

**CITY OF GALESBURG, ILLINOIS NONMETRO
AREA TRANSPORTATION OPERATING AND
ADMINISTRATIVE ASSISTANCE GRANT
AGREEMENT, CONTRACTS #4799 AND #4842**

Annual Financial Report

As of and for the Year Ended June 30, 2018

**CITY OF GALESBURG, ILLINOIS NONMETRO AREA TRANSPORTATION
OPERATING AND ADMINISTRATIVE ASSISTANCE GRANT AGREEMENT,
CONTRACTS #4799 AND #4842**

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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, Contracts #4799 and #4842, as of and for the year ended June 30, 2018, 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, Contracts #4799 and #4842 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 13, 2018 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' 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 Virchow Krause, LLP

Oak Brook, Illinois
December 13, 2018

City of Galesburg, Illinois

**Required Audited Schedule of Revenues and Expenses under
the 5311 Operating Assistance Grant 338-2119
Operating Period July 1, 2017 to June 30, 2018
Contract Number 4799 and 4842**

Revenue

Line Item	Description	Total
401	Passenger Fares/ Donations	\$ 55,577
402	Special Transit Fares	9,963
405	Charter Service	-
406	Auxiliary Transportation	22,741
407	Non-Transportation Revenue	-
414	Interest income	9
430	Contributed Services	-
440	Other:	-
	Total Revenue	\$ 88,290
	Less: Non- 5311 Operating Revenues	-
	Section 5311 Operating Revenue	\$ 88,290

Expenses

Line Item	Eligible Expenses	Actual Administrative Expenses	Actual Operating Expenses	Total
501	Labor	\$ 228,130	\$ 645,821	\$ 873,951
502	Fringe Benefits	113,479	217,392	330,871
503	Services	12,228	71,810	84,038
504.01	Fuel and Oil	-	138,174	138,174
504.02	Tires and Tubes	-	7,954	7,954
504.03	Inventory Purchases	-	-	-
504.99	Other Materials	5,270	64,622	69,892
505	Utilities	-	25,560	25,560
506	Casualty and Liability	-	135,379	135,379
507	Taxes	-	-	-
508	Purchase of Service	-	-	-
509	Miscellaneous	35,314	-	35,314
511	Interest Expense	-	-	-
512	Lease and Rentals	-	-	-
	Other:	-	-	-
	Total Expenses	\$ 394,421	\$ 1,306,712	\$ 1,701,133

Revised 02/08/17

OPIT OP-ASRE-5311

City of Galesburg, Illinois

**Required Audited Schedule of Revenues and Expenses under
the 5311 Operating Assistance Grant 338-2119
Operating Period July 1, 2017 to June 30, 2018
Contract Number 4799 and 4842**

Expenses

	Administrative Expenses	Operating Expenses	Total	
1) Expenses: Per Single Audit	\$ 394,421	\$ 1,306,712	\$ 1,701,133	
2) Less: Ineligible Expenses per Single Audit	<u>\$360</u>	<u>\$0</u>	<u>\$360</u>	
3) Net Eligible Expenses ((1)-(2))	394,061	1,306,712	1,700,773	
4) Less: Section 5311 Operating Revenues (From Page 1)		88,290	88,290	
5) Section 5311 Operating Deficit ((3)-(4))		1,218,422		
6) Section 5311 Deficit ((3)-(4))			1,612,483	
7) Section 5311 Reimbursement %	<u>x 80%</u>	<u>x 50%</u>		
				Grant
				Total
A) Eligible Reimbursement Per Percentages	315,249	609,211		\$ 924,460
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				
E) Amount (Over) Under Paid ((C)-(D))				-
F) Grantee Local Match Requirement (Operating Deficit-(C))			\$ 1,308,148	

GRANTEE MATCH SOURCES	AMOUNTS
Downstate Operating Grant	\$ 1,105,502
Local Contracts	
In-Kind Services, Subsidies, Donations	202,646
TOTAL LOCAL MATCH (Must equal (F))	\$ 1,308,148
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 IndependentTitle: Auditors' Report

