

060010

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, 2005**

November 1, 2005

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, 2005, 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

1. GASB STATEMENT NO. 40 – DEPOSIT AND INVESTMENT AND INVESTMENT RISK DISCLOSURES

Comment

GASB Statement No. 40 addresses common deposit and investment risks. These risks include interest rate risk, credit risk, concentration of credit risk, and foreign currency risk. Under the new Statement, the Village, as a general rule, is required to disclose investments by investment type (i.e. U.S. Treasury Securities, U.S. Agency Securities, certificates of deposit, etc.). Also required is the disclosure of the Village's deposit and investment policies related to various risks, and if no deposit and investment policy has been adopted by the Village, then that information must also be disclosed. The provisions of this Statement are effective for the Village's fiscal year ending May 31, 2006.

Recommendation

In order to disclose the provisions of GASB Statement No. 40, the Village needs to provide the fair value, interest rate, and maturity date for each investment held at year-end. The disclosure for the Statement will outline the four types of risk associated with deposits and investments (i.e. interest rate risk, credit risk, concentration of credit risk, and foreign currency risk), any legal requirements related to the four types of risk, and any risk requirements stated in the Village's deposit and investment policy.

2. GASB STATEMENT NO. 43 – FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSION PLANS

Comment

In addition to pensions, many state and local governmental employers provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. Other postemployment benefits include postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. GASB Statement No. 43 requires that employers accrue the cost of other postemployment benefits as those benefits are earned by employees systematically over the employees' years of service. The liability for these benefits is reported in the government-wide financial statements. The provisions of this Statement are effective for the Village's fiscal year ending May 31, 2009.

CURRENT RECOMMENDATIONS (Continued)

2. GASB STATEMENT NO. 43 – FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSION PLANS (Continued)

Recommendation

For financial reporting purposes, an actuarial valuation is required at least biennially for other postemployment benefit plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, and at least triennially for plans with a total membership of fewer than 200. Other postemployment benefit plans with a total membership of fewer than one hundred have the option to apply a simplified alternative measurement method instead of obtaining actuarial valuations. This alternative method includes the same broad measurement steps as an actuarial valuation (projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of projected benefits to periods using an actuarial cost method). However, it permits simplification of certain assumptions to make the method potentially usable by nonspecialists.

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 has implemented this comment and it will not be repeated in the future.

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: March 28, 2006

SUBJECT: Responses to the FYE 2005 Management Letter

The FYE 2005 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 40 – DEPOSIT AND INVESTMENT AND INVESTMENT RISK DISCLOSURES

Management Letter Recommendation: The Village needs to provide the fair value, interest rate and maturity date for each investment held at year-end. The disclosure for the Statement will outline the four types of risk (i.e. interest rate risk, credit risk, concentration of credit risk and foreign currency risk), any legal requirements related to the four types of risk and any risk requirements stated in the Village's deposit and investment policy.

Staff Response: The Village will be implementing during the Fiscal Year 2006 audit. Our current investment schedules provide the information required for each investment the Village holds at the end of the fiscal year. Staff will be working with the auditors and financial institutions to retrieve the types of risk associated with the investments.

2. GASB EXPOSURE DRAFT – FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS

Management Letter Recommendation: An actuarial valuation will be required at least biennially for other post employment benefit (healthcare and life insurance) plans because our total membership is 200 or more employees in active service, terminated employees who have accumulated benefits but are not yet receiving them and retired employees and beneficiaries currently receiving benefits.

Staff Response: This is another complicated technical comment, which the auditors are educating their clients. Additionally, staff has attended and will be attending additional training opportunities offered by IGFOA. The Village will have to implement the Statement for the fiscal year ending May 31, 2009.

PRIOR RECOMMENDATIONS

1. CONSTRUCTION DEPOSITS

Management Letter Recommendation: The Village establishes 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 has implemented this comment and it will not be repeated in the future.

The auditors will be in attendance at the January 17th meeting to answer any questions regarding these issues.

cc: Village President & Board of Trustees
All Department Heads