

**CITY OF GALESBURG, ILLINOIS NONMETRO
AREA TRANSPORTATION OPERATING AND
ADMINISTRATIVE ASSISTANCE GRANT
AGREEMENT, CONTRACT #4539**

Annual Financial Report

As of and for the Year Ended June 30, 2015

**CITY OF GALESBURG, ILLINOIS NONMETRO AREA TRANSPORTATION
OPERATING AND ADMINISTRATIVE ASSISTANCE GRANT AGREEMENT,
COTRACT #4539**

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Galesburg, Illinois

Report on the Financial Statements

We have audited the accompanying Section 5311 Annual Financial Report and Grant Reimbursement of the City of Galesburg, Illinois Nonmetro Area Transportation Operating and Administrative Assistance Grant Agreement, Contract #4539, as of and for the year ended June 30, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with provisions of the grant agreement between the Illinois Department of Transportation and the City of Galesburg, Illinois, described in Note 1; this includes determining that provisions of the grant agreement between the Illinois Department of Transportation and the City of Galesburg, Illinois, is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the City of Galesburg's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the City of Galesburg's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the City Council
City of Galesburg

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues and expenses of the City of Galesburg, Illinois, Nonmetro Area Transportation Operating and Administrative Assistance Grant, Contract #4539 in accordance with provisions of the grant agreement between the Illinois Department of Transportation and the City of Galesburg, Illinois as described in Note 1.

Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the provisions of the grant agreement between the Illinois Department of Transportation and the City of Galesburg, Illinois, which is a basis of accounting other than accounting principles generally accepted in the United States of America to comply with the requirements of the grant agreement between the Illinois Department of Transportation and the City of Galesburg, Illinois. Our opinion is not modified with respect to this matter.

Other Matter

Other Information

Our audit was conducted for the purpose of forming an opinion on the Section 5311 Annual Financial Report and Grant Reimbursement as a whole. The Schedule of Revenue and Expense and the Schedule of Approved Operating Deficit are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Section 5311 Annual Financial Report and Grant Reimbursement. The information has been subjected to the auditing procedures applied in the audit of the Section 5311 Annual Financial Report and Grant Reimbursement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Section 5311 Annual Financial Report and Grant Reimbursement or to the Section 5311 Annual Financial Report and Grant Reimbursement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenue and Expense and the Schedule of Approved Operating Deficit are fairly stated in all material respects in relation to the Section 5311 Annual Financial Report and Grant Reimbursement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015 on our consideration of the City of Galesburg, Illinois' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Galesburg, Illinois's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of the Illinois Department of Transportation and the City of Galesburg and is not intended to be and should not be used by anyone other than the specified parties.

Baker Tilly Victor Kraus, LLP

Oak Brook, Illinois
December 17, 2015

City of Galesburg, Illinois
Section 5311 Annual Financial Report
Operating Period July 1, 2014 to June 30, 2015
Contract Number 4539

Revenue

Line Item	Description	Total
401	Passenger Fares/ Donations	\$ 66,222
402	Special Transit Fares	2,600
405	Charter Service	-
406	Auxiliary Transportation	22,169
407	Non-Transportation Revenue	11
440	Other:	-
	Total Revenue	\$ 91,002
	Less: Non- 5311 Operating Revenues	-
	Section 5311 Operating Revenue	\$ 91,002

Expenses

Line Item	Eligible Expenses	Actual Administrative Expenses	Actual Operating Expenses	Total
501	Labor	\$ 190,472	\$ 540,508	\$ 730,980
502	Fringe Benefits	76,934	171,018	247,952
503	Services	11,426	39,491	50,917
504.01	Fuel and Oil	-	179,712	179,712
504.02	Tires and Tubes	-	7,276	7,276
504.99	Other Materials	6,522	32,243	38,765
505	Utilities	-	15,461	15,461
506	Casualty and Liability	-	53,035	53,035
507	Taxes	-	-	-
508	Purchase of Service	-	-	-
509	Miscellaneous	26,733	-	26,733
511	Interest Expense	-	-	-
512	Lease and Rentals	-	11,820	11,820
	Other:	360	-	360
	Total Expenses	\$ 312,447	\$ 1,050,564	\$ 1,363,011

