

030892

VILLAGE OF LOMBARD  
REQUEST FOR BOARD OF TRUSTEES ACTION  
For Inclusion on Board Agenda

Resolution or Ordinance (Blue) \_\_\_\_\_ *Waiver of First Requested*  
X Recommendations of Boards, Commissions & Committees (Green)  
Other Business (Pink)

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: William T. Lichter, Village Manager

DATE: January 28, 2004 (COW)(B of T) February 5, 2004

TITLE: Motion to Accept and File with the Village Clerk the 2003 Comprehensive Annual Financial Report, Management Letter and Recommendations regarding the Management Letter Comments

SUBMITTED BY: Leonard J. Flood, Director of Finance

BACKGROUND/POLICY IMPLICATIONS:

The Finance Committee at their January 20, 2004 meeting unanimously voted to recommended that the Village Board accept and place on file with the Village Clerk the 2003 Comprehensive Annual Financial Report and Management Letter. In addition, the Finance Committee has unanimously concurred with staff recommendations prepared in response to the Management Letter comments. Village Board concurrence approval of these recommendations is requested. The Management Letter and staff responses are attached. Copies of the FYE 2002 Comprehensive Annual Financial Report have previously been distributed to the Village Board.

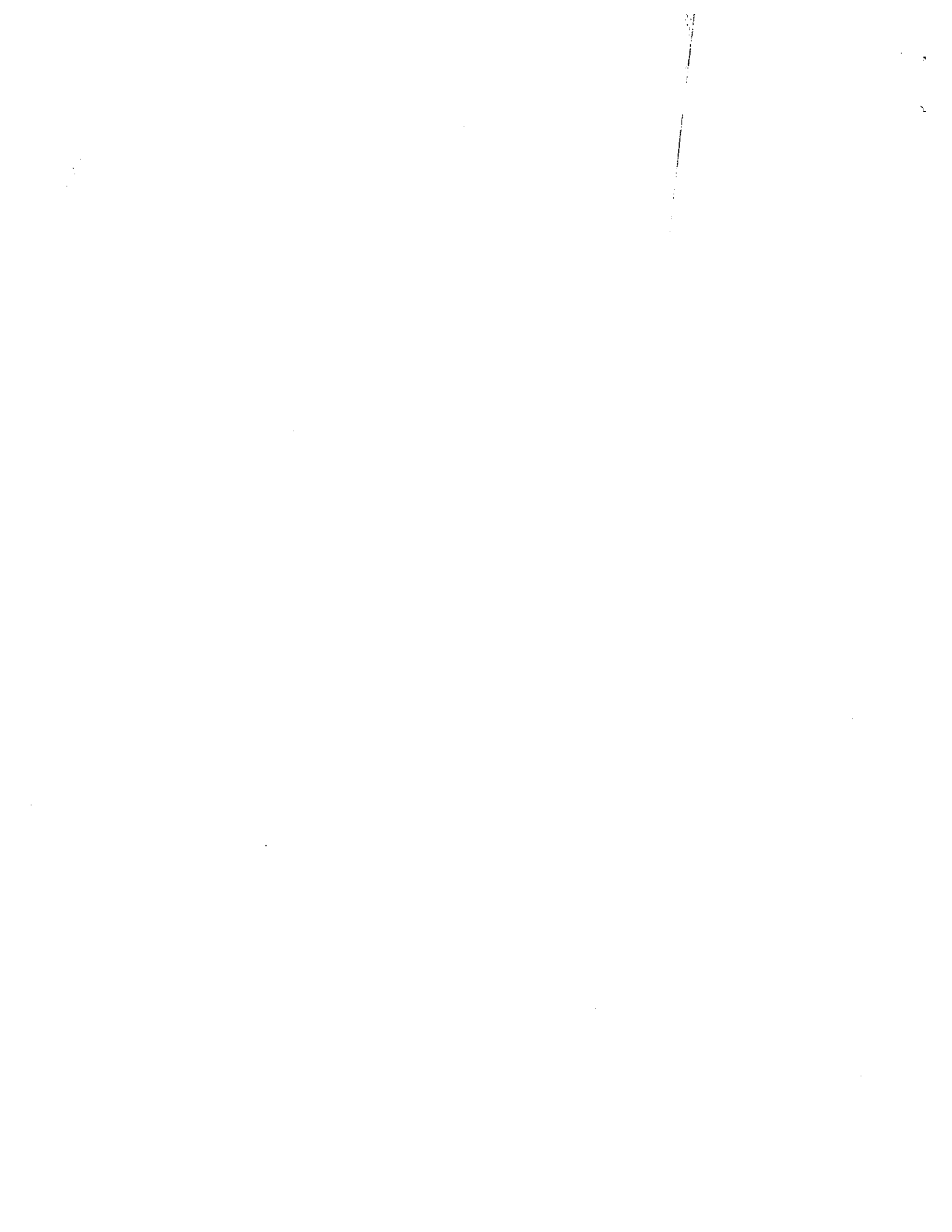
Review (as necessary):

Village Attorney X \_\_\_\_\_ Date \_\_\_\_\_  
Finance Director X Leonard J. Flood Date 1/28/04  
Village Manager X W.T. Lichter Date 1/28/04

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda Distribution.



