

VILLAGE OF OAK PARK, ILLINOIS
COMMUNICATION OF DEFICIENCIES
IN INTERNAL CONTROL AND
OTHER COMMENTS TO MANAGEMENT

December 31, 2016





1415 W. Diehl Road, Suite 400
Naperville, Illinois 60563

630.566.8400 // www.sikich.com

Certified Public Accountants & Advisors
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COMMUNICATION OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER COMMENTS TO MANAGEMENT

Ms. Cara Pavlicek, 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 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. 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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. In addition, we reviewed the status of the comments from the December 31, 2015 audit. The status of these comments is included in Appendix A. This letter does not affect our report dated June 13, 2017, on the financial statements of the Village.

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.

I encourage you to contact me at (630) 566-8535 should you have any questions.

Sikich LLP

Naperville, Illinois
June 13, 2017

OTHER COMMENTS

1. Old, Outstanding Checks

During cash testing, Sikich noted a number of outstanding checks over six months old in the First Merit disbursement account. Per discussion with Village reviews the outstanding check list periodically and the Village voids and reissues checks to payees who are able to be contacted. Any unresolved checks are left on the outstanding check list until they are over two years old, at which point they are sent to unclaimed property. The Village is considering changing this policy to over one year outstanding will be sent to unclaimed property. We recommend that the Village determine how to address this issue and create procedures for staff consistent with the policy.

Management Response

The Village shall follow State statute 765 ILCS 1025/8.1 and report all unclaimed property in its possession (including stale checks) older than seven years to the State's unclaimed property division. In addition, staff will periodically send notices to the owner of record informing such person or entity of the unclaimed property.

2. Water Revenue

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

	2016	2015	2014
Gallons Pumped	1,822,137	1,771,743	1,870,479
Gallons Billed	1,458,527	1,451,961	1,514,921
Billed/Pumped	80.04%	81.95%	81.00%

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

Management Response

The Village concurs that the loss ratio averaging approximately 20% over the last few years needs to be closely monitored. A portion of this loss is likely due to aging infrastructure resulting from small continuous leaks in the pipeline as well as large water main breaks, especially during the winter.

OTHER COMMENTS (Continued)

3. Deficit Fund Balances

The following deficit balances were reported as of December 31, 2016:

Fund	Deficit
Community Development Block Grant	\$ 20,124
Capital Projects - South Harlem Redevelopment	133,384
Capital Projects - Colt Westgate Redevelopment	4,117,538
Capital Projects - Lake Forest Development	532,840
Internal Service - Self-Insurance Retention	4,049,072
TOTAL	<u>\$ 8,852,958</u>

Management Response

The Village is aware that certain Funds have deficit balances and in particular, the Colt Westgate and Lake & Forest Development Funds are intended to be temporary Funds in nature and such negative balances are anticipated to be offset by bond proceed reserves in the Debt Service Fund or combined with the Parking Fund in the case of the Lake & Forest Dev. upon project completion.

4. Budgetary Compliance

The Village has established a legal level of budgetary control at the department level. Expenditures exceeded those budgeted in the following funds/departments for the year ended December 31, 2016:

Fund	Excess
Downtown TIF (Special Tax Allocation)	\$ 1,858,063
Debt Service Fund	6,888,313
Colt Westgate Redevelopment Fund	1,695,118
Self-Insurance Retention	1,464,891

When expenditures exceed the budget, we recommend that a budget amendment be made in accordance with the Village's municipal code that established the budget officer position in order to comply with the legal spending authority of the budget ordinance.

Management Response

- The Village Debt Service Fund budget to actual variance was not due to overspending but was rather due to an improper or a lack of budgeting for debt service expenses in the Fiscal Year 2016 budget.
- The Colt Westgate overage is due to large non-cash loss recorded on land held for resale which was not foreseen and therefore not budgeted.
- The Self Insured Retention Fund overage is due to the nature and unpredictability of the expenditures which flow through this Fund as well as estimates booked for unpaid claims after the fiscal year end.