Reviewed By/PCOM: _____

Date: _____

CPA Approval: See Attached IndependentDate: Auditors' Report

OPIT OP-ASRE-5311

Revised 02/08/17

**Section 5311 Annual Financial Report
of the City of Galesburg, Illinois
Notes to the Financial Statements
June 30, 2018**

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 #4799 and #4842 (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

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
AUDITED SCHEDULE OF REVENUE AND EXPENSE
UNDER DOWNSTATE OPERATING ASSISTANCE GRANT 1141-2120
for the Year Ended June 30, 2018
(Page 1 of 2)

Operating Revenues and Income

401	Passenger fares for transit services	\$ 55,577
402	Special transit fares	9,963
403	School Bus Service	-
404	Freight Tariffs	-
405	Total charter service revenues	-
406	Auxiliary revenue	22,741
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	9
440	Subsidy from other sectors of operations	-
Total Operating Revenues		\$ 392,625

Operating Expenses

501	Labor	\$ 873,951
502	Fringe benefits	330,871
503	Professional services	84,038
504	Materials & supplies consumed	216,020
505	Utilities	25,560
506	Casualty & liability	135,379
507	Taxes	-
508	Net purchased transportation	-
509	Miscellaneous expense	35,314
511	Interest expense	-
512	Leases, rentals, and purchase-lease payments	-
Total Operating Expenses		\$ 1,701,133

Ineligible Expenses:

APTA and IPTA dues	360
Other: N/A	-
	-
	-
	-

Less Total Ineligible Expenses \$ 360

Total Eligible Operating Expenses \$ 1,700,773

City of Galesburg, Illinois
AUDITED SCHEDULE OF REVENUE AND EXPENSE
UNDER DOWNSTATE OPERATING ASSISTANCE GRANT 1141-2120
for the Year Ended June 30, 2018
(Page 2 of 2)

Total Eligible Operating Expenses	<u>\$ 1,700,773</u>
Total Operating Revenue & Income	<u>\$ 392,625</u>
Deficit	<u>\$ 1,308,148</u>
65% of Eligible Expense	<u>\$ 1,105,502</u>
Maximum Contract Amount	<u>\$ 1,251,244</u>
FY 18 Eligible Downstate Operating Assistance (Deficit, 65% of eligible expense, or maximum contract amount, whichever is less)	<u>\$ 1,105,502</u>
FY 18 Downstate Operating Assistance Received (prior to close of fiscal year)	<u>\$ 828,323</u>
FY 18 Downstate Operating Assistance Receivable (at close of fiscal year and subsequently received)	<u>\$ 277,179</u>
FY 18 Downstate Operating Assistance (Over) Under Paid	<u>\$ 0</u>

Prepared By: See Attached Independent Auditors' Report Title: See Attached Independent Auditors' Report

Reviewed by PCOM: _____ Date: _____
Signature PCOM

Type PCOM Name

Reviewed by Grantee: _____ Date: _____
Authorized Representative Signature Authorized Rep

Type Name of Authorized Rep

CPA Approval: See Attached Independent Auditors' Report Date: See Attached Independent Auditors' Report

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 1141-2120
Year ended June 30, 2018

Project service revenues:		
Passenger and other fares		\$ 65,540
Other nontransportation revenue		<u>22,750</u>
		88,290
Project Expenses	1,701,133	
Less ineligible expenses	<u>360</u>	<u>1,700,773</u>
Approved operating (deficit)		(1,612,483)
Cash grants:		
Federal government	304,335	
State government	<u>1,105,502</u>	<u>1,409,837</u>
Approved operating (deficit) in excess of federal and state cash grants		<u><u>\$ (202,646)</u></u>

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 #4799 and #4842 (the "Project"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2018.

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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

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 responses to the findings identified in our audit are described in the accompanying schedules of findings and responses. The Project's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

A handwritten signature in black ink that reads "Baker Tilly Virchow Krause, LLP". The signature is written in a cursive, flowing style.