**VILLAGE OF LOMBARD, ILLINOIS**  
**MANAGEMENT LETTER**  
**FOR THE YEAR ENDED MAY 31, 2003**



October 23, 2003

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

In planning and performing our audit of the financial statements of the Village of Lombard, Illinois, for the year ended May 31, 2003, 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 Lombard, 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 (Continued)

1. **GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 34: BASIC FINANCIAL STATEMENTS – AND MANAGEMENT’S DISCUSSION AND ANALYSIS – FOR STATE AND LOCAL GOVERNMENTS (Continued)**

*Required Supplementary Information* – A budgetary schedule comparing original, final and actual revenues and expenditures for the government’s general and major special revenue funds, is required. Other required supplementary information as may be required by GASB pronouncements. Many governments revise their original budgets over the course of the year for a variety of reasons. Requiring governments to report their original budget adds a new analytical dimension and increases the usefulness of the budgetary comparison.

### Effective Date

The Village implemented GASB #34 during the current fiscal year. The current year’s financial statements, therefore, include these significant modifications. We appreciate all of the assistance and hard work undertaken by the Village’s staff and we commend the Finance Department for a superior effort.

2. **IMPLEMENTING STATEMENT OF AUDITING STANDARDS #99, CONSIDERATION OF FRAUD IN A FINANCIAL STATEMENT AUDIT**

With the implementation of SAS 99, auditors will be required to expand their auditing procedures to detect fraud. This new fraud standard is the cornerstone of a comprehensive antifraud and corporate responsibility program of which its goals are to rebuild the confidence of investors in capital markets and reestablish audited financial statements as the clear picture window into an entity’s financial health. Although not specifically geared toward units of government, all financial audits are required to be in compliance with the Statements of Auditing Standards.

SAS 99 is the first standard that requires auditors to make inquiries of “others within the entity”, such as operating personnel not directly involved in the financial-reporting process, individuals with knowledge of complex or unusual transactions (such as other department heads), and/or in-house legal counsel. There are two primary objectives for making such inquiries: 1) to obtain first-hand knowledge of fraud risk or potential fraud; and 2) to corroborate or lend perspective to representations of others.

## CURRENT RECOMMENDATIONS (Continued)

### 2. IMPLEMENTING STATEMENT OF AUDITING STANDARDS #99, CONSIDERATION OF FRAUD IN A FINANCIAL STATEMENT AUDIT (Continued)

Additional analytical procedures will be required in planning and performing the audit to identify the existence of fraud risk factors. Two specific risk assessment requirements relate to improper revenue recognition and the risks associated with management override of controls. These assessments may indicate a material misstatement due to fraudulent financing reporting. The results of these analytical procedures, along with other information gathered, will be used to determine the risks of material misstatement due to fraud.

Certain modifications to the nature, timing and extent of the audit procedures will be required to address any identified risks of fraud. Modifications to the audit procedures may include an evaluation of the risk of management override of internal controls, or the ability to override established control procedures, additional general ledger testing, or a retrospective review of prior-year accounting estimates for the purpose of identifying bias in management's assumptions underlying the estimates. Audit documentation requirements are also significantly expanded to support compliance with the new standard.

The new auditing standard is effective for financial statement audits for periods beginning on or after December 15, 2002. As the requirements of this auditing standard are quite extensive and will significantly expand the scope and procedures associated with the audit process, audit fees in future years will reflect the additional cost associated with this change.

### 3. BANK RECONCILIATION

#### Comment

We noted that throughout the year bank account reconciliations for certain significant accounts were not being performed on a timely basis.

#### Recommendation

We recommend that the bank accounts be reconciled shortly after the end of each month and that any discrepancies be investigated in a timely manner. Being able to timely detect discrepancies will facilitate improved internal controls.

## PRIOR RECOMMENDATIONS

### 1. CONSTRUCTION DEPOSITS

#### Comment

Previously, we noted that a number of material construction project deposits from the Village's detailed listing which are five years and older have not been reimbursed. Currently, if construction project deposits are held for seven years, they are remitted to the State of Illinois as unclaimed property.

#### Recommendation

We recommended that the Village establish policies and procedures (with a thorough review of all related accounts) that provides for construction deposits to be refunded on a timely basis avoiding the need to remit these deposits as unclaimed property to the State of Illinois.

#### Status

The Village is working toward implementing this comment and we will check the status during the fiscal year May 31, 2004 audit.

