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**Internal Audit of Agency Funds**

**Background**

Kane County (the County) has three fund classifications: Governmental, Proprietary and Fiduciary. Governmental funds include general fund, special revenue funds, debt service funds, capital project funds, and permanent funds. Proprietary funds include enterprise funds and an internal service fund which are used to account for business-type activities. Fiduciary funds contain resources held by a government but belonging to individuals, or entities, other than the government. Agency funds, a class of fiduciary funds, are used to account for assets held (usually for a short term) for distribution by the County as an agent for another entity such as another government entity, private organization, or individual, for which the County has custodial responsibility but has no direct financial interest. Some examples of agency funds would be taxes collected and remitted to other government entities; “pass through” grant funds; and payroll deduction collections and payments. Agency funds cannot be used to support County programs. The Auditor’s Office performed an audit of the County’s agency funds. The purpose of this audit was to review all agency funds as of November 2015 (last CAFR) to determine that all agency funds are correctly classified as such.

**Summary of Procedures Performed**

The following procedures were performed:

- Identify owner of the funds by distributing a request for information to each office/department.
- Perform research into ownership, purpose, and activity of funds.
- Document analysis of background information and owner of each fund.
- Review activity in New World Systems (NWS) to confirm if the fund is active or dormant.
- Determine correct classification of funds (e.g., agency funds, special revenue funds) based upon information collected.
- Identify accounts which have been, or should be closed.

## Findings

As described below, some of the funds currently classified as agency funds would be more appropriately classified as either special revenue funds or general fund. While there is no overall dollar impact to the County, the recommended reclassification(s) would correctly report the fund balance(s) in the proper respective category based upon current GASB standards of an agency fund. Presented below is the zero impact of the recommended reclassification of funds (based upon FY2015 balances):

<u>Fund Name</u>	<u>Fund #</u>	<u>Owner</u>	<u>Fund Bal</u>	<u>Agency</u>	<u>Special Rev</u>	<u>Gen Fund</u>	<u>Net Impact</u>
Tax Sale Purchase Fund	491	Treasurer	\$ 83,260	\$ -	\$ -	\$ 83,260	\$ -
Sheriff's Detail Escrow	702	Sherriff	111,265	111,265	-	TBD	-
Inheritance Tax	710	Treasurer	5,548	-	-	5,548	-
Powers Road Fund	711	KDOT	6,234	-	-	6,234	-
Kane County Emergency Planning	712	Emerg Mgmt	16,655	-	16,655	-	-
Coroner's Escrow Fund	713	Coroner	3,078	-	3,078	-	-
EMA Volunteers Fund	714	Emerg Mgmt	16,261	-	16,261	-	-
Sale & Error	715	Treasurer	2,857,563	-	500,000	2,357,563	-
Health Dept Special Fund	716	Health	3,707	-	3,707	-	-
Juvenile Justice Donation Fund	717	Court Svc	5,414	-	5,414	-	-
Coroner's Special Fund	719	Coroner	-	-	-	-	-
Child Abuse Prevention Fund	720	Coroner	23	-	-	23	-
Juvenile Female Program Fund	721	Court Svc	105	-	105	-	-
Performance Bond Trust Fund	722	N/A	101,853	-	-	101,853	-
Bad Check Restitution Fund	723	SAO	33,378	-	33,378	-	-
Employee Events Fund	727	HRM	16,107	-	16,107	-	-
Health Care Services Fund	728	N/A	19	-	-	19	-
Drug Asset Forfeiture	735	SAO	193,364	-	193,364	-	-
Bomb Squad SWAT	740	Sherriff	49,810	-	49,810	-	-
State's Attorney Employee Events	748	SAO	1,659	-	1,659	-	-
Child Advocacy Advicory Board	749	SAO	24,793	-	24,793	-	-
Juvenile Justice	755	Court Svc	984	-	984	-	-
Canteen Commision	OBS	Sherriff	479,900	-	479,900	-	-
Computer Crimes	OBS	Sherriff	-	-	-	-	-
County Sheriff DEF Federal	OBS	Sherriff	36,240	-	36,240	-	-
County Sheriff DEF Local	OBS	Sherriff	643,970	-	643,970	-	-
DUI Fund	OBS	Sherriff	13,196	-	13,196	-	-
Escrow Account	OBS	Sherriff	-	-	-	-	-
FATS	OBS	Sherriff	2,249	-	2,249	-	-
K-9 Unit	OBS	Sherriff	18,829	-	18,829	-	-
Vehicle Maint/Purchase	OBS	Sherriff	61,694	-	61,694	-	-
Vital Records Fund	OBS/726	Cty Clk	103,615	-	103,615	-	-
<b>Total</b>			<b>\$ 4,890,773</b>	<b>\$ 111,265</b>	<b>\$ 2,225,008</b>	<b>\$ 2,554,500</b>	<b>\$ -</b>

