

VILLAGE OF JOHNSBURG,
ILLINOIS

MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED
APRIL 30, 2017



October 4, 2017

The Honorable Village President
Members of the Board of Trustees
Village of Johnsburg, Illinois

In planning and performing our audit of the financial statements of the Village of Johnsburg (Village), Illinois, for the year ended April 30, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We do not intend to imply that our audit failed to disclose commendable aspects of your system and structure. For your consideration we herein submit our comments and suggestions which are designed to assist in effecting improvements in internal controls and procedures. Those less significant matters, if any, which arose during the course of the audit, were reviewed with management as the audit field work progressed.

The accompanying comments and recommendations are intended solely for the information and use of the Finance Committee, Board of Trustees, management, and others within the Village of Johnsburg, Illinois.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Village personnel. We would be pleased to discuss our comments and suggestions in further detail with you at your convenience, to perform any additional study of these matters, or to review the procedures necessary to bring about desirable changes.

We commend the finance department for the well prepared audit package and we appreciate the courtesy and assistance given to us by the entire Village staff.

Lauterbach + Amen LLP

LAUTERBACH & AMEN, LLP

CURRENT RECOMMENDATIONS

1. **GASB STATEMENT NO. 74 FINANCIAL REPORTING FOR POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS AND GASB STATEMENT NO. 75 ACCOUNTING AND FINANCIAL REPORTING FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

Comment

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74, *Financial Reporting for Post-Employment Benefits Plans Other Than Pension Plans*, which applies to individual postemployment benefit plans, and Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, which applies to the state and local government employers that sponsor the plans. The Statements apply to the reporting of other post-employment benefits, including medical, dental, life, vision and other insurance coverages provided by the employer post-employment. The Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to the other post-employment benefit plans, and specifically identify the methods and assumptions that are to be used in calculating and disclosing these OPEB accounts in the financial statements. The Statements also provide for additional note disclosures and required supplementary information and are intended to improve information provided by state and local government employers regarding financial support to their OPEB plans. GASB Statement No. 75 applies to the employer's reporting of other post-employment benefit plans and is applicable to the Village's financial statements for the year ended April 30, 2019.

Recommendation

We recommend that the Village reach out to the private pension actuary engaged to provide the OPEB actuarial calculations in order to confirm the timeline for implementation and to review requested materials that will be required in order to implement the provisions and requirements of the new Statements. Lauterbach & Amen, LLP will also work directly with the Village to assist in the implementation process, including assistance in determining the implementation timeline with the Village and private actuary, providing all framework for the financial statements in order to complete the implementation, and assist in answering any questions or concerns the Village might have related to the implementation process or requirements.

CURRENT RECOMMENDATIONS – Continued

2. FUNDS WITH DEFICIT FUND BALANCE

Comment

During our current year-end audit procedures, we noted the following funds with deficit fund balance

Fund	Deficit
Land and Building	\$ 87,173

Recommendation

We recommend the Village investigate the causes of the deficits and adopt appropriate future funding measures.

Management Response

The Land and Building Fund has a deficit fund balance due to a land purchase agreement in which the Village will abate future taxes for SSA #28 to satisfy the purchase amount. This deficit balance will decrease each year as the Village pays the tax payments on behalf of SSA #28.

PRIOR RECOMMENDATIONS

1. CAPITAL ASSET POLICY

Comment

Previously and during our current year-end audit procedures, we noted the Village does not have a formal capital asset policy to provide guidance on the financial aspects and stewardship of capital assets. With respect to the financial aspects, guidance should be provided on the minimum dollar amount and minimum useful life for an item to be capitalized as a capital asset. Stewardship issues include the physical custody of capital assets.

Recommendation

We recommended that the Village adopt a capital asset policy, which addresses both financial, and stewardship issues. As part of developing the capital asset policy, a review of the current capitalization amount and estimated useful life should be performed for both financial reporting and stewardship. The capital asset policy should also establish standard depreciation methods and useful lives to be applied to specific categories of assets. With respect to stewardship, the policy should address location of assets, tagging, physical access and security and frequency of periodic inventories. Once the policy has been established, we recommended the Village undertake a complete inventory and valuation of capital assets to create detail capital asset records that are in compliance with the new policy. Additionally, as part of this process we recommended land be inventoried and valued at its estimated fair value on the date donated.

