

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

 Resolution or Ordinance (Blue)
 X Recommendations of Boards, Commissions & Committees (Green)
 Other Business (Pink)

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: Scott Niehaus, Village Manager

DATE: August 19, 2020 (COW)(B of T) Date: September 3, 2020

TITLE: A Motion to Accept and File with the Village Clerk the 2019 Comprehensive Annual Financial Report, Management Letter, and Audit Finding with Corrective Action Plan.


SUBMITTED BY: Timothy Sexton, Director of Finance

BACKGROUND/POLICY IMPLICATIONS:

The Finance and Administration Committee voted unanimously to recommend that the Village Board accept and place on file with the Village Clerk the FYE 2019 Comprehensive Annual Financial Report and Management Letter. The FYE 2019 Management Letter and corrective action plan are attached. Due to the size of the document, the 2019 CAFR is available on the Village's website. The FYE 2019 Management Letter addresses a current recommendation from the Village auditors regarding bank reconciliation procedures and the past recommendation for the Village to have a Capital Asset Appraisal completed.

Fiscal Impact/Funding Source: N/A

Review (as necessary):

Village Attorney X	_____	Date	_____
Finance Director X		Date	8/19/20
Village Manager X	_____	Date	_____

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.



June 2, 2020

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lombard, Illinois for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 2, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village are described in the Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2019. We noted no transactions entered into by the Village of Lombard during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the governmental and business-type activities' financial statements was:

Management's estimate of the depreciation expense on capital assets is based on assumed useful lives of the underlying capital assets. We evaluated the key factors and assumptions used to develop the depreciation expense estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Significant Audit Findings – Continued

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Any material misstatements detected as a result of audit procedures were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 2, 2020.

Management Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Other Matters – Continued

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and statistical section, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, and we do not express an opinion or provide any assurance on it.

Restrictions on Use

This information is intended solely for the use of the 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.

We wish to express our gratitude to the Board of Trustees and staff (in particular the Finance Department) of the Village of Lombard, Illinois for their valuable cooperation throughout the audit engagement.

Lauterbach & Amen, LLP
LAUTERBACH & AMEN, LLP

VILLAGE OF LOMBARD, ILLINOIS

MANAGEMENT LETTER

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2019**



June 2, 2020

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 (Village), Illinois, for the year ended December 31, 2019, 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 RECOMMENDATION

1. BANK RECONCILIATIONS

Comment

During our current year-end audit procedures, we noted that the commingled bank account for the Village's trial balances did not tie to the ending reconciled balance in the bank reconciliations. Therefore, we needed to reconcile the general ledger balances in order to balance to the bank reconciliations.

Recommendation

Bank reconciliations should be updated subsequent to adjusting journal entries in order to ensure that bank reconciliations tie to general ledger cash balances. We recommend as a means of better control, that bank reconciliations be performed each month and any variances be investigated and adjusted immediately.

Management Response

Management acknowledges this comment and will work on improving the current monthly bank reconciliation process. During 2019, we have recognized that the general ledger has been consistently understated. We have spent quite a deal of time trying to understand the reasons. During 2019, we went through a learning phase and had some personnel changes along the way. The accountant we hired had a difficult time completing the monthly journal entries and cash transactions on a timely manner. Also, unreconciled differences were not addressed immediately leaving the general ledger understated to the following months. In September of 2019, we made the decision to terminate employment. During the last quarter of the year, we found entries that were either incorrect or not processed in prior months, which had been corrected immediately. We also found the deposits in transit were not correctly captured in the bank reconciliation. In October, we hired a temporary accountant to assist with journal entries and the bank reconciliation; unfortunately, this was short term as this individual took a full-time position at another municipality.

Going forward, we have made a corrective plan of action. First, we have hired a full time Accountant who is required to complete the monthly bank reconciliation within 15 days of the close of each month. The Accountant will also use a prepared checklist to ensure all cash transactions and journal entries have been posted to the general ledger in a timely manner.

Second, we will diligently investigate material unreconciled differences and make the necessary adjustments immediately.

Third and final, we have implemented a review process. Once the bank reconciliation is completed by the Accountant, the Accounting Coordinator will review for accuracy. The Assistant Director of Finance will provide a last review and signature.

PRIOR RECOMMENDATION

1. CAPITAL ASSET APPRAISAL

Comment

During our current and prior year-end audit procedures, we noted the Village is in the process of having an appraisal of capital assets performed by an outside appraisal firm. This appraisal will be used to track capital assets. The benefits of an appraisal by an outside appraisal firm include but are not limited to 1) records for insurance purposes and 2) provide records of capital assets, including real property that the Village owns for financial reporting purposes.

Recommendation

We recommended that the Village have an outside appraisal firm perform a physical inventory and valuation of all the Village's capital assets. A periodic inspection of the assets should also be compared to this detail listing to ensure that all assets are accounted for on a regular basis. We further recommend that all capitalizable items be budgeted and charged to capital outlay accounts and that these accounts are reconciled each year to the total additions to capital assets.

Management Response

Management feels the cost of a capital asset appraisal outweighs the benefits. The Village hired an outside appraisal firm in the early 2000s to perform an inventory of the Village's capital assets. Village staff ended up performing most of the work in order to get results that were used for the fixed asset valuation. The value of land is based on the purchase price. Therefore, the information prior to the last appraisal has not changed. Each year staff completes a thorough fixed asset review and adds/deletes assets off of the listing.

The major issue an outside appraiser and staff encounter is finding old documentation for the original purchase price or value of property when a parcel is merged with several other Village owned parcels often to create ponds. There is really no way to go back and determine what parcels were merged together over the past 150 years. Neither the County or the Village keeps record of this information. Therefore, the valuation in the early 2000s is as good as any data staff would be able to collect today. Since the last valuation, staff annually updates the capital asset listing to include land purchased and land sold and this information is thoroughly reviewed by our auditors.

The Village maintains a robust GIS system and can provide a detailed listing of all Village owned property for insurance/financial records. Staff is able to provide the auditors with a detailed listing of any Village owned property with the current parcel numbers. Staff can also provide the measurement of Village owned streets, sidewalks, alleys, parking lots, parking stalls. If the Village were to sell a piece of property it would not be based on the purchase price. An appraisal would be performed on the specific property being sold based on the current market value. the cost of a capital asset appraisal outweighs the benefits.

Capital items are budgeted for and charged only to capital accounts. Staff tracks all capital projects with specific project numbers. Once the project is complete, which could be over the course of several years, the project is added to capital assets if it meets the criteria specified in the Capital Asset Financial Policy.