In summary:

Of the total sixty-six (66) agency funds in NWS as of the end of FY 2015 (See Exhibit 1 for listing):

- Thirty-one (31) funds are properly classified as agency funds.
- Twenty (21) funds should be reclassified to special revenue funds. Funds which are held as off balance sheet (OBS) accounts (8 out of the 21) will need to have fund numbers set up in NWS so that activity can either be directly posted through NWS or journaled in periodically.
- Six (6) funds are “closed” as of November 2016. NWS doesn’t allow for marking a fund inactive to prevent posting transactions to the fund. “Closed” funds need to be actively monitored in order to prevent posting of transactions.
- Six (6) additional agency funds are dormant and should be closed. Five of the balances should be transferred to the general fund. Fund #755 will be combined with fund #717 and classified as a special revenue fund.
- One (1) fund (Sheriff’s Escrow Account) should be closed with the balance transferred to the Unclaimed Funds agency fund. Fund 726 represents amounts held, but not claimed, through foreclosure.
- One (1) fund (Vital Records Fund) is recommended to be captured as “cash not held by the Treasurer” under the County Clerk versus an agency fund.

### **Recommendations and Management Response**

- Per the above findings, close and/or transfer funds as appropriate.
- For the Tax Sale Purchase Fund, fund #491, transfer the current balance to the general fund as it represents excess from when the tax sale trustee transactions flowed through the financial system, and going forward, the agency fund balance should be linked to the bank account established under the County’s FEIN which is currently utilized by the selected trustee.
- Determine the portion of the Sheriff’s Detail Escrow, fund #702, that is profit, and transfer the amount to the Sheriff’s general fund. Remaining funds will be held in agency fund #702. Sheriff’s Detail Escrow represents payments from outside parties for off duty sheriff assistance with security, traffic, etc. Funds which represent the upcharge portion should be allocated to the Sheriff’s general fund as received.
- For the Sale & Error Fund, fund #715, state statute allows for amounts in excess of \$500k to be taken to the general fund. Establish \$500k of the \$2.9M as a special revenue fund, and transfer the remainder to the general fund.

- Coroner’s Special Fund, fund #719 was “closed”; however, transactions were noted in 2017. Transfer any transactions to the Coroner Administration special revenue fund, #289.
- Eliminate future interest allocation to funds being closed.
- Identify unclaimed amounts in the Sheriff’s Escrow Account and transfer to the Unclaimed Funds agency fund held by the Treasurer. Sheriff’s Escrow Account holds unclaimed foreclosure funds.
- Agency Fund #759 has been reflected as “Employee Education” in the CAFR; however, it is named “Court Services Adoptions” in NWS. Update the name in the CAFR.
- Continue to document owners of the funds and require all funds to be reconciled.
- As Baker Tilly stated in their off balance sheet bank account report,
  - *The Governmental Accounting Standards Board (GASB) is currently in the process of issuing new standards on accounting and reporting for fiduciary funds, including agency accounts.*
  - *As currently drafted, the new GASB standards will require the following changes to agency fund accounting and reporting:*
    - *Redefines the term “fiduciary activity”, establishing more stringent requirements for what can be reported as a fiduciary account.*
    - *Established new fiduciary fund types, including the elimination of the historical “agency fund” type.*
    - *Requires all fiduciary funds to report additions (i.e. revenues) by source, and deductions (i.e. disbursements) by type, in the basic financial statements. Under previous guidance, agency accounts were required to present only high level total addition and deletion amounts that were reported as supplemental information.*
  - *In general, fiduciary activity is strictly related to disbursements to individuals for which the Office [County office or department] acts as an intermediary to collect and then disburse funds, such as disbursements of collected fines to various local government agencies. Payments to vendors for services being provided, even if those services are to assist in the distribution of funds for which the Office is serving as a fiduciary agent, are considered operating activities. If an Office incurs such costs, these payments should not be paid directly out of an agency account.*

Recommend developing an agency fund financial policy that thoroughly addresses the above points.

## **Management Response:**

The Finance Department appreciates the work the Auditor's Office performed in their data collection and analysis for this very important project.