APPENDIX A
STATUS OF COMMENTS FROM DECEMBER 31, 2015

DEFICIENCIES

1. Infrastructure Improvements

A detailed schedule of additions should be maintained as infrastructure improvements projects are completed to simplify the process of capitalizing at year-end and deleting the asset in the future. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, the related street and/or alley and the amount. We recommend that the Village considers developing a system to adequately track capital asset activity to account for and monitor capital assets and related depreciation. Additionally we recommend that the finance department regularly communicate with the various other departments to remain informed as to the status of ongoing capital projects.

Management Response

Management concurs that maintaining a continuously updated schedule of infrastructure additions would be beneficial for the annual audit. In addition, assuming a new ERP system is purchased, it would likely provide the ability to track and automate linking infrastructure payments to a capital asset schedule.

Status - Comment was implemented as of December 31, 2016.

2. Collateral of Cash

During cash testing, Sikich noted the Village was not monitoring collateral held by third parties. At year end, there was \$290,282 of uncollateralized cash. We recommend that the Village closely monitor how deposits are collateralized and ensure that all deposits over \$250,000 (FDIC insured amount) are collateralized by securities held by a third party custodian in the name of the Village.

Management Response

While cash balances are a moving target, management agrees that it does appear that its aggregate cash balance as US Bank did exceed the amount of collateral on hand, as the collateral provided by this bank is a fixed dollar amount. Several US Bank accounts have subsequently been closed by the Village and this should not be a repeat comment in future years.

Status - Comment still applicable as of December 31, 2016. See current year comment for update.

OTHER COMMENTS

1. Water Revenue

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

	2015	2014	2013
Gallons Pumped	1,771,743	1,870,479	2,006,060
Gallons Billed	1,451,961	1,514,921	1,554,883
Billed/Pumped	81.95%	81.00%	77.50%

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

Management Response

Management concurs that it is aware of a water loss ratio of approximately 18% which has been similar in previous years. This will be investigated but at least a portion of the loss is attributable to water main breaks.

Status - Comment still applicable as of December 31, 2016. See current year comment for update.

2. Deficit Fund Balances

The following deficit balances were reported as of December 31, 2015:

Fund	Deficit
Special Revenue - Special Service Area #1	\$ 640,359
Emergency 911 Fund	132,078
Capital Projects - South Harlem Redevelopment	89,147
Capital Projects - Colt Westgate Redevelopment	951,650
Capital Projects - Lake Forest Development	396,643
Internal Service - Self-Insurance Retention	2,638,172
TOTAL	<u>\$ 4,898,049</u>

The Village should continue to monitor the deficits in the internal service funds and consider adjusting rates to fall in line with expenditures in these funds to ensure that they function as the cost-reimbursement accounting tool they are meant to be.

Management Response

Management is aware of annual deficits in six Village Funds although three of these Funds were created to segregate certain costs and do not have a dedicated revenue source. All Funds will be monitored on an ongoing basis for potential deficit spending.

Status - Comment still applicable as of December 31, 2016. See current year comment for update.

OTHER COMMENTS (Continued)

3. Budgetary Compliance

The Village has established a legal level of budgetary control at the department level. Expenditures exceeded those budgeted in the following funds/departments for the year ended December 31, 2015:

<u>Fund</u>	<u>Excess</u>
SPECIAL REVENUE	
Special Tax Allocation	\$ 6,613,610
Grants	201,963
ENTERPRISE FUND	
Environmental Services	15,245
INTERNAL SERVICE	
Self-Insurance Retention	2,477

When expenditures exceed the budget, we recommend that a budget amendment be made in accordance with the Village's municipal code that established the budget officer position in order to comply with the legal spending authority of the budget ordinance.

Management Response

Village staff regularly monitors individual accounts under their authorization and request budget amendments when it appears that actual expenditures may exceed budget. The one large overage in the Special Tax Allocation Fund as noted in this comment pertains to a non-cash land write-down and was not a true cash expenditure.

Status - Comment still applicable as of December 31, 2016. See current year comment for update.

4. Physical Controls

During our walkthrough of the accounts payable and purchasing systems, we noted that the cabinet housing the check stock was unlocked. According to the internal control narrative provided by the Village, this cabinet is supposed to be locked at all times. In order to have adequate safeguards over unused check stock, we recommend that the Village keep this cabinet locked at all times.

