

CITY OF WOOD DALE, ILLINOIS

MANAGEMENT LETTER

April 30, 2016





1415 W. Diehl Road, Suite 400
Naperville, Illinois 60563

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, 2016, 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.

In addition, we reviewed the status of the recommendations for the period ended April 30, 2015. The status of these recommendations is included in Appendix A.

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.

Sikich LLP

Naperville, Illinois

October 28, 2016

MATERIAL WEAKNESSES

We consider the following to be material weaknesses over internal controls

Prior Period Adjustments

During our audit of the City, we noted certain balances that were misstated as of April 30, 2015. Specifically, our testing of the balance sheet accounts of the General Fund identified a prior period adjustment that was necessary to correct cash balances in the General Fund.

We proposed a journal entry, which were reviewed, approved, and recorded by the City to correct these misstatements. We recommend that the City closely monitor its balance sheet accounts and recommend that the City periodically review the fund balance amounts recorded in the general ledger to ensure that balances agree to the most recent audited financial statements.

Management Response

Staff agrees with the finding. Staff began updating certain controls at the end of the prior year audit to address these issues. The delay related to prior year audit led to a delay in the implementation of controls; however the controls are currently in place.

APPENDIX A
STATUS OF COMMENTS FROM APRIL 30, 2015

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.

Status - Comment partially implemented at April 30, 2016. While the specific items noted in the prior year were addressed, a prior period adjustment of \$217,437 was recorded to correct opening cash balances as discussed in current year material weakness #1.

Management Response

Staff agrees with the finding. Staff began updating certain controls at the end of the prior year audit to address these issues. The delay related to prior year audit led to a delay in the implementation of controls; however the controls are currently in place.

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.

Status - Comment partially implemented at April 30, 2016. While the specific items noted in the prior year were addressed, a prior period adjustment of \$217,437 was recorded to correct opening cash balances as discussed in current year material weakness #1.

Management Response

Staff agrees with the finding. Staff began updating certain controls at the end of the prior year audit to address these issues. The delay related to prior year audit led to a delay in the implementation of controls; however the controls are currently in place.

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.

Status - Comment still applicable as of April 30, 2016.

Management Response

Staff agrees with the finding. Staff began updating certain controls at the end of the prior year audit to address these issues. The delay related to prior year audit led to a delay in the implementation of controls; however the controls are currently in place.