

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

December 31, 2014



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**COMMUNICATION OF DEFICIENCIES IN INTERNAL CONTROL
AND OTHER COMMENTS TO MANAGEMENT**

Mr. Cara Pavlicek, Village Manager
Mr. Craig Lesner, 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, 2013 audit. The status of these comments is included in Appendix A. This letter does not affect our report dated June 2, 2015, 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, Craig Lesner 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.

Naperville, Illinois
June 2, 2015

DEFICIENCIES

1. Fixed Asset Tracking

During fixed asset testing, it was noted that a duplicate payment was incorrectly added to the fixed asset schedule. Also, we noted that a traded-in fire truck was not deleted from the Villages fixed asset records. We recommends the Village review fixed asset schedules and agree them to expenditure accounts and current listings of vehicles and other assets. This will help identify any errors in the fixed asset schedules.

Management Response

Management agrees. Fixed assets are reviewed on a quarterly basis and affected to account for additions and deletions.

2. Balance Sheet Classification

During our testing of cash, Sikich noted that the amount taken out of the payroll bank account for the first payroll paid in January 2015 was recorded as a reconciling item on the bank reconciliation. Because this amount cleared the bank prior to the end of the month, it should not be a reconciling item on the bank reconciliation; rather, it should be recorded as a prepaid item. Sikich proposed, and management accepted, AJE02 to reduce cash by the amount taken out of the bank account and to record the prepaid item. We recommend that management record any future instances of this scenario as a prepaid item and a reduction of cash.

Management Response

Management agrees. The bank reconciliation process will be amended to account for the audit team's recommendation.

OTHER COMMENTS

1. Parking Performance Management

During parking ticket revenue testing, it was noted that the parking ticket revenue had decreased for the second consecutive year. It appears that the costs associated with the parking enforcement department have not decreased proportionally to the decrease in revenue. We recommend that the Village consider performance management analysis of the costs and revenues for this parking enterprise.

Management Response

Noted. Staff is consistently reviewing this area.

OTHER COMMENTS (Continued)

2. Old, Outstanding Checks

During cash testing, we noted 78 outstanding checks over 6 months old (totaling \$45,737) in the US Bank disbursement account that were over BESS. Per discussion with Jason, Corky 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 2 years, at which point they are sent to unclaimed property. The Village is considering changing this policy to over 1 year outstanding will be sent to unclaimed property.

Management Response

Noted. Staff will review the recommendation and determine if a change in policy is warranted.

3. Water Revenue

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

	<u>2014</u>	<u>2013</u>
Gallons Pumped	1,870,479	2,006,060
Gallons Billed	1,514,921	1,554,883
Billed/Pumped	81.0%	77.5%

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

Management Response

Noted. The pump to bill ratio is generally discussed in the context of budget recommendation conversations with the Finance Committee each year.

4. Deficit Fund Balances

The following deficit balances were reported as of December 31, 2014:

<u>Fund</u>	<u>Deficit</u>
Special Revenue - Special Service Area #1	\$ 348,216
Capital Projects - Capital Improvements	2,905,938
Capital Projects - Lake Forest Development Project	259,705
Capital Projects - Colt Westgate Redevelopment	70,259
Internal Service - Self-Insurance Retention	2,695,859
Internal Service - Employee Health and Life Insurance	149,605
Internal Service - Risk Management	94,525
TOTAL	<u>\$ 6,524,107</u>

OTHER COMMENTS (Continued)

4. Deficit Fund Balances (Continued)

Management should develop a means for eliminating the deficits.

The Internal Service Funds are proprietary-type funds which should be self-supporting through user charges. Management should evaluate rates charged in these funds and consider increasing the assessments allocated to applicable Village departments in order to cover the operating costs of the funds.

The Village has three internal service funds; the Self-Insurance Retention Fund, the Employee Health and Life Insurance Fund and the Risk Management Fund. Each had negative net position as of December 31, 2014. Internal service funds are intended to be financed through user charges assessed to other funds. Deficit net positions existed for the Self-Insurance Retention Fund (\$2,323,897, \$1,570,703, \$2,352,034, \$2,234,132, \$2,183,774, \$1,135,403 and \$1,526,203) at December 31, 2013, 2012, 2011, 2010, 2009, 2008 and 2007, respectively. The Employee Health and Life Insurance Fund had deficit net position of \$385,900 and \$152,621 at December 31, 2013 and December 31, 2012, respectively. The Risk Management Fund had a deficit net position of \$262,093 at December 31, 2012 and December 31, 2011. We recommend that management continue to review its cost allocation of these internal service funds and distribute all costs incurred to applicable departments in order to continue to reduce these deficits.