Management Response

Management agrees that check stock should always be locked. However, there are controls in place to prevent fraudulent check writing such as requiring access to a specific computer/printer as well as a PeopleSoft login in order to process checks. In addition, the Village utilizes positive pay which further diminishes any ability for potential fraud. These controls aside, management will request that staff lock all check stock inventory.

Status - Comment implemented as of December 31, 2016.

OTHER COMMENTS (Continued)

5. Compensated Absences

During our testing of vacation time accrued, we noted that a few employees had accrued over the maximum vacation days per the Village Personnel Manual. In addition, ADP is set up to allow the current year and one additional year's vacation accrual. We recommend that Village management review the number of hours each employee has accrued for both vacation and compensatory time at the end of each year in order to ensure that the policy outlined in the Personnel Manual is being followed and that the proper amount is being accrued. In addition, we recommend the Village coordinate the vacation allotment in ADP with the Personnel Manual. Finally we recommend that any approval given by management for excess carryover be formally documented in the employees' personnel file and in the tracking system.

Management Response

Management agrees that any exception to the personnel manual regarding vacation accrual carryovers should be documented in writing and placed in the employee file. In addition, management will request that periodic audits of ADP accrual banks be reviewed to prevent over-accrued balances.

Status - Comment implemented as of December 31, 2016.

6. Land Held for Resale

During our testing of land held for resale, we noted that there was land purchased and held for resale from approximately 20 years ago up to the current fiscal year. When we inquired about documentation justifying the fair value of the land, the Village was not able to provide such documentation. The fair value of real estate investments often is determined by a periodic appraisal of the property by a certified real estate appraiser. We recommend the Village have periodic appraisals on land and adjust the fair value accordingly.

Management Response

Management concurs that land held for resale should be appraised and/or adjusted periodically to reflect its current market value.

Status - Comment implemented as of December 31, 2016.

7. Segregate Wire Transfer Activities

During the audit, we noted that for a period of time, the CFO was able to wire funds from the Village's bank accounts without secondary authorization. We recommend that the Village continue the procedure of a secondary authorization before wire transfers.

Management Response

External wires currently require two individuals: one to create the wire and another to approve but management concurs that during a short period of time and one individual did have the ability to both create and approve wires. This has since been rectified.

Status - Comment implemented as of December 31, 2016.

OTHER COMMENTS (Continued)

8. Budget Amendment System Input

During the budget tie out, we noted contradictory amounts and inconsistent application of amended values. This was due to the fact the budget amendment documents were unclear as to the final budget numbers. We recommend that the Village create clearer budget amendment documents (i.e., original budget column, change column, and final budget column). This will help identify what the final budget is and what changes need to be made to the original budget

Management Response

Management has enacted a system for tracking budget amendments and the resulting account budgets as they are adopted by the Village Board.

Status - Comment still applicable as of December 31, 2016. See current year comment for update.

9. Ambulance Revenues

During the review of the Village's Ambulance Revenues, it was noted that the Village changed service providers in December, but had not tracked and recorded the result of this change. We recommend that all revenues be reviewed and properly accrued during the closing process.

Management Response

Due to a bank merger, the Village did not receive bank statements (for the old ambulance billing account) for a few months. Management was aware of this situation and it was rectified.

Status - Comment implemented as of December 31, 2016.

10. Unbilled Water and Sewer Revenue

During the course of our audit, we noted that the Village did not amend the prior year's unbilled accounts receivable figures for water and sewer. These figures represent usage and gallons pump prior to December 31, 2015, but not billed until 2016. Because the Village purchases and expenses its water on an accrual basis, it is important that the accounting matching principle be applied on a consistent basis. We recommend that the Village amend its year end closing procedures to include the calculation and recording of unbilled water and sewer receivables.

Management Response

Adjustments were posted to the December 31, 2015 unbilled water receivable account but management concurs that there was a discrepancy between the workpaper and the adjusted receivable balance due to the beginning January 1, 2015 balance not being completely reversed out.

Status - Comment implemented as of December 31, 2016.