

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, 2018, 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, 2018. 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)

- 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 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. 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.

3. 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 one of the Debt Service Funds instead of tracking and reconciling the activity and obligations of each TIF separately. To enhance financial reporting, and ensure that cash receipts and disbursements are applied correctly to each TIF and the balances of each TIF are clear, we recommend that the Village consider recording all such activity in funds that are specific to each TIF district.

Material Weaknesses (Continued)

4. Prior Period Adjustments – Cash Allocation Accounts

The Village's financial accounting software permits the user to post a debit/credit in an individual fund with an offsetting credit/debit in another fund, which causes those individual funds to be out-of-balance. In order to balance such entries, the system automatically creates an offsetting posting to "cash allocation" accounts within the general ledger. As a result of multiple unbalanced adjustments being posted by former finance personnel over the course of several years, there existed large cash allocation account balances in the Debt Service Fund and the LogistiCenter at Sauk Village Fund at the beginning of fiscal year 2018, totaling \$1,555,718 and (\$1,636,212), respectively. As a result, it was necessary to restate fund balances of the General Fund, Debt Service Fund, and LogistiCenter at Sauk Village Fund, as of May 1, 2017. We recommend that the Village strictly control the use of cash allocation accounts and ensure that all entries are in-balance, at the individual fund level, and the cash allocation accounts are zero at month end.

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

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

Multiple 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. For example, the Finance Director initiates electronic bank transactions, has access to make changes to the GL, prepares and posts manual journal entries without formal independent review, and prepares the monthly bank reconciliations. Further, this individual has authorization to change the bank account to which credit card transaction revenue is deposited by mailing a request for change to the provider, and satisfies the authorization process using only their own signature.

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.
- Review payroll registers, checks, and other reports.
- Approve and monitor changes to payroll.
- Review monthly financial statements and question variances.
- Perform all of the above on a timely basis.

Significant Deficiencies (Continued)

6. 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.

7. Bank and Paying Agent Reconciliations

The Village did not complete a number of year-end bank and paying agent reconciliations in a timely manner. Multiple reconciliations were not completed until June 2018. 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.

8. 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 (comp time and birthdays), for certain individuals. Additionally, the Village's compensated absences liability for certain unionized employees was determined to be understated and an adjustment was recorded in fiscal year 2018.

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

Control Deficiencies

9. 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.

Control Deficiencies (Continued)

10. 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 be reported under grant agreements is readily available.

11. 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, 2018 Annual Financial Reports or the Continuing Disclosure Statements with the MSRB. We acknowledge the fact that the Village's agent has submitted notice of failure to file annual financial information, audited financial statements with the MSRB. We recommend that the Village complete these filings as soon as possible.

12. 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.

13. 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.

14. Time Cards

We noted one instance in which an employee's (Director of Economic Development) time card was computed incorrectly. Time cards should be carefully reviewed prior to processing payroll.

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

15. 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 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.

16. Outstanding Utility Bills (Repeated from Prior Year)

We noted that various residents have long-outstanding unpaid utility bills, and that receivable balances remain high. While certain actions have been taken by management 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.

17. 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.

18. 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.

19. Firefighters' Pension Fund Budget

The Firefighters' Pension Fund has an ending fiduciary net position of approximately \$72,000 at April 30, 2018, which appears sufficient to finance approximately one-and-a-half years' annual pension benefits and administrative expenses. The Village's final tax extension for levy year 2017 included approximately \$12,000 to fund the Village's annual contribution to the fund, and a supplemental contribution of \$50,000 was made by the Village in fiscal year 2018. We recommend that the Pension Board review the proposed budget and explore all funding options to decrease the risk of underfunding of the Fund.

20. Sales Taxes

Sales taxes were paid on various purchases made by employees which were reimbursed by the Village. The Village is exempt from paying sales taxes. We recommend that employees making purchases on behalf of the Village be informed of the need to present the Village's sales tax exemption number at the time of purchase.

Comments and Suggestions (Continued)

21. 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

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
March 14, 2019