

VILLAGE OF LOMBARD
REQUEST FOR BOARD OF TRUSTEES ACTION

For Inclusion on Board Agenda

080058

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

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: William T. Lichter, Village Manager

DATE: January 30, 2008 (COW)(B of T) Date: February 7, 2008

TITLE: A Motion to Accept and File with the Village Clerk the 2007 Comprehensive Annual Financial Report, Management Letter and Recommendations regarding the Management Letter Comments.

SUBMITTED BY: Timothy Sexton, Director of Finance

BACKGROUND/POLICY IMPLICATIONS:

Please see attached memo.

Fiscal Impact/Funding Source: N/A

Review (as necessary):

| | | | |
|------------------|-------------------------|------|---------|
| Village Attorney | X | Date | |
| Finance Director | X <i>Timothy Sexton</i> | Date | 1/30/08 |
| Village Manager | X <i>W.T. Lichter</i> | Date | 1/30/08 |

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.



To: Village President and Board of Trustees
William T. Lichter, Village Manager

From: Timothy Sexton, Director of Finance

Date: January 30, 2008

Subject: Fiscal Year 2007 Comprehensive Annual Financial Report and Management
Letter Comments

The Finance Committee at their January 15, 2008 meeting reviewed the 2007 Comprehensive Annual Financial Report, Management Letter and staff recommendations prepared in response to the Management Letter comments.

Management letter comment #2, along with the additional letter attached from Lauterbach & Amen, requires further explanation as it was discussed in detail during the Finance Committee meeting. During fiscal year 2007, a new Statement on Auditing Standards, SAS 112, went into effect. This standard requires communication of potential significant deficiencies and material weaknesses over the Village's internal controls. During the fiscal year 2007 audit, as with all previous audits, the auditors booked several audit adjustments. However, with SAS 112, the auditors are now required to issue the separate letter if there are any audit adjustments. As Ron Amen from Lauterbach & Amen discussed during the Finance Committee meeting, 98% of all their audit clients received this letter for their 2007 audit. While Mr. Amen did not feel that this letter is warranted, based on the strong internal controls the Village has in place, he said he was required by this auditing standard to issue the letter. Going forward, staff will be working on reducing and/or eliminating the audit adjustments required during the audit.

The Finance Committee voted unanimously to recommend that the Village Board accept and place on file with the Village Clerk the 2007 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 approval of these recommendations is requested. The Management Letter, staff responses and the additional letter from Lauterbach & Amen discussed above are attached. The 2007 Comprehensive Annual Financial Report has previously been distributed to the Village Board.



TO:

Finance Committee Members
William T. Lichter, Village Manager
Timothy Sexton, Director of Finance

FROM: Rhonda Heibel, Assistant Director of Finance
Anne M. Fairbairn, Accounting Manager

DATE: January 10, 2008

SUBJECT: Responses to the FYE 2007 Management Letter

The FYE 2007 Management Letter comments from the Village auditors Lauterbach & Arnen are enclosed for your review. The staff response to the Management Letter comments is as follows:

**1. GASB STATEMENT NO. 43/45 - FINANCIAL REPORTING FOR
POSTEMPLOYMENT BENEFITS OTHER THAN PENSION PLANS**

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. This statement affects the Village's fiscal year ending May 31, 2009 audit.

Staff Response: The Finance department continues to work with the auditors on the requirements for GASB 43/45. Additionally, the Village will be budgeting for the actuarial valuation for the information needed to fulfill the requirements in FY2009 and FY2010.

**2. STATEMENT ON AUDITING STANDARDS 112: COMMUNICATING
INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN AN AUDIT**

Management Letter Recommendation: SAS 112 requires the communication of significant deficiencies and material weaknesses to management. The Village needs to review the current internal controls over financial accounts and systems. The requirements of the SAS 112 were implemented for the fiscal year ending May 31, 2007.

Staff Response: We received this comment due to adjusting entries prepared by the auditors for the Village. A separate letter was forwarded to management. However, the journal entries did not dictate a serious material weakness or reportable condition which would require them to be specifically put into the management letter and a formal letter to the Board of Trustees.

PRIOR RECOMMENDATIONS

1. GASB STATEMENT NO. 44: ECONOMIC CONDITION REPORTING: THE

STATISTICAL SECTION

Management Letter Recommendation: The Village needs to review the requirements of the statement, and the information disclosed in the current statistical section to determine the information needed to be gathered. The requirements of the statement will need to be implemented for the fiscal year ending May 31, 2007.

Status: The Village implemented during the Fiscal Year 2007 audit.

The auditors will be in attendance at the January 15th meeting to answer any questions regarding these issues.

cc: Village President & Board of Trustees
All Department Heads

VILLAGE OF LOMBARD, ILLINOIS

MANAGEMENT LETTER

**FOR THE YEAR ENDED
MAY 31, 2007**

October 16, 2007

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, 2007, 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

GASB STATEMENT NO. 43 / 45- 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 / 45 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.

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.