### 2. INTEREST EXPENSE

#### Comment

Previously, we noted that interest income is being distributed to funds with only a positive cash balance, and the funds with a negative cash balance are neither receiving interest income nor being charged interest expense.

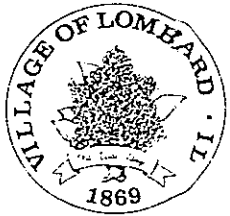
#### Recommendation

We recommended the Village distribute the interest income proportionately based on each fund's percentage ownership and charge interest expense to the appropriate funds. The distribution of interest income and income expense should be done on a monthly basis.

#### Status

We repeat this comment.





TO: Finance Committee Members  
William T. Lichter, Village Manager  
Leonard J. Flood, Director of Finance

FROM: Tim Sexton, Assistant Director of Finance  
Anne M. Fairbairn, Accounting Manager

DATE: January 16, 2004

SUBJECT: Responses to the FYE 2003 Management Letter

The FYE 2003 Management Letter comments from the Village auditors Lauterbach & Amen are enclosed for your review. The staff response to the Management Letter comments is as follows:

***1. GASB STATEMENT 34: BASIC FINANCIAL STATEMENTS – AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS – FOR STATE AND LOCAL  
GOVERNMENTS***

**Management Letter Recommendation:** This informational comment is a summary of the changes required by GASB statement 34. The highlights are:

- Management Discussion and Analysis (MD&A)
- Government-Wide Financial Statements
  - Accrual Accounting
  - Capital Assets/Infrastructure
  - Governmental Functions/Programs
- Fund-Based Financial Statements
  - Major Funds
  - Non-Major Funds
- Notes to the Financial Statements
- Required Supplementary Information

**Staff Response:** As the management letter comment stated at the end, the Village has implemented GASB 34 for the 2002-2003 fiscal year. Their comment assists the reader to remember the changes GASB 34 has required the Village to make.

***2. IMPLEMENTING STATEMENT OF AUDITING STANDARDS #99,  
CONSIDERATION OF FRAUD IN A FINANCIAL STATEMENT AUDIT***

**Management Letter Recommendation:** This is another informational comment, which will require the auditors to expand their auditing procedures to detect fraud. Its purpose is to rebuild the confidence of investors in capital markets and reestablish audited financial statements as the clear picture window into an entity's financial health. Although this isn't specifically geared towards units of government, all financial audits are required to be in compliance with the SAS.

**Staff Response:** SAS #99 will come into play for the FY04 audit process. Staff will be ready to make available resources for the auditors to complete the additional procedures required.

### ***3. BANK RECONCILIATION***

**Management Letter Recommendation:** The auditors noted the Finance department didn't perform the bank account reconciliation on a timely basis. They recommended the bank accounts be reconciled shortly after the end of each month and that any discrepancies be investigated in a timely manner.

**Staff Response:** We concur with the auditors. The payroll and accounts payable bank reconciliation were being completed on a timely basis. Illinois Funds and IMET are completed on a monthly basis also. The A/P and P/R accounts need to be completed prior to the remaining bank accounts. Additionally, the end of month process has to be performed prior to the bank reconciliation. As you know, the months weren't closed on a timely basis during the last 2 years. This year we are completing the A/P and P/R statements and marking the other bank statements with the daily activity. We anticipate full compliance within the next couple of months.

## **PRIOR RECOMMENDATIONS**

### ***1. CONSTRUCTION DEPOSITS***

**Management Letter Recommendation:** The Village establish policies and procedures (with a thorough review of all related accounts) that provides for construction deposits to be refunded on a timely basis avoiding the need to remit these deposits as unclaimed property to the State of Illinois.

**Staff Response:** We concur with the auditors. Construction and miscellaneous deposits, which were received in FY00 and before, totaled in excess of \$315,000 at the end of FY02. At the end of FY03 the amount for that same time frame decreased to \$111,600. Finance and BIS representatives met with the auditors to review procedures and facilitate the expedition of returning deposits upon completing the permit process. However, there's an additional \$62,800 in

deposits still not refunded from receipts in FY01 and \$121,100 from FY02 receipts. The accounting division will forward to the BIS division a listing of the deposits highlighting the deposits in need of researching and refunding.

## 2. *INTEREST EXPENSE*

**Management Letter Recommendation:** The Village distribute the interest income proportionately based on each fund's percentage ownership and charge interest expense to the appropriate funds. The distribution of interest income and interest expense should be done on a monthly basis.

**Staff Response:** We concur with the auditors. As discussed last year, Finance will begin this new procedure (allocation of interest expense) beginning FY2004. We are currently working on revising the structure of our cash and investment accounts within each fund and creating the interest allocation tables for the INFISYS software to automate the interest allocation process.

The auditors will be in attendance at the January 20<sup>th</sup> meeting to answer any questions regarding these issues.

cc: Village President & Board of Trustees  
All Department Heads