Management Response

Noted. Comments for each fund are as follows:

- a. Special Revenue - Special Service Area #1 - This Fund accounts for the portion of the tax levy collected from the direct tax rate of the district. This district is also funded from a transfer from the Downtown Oak Park TIF as dollars are collected. This deficit position will be eliminated as collections occur.
- b. Capital Projects - Debt issuances originally planned for FY2014 was deferred to FY2015, at which time, the deficit will be eliminated.
- c. Capital Projects - Lake Forest Development Project - This fund accounts for Village costs in support of the economic development of the same name. Once debt is issued in late 2015, funds will be used to eliminate the deficit.
- d. Capital Projects - Colt Westgate Redevelopment - Identical to Lake Forest, once debt is issued in support of this project, funds will be used to eliminate the deficit.
- e. Internal Service - Self Insurance Retention - Staff is aware of the historical deficit of this fund and has communicated with the Finance Committee as to the driving forces. Staff will continue to make recommendations to improve the fund balance as a part of budget development discussions.
- f. Internal Service - Employee Health and Life Insurance - While the fund did improve its fund balance in accordance with budget projects, it remains negative. Staff expects the balance to return to positive in FY 2015 from improved net income.

OTHER COMMENTS (Continued)

5. 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, 2014:

<u>Fund</u>	<u>Excess</u>
SPECIAL REVENUE	
Special Tax Allocation	374,076
Emergency 9-1-1	59,094
Special Service Area #1	137,926
Grants	530,442
CAPITAL PROJECTS	
Fleet Replacement	719,356
DEBT SERVICE	
General Obligation Debt Service	3,458,811
INTERNAL SERVICE	
Self-Insurance Retention	173,035

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

Noted. Comments for each fund are as follows:

- a. Parking and Mobility Services - bank charges were higher than anticipated. Projections will be revised based on current actual data.
- b. Special Tax Allocation - All expenses were authorized. However, the budgetary treatment of some debt services differs from the accounting treatment in terms of which debt is allocated in each fund. Staff will work with the audit team to align the two perspectives.
- c. Emergency 911 - The program had higher than expected equipment costs.
- d. Grants - this category is actually the summation of several individual grant funds. Funds are not expended without reimbursement. In FY grant expenses, while approved, were not amended in the budget. Staff is working with operating department to alleviate this issue.
- e. Fleet Replacement - The annual expense was budgeted for in FY 2014. However, the audit team adjusted the transaction to account for entire lease cost as an expense in the fiscal year.
- f. General Obligation Debt Service - All expenses were authorized. However, the budgetary treatment of some debt services differs from the accounting treatment in terms of which debt is allocated in each fund. Staff will work with the audit team to align the two perspectives.
- g. Self-Insurance Retention - Workers' compensation claims expenses came in higher than projected.

APPENDIX A
STATUS OF COMMENTS FROM DECEMBER 31, 2013

DEFICIENCIES

1. Access to Blank Check Stock

During our walkthrough of the AP and Purchasing systems, we noted that the cabinet housing the check stock in the accounting clerk's desk was unlocked during the day and while not in use. According to the internal control narrative provided by the Village, this cabinet is supposed to be locked at all times. For security, we recommend that the Village keep this cabinet locked when not in use.

Management Response

The cabinet housing the blank check stock is also used to store other items. Staff generally keeps this cabinet locked when not in use. A new, more secure location will be designated to safeguard the blank check stock.

Further, the Village utilizes "positive pay" programs on all disbursement bank accounts to provide another layer of security should any blank check stock ever be misappropriated.

Status - Comment implemented as of December 31, 2014.

2. Budget Amendments

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. As such, the Deputy Chief Financial Officer input the final budget numbers based on the combination of documents and the intent of management. We recommend 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

Staff agrees with the auditor recommendations. Budget amendment documents will be reformatted to provide clearer information.

Status - Comment still applicable as of December 31, 2014.

OTHER COMMENTS

1. Collateralization of Bank Deposits

During cash testing, we noted the collateral for deposits at First Merit bank were pooled securities, which were held by First Merit in the bank's name. This is considered Category 3 collateral. We noted, however, that First Merit collateralized the Village's deposits with securities pledged in the name of the Village and held by Bank of America Merrill Lynch, which is Category 1 collateral, in January 2014. 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

Staff agrees with the auditor recommendations. The instance cited above was a short-term issue rooted in the transition of the Village's deposits from US Bank to First Merit Bank. The Village had an executed third party custodian agreement with Bank of America; however, the collateral was setup incorrectly. The issue was corrected when staff became aware of the problem in early January 2014.