CURRENT RECOMMENDATIONS (Continued)

STATEMENT ON AUDITING STANDARDS 112: COMMUNICATING
INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN AN AUDIT

Comment

Statement on Auditing Standards (SAS) 112: Communicating Internal Control Related Matters Identified in an Audit, defines the terms *significant deficiency* and *material weakness*, provides guidance to auditors on evaluating the severity of control deficiencies and communicating those deficiencies that are identified in an audit to those in the entity charged with governance. SAS 112 defines the following:

- A *control deficiency* exists when the design or operating of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
 - A deficiency in *design* exists when a control necessary to meet the control objective is missing, or the control is not properly designed so that even if it operates as designed, the control objective is not always met.
 - A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.
- A *significant deficiency* is a control deficiency or a combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
- A *material weakness* is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

SAS 112 further states that the significance of a control deficiency is dependent on the *potential* for misstatement, not whether a misstatement actually occurred.

Recommendation

The provisions of SAS 112 have been implemented in the current year.

As SAS 112 requires the communication of significant deficiencies and material weaknesses to management and those charged with governance, we recommend that staff continue to review current internal controls over financial accounts and systems. The system of internal controls should include, among other things, controls to ensure the safeguarding of the entity's assets, controls to ensure accurate and timely financial reporting, and anti-fraud controls.

PRIOR RECOMMENDATIONS

GASB STATEMENT NO. 44: ECONOMIC CONDITION REPORTING: THE STATISTICAL SECTION

Comment

The objective of GASB Statement No. 44: Economic Condition Reporting - The Statistical Section is to improve the understandability and usefulness of the information presented as supplementary information in the statistical section. A lack of specificity in prior standards has led to many problematic divergences of practice among governments. Furthermore, prior standards related to the statistical section did not require that governments report information on the government-wide, accrual based information established by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The new statistical section is to be presented in five categories - financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information:

- 1) Financial trend information - Intended to assist users in understanding and assessing how a government's financial position has changed over time.
- 2) Revenue Capacity Information - Intended to assist users in understanding and assessing the factors affecting a government's ability to generate its own-source revenues.
- 3) Debt Capacity Information - Intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt.
- 4) Demographic and Economic Information - Intended (1) to assist users in understanding the socioeconomic environment within which a government operates and (2) to provide information that facilitates comparisons of financial statements over time and among governments.
- 5) Operating Information - Intended to provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.

Recommendation

The provisions of this Statement are implemented for the Village's statistical section prepared at May 31, 2007.

December 20, 2007

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

In planning and performing our audit of the basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Lombard, Illinois, as of and for the year ended May 31, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Lombard's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's basic financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

We consider the following deficiency to be a significant deficiency in internal control:

- The Village audit resulted in the attached audit adjustments. This represents a significant deficiency in the internal control over financial reporting.

This communication is intended solely for the information and use of management, the Village of Lombard's Board of Trustees and others within the organization, and is not intended to be and should not be used by anyone other than those specified parties.

Lauterbach + Amen LLP
LAUTERBACH & AMEN, LLP

| Client Name: Village of Lombard | | Audit Journal Entries | | Date: 6/30/2007 | |
|---------------------------------|-------------------|-----------------------|-----------------------------------|-----------------|------------|
| A/E | Account | Account | Description | Debit | Credit |
| # | Number | | | | |
| 1 | 4400-7402-75-5700 | 4400-30-1100 | Other Prof/Tech Services | 149,675.00 | |
| | | | Operating Payables | | 149,675.00 |
| | | | Entry to post additional payable. | | |
| 2 | 1010-1230-75-5870 | 1010-0000-30-7700 | Retained Losses | 102,367.90 | |
| | | | IBNR Liability | | 102,367.90 |
| | | | Entry to post adj. to IBNR | | |
| 3 | 1010-0000-30-1820 | 1010-xxxx-xx-xxxx | Life Insurance Liability | 4,489.60 | |
| | | | Misc Insurance Expense | | 4,489.60 |
| | | | Entry to adj. liability account. | | |
| 4 | 1010-0000-66-6976 | 1010-0000-10-5450 | Misc Rev-Liab Ins | 79,388.00 | |
| | | | IRMA Deposit | | 79,388.00 |
| | | | Entry to adjust IRMA Deposit | | |
| | | | to actual. | | |
| 5 | 5100-0000-66-6947 | 5100-0000-21-4100 | Gain/Loss on JV-GWA | 634,916.59 | |
| | | | Investment in G.L.A.C. | | 634,916.59 |
| | | | Entry adj investment in G.L.A.C. | | |
| | | | to reflect current year amts. | | |

