

VILLAGE OF WINNETKA, ILLINOIS

MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2015



May 23, 2016

The Honorable Village President
Members of the Board of Trustees and Village Manager
Village of Winnetka, Illinois

In planning and performing our audit of the financial statements of the Village of Winnetka (Village), Illinois, for the fiscal year ended December 31, 2015, 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 Board of Trustees, management, and others within the Village of Winnetka, 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. ACCOUNT RECONCILIATIONS COMPLETED ON A TIMELY BASIS

Comment

During our current year-end audit procedures, we noted that various account reconciliations were being performed over the years but outstanding reconciling items had not been adjusted for on the general ledger. This included certain bank accounts, accounts receivable balances, and accounts payable balances.

Recommendation

We recommend that all bank accounts be reconciled on a monthly basis and the accounts receivable and accounts payable balances be reconciled on a monthly basis to their subsidiary detail listing. Any discrepancies noted during these reconciliations should be immediately investigated and corrected.

Winnetka Staff Response

As of February, 2016, Staff has taken the following steps to implement this recommendation. First, we have begun utilizing a dual review reconciliation process where one staff member reviews the bank statements upon receipt and codes off revenue/expense transfers while another staff member focuses on identifying and following-up on outstanding reconciling items from the previous month. Second, bank reconciliations are being performed in conjunction with the production of monthly financial statements. Substantially all reconciling items are documented and resolved prior to financial statements being generated. Third, the bank reconciliation process has been advanced as a priority workflow objective for the accounting staff.

2. OUTSTANDING INTERFUND

Comment

During our current year-end audit procedures, we noted the Village creates an interfund receivable in the General Fund from the Police and Fire Pension Funds as a result of the General Fund paying for various pension fund related costs. The interfund balances have not been repaid for several years, which has caused the balances at December 31, 2015 to grow to \$1,209,209 and \$564,534 for the Police Pension Fund and the Fire Pension Fund, respectively.

Recommendation

We recommend that the Village review these balances to determine the source of the interfund accumulation and implement a repayment plan. We also recommend that the Village review the interfund balances each month as part of its month-end close process and repay them at that time.

CURRENT RECOMMENDATIONS – Continued

2. **OUTSTANDING INTERFUND - Continued**

Winnetka Staff Response

This recommendation has been implemented as of February, 2016 with the following improvements taking place. First, all interfund due to/due from entries are cleared at month end prior to the generation of the monthly Village financial statements. These monthly entries are now succinctly documented as a checklist for accounting staff to use during the month-end close out process. With respect to the interfund pension funds receivables, Staff plan on bringing the issue of a repayment plan to Funds during their second quarter meetings, scheduled for late summer 2016, with the intention of complete repayment to the General Fund within one year.

PRIOR RECOMMENDATIONS

1. GASB STATEMENT NO. 67 FINANCIAL REPORTING FOR PENSION PLANS AND GASB STATEMENT NO. 68 ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS

Comment

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 67, *Financial Reporting for Pension Plans*, which applies to individual pension plans issuing their own audited financial statements, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which applies to the state and local government employers that sponsor pension plans. The Statements apply to the reporting of the Illinois Municipal Retirement Fund (IMRF), Police Pension Fund and Firefighters' Pension Fund for the Village. The Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to the pension plans. The Statements specifically identify the methods and assumptions that are to be used in calculating and disclosing these pension-related accounts in the financial statements and also provide for additional note disclosures and required supplementary information. The Statements are intended to improve information provided by state and local government employers regarding financial support to their pension plans, and ultimately requires that the total net pension liabilities of the pension plans be recorded on the face of the financial statements of the sponsoring government. GASB Statement No. 67 is applicable to the separately issued financial statements of the pension plan(s) for the year ended December 31, 2014. GASB Statement No. 68 is applicable to the Village's financial statements for the year ended December 31, 2015.

Recommendation

We recommended that the Village reach out to the private pension actuary engaged to provide the pension fund actuarial calculations (IMRF will automatically be providing the necessary information to all member agencies) in order to confirm the timeline for implementation and to review requested materials that will be required in order to implement the provisions and requirements of the new Statements. Lauterbach & Amen, LLP will also work directly with the Village to assist in the implementation process, including assistance in determining the implementation timeline with the Village and private actuary, providing all framework for the financial statements in order to complete the implementation, and assisting in answering any questions or concerns the Village or pension fund(s) might have related to the implementation process or requirements.

Status

This comment has been implemented and will not be repeated in the future.

PRIOR RECOMMENDATIONS – Continued

2. FUNDS OVER BUDGET

Comment

Previously and during our current year-end procedures, we noted that the following funds had an excess of actual expenses over budget for the fiscal year:

<u>Fund</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Foreign Fire	\$ -	86,175
Refuse	-	52,186
Health Insurance	-	313,186
Liability Insurance	-	153,411
Fleet	-	46,231
Workers' Compensation Insurance	242,942	-

Recommendation

We recommended the Village investigate the causes of the funds over budget and adopt appropriate future funding measures.

Status

This comment has not been implemented and will be repeated in the future.

Winnetka Staff Response

The Village experienced a higher-than-expected loss experience with regards to the workers' compensation operation, but feel that current funding level is appropriate, given the 12/31/15 fund balance of \$451,864. As we cannot fully predict expenditures during a given fiscal year, Village staff focuses most strongly on prevention of injuries that may lead to workers' compensation claims.

3. FUNDS WITH DEFICIT FUND BALANCE

Comment

Previously and during our current year-end procedures, we noted the Special Service Areas Fund had deficit fund balance. See the December 31, 2015 and December 31, 2014 fund balance:

<u>Fund</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Special Service Areas	\$ 86,485	126,377

Recommendation

We recommended the Village investigate the causes of the deficit and adopt appropriate future funding measures.

PRIOR RECOMMENDATIONS – Continued

3. **FUNDS WITH DEFICIT FUND BALANCE - Continued**

Status

This comment has not been implemented and will be repeated in the future.

Winnetka Staff Response

The General Fund advanced the financing of these improvements and the General Fund will be paid back over the life of these Special Service Areas, with interest. Given the small dollar amount of each Special Service Area, it was less cumbersome to finance these improvements internally. This deficit will continue until these obligations are repaid but will continue to decrease each year.

4. **FUNDS NOT IN COMPLIANCE WITH CASH RESERVE POLICY**

Comment

Previously, we noted funds with fund balances that were below the minimum Board approved cash reserve policy amounts.

Calendar Year Ended 12/31/14			
	Per 2014 Budget	Cash Balance per CAFR	Amount Not In Compliance
Fleet Services Fund			
Minimum			
Operating Expenditures	\$ 899,123		
X's 4/12 per Policy	33.33%		
	299,678	63,746	235,932
Nine Months Ended 12/31/13			
	Per 2013 Budget	Cash Balance per CAFR	Amount Not In Compliance
Fleet Services Fund			
Minimum			
Operating Expenditures	\$ 849,380		
X's 4/12 per Policy	33.33%		
	283,098	77,641	205,457

Recommendation

We recommended the Village investigate the above balances and adopt future budgets to address the Refused Fund and the Fleet Fund that were below the minimum cash thresholds outlined in the Village's cash reserve policy.

Status

This comment has been implemented and will not be repeated in the future.