

MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

To the Mayor and Board of Trustees
Village of Sauk Village
Sauk Village, Illinois

In planning and performing our audit of the financial statements of the Village of Sauk Village, Illinois (the "Village"), as of and for the year ended April 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, there can be no assurance that all deficiencies, material weaknesses or significant deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A control deficiency 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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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 consider the following deficiencies in the Village's internal control to be material weaknesses:

Material Weaknesses

1. Audit Adjustments (Repeated from Prior Year)

Numerous adjusting entries were identified, proposed to, and accepted by management, and recorded in the Village's financial statements, as of and for the year ended April 30, 2017. Several of the adjustments were material to the financial statements, individually and in the aggregate. The adjustments affected various asset, liability, deferred inflow, net position/fund balance, revenue, expense/expenditure, and other financing sources and uses accounts. We recommend that the finance department reconcile all account balances to supporting schedules, documents and other sources of information in a timely manner, in order to ensure that accurate financial reporting, during the year and at year end, is achieved. Those procedures should include, but not be limited to, the following:

Material Weaknesses (Continued)

1. Audit Adjustments (Repeated from Prior Year) (Continued)

- Record appropriate entries to reclassify deficit cash in commingled accounts as interfund balances.
- Review of accounts receivable detail ledgers to determine the adequacy of the allowances for doubtful accounts.
- Reconciliation of prepaid items to supporting details.
- Allocation of property tax receipts to individual funds based on the appropriate tax levy extension for each distribution.
- Reconciliation of unbilled utility revenue balances to detail ledgers.
- Reconciliation of other tax receipts to state and other taxing authority reports.
- Review of construction, equipment, and other invoices to determine propriety of capitalization, depreciation, and accrual of retainage as a liability.
- Reconciliation of accounts payable and other liability balances to detail ledgers, and review of subsequent disbursements and open invoices to identify invoices to be accrued manually at period end.
- Reconciliation of accrued payroll and accrued compensated absences balances to supporting details.
- Reconciliation of recorded debt principal and interest payments to maturity schedules.
- Proper recording of debt issuances including capital leases.
- Reconciliation of interfund advances and transfers, to ensure that all interfunds are properly recorded in appropriate accounts, and balance between funds.
- Proper recording of pension contributions.

2. Lack of Segregation of Duties (Repeated from Prior Year)

Substantially all accounting functions of the Village are performed by a single individual. As a result, some of the aspects of internal accounting control which rely upon adequate segregation of duties are missing in the Village and a general lack of internal controls exists, increasing the risk that fraud or errors may occur and remain undetected.

The following suggestions are procedures which should be performed by personnel not involved in the accounting functions to further compensate for known weaknesses attributable to an inadequate segregation of duties:

- Receive all bank statements unopened and review their contents.
- Review bank reconciliations carefully.
- Review monthly aging of accounts receivable and accounts payable.
- Sign all checks – the Finance Director is an authorized signor on numerous accounts and has access to make changes to the general ledger. Although the Village does require dual signatures on checks, we recommend the Village remove the Finance Director as an authorized signor.
- Review payroll registers, checks, and other reports. As part of this process, the Mayor may consider signing off on each register following review.
- Approve and monitor changes to payroll.
- Review monthly financial statements and question variances.
- Perform all of the above on a timely basis.

Material Weaknesses (Continued)

3. Journal Entries (Repeated from Prior Year)

The Finance Director initiates and records substantially all manual journal entries, without formal independent review. This lack of review increases the risk that material errors, fraudulent financial reporting, or a misappropriation, could occur and remain undetected. Although the Board of Trustees reviews the monthly financial data, we recommend that another individual with financial expertise and knowledge of the Village's chart of accounts review and initial each manual adjustment that is identified and posted by the Finance Director.