Management Response

In FY 2017, a draft policy was developed and is expected to be approved by the Village Board in early FY 2018.

Status

This comment has not been implemented and will be repeated in the future.

2. FUND BALANCE POLICY

Comment

Previously and during our current year-end audit procedures, we noted that the Village does not have a formal fund balance policy. A fund balance policy establishes a minimum level at which the projected end-of-year fund balance/net position should be maintained, taking into account the constraints imposed upon the resources reported by the governmental and proprietary funds. A fund balance policy assists in providing financial stability, cash flow for operations, and the assurance that the Village will be able to respond to emergencies with fiscal strength.

It is essential to maintain adequate levels of funds balance/net position to mitigate current and future risks and to ensure tax rates. Fund balance/net position levels are also crucial consideration in long-term financial planning. Credit rating agencies carefully monitor levels of fund balance/net position and unassigned fund balance in the General Fund to evaluate the Village's continued creditworthiness.

PRIOR RECOMMENDATIONS – Continued

2. FUND BALANCE POLICY – Continued

Recommendation

We recommended the Village create and adopt a fund balance policy to be in compliance with GASB Statement No. 54. The Village should address fund balance reporting categories (nonspendable, restricted, committed, assigned, and unassigned) as well as review minimum fund balance policies.

Management Response

In FY 2017, a draft policy was developed and is expected to be approved by the Village Board in early FY 2018.

Status

This comment has not been implemented and will be repeated in the future.

3. CASH HANDLING

Comment

Previously, we noted that the Village only allows residents to pay fees and fines by cash or check. Cash and check transactions require the highest level of internal controls for an organization. The additional volume of cash going through the Village's front desk not only increases the risk of fraud and theft both internally and externally, but also allows for the possibility of more errors in the cash receipt accounting. Also, fewer residents are carrying cash or using checks in our current environment causing them an inconvenience in paying the Village.

Recommendation

We recommended the Village consider implementing the use of credit card machines at Village Hall in order to limit the volume of cash passing through the Village. This would decrease the risk of fraud and mishandling of cash, as well as strengthen the Village's current internal controls.

Status

This comment has been implemented and will not be repeated in the future.

PRIOR RECOMMENDATIONS – Continued

4. NUMBER OF CASH ACCOUNTS

Comment

Previously, we noted that the Village maintains a significant number of bank accounts. This volume of bank accounts requires additional commitment of staff time to process daily deposits, to make transfers between various cash accounts and to reconcile each account at the end of each month. In addition, the cash balances maintained in this volume of bank accounts does not allow the Village to take full advantage of cash commingling which increases the funds available for investment opportunities.

Recommendation

We recommended the Village review the cash and investment structure to maintain the minimum number of accounts necessary to meet the Village's operational needs.

Status

This comment has been implemented and will not be repeated in the future.

5. POLICE PENSION FUND FUNDING

Comment

Previously, we noted that the Police Pension Fund employer contributions were below the actuary's annual required contributions (ARC). For April 30, 2016, the Police Pension Fund's statutory minimum contribution was \$178,724 and the employer contributions were \$189,611, resulting in 106.1% funded. The Village's Police Pension Fund is not being funded per the actuary's recommendation.

Recommendation

The actuarial accrued liability for the Police Pension Fund will continue to increase and the funded ratio will continue to decrease if the Village does not fund the pension fund according to the actuarially determined annual required contribution. Continued underfunding will decrease the funded ratio each year and will further widen the gap between the Village and the State's 90% funding requirement by 2040. Therefore, we recommended that the Village fund the Police Pension Fund according to the actuarially determined required contributions for each fiscal year.

Status

The Village has implemented this comment, since the annual contributions of the Village are over the statutory minimum for contributions. This comment will not be repeated in the future.

PRIOR RECOMMENDATIONS – Continued

6. FUNDS OVER BUDGET

Comment

Previously and during our current year-end audit procedures, we noted that the following funds had an excess of actual expenditures over budget for the fiscal year:

<u>Fund</u>	<u>April 30,</u> <u>2017</u>	<u>April 30,</u> <u>2016</u>
Motor Fuel Tax	\$ 1,723	-
Special Service Area	634,610	-
Land and Building	102,029	12,812
Waterworks and Sewerage	8,894	62,145

Recommendation

We recommended the Village investigate the causes of the funds over budget and adopt appropriate future funding measures.

Status

This comment has not been implemented and will be repeated in the future.