

**VILLAGE OF JOHNSBURG,  
ILLINOIS**

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**MANAGEMENT LETTER**

**FOR THE FISCAL YEAR ENDED  
APRIL 30, 2016**



October 11, 2016

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, 2016, 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. CAPITAL ASSET POLICY**

#### Comment

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 recommend 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 recommend land be inventoried and valued at its estimated fair value on the date donated.

### **2. FUND BALANCE POLICY**

#### Comment

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.

#### Recommendation

We recommend 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.

## **CURRENT RECOMMENDATIONS – Continued**

### **3. CASH HANDLING**

#### Comment

During our current year-end audit procedures, 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 recommend 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.

### **4. NUMBER OF CASH ACCOUNTS**

#### Comment

During our current year-end audit procedures, 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 recommend the Village review the cash and investment structure to maintain the minimum number of accounts necessary to meet the Village's operational needs.

## CURRENT RECOMMENDATIONS – Continued

### 5. POLICE PENSION FUND FUNDING

#### Comment

During our current year-end audit procedures, 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 ARC was \$309,711 and the employer contributions were \$189,611, resulting in 62.69% 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 increasing the gap between the State average and the Village. Therefore, we recommend that the Village fund the Police Pension Fund according to the actuarially determined required contributions for each fiscal year.

### 6. FUNDS OVER BUDGET

#### Comment

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>Excess</u>
Land and Building	\$ 12,812
Waterworks and Sewerage	62,145

#### Recommendation

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