4. Wire Transfers (Repeated from Prior Year)

The Finance Director initiates and records substantially all wire transfers, without formal independent review. This lack of review increases the risk that a misappropriation of Village funds could occur and remain undetected. We recommend that another individual with financial expertise review and initial each wire transfer advice. Additionally, automatic notification should be sent by the bank to a responsible individual other than the Finance Director.

5. Working Cash Fund (Repeated from Prior Year)

The Working Cash Fund has made interfund loans to the General Fund, and those loans have not been repaid in accordance with state statutes. Under 65 ILCS 5/8-7, the Village is permitted to transfer all or part of the Working Cash Fund to the General Fund in anticipation of the collection of taxes levied for general or special corporate purposes; however, the Working Cash Fund is to be reimbursed within a certain period of time as specified in the statutes. The statutes further provide for the abolishment of the Working Cash Fund by resolution of the Village Board, whereupon the Fund may be transferred to the General Fund, at the end of the fiscal year; however, a municipality that has abolished its working cash fund may not establish another working cash fund for four years, after the date the fund was abolished. Additionally, any general obligation bonds that were previously issued for working cash purposes must be retired before a municipality may establish a new working cash fund.

65 ILCS 5/8-7 also permits the transfer of interest earned on investments from the Working Cash Fund; however the statutes do not expressly provide for the transfer of principal, unless the Working Cash Fund is abolished. Presently, the Village is recording property taxes, levied for purposes of the payment of principal and interest on the working cash bonds, to the Working Cash Fund, and in turn making a transfer to the Debt Service Fund. We recommend that the Village set up transactions to be recorded in the proper funds.

6. Tax Incremental Financing Funds (Repeated from Prior Year)

The Village presents certain deposits, held with the paying agent for the payment of principal and interest maturities on the Village's tax incremental financing (TIF) and other general obligation bonds, and the related debt service expenditures, within the Debt Service Fund. As a result, it is unclear to the users of the Village's financial statements the extent of the balances and transactions associated with each of the Village's TIF districts. We recommend that the Village consider recording all such activity in funds that are specific to each TIF district.

Material Weaknesses (Continued)

7. Accounts Payable Detail (Repeated from Prior Year)

The Village has historically not reconciled its accounts payable invoice aging report to the general ledger balances by fund. As a result, a material error that existed in the general ledger balance of accounts payable in the Waterworks Fund was not detected by the Village, which required the net position of the Fund as of May 1, 2016 to be restated. Various non-audit services were required to assist the Village in identifying an appropriate system report, and to reconcile that detail to the general ledger. We recommend that the Village reconcile the accounts payable detail to the general ledger on a monthly basis. Additionally, we recommend that the Village periodically request statements of account from its major vendors, reconcile the vendor's statement to the amount recorded in the subsidiary ledger, and resolve any variances promptly.

A significant deficiency is a deficiency, or 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. We consider the following deficiencies in the Village's internal control to be significant deficiencies:

Significant Deficiencies

8. Interfund Advances and Transfers (Repeated from Prior Year)

Various interfund advances and transfers have been made, either without the formal authorization of the Board of Trustees, or in excess of Board-approved budgeted amounts. We recommend that all interfund advances and transfers be brought to the Board of Trustees for formal approval, especially in situations where actual amounts exceed budget. In addition, transfers were out of balance on the trial balance originally provided to us to begin our audit. The finance department should ensure that each transfer entry balances across funds, and should reconcile aggregate transfers on a monthly basis.

9. Cash Allocation Accounts (Repeated from Prior Year)

Allocation accounts exist as a result of automated system entries. When a receipt or disbursement is posted that impacts revenues/expenditures/expenses in multiple funds, the system creates a cash allocation entry to appropriately post the effect on cash across the impacted funds. The net cash allocation balance should be zero; however, at April 30, 2017 there is a balance of approximately \$46,000 in the cash allocation accounts. We recommend that the Village consult with the software vendor to investigate the cause of the aggregate balance, and monitor the aggregate balance to ensure that it does not continue to grow.