| | | | | | |
|---|-------------------|-------------------------------------|-----------|--|-----------|
| 6 | 8540-0000-45-9160 | Fund Bal Unreserved | 105.53 | | 105.53 |
| | 8540-0000-33-4800 | Reserve for SSA # 2 bonds | | | 105.53 |
| | 8540-0000-45-9160 | Fund Bal Unreserved | 63.55 | | 63.55 |
| | 8540-0000-33-4815 | Reserve for SSA # 6 bonds | | | 63.55 |
| | 8540-0000-45-9160 | Fund Bal Unreserved | 52.78 | | 52.78 |
| | 8540-0000-33-4800 | Reserve for SSA # 2 bonds | | | 52.78 |
| | 8540-0000-45-9160 | Fund Bal Unreserved | 4,744.97 | | 4,744.97 |
| | 8540-0000-33-4815 | Reserve for SSA # 6 bonds | | | 4,744.97 |
| | 8540-0000-45-9160 | Fund Bal Unreserved | 179.25 | | 179.25 |
| | 8540-0000-33-4800 | Reserve for SSA # 2 bonds | | | 179.25 |
| | 8540-0000-33-4815 | Reserve for SSA # 6 bonds | | | 19,519.02 |
| | 8540-0000-45-9160 | Fund Bal Unreserved | 19,519.02 | | 19,519.02 |
| | | Entry to adjust Reserve to actual. | | | |
| 7 | 4400-0000-45-9160 | Fund Balance/Unreserved | 120.79 | | 120.79 |
| | 4400-0000-33-4704 | Reserve form Tif West of Grace St. | | | 120.79 |
| | 4400-0000-45-9160 | Fund Balance/Unreserved | 27,250.48 | | 27,250.48 |
| | 4400-0000-33-4704 | Reserve form Tif West of Grace St. | | | 27,250.48 |
| | 4400-0000-45-9160 | Fund Balance/Unreserved | 86.49 | | 86.49 |
| | 4400-0000-33-4705 | Reserve form Tif West of Grace St. | | | 86.49 |
| | 4400-0000-45-9160 | Fund Balance/Unreserved | 30,195.40 | | 30,195.40 |
| | 4400-0000-33-4705 | Reserve form Tif West of Grace St. | | | 30,195.40 |
| | | Entry to adjust Tif capital project | | | |
| | | reserve to actual. | | | |

| | | | | | |
|----|-------------------|---------------------------------|--------------|--------------|--|
| 8 | 1010-0000-33-4535 | Reserve for Fire Dept | 2,692.93 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 2,692.93 | |
| | 1010-0000-33-4540 | Reserve for Police Equipment | 258.29 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 258.29 | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 3,397.68 | |
| | 1010-0000-33-4552 | Reserve for DUI Equip/Tech | 3,397.68 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 3,397.68 | |
| | 1010-0000-33-4555 | Reserve for Narcotics-Fed | 2,503.83 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 2,503.83 | |
| | 1010-0000-33-4560 | Reserve for Narcotics-State | 4,645.76 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 4,645.76 | |
| | 1010-0000-33-4720 | Reserve for Foreign Fire Ins | 12,720.08 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 12,720.08 | |
| | 1010-0000-33-4730 | Reserve for Hotel/Motel Tax | 320,510.96 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 320,510.96 | |
| | 1010-0000-33-4740 | Reserve for IMRF/Soc. Sec. | 30,878.64 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 30,878.64 | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 373,124.33 | |
| | 1010-0000-33-4750 | Reserve for Liability Ins | 373,124.33 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 373,124.33 | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 263,534.12 | |
| | 1010-0000-33-4760 | Reserve for Technology | 263,534.12 | | |
| | 1010-0000-33-4770 | Reserve for SSA #3 | 381.01 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 381.01 | |
| | 1010-0000-33-4780 | Reserve for Recycling | 37,138.53 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 37,138.53 | |
| | 1010-0000-33-4780 | Reserve for Grant | 26,626.77 | | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 26,626.77 | |
| | 1010-0000-45-9160 | Fund Balance/Unreserved | | 1,056,943.41 | |
| | 1010-0000-33-4845 | Referendum Reserve | 1,056,943.41 | | |
| | | Entry to adjust General project | | | |
| | | reserve to actual. | | | |
| 9 | 5100-0000-10-3462 | Glenbard Wastewater Authority | | | |
| | 5100-7745-75-5700 | Other Prof/Tech Services | 370.14 | | |
| | | Entry to adjust GWA | | | |
| 10 | 5100-0000-03-3462 | Glenbard Wastewater Authority | | | |
| | 5100-7745-75-5700 | Other Prof/Tech Services | 15,189.44 | | |
| | | Entry to adjust GWA | | | |

| | | | | | |
|----|-------------------|--------------------------------|--------------|----------|--------------|
| 11 | 1010-1735-71-1350 | Life & AD Insurance | 1,152.90 | | |
| | 1010-0000-30-1820 | Life Insurance Liability | | 1,152.90 | |
| | | Entry to adj Life Ins Liab | | | |
| 12 | 7200-0000-30-4010 | Due to/from General | 2,662.38 | | |
| | 7200-8502-73-3620 | Admin Exp-Pension FD | | 2,662.38 | |
| | | Entry to zero out due to/from. | | | |
| 13 | 7100-0000-30-4010 | Due to/from General | 160.47 | | |
| | 7100-8501-73-3620 | Admin Exp - Pension Fd. | | 160.47 | |
| | | Entry to zero due to/from. | | | |
| | | TOTAL | 3,208,047.02 | | 3,208,047.02 |