Although the recommended reclassifications may have a "zero dollar impact", they have a material financial statement impact in the sense that \$4.8 million of funds that were previously classified as agency funds (funds belonging to individuals, or entities, other than the County) will now be reclassified as County funds. Since implementation of these recommendations will have a material effect on the financial statements, the Finance Department believes it would be prudent to ask our external auditors (Baker Tilly) to review the report and confirm the recommendations. Since we are expecting the new GASB standards regarding Fiduciary Accounting to be released soon, we will also ask Baker Tilly to identify which recommendations may be effected by the new GASB standards, so that we might determine if it would make sense to delay the implementation of such recommendations until the potential effects of the new GASB standards are known. By coordinating implementation of these recommendations with any recommendations resulting from the new GASB standards, we will have only one set of changes to implement and avoid duplication of effort.

In conclusion, the Finance Department will make any of the substantive changes with which the external auditors concur, and will coordinate the implementation of the recommendations with any potential changes that may result from the new GASB standards on Fiduciary Accounting. In addition, the Finance Department agrees to:

- make sure that no transactions are posted to closed funds;
- make the recommended correction to the description of fund #759 in New World;
- work with departments and offices to close dormant funds and to make the appropriate transfers;
- continue to document owners and purposes of any new funds that are created;
- require reconciliation of all off-balance sheet accounts;
- obtain appropriate documentation of transactions occurring in off-balance sheet accounts so as to properly record activity in New World; and
- work with the Finance Committee and County Board to determine the allocation of any "excess revenue over expenditures" (that results from transfers from Agency Funds to the General Fund) for whatever special purposes deemed appropriate such as to the Capital Fund, to the Property Tax Freeze Protection Fund and/or to the Emergency Reserve Fund.

The Auditor's Office would like to thank the Finance Department for their assistance. In addition, we would like to thank the following offices/departments for their assistance in providing information about their agency funds: Animal Control, Circuit Clerk, Coroner, County Clerk, Court Services, Development, Emergency Management, ETSB, Health, Human Resources, Information Technologies, Judiciary, Kane County Board, Recorder, Regional Office of Education, Sheriff, State's Attorney, Transportation, Treasurer, and Water Resources.

Sincerely,

OFFICE OF THE KANE COUNTY AUDITOR



Terry Hunt – Kane County Auditor



Andrea Rich – Chief Deputy Auditor



Christina Abbate – Administrative Assistant

<b>Exhibit 1</b>				
<b>Summary of Audit Findings for Agency Funds</b>				
<b><u>Remain Agency Funds</u></b>				
	Tax Sale Purchase Fund	491	Death Certificates Fund	747
	Land/Cash Ordinance Fund	700	Subdivision Review Escrow Fund	751
	Elder Fatality Review Team Fund	701	Crane Road Estates SSA Fund	752
	Sheriff's Detail Escrow	702	Junior Kane County Board	753
	Special Trust Fund	703	Adult Restitution	756
	911 Emergency Surcharge Fund	705	Juvenile Court Restitution	757
	Township Bridge Fund	706	Juvenile Court Services	758
	Township Motor Fuel Fund	707	Adoptions	759
	Wireless 911 Fund	708	Forest Preserve Investments	760
	Special Deposit Fund	709	State Real Estate Transfer Tax	761
	School Office Reserve Fund	718	Unclaimed Funds	OBS
	Recorder's Rental Surcharge Fund	724	County Collector	OBS
	Tax Redemption Fund	725	Circuit Clerk	OBS
	Payroll Clearing	731	Chancery	OBS
	Flexible Spending Account Fund	733	Detainee Account	OBS
	Marriage Violence Fund	746		
<b><u>Reclassify as Special Revenue Funds</u></b>				
	Kane County Emergency Planning	712	State's Attorney Employee Events	748
	Coroner's Escrow Fund	713	Child Advocacy Advisory Board	749
	EMA Volunteers Fund	714	Vehicle Maintenance/Purchase	TBD
	Sale and Error Fund	715	Canteen Commission	TBD
	Juvenile Justice Donation Fund	717	Computer Crimes	TBD
	Coroner's Special Fund	719	County Sheriff DEF Federal	TBD
	Juvenile Female Program Fund	721	County Sheriff DEF Local	TBD
	Bad Check Restitution Fund	723	DUI Fund	TBD
	Employee Events Fund	727	FATS	TBD
	Drug Asset Forfeiture Fund	735	K-9 Unit	TBD
	Bomb Squad SWAT	740		
<b><u>Closed</u></b>				
	Tax Clearing	704	Kane County Savings Bond Fund	730
	Health Dept Special Fund	716	State Income Tax Wthholding	732
	Indemnity Fund	729	Animal Control	OBS
<b><u>Additional to Close</u></b>				
	Inheritance Tax Fund	710	Performance Bond Trust Fund	722
	Powers Road Fund	711	Health Care Services Fund	728
	Child Abuse Prevention Fund	720	Juvenile Justice	755
<b><u>Other</u></b>				
	Vital Records Fund	726	Sheriff's Escrow Account	OBS