10. Bank Reconciliations

The Village did not complete a number of year-end bank reconciliations in a timely manner. Multiple reconciliations were not completed until June 2017. Additionally, multiple accounts had variances compared to the general ledger, which were corrected through entries posted by the Village. We recommend that all reconciliations are completed in a timely manner and variances are immediately investigated and resolved.

Significant Deficiencies (Continued)

11. Firefighters' Pension Fund Activity

The Village records activity in the Firefighters' Pension Fund based on items clearing the bank statement. This method does not capture items which have not cleared the bank, including deposits in transit and outstanding checks. We recommend that the Village should record transactions based on the checkbook activity and reconcile that activity to the bank statement on a timely basis.

Following are descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Control Deficiencies

12. Expense Reimbursements (Repeated from Prior Year)

We noted that not all expense reimbursement requests include evidence of approval prior to reimbursement. We recommend that all expense reimbursement requests be reviewed and approved by an individual in a supervisory capacity, prior to reimbursement.

Additionally, the Village's per-diem expense allowance policy does not require the submission of receipts to substantiate the amount paid to the individual. Per-diem allowances that lack receipts as evidence of the business nature of the expense, and which are in excess of IRS-prescribed amounts, are required to be reported as income to the individual on Form W-2 or 1099, as appropriate. Consideration should be given to reevaluating the Village's expense reimbursement policy in light of its current practice and IRS reporting requirements.

13. Purchase Orders (Repeated from Prior Year)

We noted that the Village lacks a formal purchasing policy, and that purchase orders were not used for most purchases. We also noted instances in which purchase orders were dated subsequent to the date of the invoice, which effectively makes the purchase order obsolete. We recommend that the Village develop and adhere to a formal purchasing policy. Purchases that require a purchase order should be formally approved by an individual other than the employee initiating the purchase order.

14. Personnel Files

We noted several instances in which employees' personnel files did not contain up-to-date documentation of their approved current rate of pay. We recommend that personnel files be reviewed to update all current information and also purge unnecessary information.

15. Controls over Cash Receipts (Repeated from Prior Year)

The Finance Director often records large cash receipts via a manual journal entry, and deposits the receipt to the bank, in order to ensure that the receipt is deposited as expeditiously as possible. However, this results in a deviation from standard Village procedures. We recommend that all cash receipts, and other transactions, be processed under the Village's existing internal controls and on a timely basis.

Control Deficiencies (Continued)

16. Grant Tracking (Repeated from Prior Year)

The Village lacks an adequate system to track grant revenues and related expenditures. We recommend that the Village create a system to track grant receipts and related expenditures, including designating specific revenue and expenditure accounts within the system for grant-related transactions, and regularly reviewing and comparing the activity in these accounts to expected amounts. This will ensure that both revenues and expenditures are properly recorded in the correct period, and that any information required to reported under grant agreements is readily available.

17. Fiduciary Fund

Various expenditures from the Sauk Village Housing Commission agency fund had no evidence of approval. Given the fiduciary nature of the fund, the Village should ensure and document that appropriate approval is obtained prior to invoices being processed. Approval could be documented by commissioners initialing vendor invoices and other source documents, which would then be retained with the check copy.

18. Continuing Bond Disclosures (Repeated from Prior Year)

The Municipal Securities Rulemaking Board (MSRB) requires the Village to complete continuing disclosures with respect to its bond issuances, including updated financial information and the occurrence of specific events that may have an impact on the bonds, if applicable. The Village has not yet filed its April 30, 2015 or April 30, 2016 Annual Financial Reports or the Continuing Disclosure Statements with the MSRB. We recommend that the Village complete this filing as soon as possible.

19. Payment Service Network

Login information for PSN, the Village's online credit card processor, has been shared with multiple Village employees, which increases the risk that Village receipts may be fraudulently diverted. We recommend that the responsible individual(s) change their passwords and discontinue the practice of sharing passwords.