Oak Brook, Illinois
December 13, 2018

**CITY OF GALESBURG, ILLINOIS NONMETRO AREA TRANSPORTATION
OPERATING AND ADMINISTRATIVE ASSISTANCE GRANT AGREEMENT,
CONTRACT #4799 and #4842**

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2018

Finding No. 2018-001: Segregation of Duties – Galesburg Transit

Significant Deficiency

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 area of 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: During the current fiscal year, Galesburg Transit implemented several compensating controls, including periodic (quarterly) reviews of journal entries by the outsourced accountant, monthly review of payroll listings by management, and documentation of invoice review by management as well as requiring 2 signatures on all checks. These controls serve to mitigate exposure to risk. Galesburg Transit will continue to 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 #4799 and #4842**

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2018

Finding No. 2018-002 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 prepared by other employees also prepares journal entries that contain no documented review by someone other than her.

Cause: The City has a relatively small staff in the Finance Department 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 Director of Finance will continue to review the monthly general ledger which encompasses the review of the journal entries made by the Senior Accountant. A Staff Accountant is also reviewing the revenue and expenditure accounts as an additional review of transactions. Finance staff reconciling cash accounts review any entries being made by the Senior Accountant during their bank reconciliation. Also, in the City's fiscal year 2017, an electronic review documentation by the Senior Accountant and the Director of Finance and Information Systems was implemented for the bank reconciliations' review process.

**CITY OF GALESBURG, ILLINOIS NONMETRO
AREA TRANSPORTATION OPERATING AND
ADMINISTRATIVE ASSISTANCE GRANT
AGREEMENT, CONTRACTS # 4799 AND # 4842**

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE
AND MANAGEMENT

As of and for the Year Ended June 30, 2018

**CITY OF GALESBURG, ILLINOIS NONMETRO AREA TRANSPORTATION
OPERATING AND ADMINISTRATIVE ASSISTANCE GRANT AGREEMENT,
CONTRACTS #4799 AND #4842**

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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, Contracts #4799 and #4842 (the "Project"), as of June 30, 2018 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 deficiencies in internal control that we consider to be 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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

- > Segregation of Duties – Galesburg Transit
- > 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 13, 2018

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. The Office Manager prepares and enters journal entries with detailed review occurring quarterly after the entries are made. 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.

During the fiscal year, Galesburg Transit implemented several compensating controls, including periodic (quarterly) reviews of journal entries by the outsourced accountant, monthly review of payroll listings by management, and documentation of invoice review by management. While these controls serve to mitigate exposure to risk, the new procedures are not performed frequently enough to reduce exposure to an insignificant level.

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 the deficiencies listed below are related to proper segregation of duties. These include:

- > The Senior Accountant reviews all journal entries prepared by other employees. However, there is no documented review of the Senior Accountant's journal entries by someone else. To strengthen this control, the Director of Finance should sign/initial and date the journal entries to indicate her review. However, the Director of Finance does a monthly budget to actual review.

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 #4799 and #4842, for the year ended June 30, 2018 and have issued our report thereon dated December 13, 2018. This letter presents communications required by our professional standards.

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

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 and Government Auditing Standards. 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 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 financial statements are free of material misstatement, we performed tests of Galesburg Transit's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit.

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 December 11, 2017.

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, 2018, 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 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 13, 2018

MANAGEMENT REPRESENTATIONS



City of Galesburg

Operating Under Council - Manager Government Since 1957

December 13, 2018

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, 2018 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, Contracts #4799 and #4842, 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 that we have included all informative disclosures that are appropriate for the contractual basis used to prepare our financial statements. These include:
 - i. A description of the contractual basis, including a summary of significant accounting policies, and how the framework differs from GAAP,
 - ii. A description of any significant interpretations of the contract on which the special purpose financial statements are prepared, and
 - iii. Additional disclosures beyond those specifically required that may be necessary to achieve fair presentation.
5. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
6. 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 balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
7. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
8. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
9. 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

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 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.
11. We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.

12. 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.

13. 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.

14. 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.

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

Other

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

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

18. 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.

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

20. 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.

21. 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.

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22. 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*.

23. 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.

24. 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.

25. 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.

26. Revenues are appropriately classified in the Section 5311 Annual Financial Report and Grant Reimbursements within program revenues and general revenues.

Sincerely,

City of Galesburg

Signed: _____

Gloria Osborn