Status - Comment implemented as of December 31, 2014.

2. Deficit Fund Balances

The following deficit balances were reported as of December 31, 2013:

Fund	Deficit
Special Revenue - Special Service Area #1	\$ 74,763
Capital Projects - Lake Forest Development Project	122,915
Capital Projects - Colt Westgate Redevelopment	3,570
Internal Service - Self-Insurance Retention	2,323,897
Internal Service - Employee Health and Life Insurance	385,900
TOTAL	\$ 2,911,045

Management should develop a means for eliminating the deficits.

The Internal Service Funds are proprietary-type funds which should be self-supporting through user charges. Management should evaluate rates charged in these funds and consider increasing the assessments allocated to applicable Village departments in order to cover the operating costs of the funds.

OTHER COMMENTS (Continued)

2. Deficit Fund Balances (Continued)

The Village has three internal service funds; the Self-Insurance Retention Fund, the Employee Health and Life Insurance Fund and the Risk Management Fund. The Self-Insurance Retention and Employee Health and Life Insurance funds had negative net position as of December 31, 2013. Internal service funds are intended to be financed through user charges assessed to other funds. Deficit net positions existed for the Self-Insurance Retention Fund (\$1,570,703, \$2,352,034, \$2,234,132, \$2,183,774, \$1,135,403 and \$1,526,203) at December 31, 2012, 2011, 2010, 2009, 2008 and 2007, respectively. The Employee Health and Life Insurance Fund had deficit net position of \$152,621 at December 31, 2012. The Risk Management Fund had a deficit net position of \$262,093 at December 31, 2012 and December 31, 2011. We recommend that management continue to review its cost allocation of these internal service funds and distribute all costs incurred to applicable departments in order to continue to reduce these deficits.

Management Response

The Special Service Area #1 Fund deficit is due to the timing of SSA and TIF distributions to Downtown Oak Park. The deficit is expected to be made up during fiscal year 2014.

The Lake Forest Development Project Fund and Colt Westgate Redevelopment Fund will continue to show deficit fund balances as the projects are in the preliminary stages. The Village will eventually issue GO debt to fund these projects, at which time the deficit fund balances will be cleared with the proceeds.

The Self-Insurance Retention Fund experienced contributions greater than budgeted, however, claims expenses and equity transfers were also greater than budgeted. The Village continues to work towards building the net position through reducing expenses related to legal fees and claims settlements. The FY 2014 Budget intends to improve the deficit slightly. Staff will also continue to address the issue during the FY 2015 Budget Recommendation process.

The Employee Health and Life Insurance Fund experienced contribution revenue less than expected. Actual expenses in the fund were under the FY 2014 budget amount.

Status - Comment still applicable as of December 31, 2014. 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, 2013:

Fund	Excess
GENERAL FUND	
Adjudication Services	\$ 125,415
Community Relations	1,128
SPECIAL REVENUE	
Special Service Area #1	119,364
Cook County Community Development Block Grant Gap Funding	117,057
CAPITAL PROJECTS	
Lake Forest Development Project	18,944
INTERNAL SERVICE	
Self-Insurance Retention	186,315

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 table below provides commentary on each line item:

Fund/Department	Comment
GENERAL FUND	
Adjudication Services	\$125,415 due to an incorrect value in the budget amendment process. The revised format, as suggested by the auditors, will assist in resolving future issues.
Community Relations	\$1,128 due to salary and benefits being higher than anticipated.
SPECIAL REVENUE	
Special Service Area #1	\$119,364 due to Downtown Oak Park funding higher than anticipated and money was not transferred from the DTOP TIF until 2014. This deficit has been already resolved in 2014.
Cook County CDBG Gap Funding	\$117,057 due to a formal budget not being adopted. However, expenditures were offset by grant revenue 100%.

OTHER COMMENTS (Continued)

3. Budgetary Compliance (Continued)

Management Response (Continued)

Fund/Department	Comment
CAPITAL PROJECTS	
Lake Forest Development Project	This fund does not have a current revenue stream. These expenditures will be reimbursed by the eventual GO bond issue associated with the project.
INTERNAL SERVICE	
Self-Insured Retention	\$186,315 due to claims expense being higher than anticipated.

Status - Comment still applicable as of December 31, 2014. See current year comment for update.