



VILLAGE OF OAK PARK, ILLINOIS

COMMUNICATION OF DEFICIENCIES
IN INTERNAL CONTROL AND
OTHER COMMENTS TO MANAGEMENT

December 31, 2019

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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, 2018 audit. The status of these comments is included in Appendix A. This letter does not affect our report dated June 3, 2020 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 3, 2020

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. 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. 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.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This statement is effective for fiscal years ending December 31, 2022.

GASB Statement No. 92, *Omnibus 2020*, addresses a variety of topics including: The effective date of Statement No. 87 for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statements No. 73 to Certain Provisions of GASB Statement Nos. 67 and 68, as amended, and No. 74, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The requirements of this Statement are effective for the fiscal years ending December 31, 2022 and thereafter, except for the requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

OTHER MATTERS (Continued)

Future Accounting Pronouncements (Continued)

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The London Interbank Offered Rate (LIBOR), a result of global reference rate reform, is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, *Leases*, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for the fiscal year ending December 31, 2021.

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 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 fiscal year ending December 31, 2023.

OTHER MATTERS (Continued)

Future Accounting Pronouncements (Continued)

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which is effective upon issuance, allows, but does not require, governments to defer implementing the following pronouncements by one year from their original effective date as follows:

- Statement 83 - reporting periods beginning after June 15, 2019
- Statement 84 and Implementation Guide 2019-2 - reporting periods beginning after December 15, 2019
- Statement 87 and Implementation Guide 2019-3 - fiscal years beginning after June 15, 2021, and all reporting periods thereafter
- Statement 88 - reporting periods beginning after June 15, 2019
- Statement 89 - reporting periods beginning after December 15, 2020
- Statement 90 - reporting periods beginning after December 15, 2019
- Statement 91 - reporting periods beginning after December 15, 2021
- Statement 92, paragraphs 6 and 7 - fiscal years beginning after June 15, 2021
- Statement 92, paragraphs 8, 9, and 12 - reporting periods beginning after June 15, 2021
- Statement 92, paragraph 10 - government acquisitions occurring in reporting periods beginning after June 15, 2021
- Statement 93, paragraphs 13 and 14 - fiscal years beginning after June 15, 2021, and all reporting periods thereafter
- Implementation Guide 2017-3, Questions 4.484 and 4.491 - the first reporting period in which the measurement date of the (collective) net OPEB liability is on or after June 15, 2019
- Implementation Guide 2017-3, Questions 4.85, 4.103, 4.108, 4.109, 4.225, 4.239, 4.244, 4.245, and 5.1–5.4 - actuarial valuations as of December 15, 2018, or later
- Implementation Guide 2018-1 - reporting periods beginning after June 15, 2019
- Implementation Guide 2019-1 - reporting periods beginning after June 15, 2020

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, 2018**

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.

Status - Comment has been corrected for the fiscal year ended December 31, 2019.

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.

Status - Comment has been corrected for the fiscal year ended December 31, 2019.

OTHER COMMENTS

1. Water Revenue

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

	2018	2017	2016	2015	2014
Gallons Pumped	1,807,565	1,913,250	1,822,137	1,771,743	1,870,479
Gallons Billed	1,394,144	1,428,043	1,458,527	1,451,961	1,514,921
Billed/Pumped	77.13%	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, 2019. The Village's billed versus pumped ratio was 76.90% during the fiscal year ending December 31, 2019.

Management Response - Staff concurs that the water loss ratio of approximately 23% has remained consistent from the prior year. The Village will continue to invest in its capital program to repair/replace and maintain its oldest infrastructure as well as document all non-billed water used by the Village in its normal course of operations (i.e. fire hydrants). Of the 23% loss in water, approximately 8% of the loss has been accounted for by the Village with known uses while the balance of 15% is assumed to be primarily the result of leaks throughout the aging water main infrastructure.

OTHER COMMENTS (Continued)

2. Deficit Fund Balances

The following deficit balances were reported as of December 31, 2018:

Fund	Deficit
Community Development Block Grant	\$ 18,791
Capital Projects - Colt Westgate Redevelopment	4,263,539
Internal Service - Self-Insurance Retention	4,571,360
TOTAL	\$ 8,853,690

Status - Comment has been corrected for the fiscal year ended December 31, 2019.

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, 2018:

Fund	Excess
SPECIAL REVENUE FUND	
Special Service Area #1	\$ 44
INTERNAL SERVICE FUND	
Self-Insurance Retention	1,040,450

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 has been corrected for the fiscal year ended December 31, 2019.