Revised 07/23/15

City of Galesburg, Illinois
Operating Period July 1, 2014 to June 30, 2015
Section 5311 Grant Reimbursement

	Administrative Expenses	Operating Expenses	Total	
1) Expenses: Per Single Audit	\$ 312,447	\$ 1,050,564	\$ 1,363,011	
2) Less: Ineligible Expenses per Single Audit	360	-	360	
3) Net Eligible Expenses ((1)-(2))	312,087	1,050,564	1,362,651	
4) Less: Section 5311 Operating Revenues (From Page 1)		91,002	91,002	
5) Section 5311 Operating Deficit ((3)-(4))		959,562		
6) Section 5311 Deficit ((3)-(4))			1,271,649	
7) Section 5311 Reimbursement %	x 80%	x 50%		
				Grant
				Total
A) Eligible Reimbursement Per Percentages	249,670	479,781	729,451	
B) Funding Limits per Contract				304,335
C) Maximum Section 5311 Reimbursement: (Lesser of Totals for (A) or (B))			304,335	304,335
D) Less: IDOT Payments- Section 5311 Reimbursement to Grantee				304,335
E) Amount (Over) Under Paid ((C)-(D))				-
F) Grantee Local Match Requirement (Operating Deficit-(C))			\$ 967,314	

GRANTEE MATCH SOURCES	AMOUNTS
Downstate Operating Grant	885,722
Local Contracts	
In-Kind Services, Subsidies, Donations	\$81,592
TOTAL LOCAL MATCH (Must equal (F))	967,314
LOCAL TRANSIT FUNDS RETAINED (CARRY FORWARD ACCOUNT)	
BEGINNING CARRY FORWARD (C.F.A.) BALANCE	
FY Local Transit (Local Contracts) Amounts Received	
Less expended for Capital \$ Operating \$	
ENDING CARRY FORWARD (C.F.A.) BALANCE	

I certify that the revenues and costs claimed for reimbursement are adequately supported and the approved cost allocation plan (if applicable) has been followed as provided in the project budget.

Prepared By: See Attached Independent

Title: Auditors' Report

Reviewed By/PCOM: _____

Date: _____

CPA Approval: See Attached Independent

Date: Auditors' Report

Revised 07/23/15

**Section 5311 Annual Financial Report
of the City of Galesburg, Illinois
Notes to the Financial Statements
June 30, 2015**

NOTE 1 - NATURE OF PROJECT AND BASIS OF ACCOUNTING

Nature of Project

The City of Galesburg, Illinois, Nonmetro Area Transportation Operating and Administrative Assistance Grant Agreement, Contract #4539 (Project), provides public transportation services in the Galesburg, Illinois area. The Project's operations are financed by user fees and federal, state, and local government's contributions and grants.

Basis of Accounting

The accrual basis of accounting is followed by the Project in preparing this Section 5311 Annual Financial Report. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Project; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of the expenditure and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

NOTE 2 - CONTRACTUAL COMMITMENT

The Project is operated by the City of Galesburg which, in an agreement dated November 16, 1992, contracts with Galesburg Transit, Inc. for bus services. The contract requires the City to finance the operating deficits of the Project up to annually approve limits.

