

LAKE COUNTY
PUBLIC WORKS DEPARTMENT
Libertyville, Illinois

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended November 30, 2012

LAKE COUNTY PUBLIC WORKS DEPARTMENT

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**COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS
AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT
MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

CURRENT YEAR RECOMMENDATIONS

DOCUMENTATION OF ACCOUNTING POLICIES AND UNUSUAL TRANSACTIONS

Accounting policies used by an entity include any methods, measurement systems and procedures for presenting disclosures and accounting for certain types of transactions. Accounting policies differ from accounting principles in that the principles are the rules and the policies are an entity's way of adhering to the rules. Because accounting principles are often generic, an entity's accounting policies are extremely important. Documentation of accounting policies becomes even more important the more complex the entity's operations are. We believe it is important to ensure that the department's existing processes are fully documented, understood and that all impacted parties are involved in the evaluation of changes prior to implementation in order to avoid unintended consequences. We recommend the department consider updating and documenting its existing and future policies to address the following three categories:

- > Written Policies Related to Internal Control and Financial Reporting Policies and Procedures. This includes but is not limited to the following areas:
 - Segregation of Duties
 - Reconciliations
 - Cash Receipts and Disbursement Procedures
 - Petty Cash
 - Fixed Asset Management
 - Payroll
 - Financial Reporting

- > Written Policies Related to the Application of Accounting Standards. The more complex accounting standards with potential impact on the department include but are not limited to the following:
 - GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*
 - GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
 - GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
 - GASB Statement No. 53 - *Accounting and Financial Reporting for Derivative Instruments*
 - GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*
 - GASB Statement No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations*

- > Written Policies Related to Accounting for and Disclosing Unusual Transactions.

As a department of the County, you rely on their assistance with developing these policies.

PRIOR YEAR RECOMMENDATIONS

INVENTORY

During our 2010 inventory observation, we noted the inclusion of minuscule items (bolts, washers, etc.) in the material and supplies listing. Since these items are insignificant to the inventory value as a whole, we recommend the department implement a policy which includes only items specifically related to repairing and maintaining the water and sewer system. This will reduce employee time spent during inventory counts. The department has the option to either record these expenses to clearing accounts and spread them out to maintenance accounts at year end or classify them in such a way they will not be required to be physically examined during the year inventory count.

Status 11/30/2012

During 2012 the department implemented the policy to eliminate minuscule inventory items for the 2012 fiscal year and going forward and these items were expensed as appropriate.

CUSTOMER CONSUMPTION

Over the last few years, customer consumption and usage for utilities as a whole have declined. The contributing factors to this reduction are the current condition of the economy and increasing conservation efforts. During our audit, we noted that the department has also been impacted by this change. We will address this issue during our upcoming rate study to positively position the department for future fiscal viability and soundness.

Status 11/30/2012

Although the department saw a slight increase in consumption during fiscal year 2012 mainly due to drought conditions, a revised Rate Study is currently underway that will examine recent trends and develop a long-term operating and capital revenues strategy to address future fiscal viability and soundness.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

To the Public Works Committee
Lake County Public Works Department
Waterworks and Sewerage Systems Fund
Libertyville, Illinois

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the Lake County Public Works Department (department) for the year ended November 30, 2012, and have issued our report thereon dated May 14, 2013. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY
ACCEPTED IN THE UNITED STATES OF AMERICA***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

As part of obtaining reasonable assurance about whether the department's financial statements are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

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.

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

To the Public Works Committee
Lake County Public Works Department
Waterworks and Sewerage Systems Fund

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you.

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Accounting Policies

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 department 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 2012. We noted no transactions entered into by the department during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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. The most sensitive estimates affecting the financial statements were:

- > The allowance for uncollectible accounts receivable, which are evaluated in relation to actual collections in the subsequent year and collections made on a historical basis.
- > The other postemployment benefits obligation, which is supported by an actuarial study using employment data of the county and expected participation in benefit programs.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED 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.

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the department's financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. During the audit, management provided us with adjusting journal entries none of which were considered material to the financial statements.

To the Public Works Committee
Lake County Public Works Department
Waterworks and Sewerage Systems Fund

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' 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. It was noted the department used two independent accounting firms to perform the following procedures:

- > Wholesale customer billing audits
- > Agreed-upon procedures engagements related to compliance with Section 504 of the County of Lake, Illinois Water and Sewer System Revenue Bond Basic Ordinance
- > Wholesale sewer regional cost reports

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Lake County Public Works Department that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the Lake County Public Works Department for the year ended November 30, 2012, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Lake County Public Works Department in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the department other than audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence.

- > Water and sewerage rate study

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

To the Public Works Committee
Lake County Public Works Department
Waterworks and Sewerage Systems Fund

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 Lake County Public Works Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of those charged with governance and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Baker Tully Verchow Krause, LLP

Madison, Wisconsin
May 14, 2013

MANAGEMENT REPRESENTATIONS



Peter E. Kolb
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May 14, 2013

Baker Tilly Virchow Krause, LLP
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Madison, WI 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Lake County Public Works Department as of November 30, 2012 and 2011 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Lake County Public Works Department in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
8. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
9. Guarantees, whether written or oral, under which the Lake County Public Works Department is contingently liable, if any, have been properly recorded or disclosed.
10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of our governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
15. There are no known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.
18. We have made available to you all financial records and related data.
19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

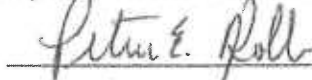
20. The Lake County Public Works Department has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
21. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
22. There are no:
 - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
 - c. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - d. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
23. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
 - a. Utility rate consulting

None of these non attest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
24. The Lake County Public Works Department has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
25. The Lake County Public Works Department has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
26. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
27. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
28. The financial statements properly classify all funds and activities.
29. Components of net assets (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
30. The Lake County Public Works Department has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

31. Provisions for uncollectible receivables have been properly identified and recorded.
32. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
33. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
34. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
35. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
36. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized.
37. We have appropriately disclosed the Lake County Public Works Department's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
38. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
39. With respect to the Management Discussion and Analysis, we acknowledge our responsibility for presenting the Management Discussion and Analysis in accordance with accounting principles generally accepted in the United States of America, and we believe the Management Discussion and Analysis, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the Management Discussion and Analysis have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

Sincerely,

Lake County Public Works Department

Signed: 

Signed: 