



VILLAGE OF OAK PARK, ILLINOIS

COMMUNICATION OF DEFICIENCIES
IN INTERNAL CONTROL AND
OTHER COMMENTS TO MANAGEMENT

December 31, 2017

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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, 2016 audit. The status of these comments is included in Appendix A. This letter does not affect our report dated June 7, 2018, 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 7, 2018

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.

Management Response

During preliminary fieldwork, the Village was still outsourcing payroll through ADP. At that time, there were two employees, one of which was a supervisor, reviewing the ADP reports for reasonableness, particularly the wires and transfers. Beginning with 2018, payroll was brought back in-house using BS&A payroll. Payroll benefit deductions and pay grade changes are input by Human Resources while Finance performs the payroll processing function. Staff believes that this segregation of duties provides adequate controls. In addition, there is a BS&A audit report which summarizes all payroll changes made within a selected time period, thereby providing additional security and control. Finally, after each payroll, both the Deputy CFO and CFO review various BS&A generated payroll reports for reasonableness. A formal approval sign off sheet will be created by the Finance Department to better document and track staff approval of the payroll.

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.

Management Response

The Village concurs with the comment and ongoing monitoring occurs regularly. A portion of this loss is attributable to aging infrastructure resulting from small continuous leaks in the pipeline as well as some larger water main breaks, particularly during the winter season.

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	<u>3,824,213</u>
 TOTAL	 <u>\$ 7,672,926</u>

Management Response

The Village is aware that certain Funds have deficit balances. The CDBG deficit was due to a timing issue between the incurrence of the expense and receiving the corresponding grant reimbursement.

The South Harlem Redevelopment Fund deficit will be resolved by requesting the adoption of a FY18 budget amendment permitting an interfund transfer of funds.

It is expected that the Colt Westgate deficit should be offset by collected Downtown TIF tax increment on those PINs in the final year of the TIF pursuant to the 2011 Amended Settlement Agreement.

Finally, the Village is strategically working on gradually funding potential future obligations for the Self Insured Retention Fund via contributions from the General and Enterprise Funds.

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

OTHER COMMENTS (Continued)

3. Budgetary Compliance (Continued)

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 concurs with the auditor analysis above. The SSA#1 budget was very slightly exceeded, as the actual payments of \$650,000 surpassed the budget of \$649,586. The budget for this Fund should have been exactly \$650,000 and the rather insignificant variance of \$414 was not discovered during the budget amendment process.

The Special Tax Allocation Fund (Downtown TIF) variance of \$583,507 was due to greater than budgeted tax increment which, pursuant to the 2011 Settlement Agreement, needed to be distributed to the other taxing districts. This expense was therefore offset by greater than anticipated revenues in this Fund. However, a Q4 budget amendment was not done in 2017 and the amount of the excess distribution was unknown at the time of the Q3 amendment.

The variance of \$13,872 in the Harlem Garfield Fund was due to the termination of that TIF and remitting remaining surplus reserves to the Cook County Treasurer for re-distribution among all Oak Park taxing districts.

The Emergency Solutions Grant Fund expenditures were slightly more than budgeted due to timing of the invoices received between 2017 and 2018. Once ESG expenditures are incurred, staff submits a grant reimbursement request and thus, grant revenues always equal corresponding expenditures.

The actual to budget variance of \$436,787 in the Debt Service Fund was due to bond issuance fees on new debt. These fees were, in essence, paid from the new issue proceeds and not from the budget or reserves. However, the accounting of the bond issuance fees makes it appear as if the expense exceeded budget when in fact that was not the case.

The actual to budget variance of \$158,844 in the Colt Westgate Redevelopment Fund was due to owner's rep invoices and contractor paver work not included in the original budget. While a budget amendment was adopted totaling approximately \$2.4M for this work, the actual cost exceeded that amount. The deficit balance in the CWR Fund will eventually be resolved by the Downtown TIF Fund pursuant to the 2011 Settlement Agreement as amended.

Finally, please note that overall, the Village's new enterprise system, BS&A, provides much greater controls and flags purchase orders and invoices when an amount entered into the PO or A/P system exceeds budgetary authority.

APPENDIX A
STATUS OF COMMENTS FROM DECEMBER 31, 2016

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.

Status - Comment considered implemented for the fiscal year ended December 31, 2017.

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.

Status - Comment repeated for the fiscal year ended December 31, 2017.

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.

Status - Comment repeated for the fiscal year ended December 31, 2017.

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.

OTHER COMMENTS (Continued)

4. Budgetary Compliance (Continued)

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.

Status - Comment repeated for the fiscal year ended December 31, 2017.