CITY OF GALESBURG, ILLINOIS
SCHEDULE OF REVENUE AND EXPENSE
UNDER DOWNSTATE OPERATING ASSISTANCE GRANT OP-15-15-FED
for the Year Ended June 30, 2015
(Page 1 of 2)

Operating Revenues and Income

401	Passenger fares for transit services	\$ 66,222
402	Special transit fares	2,600
403	School Bus Service	-
404	Freight Tariffs	-
405	Total charter service revenues	-
406	Auxiliary revenue	22,169
407	Non-transportation revenue	-
407 .99	Sec. 5307 force acct & admin cost reimbursement	-
411	State cash grants and reimbursement - <i>other than</i> <i>Downstate Operating Assistance</i>	-
412	State special fare assistance	-
413	Federal cash grants & reimbursement	304,335
413 .99	Sec. 5307 capital funds applied to state eligible op. expenses	-
.99	Job Access Reverse Commute & New Freedom	-
414	Interest Income	11
440	Subsidy from other sectors of operations	-
Total Operating Revenues		<u>\$ 395,337</u>

Operating Expenses

501	Labor	\$ 730,980
502	Fringe benefits	247,952
503	Professional services	50,917
504	Materials & supplies consumed	225,753
505	Utilities	15,461
506	Casualty & liability	53,035
507	Taxes	-
508	Net purchased transportation	-
509	Miscellaneous expense	26,733
511	Interest expense	-
512	Leases, rentals, and purchase-lease payments	11,820
550	Other	360
Total Operating Expenses		<u>\$ 1,363,011</u>

Ineligible Expenses:

APTA and IPTA dues	<u>360</u>
Other:	<u> </u>
	<u> </u>
	<u> </u>
	<u> </u>

Less Total Ineligible Expenses \$ 360

Total Eligible Operating Expenses \$ 1,362,651

**CITY OF GALESBURG, ILLINOIS
SCHEDULE OF REVENUE AND EXPENSE
UNDER DOWNSTATE OPERATING ASSISTANCE GRANT OP-15-15-FED
for the Year Ended June 30, 2015
(Page 2 of 2)**

Total Eligible Operating Expenses	\$ 1,362,651
Total Operating Revenue & Income	<u>395,337</u>
Deficit	<u>\$ 967,314</u>
65% of Eligible Expense	<u>\$ 885,722</u>
Maximum Contract Amount	<u>\$ 1,716,900</u>
FY 15 Eligible Downstate Operating Assistance (Deficit, 65% of eligible expense, or maximum contract amount, whichever is less)	<u>\$ 885,722</u>
FY 15 Downstate Operating Assistance Received (prior to close of fiscal year)	<u>\$ 653,436</u>
FY 15 Downstate Operating Assistance Receivable (at close of fiscal year and subsequently received)	<u>\$ 232,286</u>
FY 15 Downstate Operating Assistance (Over) Under Paid	<u><u>\$ -</u></u>

CITY OF GALESBURG, ILLINOIS
SECTION 5311 ANNUAL FINANCIAL REPORT OF THE CITY OF GALESBURG, ILLINOIS
SCHEDULE OF APPROVED OPERATING DEFICIT
UNDER DOWNSTATE OPERATING ASSISTANCE GRANT OP-15-15-FED
Year ended June 30, 2015

Project service revenues:		
Passenger and other fares		\$ 68,822
Other nontransportation revenue		<u>22,180</u>
		91,002
Project Expenses	\$ 1,363,011	
Less ineligible expenses	<u>360</u>	<u>1,362,651</u>
Approved operating (deficit)		(1,271,649)
Cash grants:		
Federal government	304,335	
State government	<u>885,722</u>	<u>1,190,057</u>
Approved operating (deficit) in excess of federal and state cash grants		<u><u>\$ (81,592)</u></u>

**CITY OF GALESBURG, ILLINOIS NONMETRO
AREA TRANSPORTATION OPERATING AND
ADMINISTRATIVE ASSISTANCE GRANT
AGREEMENT, CONTRACT #4539**

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE
AND MANAGEMENT

As of and for the Year Ended June 30, 2015

**CITY OF GALESBURG, ILLINOIS NONMETRO AREA TRANSPORTATION
OPERATING AND ADMINISTRATIVE ASSISTANCE GRANT AGREEMENT,
CONTRACT #4539**

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**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE
AUDIT TO THOSE CHARGED WITH GOVERNANCE**

