

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

December 31, 2015





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Naperville, Illinois 60563

Certified Public Accountants & Advisors  
Members of American Institute of Certified Public Accountants

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

Ms. Cara Pavlicek, Village Manager  
Mr. Steven Drazner, Interim 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, 2014 audit. The status of these comments is included in Appendix A. This letter does not affect our report dated June 14, 2016, 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 Interim 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.

A handwritten signature in black ink, appearing to read 'Sikich CP'.

Naperville, Illinois  
June 14, 2016

## **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.

### **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.

## **OTHER COMMENTS**

### **1. 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.

## **OTHER COMMENTS (Continued)**

### **1. Physical Controls (Continued)**

#### **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.

### **2. 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.

### **3. 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.

## **OTHER COMMENTS (Continued)**

### **4. 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.

### **5. 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.

### **6. 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.

## OTHER COMMENTS (Continued)

### 7. Water Revenue

The following are billed versus pumped ratios for the last two 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%	81.0%	77.5%

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.

### 8. 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	\$ 4,898,049

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.

## OTHER COMMENTS (Continued)

### 9. 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:

Fund	Excess
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.

### 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

**APPENDIX A**  
**STATUS OF COMMENTS FROM DECEMBER 31, 2014**

**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.

**Status** - Comment still applicable as of December 31, 2015.

**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.

**Status** - Comment implemented as of December 31, 2015.

**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.



## **OTHER COMMENTS (Continued)**

### **1. Parking Performance Management (Continued)**

#### **Management Response**

Noted. Staff is consistently reviewing this area.

**Status** - Comment implemented as of December 31, 2015.

### **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.

**Status** - Comment implemented as of December 31, 2015.

### **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.

**Status** - Comment still applicable as of December 31, 2015.

## OTHER COMMENTS (Continued)

### 4. Deficit Fund Balances

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

Fund	Deficit
Special Revenue - E-911	\$ 132,078
Special Revenue - Special Service Area #1	640,359
Capital Projects - Lake Forest Development Project	396,643
Capital Projects - Colt Westgate Redevelopment	951,650
Capital Projects - South Harlem Redevelopment	89,147
Internal Service - Self-Insurance Retention	2,638,172
<b>TOTAL</b>	<b>\$ 4,848,049</b>

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.

## OTHER COMMENTS (Continued)

### 4. Deficit Fund Balances (Continued)

- 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.

**Status** - Comment still applicable as of December 31, 2015. See current year comment for update.

### 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:

Fund	Excess
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.

## **OTHER COMMENTS (Continued)**

### **5. Budgetary Compliance (Continued)**

#### **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.

**Status** - Comment still applicable as of December 31, 2015. See current year comment for update.