

CITY OF WOOD DALE, ILLINOIS

MANAGEMENT LETTER

April 30, 2015



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Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

The Honorable Mayor
Members of the City Council
City of Wood Dale, Illinois

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Wood Dale, Illinois (the City) as of and for the year ended April 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and therefore material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis.

The City's written responses to these matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Mayor, the Council and management and others within the administration of the City and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read 'Sikich LLP'.

Naperville, Illinois
January 31, 2016

MATERIAL WEAKNESSES

We consider the following to be material weaknesses over internal controls

1. Prior Period Adjustments

During our audit of the City, we noted certain balances that were misstated as April 30, 2014.

First, our capital asset testing noted several assets in the City's governmental activities that were over-depreciated in prior years (as well as the current year). Additionally, we noted an amount that had been capitalized in fiscal year 2014, however, did not meet the definition of a capital asset and should not have been included in the City's capital asset totals. We recommend that the City perform a detailed review of the capital asset spreadsheets and consider adding check figures to ensure assets are not over-depreciated. Additionally, as part of the year-end close process, we recommend that the City review all capital asset additions to verify that assets capitalized meet the established criteria.

During our testing of the City's insurance accounts, we noted that the proper amounts were not recorded on the accrual basis, specifically, the May 2014 amounts which should have been recorded during fiscal year 2015, were incorrectly recorded as an expenditure in the City's previously issued financial statements. We recommend that the City review key income statement accounts as part of the year-end close process to mitigate this risk.

We proposed journal entries, which were reviewed, approved, and recorded by the City to correct these misstatements.

Management Response

Staff agrees with the finds and will be updating the appropriate schedules to add a compensating control account to ensure compliance with total depreciation expense.

Staff agrees with the adjustments related to insurance recommended by Sikich and has modified the accounting for some of these items to better reflect their treatment from an accounting standpoint going forward.

2. Cash Accounts and Bank Reconciliations

During our testing of the City's cash accounts and bank reconciliations, we noted certain accounts for which the City was not performing timely reconciliations. Additionally, we noted that review process over the bank reconciliations was not performed on a basis that allowed the City to identify any errors in the reconciliation process. This is deemed to be a material weakness in internal control as the cash reconciliation process is an integral component of sound financial practices. We recommend the City institute a formal bank reconciliation process, including setting parameters for the timing of when the reconciliation will be performed and reviewed.

MATERIAL WEAKNESSES (Continued)

2. Cash Accounts and Bank Reconciliations (Continued)

Additionally, we noted certain accounts used by the City that were not recorded on the general ledger (lockbox and credit card clearing accounts). Any accounts that are not recorded on the general ledger present a significant internal control risk due to the liquid nature of cash accounts. We recommend the City record all cash accounts on the general ledger and include these accounts as part of the monthly reconciliation process.

Management Response

Staff has procedures in place for cash accounts and the reconciliation process. Management was aware of the referenced issues, and was working with the appropriate parties (and taking the appropriate steps) to remedy those issues. Ultimately, the person responsible for those tasks left the City's employment. Staff is very confident going forward based upon the changes that were made, that these issues will not continue.

The lockbox and credit card transactions are being booked on a daily basis; however the cash for these transactions are maintained in a separate bank account from the specific operating account. These amounts are then presented as reconciling items on those particular bank reconciliations, and has been done so for a number of years. There is however always a "float" amount due to the settlement timing of the transactions through the Visa/MasterCard/Discover network interchange system. This amount is not reflected as a reconciling item as every card and/or card type (points, miles, secured, unsecured, corporate, chip, etc.) has a different settlement time. Staff will continue to work on identifying this "float" amount in order to more accurately reflect it on the appropriate fund statement(s).

3. Year End Cutoff

During our testing of certain balance sheet accounts, we noted that the City did not adjust or incorrectly adjusted certain amounts, specifically:

We recommend that the City review its year-end payable process and perform a detailed review of disbursements made after the fiscal year-end to capture all amounts that should be recorded as accounts payable.

Next, we noted other balance sheet accounts that were not updated as part of the year end close process, specifically, we identified adjustments related to: police pension fund accounts, prepaid items, compensated absences, accrued interest on long-term debt, grants, and accounts receivable. We recommend that the City review its' year-end close process to identify significant accruals required at year-end to ensure amounts are properly recorded.

We proposed several adjustments, all of which were reviewed, approved, and posted by the City.

MATERIAL WEAKNESSES (Continued)

3. Year End Cutoff (Continued)

Management Response

Staff has procedures in place for year end cut-off and subsequent year end closing. Management was aware of the referenced issues, and was working with the appropriate parties (and taking the appropriate steps) to remedy those issues. Ultimately, the person responsible for those tasks left the City's employment. Staff is very confident going forward based upon the changes that were made, that these issues will not continue.

DEFICIENCY

1. Police Pension - Concentration of Credit Risk

While testing the investment allocation in the Police Pension Fund, we noted that the Fund has approximately 14.20% invested in corporate bonds, however, the Fund's investment policy target for corporate bonds is only 5.00%. While this does not constitute a violation of the investment policy as the targets are intended to serve as guidelines, we recommend that the Fund review its target allocations to determine if modification of the investment policy is warranted.

Management Response

Staff will pass this comment on the Police Pension Board for their review.

OTHER COMMENTS

1. Interactive Account Groups

The City does not fully utilize funds (account groups) to track and record the capital asset or long-term debt activity throughout the year for governmental activities. We recommend that the City expand upon the current set-up for governmental capital assets and long-term debt on its general ledger and utilize these funds to track the related activity and facilitate the conversion of the fund financial statements at the entity-wide level.

Management Response

The City agrees with this comment, and will expand its current account structure.