To the City Council
City of Galesburg, Illinois

In planning and performing our audit of the Section 5311 Annual Financial Report and Grant Reimbursement of the City of Galesburg, Illinois Nonmetro Area Transportation Operating and Administrative Assistance Grant Agreement, Contract #4539 (the "Project"), as of June 30, 2015 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 consider the following deficiencies in the Project's internal control to be material weaknesses, as discussed further on the following pages:

- > Segregation of Duties – Galesburg Transit
- > General Information Technology Controls – Galesburg Transit

A significant deficiency is a deficiency, or 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 deficiency in the Project's internal control to be a significant deficiency, as discussed further on the following pages:

- > Segregation of Duties – City of Galesburg

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

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
December 17, 2015

SEGREGATION OF DUTIES – GALESBURG TRANSIT

A cornerstone of effective internal control is the existence of policies to support segregation of duties; this involves separation of the initiation, execution, approval and recording responsibilities for transactions. Due to the relatively small size of the Galesburg Transit's finance office, we noted that there are several deficiencies related to proper segregation of duties. These include:

1. Although the General Manager and Maintenance Manager are responsible for placing orders and informally approve transactions before checks are disbursed, the Office Manager has the ability to place orders on behalf of Galesburg Transit, receive invoices for payment, process the invoices, and print the checks for payment. There is no approval of new vendors as they happen and no formal annual review. This presents a segregation of duties concern as one individual has significant control over the accounts payable cycle. In an ideal control environment, the duties of ordering goods or services would be separate from receiving and processing invoices and both of those duties would be separate from printing checks, with segregation enforced through system and physical access restrictions.
2. The Office Manager can enter employee information and pay rates, enter time, process payroll and print checks. This presents a segregation of duties concern as one individual has significant control over the payroll cycle. In an ideal control environment, the duties of entering employee information and time reporting would be separate from the person responsible for processing payroll. These employees would also not have access to print payroll checks. Also, there is no formal change form when an employee receives a pay increase or a change in status of position. This lack of documentation and the overall procedures creates the risk that an employee could receive an unapproved raise or change in position. In an ideal control environment, the Office Manager would fill out a formal change form with the appropriate information which would then be approved by the General Manager and entered into the system by another employee.
3. The Office Manager prepares and enters journal entries without any detailed review occurring. This presents a segregation of duties issue as incorrect or fraudulent journal entries could get posted to the general ledger. In an ideal control environment, one employee would prepare the journal entry to post within the general ledger and another employee would review the journal entry in detail prior to posting it to the general ledger.

The presence of the risks identified above expose the Project to the possibility that errors or irregularities could occur as part of your financial process and not be detected by City or Galesburg Transit staff. Exposure to some of these deficiencies may be inherent due to the size of the City and limited number of business office staff. The City should review its operations and practices to ensure that segregation can be implemented where appropriate. In the event that segregation cannot be achieved, timely monitoring controls should be instituted to reduce the risks caused by inadequate segregation of duties.

GENERAL INFORMATION TECHNOLOGY CONTROLS – GALESBURG TRANSIT

As part of the audit, we were required to identify the processes in place that provide a controlled information technology (IT) environment for the applications, supporting systems and infrastructure determined to be critical to the financial statement audit. We documented the processes in place for each of the three main areas of focus: manage changes, logical access and IT operations. We then assessed the design effectiveness of each of these processes and noted the following opportunities to strengthen the Transit's IT controls.

- > Formal change management procedures should be in place for all program changes, system changes, and maintenance. Additionally a form should be used to authorize, facilitate and document all changes. These forms should remain on file through-out the system's life.
- > All financially impacted applications should have a login and password which is unique for every user and the user name should not be shared by anyone. Also the user should not have more than one username. Best practice states passwords should be changed every 90 days, require a minimum of six characters, require strong passwords, and passwords should be remembered so users cannot reuse recent passwords.
- > A formal process should be followed to facilitate adding new employees, modifying existing employee access, and removing access for terminated employees. Normally a form is used with approval granted by management before any changes occur, on which IT would record the completion of the process who completed it.
- > User accesses should be reviewed once a year by management to ensure users do not have access beyond their current job responsibilities. Segregation of duties conflicts should also be reviewed.

