VILLAGE OF OAK PARK, ILLINOIS

COMMUNICATION OF DEFICIENCIES
IN INTERNAL CONTROL AND
OTHER COMMENTS TO MANAGEMENT

December 31, 2018

SIKICH®

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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 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. 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, 2017 audit. The status of these comments is included in Appendix A. This letter does not affect our report dated June 5, 2019 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.

Sikich LLP

Naperville, Illinois
June 5, 2019

DEFICIENCIES

1. Segregate Wire Transfer Activities

During the audit, we noted that the Chief Financial Officer has the authority to both initiate and approve wire transfers. While this is not a frequent occurrence and the Village's mitigating control is that another employee performs the bank reconciliation and reviews the bank statements, we recommend that the Village implement a procedure where no employees have the authority to both authorize and approve wire transfers.

Management Response

The Village concurs that the Chief Financial Officer does have the ability to both initiate and approve an outgoing wire transfer. While the CFO has this authority, there have been limited instances where the CFO has both initiated and approved the same wire when urgency was required in wiring funds and other authorized individuals were not available. It should be noted that the CFO/Treasurer is a bonded position and as standard practice, other positions in the Finance Department review banking transaction daily for any unusual activity. Going forward, the CFO will only be permitted to approve wires while other key finance staff will initiate the wires.

2. Prior Period Adjustments

During our audit of the Village, we noted certain balances that were misstated as of December 31, 2017, as described in Note #15 in the Village's Comprehensive Annual Financial Report as of December 31, 2018. We proposed journal entries, which were reviewed, approved, and recorded by the Village to correct these misstatements. We recommend that the Village closely monitor its year end cut-off and closing procedures to ensure that transactions are being recorded in the proper period.

Management Response

Bond series 2016B in the amount of $4,075,000 was issued pursuant to an RDA between the Village and Clark Street Developers in order for the construction and easement of a portion of the Colt Westgate Garage to the Village. The transaction for the 2016B issue was initially recorded in the Debt Service Fund. Since the bond issue was directly related to a private garage parking easement, it was subsequently determined that the Series 2016B bond liability should be restated to the Parking Fund.

OTHER MATTERS

1. Future Accounting Pronouncements

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

OTHER MATTERS (Continued)

1. Future Accounting Pronouncements (Continued)

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This statement requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimate of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this statement are effective for the fiscal year ending December 31, 2019.

GASB Statement No. 84, *Fiduciary Activities*, is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments and the criteria is generally focused on (1) whether a government is controlling the assets of a fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this statement are effective for the fiscal year ending December 31, 2019.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset and aims to enhance comparability of financial statements among governments. This statement also requires additional notes to the financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this statement are effective for the fiscal year ending December 31, 2020. Earlier application is encouraged.

GASB Statement No 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, was issued in March 2018 and provides guidance on improving disclosures in the notes to the financial statements related to debt, including direct borrowings and direct placements of debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement is effective for the fiscal year ending December 31, 2019.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. This statement is effective for the fiscal year ending December 31, 2020.

OTHER MATTERS (Continued)

1. Future Accounting Pronouncements (Continued)

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, intends to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This Statement also establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for the fiscal year ending December 31, 2019. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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, 2017

DEFICIENCY

1. Review of Payroll

During our walkthrough of the internal control process at preliminary fieldwork, we noted that a supervisor does not review payroll. Sikich recommends that the payroll check register is reviewed by an appropriate person, in addition to the payroll accountant. This reviewer should be alert for unusual matters, such as duplicate names, addresses, names of former employees, or unusual pays. Implementing a second review of payroll is an important internal control.

Status - Comment implemented for the fiscal year ended December 31, 2018.

OTHER COMMENTS

1. Water Revenue

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

	2017	2016	2015	2014
Gallons Pumped	1,913,250	1,822,137	1,771,743	1,870,479
Gallons Billed	1,428,043	1,458,527	1,451,961	1,514,921
Billed/Pumped	74.64%	80.04%	81.95%	81.00%

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

Status - Comment repeated for the fiscal year ended December 31, 2018. The Village's billed versus pumped ratio was 77.13% during the fiscal year ending December 31, 2018.

Management Response

Staff concurs that the water loss ratio of approximately 23% remained consistent from the prior year. Older infrastructure often results in more water main breaks and the Village has continued to invest in its capital program to repair/replace and maintain its oldest infrastructure. Additionally, staff will continue to document non-billed water used by the Village in its normal course of operations (i.e. fire hydrants) compared to non-billed water which is lost within the water distribution system due to main breaks, inaccurate meters, etc.

OTHER COMMENTS (Continued)

2. Deficit Fund Balances

The following deficit balances were reported as of December 31, 2017:

Fund	Deficit
Community Development Block Grant	$ 18,791
Capital Projects - South Harlem Redevelopment	565,779
Capital Projects - Colt Westgate Redevelopment	4,264,143
Internal Service - Self-Insurance Retention	3,824,213
TOTAL	$ 7,672,926

Status - Comment repeated for the fiscal year ended December 31, 2018. The following funds had deficit fund balances at December 31, 2018; Community Development Block Grant ($18,791), Colt Westgate Redevelopment ($4,263,539), and Self-Insurance Retention ($4,571,360).

Management Response

The deficit balances in the Colt Westgate Redevelopment (CWR) and Self Insurance (SIR) Funds will be discussed and appropriately addressed. It has been the stated position of the Village pursuant to the Downtown TIF 2011 Settlement Agreement, as amended, to utilize increment generated from both the Vantage and Emerson developments (Lake and Forest/Colt Westgate respectively) collected in 2019 to dedicate and offset a portion of the CWR Fund deficit. It will be recommended that any remaining deficit be merged into the General and Parking Funds as part of the close-out of the CWR Fund at the end of FY2019. The SIR Fund continues to have a large reserve deficit due to estimated future claims and it will be recommended that General Fund surplus from FY2018 totaling $3.2 million be transferred into the SIRF which would reduce the reserve deficit from a negative $4.5 million to an approximate negative $1.3 million. It will be further recommended in FY20 and FY21 the Village should increase interfund transfers from the General Fund to the SIRF by $700,000 each year, respectively, to address the deficit.

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, 2017:

Fund	Excess
SPECIAL REVENUE FUNDS	
Special Service Area #1	$ 414
Special Tax Allocation	583,507
Harlem/Garfield TIF	13,872
Emergency Solutions Grant	36,266
DEBT SERVICE FUND	436,787
CAPITAL PROJECTS FUND	
Colt Westgate Redevelopment Fund	158,844

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.

Status - Comment repeated for the fiscal year ended December 31, 2018. Expenditures exceeded budgets in the following funds at December 31, 2018; Self-Insurance Retention ($1,040,450) and Special Service Area #1 ($44).

Management Response

The only significant budget overage in 2018 occurred in the Self Insured Retention Fund totaling approximately $1 million. This was primarily due to a year-end non-cash adjustment which increased claims expense in order to accrue for a potential future liability which did not exist prior to the presentation of the final 2018 budget amendment. Going forward, staff will recommend appropriate budget amendments at the final Board meeting of the year to capture expenditure overages.