20. Budgetary Process

The Budget is a critical tool in planning, measuring, and controlling revenues and expenditures, as well as ensuring that transactions are properly classified. The Village frequently codes revenues and expenditures in a manner that is inconsistent with the prior year and/or budget. We recommend that the Finance Department carefully review the final, adjusted prior year revenues and expenditures during the process of developing the annual budget, establish the budget in a consistent manner, and carefully adhere to the budget in coding transactions throughout the year.

21. Accrued Compensated Absences

The Village's Leave Time Report, which is used to determine the Village's accruals for various forms of compensated absences, includes hours in excess of Village policy for certain types of compensated absences (compensatory time and birthdays), for certain individuals. The aggregate excess at April 30, 2017 was approximately \$500. We recommend that check figures be implemented into the report and that it be reviewed for balances in excess of policy on a regular basis.

This letter also includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the Village's practices and procedures.

Comments and Suggestions

22. Capital Asset Capitalization Policy (Repeated from Prior Year)

The Village does not have a formal written capitalization policy. We suggest that the Village develop, and that the Board approve a formal written capitalization policy. Additionally, the Village tracks capital assets and calculates depreciation expense using a spreadsheet. Due to the susceptibility of spreadsheet data to formula error and inadvertent deletion of data, we recommend the Village consider implementing a dedicated capital asset software. Furthermore, the Village does not utilize dedicated capital outlay expenditure accounts in a consistent manner, which makes it difficult for the Finance Director to identify assets to be capitalized under full accrual. We recommend the Village assign and utilize dedicated accounts for expenditures which meet the Village's general criteria for capitalization.

23. Outstanding Utility Bills (Repeated from Prior Year)

We noted that various residents have long-outstanding unpaid utility bills, and that receivable balances are escalating. While certain actions have been taken by management subsequent to year-end to improve collections, we recommend that the Village critically review its policies and procedures with regard to the collection of utility receivables. Implementing these policies and procedures on a timely basis could improve cash flow.

24. Investment Policy (Repeated from Prior Year)

The Village's investment policy does not address interest rate risk, credit risk, concentration of credit risk, and custodial credit risk. We recommend that the Village update its investment policy to include, at a minimum, the forgoing risk considerations.

25. Outstanding Checks (Repeated from Prior Year)

The Village has various checks outstanding over one year. The Village should consider whether these checks are required to be turned over to the state as unclaimed property.

26. Firefighters' Pension Fund Budget

The Firefighters' Pension Fund has an ending fund balance of approximately \$60,000 at April 30, 2017, and based on 2017 results will incur expenditures in excess of revenues in 2018. If this trend continues, the Fund will be insolvent and unable to meet its monthly benefit obligations within two years without additional external funding. We recommend that the Pension Board review the proposed budget and explore all funding options to decrease the risk of underfunding of the Fund.

Comments and Suggestions (Continued)

27. Technology and Data Security Risk Assessment and Management

Technology continues to transform business. However, technology is not only changing business, it is changing who and what has access, custody and control over information. Therefore, organizations need to evolve in the ways that they manage technology and data security. While there is no way to prevent all data breaches, phishing scams or other risks, the Village can mitigate its risks with a thorough understanding of data security, privacy, and protection of its information technology. We recommend management evaluates its data security risk plan on a periodic basis (at least annually) to ensure it addresses all the risks associated with a rapidly changing environment and should ensure management's plan incorporates the following items (which is not an exhaustive list):

- Risk assessment
- A written policy
- Effective screenings of employees, vendors and business partners
- Insurance
- Red flags
- Training of employees
- Plan for responding to a breach notification
- Carefully integrating new technologies
- New legislation and regulation which may impact your industry

This communication is intended solely for the information and use of the Mayor and Board of Trustees and management of the Village and is not intended to be, and should not be, used by anyone other than these specified parties.

MILLER, COOPER & CO., LTD.



Certified Public Accountants

Deerfield, Illinois
December 22, 2017