The absence of the control procedures noted above increase the risk that unauthorized access and data loss within the Transit's IT environment could go undetected.

SEGREGATION OF DUTIES – CITY OF GALESBURG

A cornerstone of effective internal control is the existence of policies to support segregation of duties; this involves separation of the initiation, execution, approval and recording responsibilities for transactions. Due to the relatively small size of the City's finance office, we noted that there are several deficiencies related to proper segregation of duties. These include:

- > The Senior Accountant reviews all journal entries and bank reconciliations prepared by other employees. However, the Senior Accountant also prepares journal entries and bank reconciliations and there is no documented review by someone else. The Director of Finance does a monthly budget to actual review. To strengthen this control, the Director of Finance should sign/initial and date the reconciliations and journal entries to indicate her review.
- > Multiple finance staff have the ability to enter time, process payroll, make changes to all employee information, and print checks. This presents a segregation of duties concern as one individual has significant control over the payroll cycle. In an ideal control environment, the duties of entering employee information and time reporting would be separate from the person responsible for processing payroll. These employees would also not have access to print payroll checks. To mitigate some of the risk with the current process, the Senior Accountant does a detailed review of payroll. However, while not within her job responsibilities, the Senior Accountant has the same access to enter time, process payroll, make changes to employee information, and print checks. Limiting the Senior Accountant's access to the payroll module would further strengthen the control environment.

The absence of these controls could result in errors to financial data or could allow the misappropriation of City assets to be concealed. As such, we are required to inform you that these are significant deficiencies in your control.

OTHER COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your Section 5311 Annual Financial Report and Grant Reimbursement, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

With respect to the audit of your financial statements:

- a. We address the significant risks or material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the Section 5311 Annual Financial Report and Grant Reimbursement whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of the financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - > Identify types of potential misstatements.
 - > Consider factors that affect the risks of material misstatement.
 - > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the City Council has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the City concerning:

- a. The City's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We would also like to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. We will perform our fieldwork during the fall to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 4-8 weeks after final fieldwork, but may vary depending on a number of factors.

While this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions or wish to provide other feedback. We welcome the opportunity to talk with you.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

To the City Council
City of Galesburg, Illinois

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

We have completed our audit of the Section 5311 Annual Financial Report and Grant Reimbursement of the City of Galesburg, Illinois Nonmetro Area Transportation Operating and Administrative Assistance Grant Agreement, Contract #4539, for the year ended June 30, 2015 and have issued our report thereon dated December 17, 2015. 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 the City Council of their responsibilities.

As part of the audit we obtained an understanding of the City and its operating 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.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

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.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our Communication to Those Charged with Governance dated April 3, 2015.

To the Mayor and City Council
City of Galesburg, Illinois

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 required by the City's agreement with the Illinois Department of Transportation are described in Note 1 to the financial statements.

We noted no transactions entered into by the City 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.

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 AND UNCORRECTED 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. We noted no corrections to the statements and no uncorrected financial statement misstatements.

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. To our knowledge, there were no such consultations with other accountants.

MANAGEMENT REPRESENTATIONS

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

To the Mayor and City Council
City of Galesburg, Illinois

INDEPENDENCE

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

Relating to our audit of the financial statements of for the year ended June 30, 2015, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the City in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, and provided no services to the City other than audit services provided in connection with the audit of the current year's financial statements and certain nonaudit services which in our judgment do not impair our independence. These nonaudit services consisted of the following:

- > Financial statement preparation

None of these nonaudit services constitute an audit under generally accepted auditing standards.

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

OTHER MATTERS

We were engaged to report on the supplementary information which accompanies the financial statements but is not required. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the contractual cash basis of accounting described in Note 1, 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.

