll advances being made without board approval. Additionally, we learned of at least one instance where a board member directed a Township employee to cut a check to a non-for-profit without prior board approval.

22. Relationship with CALL ONE and DuPage Township

Audit Examination:

The Township signed a Customer Service Agreement with Call One in June of 2004 for telecommunications services through the Suburban Purchasing Cooperative. The Township is billed monthly. In fiscal year 2018, the average monthly bill from Call One was \$1,600.

Recommendations and Process Improvement Opportunities

Organizational Structure

We noted during the audit that employees are being directed to provide information and perform tasks in which the **Supervisor and other trustees are unaware.** Our understanding of the organizational structure of the Township is that the Board of Trustees sets directives for the administration to carry out. The Township Supervisor is the head of administration and all board requests should go through him. We recommend the board adopt a resolution establishing the overall organizational structure of the Township that explains employees should be directed by the Township Supervisor who is in charge of the Administration of the Township and responsible for the delegation and oversight of the day to day operations of the Township. Employees and other Trustees should be made aware of this policy.

Documentation of Policies and Procedures

During our audit we noted that the Township does not have written policies and procedures. Written procedures, instructions and assignment of duties will help prevent or reduce the misunderstanding, errors, and inefficiencies of processes. A policy and procedures manual will also aid in the cross training of employees. A policy and procedure manual requires time and effort to develop, however this time investment may be offset by the time saved in later training and supervision of Township employees. A comprehensive review of the existing accounting procedures may assist the Township in discovering procedures that can be eliminated or improved to make processes more efficient and effective.

Cross Training of Employees and Segregation of Duties

During our interviews and throughout the audit process, **we noted that one individual has sole access to the accounting system, and also has sole responsibility for payroll, accounts payable, and banking activity with no trained backup.** This lack of segregation of duties is a material weakness in the Township's system of internal control and should be rectified as soon as possible. Also, in the event that this employee would leave the Township, it is unclear if payroll and accounts payable could be processed. We recommend that the Township begin to cross train and create procedural manuals for all key tasks within the Township with an adequate segregation of duties. This written guide would also assist the Township to continue operations with minimal disruptions in the event of employee turnover.

Cash Handling

During our audit it was noted that deposits are only being made twice a month and bank reconciliations are not performed monthly on all bank accounts. **It was also noted multiple petty cash funds are maintained by multiple individuals in the Township.** We recommend the Township make daily bank deposits and reconcile all bank accounts on a monthly basis. By not reconciling the accounts on a monthly basis, errors in the accounting system may go undetected, increasing the risk for undetected loss. The establishment of strong internal controls for cash collections and timely deposits is necessary to prevent mishandling of funds and to safeguard against loss.

Relationship between the Not for Profit Entities and the Township

There are several not for profit organizations that appear to exist only to serve certain needs of the Township. The Township needs to evaluate the relationship between these not for profit entities and consider if they should be operating under the Township umbrella as opposed to separate entities. **At a minimum, because of their relationships with the Township, it appears that they should be reported as component units in the Township's audit report.**

General Assistance Expenditures

During the audit it was noted that funds have been expended from the General Assistance fund that are not in compliance with the Township code and the Public Aid code. The Township should cease paying for unallowable activities from General Assistance tax funds immediately. Any payments to outside organizations that are not General Assistance related should be paid out of the General Town Fund. We recommend establishing a policy requiring a consistent application process with all the organizations the Township donates to. Additionally, the policy should dictate that payments to outside organizations may be made only after receiving Board approval. We also recommend consultation with legal counsel to determine if Townships are allowed to donate to more entities than 501c(3)s

Board Approval of Purchases

During our audit we noted instances where purchases were made prior to the board's approval. We recommend the Township establish written purchasing procedures for employees to follow and that all purchases obtain board approval prior to funds being disbursed.

Profits from Banquets and Township Programs

The Township doesn't have a tracking mechanism in place to determine profitability on senior programs or banquet events. When the revenues and expenditures are recorded, they are coded to a "holding account" (liability account) on the general ledger. At the end of the year, Terri Bethune records a journal entry to recognize the excess earned (revenue) or excess spent (expense) on each trip. The Township should establish a chart of accounts that provides for separate revenue and expenditure accounts for each event. That way the profitability of each event will be clear and the Township Board could review it.

Board Communication

Communication needs to be made to the Township board so they are aware of any oversight or regulatory audits. We noted during the audit that The US Department of State recently conducted an audit of passport services on 6/6/2018 however this was not communicated to the Board of Trustees. The Township was compliant but there were action items for the Township to follow up on. We recommend all external audits and result be communicated with the board.

Oversight and Review

We noted that there is no one at the Township reviewing payroll and other accounting and reporting functions. Due to lack of segregation of duties in key accounting areas, we would recommend that the Township consider having a knowledgeable individual perform at least a brief review of key reports as an additional control.

Backups of Accounting System

Backups of the accounting system only occur every other month, but not on a set schedule. We recommend scheduling backups on a more regular basis to minimize the risk of loss of accounting and financial data that can be critical to the operations of the Township.

Related Parties

Through the course of the audit we noted conflict surrounding various Township employees and vendors that are related to other Township employees and/or Township trustees. To avoid conflict and maintain transparency, we recommend the Township establish a nepotism policy as well as a policy on vendor selection as it relates to related Township employees and trustees.