VILLAGE OF OAK PARK, ILLINOIS

COMMUNICATION OF DEFICIENCIES
IN INTERNAL CONTROL AND
OTHER COMMENTS TO MANAGEMENT

December 31, 2022

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COMMUNICATION OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER COMMENTS TO MANAGEMENT

Mr. Kevin Jackson, Village Manager
Mr. Steven Drazner, Chief Financial Officer
Village of Oak Park, Illinois

As part of the annual audit, we are required to communicate internal control matters that we classify as significant deficiencies and material weaknesses to those charged with governance. 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 Village'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. In addition, we reviewed the status of the comments from the December 31, 2021 audit. The status of these comments is included in Appendix A.

The Village's written responses to these matters identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with the Chief Financial Officer, Steven Drazner and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Sikich LLP

Naperville, Illinois
May 30, 2023

DEFICIENCY

Approvals

During our testing of manual journal entries posted by the Village, we noted that there were entries that were not properly reviewed before being posted to the general ledger. We recommend that all manual journal entries be reviewed for accuracy and completeness on a timely basis by someone other than the preparer. The review should include tests of mechanical accuracy and tracing of items on the entry to the relevant source documents.

Additionally, during our testing of Police and Firefighters' Pension contributions, we noted there was no formal approval in the board minutes for four of the new members into the plans during the fiscal year. While the Pension investment activity has been moved to the statewide consolidated plans, the member and benefit activity approvals are still performed at the local level. We recommend that the Pension Boards approve all new members and retirees and that this approval be documented in the board meeting minutes.

Management Response

Staff concurs with the auditor comment that new police and/or firefighter pension participants should be formally approved by each respective pension board and notated within the minutes. Regarding journal entry approvals, finance staff agree that it would be ideal to have a second person approve every manual journal entry. However, the Finance Department has a very limited professional staff of only three individuals capable of doing this (CFO, Deputy CFO, and Senior Accountant). CFO Drazner does not believe that the requirement of a separate approval makes sense from a cost/benefit perspective. The potential of fraud and/or errors always exists in every accounting department, both in the private and public sectors, and believing anything to the contrary would be naïve. However, the extent and cost of internal controls must be weighed against the potential benefits. The Village's accounting system, BS&A, already tracks each individual who prepares and enters journal entries and this audit trail can never be undone or turned off. Additional other controls are in place for high risk functions such as cash management and payroll preparation in which dual reviews by separate employees are performed involving wiring money, bank reconciliations, and timesheets. While mandating that all manual journal entries be approved by a second individual may slightly improve internal controls and reduce risk/errors, the time and expense in doing so would most likely outweigh any real benefit.

OTHER MATTERS

Future Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued a number of pronouncements that will impact the Village in the future.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, was issued to address issues related to accounting and reporting for public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like

OTHER MATTERS (Continued)

Future Accounting Pronouncements (Continued)

transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which is defined in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This Statement is effective for the fiscal year ending December 31, 2023.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. This Statement establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. This Statement is effective for fiscal year ending December 31, 2023.

GASB Statement No. 99, *Omnibus 2022,* addresses a variety of topics including: Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument; clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives; clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset; clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability; extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt; accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP); disclosures related to nonmonetary transactions; pledges of future revenues when resources are not received by the pledging government; clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements; terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and terminology used in Statement 53 to refer to resource flows statements. This statement is effective upon issuance for requirements related to the extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63. The effective date for the requirements related to leases, PPPs, and SBITAs is the fiscal year ending December 31, 2023. The effective date for the requirement related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 is the fiscal year ending December 31, 2024.

GASB Statement No. 100, *Accounting Changes and Error Corrections—an Amendment of GASB Statement No. 62*, enhances accounting and financial reporting requirement for accounting changes and error corrections. This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement also addresses corrections of errors in previously issued financial statements. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). This Statement is effective for the fiscal year ended December 31, 2024.

GASB Statement No. 101, *Compensated Absences*, requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. This Statement is effective for the fiscal year ended December 31, 2024.

OTHER MATTERS (Continued)

Future Accounting Pronouncements (Continued)

We will advise the Village of any progress made by GASB in developing this and other future pronouncements that may have an impact on the financial position and changes in financial position of the Village.

APPENDIX A
STATUS OF COMMENTS FROM DECEMBER 31, 2021

OTHER COMMENTS

Water Revenue

The following are billed versus pumped ratios for the last fiscal years (amounts in thousands of gallons):

	2021	2020	2019	2018	2017
Gallons Pumped	1,776,302	1,985,223	1,799,738	1,807,565	1,913,250
Gallons Billed	1,417,887	1,418,030	1,384,054	1,394,144	1,428,043
Billed/Pumped	79.82%	71.43%	76.90%	77.13%	74.64%

We recommend that the Village continue to monitor this ratio and investigate the water losses.

Status - Comment implemented for the fiscal year ended December 31, 2022. The Village’s billed versus pumped ratio was 81.63% during the fiscal year ending December 31, 2022.