RESTRICTIONS IN USE

This information is intended solely for the use of the City Council, finance committee 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 Tilly Virchow Krause, LLP

Oak Brook, Illinois
December 17, 2015

MANAGEMENT REPRESENTATIONS



City of Galesburg
Operating Under Council – Manager Government Since 1957

December 17, 2015

Baker Tilly Virchow Krause, LLP
1301 W. 22nd Street
Suite 400
Oak Brook, IL 60523

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Galesburg as of June 30, 2015 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the revenues and expenses of the City of Galesburg, Illinois, Nonmetro Area Transportation Operating and Administrative Assistance, Contract #4539, in conformity with the contractual provisions of the grant agreement between the Illinois Department of Transportation and the City of Galesburg, Illinois. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with the contractual provisions of the grant agreement between the Illinois Department of Transportation and the City of Galesburg, Illinois. 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.

Financial Statements

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 the contractual provisions of the grant agreement between the Illinois Department of Transportation and the City of Galesburg, Illinois. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government required by the contractual provisions of the grant agreement between the Illinois Department of Transportation and the City of Galesburg, Illinois 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. All events subsequent to the date of the financial statements and for which the contractual provisions of the grant agreement between the Illinois Department of Transportation and the City of Galesburg, Illinois requires adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the fiscal year end and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
6. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
7. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
8. We are not aware of any known actual, possible, pending, or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with the contractual provisions of the grant agreement between the Illinois Department of Transportation and the City of Galesburg, Illinois, and we have not consulted a lawyer concerning litigation, claims, or assessments.

Information Provided

9. 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 financial records and related data, 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 Galesburg Transit or summaries of actions of recent meetings for which minutes have not yet been prepared.
10. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
11. 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.
12. 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.
13. We have no knowledge of 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.

14. There are no known related parties or related party relationships and transactions of which we are aware.

Other

15. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

16. We have a process to track the status of audit findings and recommendations.

17. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

18. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

19. 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, debt contracts, and IRS arbitrage regulations; 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.

20. There are no:

a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving 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, except those already disclosed in the financial statement, if any.

b. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.

21. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 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. Financial statement preparation

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

22. The City of Galesburg 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.

23. The City of Galesburg has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

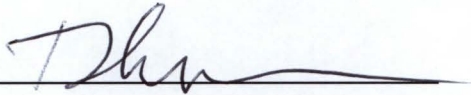
24. Expenses have been appropriately classified in or allocated to line items in the Section 5311 Annual Financial Report, and allocations have been made on a reasonable basis.

25. Revenues are appropriately classified in the Section 5311 Annual Financial Report and Grant Reimbursements within revenue line items.

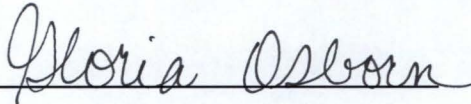
Sincerely,

City of Galesburg

Signed: _____

A handwritten signature in dark ink, appearing to be "Dhr", written over a horizontal line.

Signed: _____

A handwritten signature in dark ink, reading "Gloria Osborn", written over a horizontal line.

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the City Council
City of Galesburg, Illinois

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Section 5311 Annual Financial Report and Grant Reimbursement of the City of Galesburg, Illinois Nonmetro Area Transportation Operating and Administrative Assistance Grant Agreement, Contract #4539 (the "Project"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Project's internal control over financial reporting (internal control) to determine the 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 Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project'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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 a 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. 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. These material weaknesses are items 2015-001 and 2015-002. We consider a deficiency described in the accompanying schedule of findings and responses to be a significant deficiency. The significant deficiency is item 2015-003.

To the City Council
City of Galesburg

Compliance and Other Matters

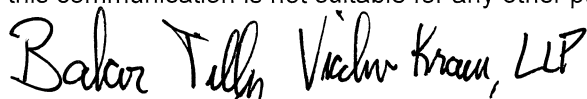
As part of obtaining reasonable assurance about whether the Project's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Project's Response to Findings

The Project's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Project's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oak Brook, Illinois
December 17, 2015

**CITY OF GALESBURG, ILLINOIS NONMETRO AREA TRANSPORTATION
OPERATING AND ADMINISTRATIVE ASSISTANCE GRANT AGREEMENT,
CONTRACT #4539**

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015

Finding No. 2015-001: Segregation of Duties – Galesburg Transit

Material Weakness

Criteria –

Within smaller organizations such as Galesburg Transit, it is difficult to adequately divide the internal control responsibilities within Galesburg Transit's staff. In an ideal situation, Galesburg Transit would segregate the duties of authorization, bookkeeping, and custody.

Condition –

Galesburg Transit does not have adequate segregation of duties in the areas of cash disbursements, payroll, and journal entries.

Cause –

Galesburg operates its accounting department with essentially one individual. Cost limitations and personnel constraints limit additional employees necessary for proper segregation of duties.

Effect –

Inadequate segregation of duties can lead to misstatements of financial information.

Project Response and Corrective Action Plan –

Galesburg Transit will review the costs and benefits associated with increased monitoring controls since, due to the size of Galesburg Transit, ideal segregation may not be possible.

**CITY OF GALESBURG, ILLINOIS NONMETRO AREA TRANSPORTATION
OPERATING AND ADMINISTRATIVE ASSISTANCE GRANT AGREEMENT,
CONTRACT #4539**

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015

Finding No. 2015-002 General Information Technology Controls – Galesburg Transit

Material Weakness

Criteria –

Galesburg Transit should have adequate controls over its information technology system, including controls to appropriately secure Galesburg Transit's financial information to prevent unauthorized access.

Condition –

Certain deficiencies in Galesburg Transit's controls over information technology systems are present. All financially impacted applications should have a login and password which is unique for every user and the user name should not be shared by anyone. Best practice states passwords should be changed every 90 days, require a minimum of six characters, require strong passwords and passwords should be remembered so users cannot reuse recent passwords. There should be monitoring of access to financial information with periodic reviews by management. Proper monitoring of access also includes reviewing the addition or removal of a user's access to the system. Lastly, a formal process should be implemented for all program changes, system changes, and maintenance.

Cause –

This finding was caused by inadequate controls over IT operations.

Effect –

Management may not be able to detect material errors and omissions to its financial statements.

Project Response and Corrective Action Plan –

Galesburg Transit will review its internal control process over information technology operations and evaluate areas where changes are cost beneficial.

**CITY OF GALESBURG, ILLINOIS NONMETRO AREA TRANSPORTATION
OPERATING AND ADMINISTRATIVE ASSISTANCE GRANT AGREEMENT,
CONTRACT #4539**

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015

Finding No. 2015-003 Segregation of Duties – City of Galesburg

Significant Deficiency

Criteria –

The City should maintain proper segregation of duties related to the initiation, execution, approval and recording of transactions.

Condition –

The employee who reviews all journal entries and bank reconciliations prepared by other employees also prepares journal entries and bank reconciliations that contain no documented review by someone other than her. Multiple finance staff have the ability to enter time, process payroll, make changes to all employee information, and print checks.

Cause –

The City has a relatively small staff in the business office that results in difficulties properly segregating duties.

Effect –

The absence of these controls could result in errors to financial data or could allow the misappropriation of City assets to be concealed.

Project Response and Corrective Action Plan –

The segregation of bank reconciliation duties will be reviewed and further enhanced. The separation of payroll duties has been completed in fiscal year 2015 with the Human Resources staff and the Benefits Coordinator staff entering and making modifications to personnel records and Staff Accountants providing oversight on the time entry duties. All adjustments entered by staff in the software modules, including payroll and utility billing, must be reviewed and approved by the Senior Accountant, or her designated backup, prior to the entries being committed to the financial ledgers.