

Board of Village Trustees and Management  
Village of Tolono, Illinois  
Tolono, Illinois

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Tolono, Illinois (the Village) 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 Village'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 Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

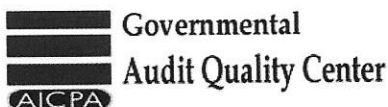
Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses and significant deficiencies may 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

### **MATERIAL WEAKNESSES**

#### **Preparation of Financial Statements**

Management and those charged with governance of the Village are responsible for the design and oversight of internal control. The overall goal of internal control is to prevent or detect material misstatements of the Village's financial statements and financial statement notes. In effect, the quality of your financial statements and related notes should be a result of your internal controls. As a service performed in conjunction with our audit, we drafted the required



financial statements and notes of the Village. Management has chosen to rely on the accounting skills, knowledge and experience of its auditors to apply adequate procedures to the financial statements and notes to ensure that Village's financial statements and related notes are in material compliance with accounting principles generally accepted in the United States of America or the modified cash basis of accounting, as applicable. This is not unusual for an entity of your size. However, when this situation exists, it is important to note that the fair presentation of the financial statements remains management's responsibility and therefore management's review of the financial statements is an important part of the internal control process.

### **Material Journal Entries**

Our audit procedures identified material misstatements of financial statement amounts provided to us by management. Management was not aware of the noted misstatements prior to our identification of the proposed adjustments. Subsequent to identifying these misstatements, we proposed, and management approved, adjusting journal entries, which have corrected the identified misstatements in the financial statements. However, as the Village's system of internal control failed to prevent or detect the misstatements we consider there to be a material weakness in the Village's internal controls over the preparation of financial statements. In order to address this material weakness, we suggest the following:

- The Village's management should record all journal entries necessary to report the account balances and transactions of the Village prior to providing the trial balance summarization to the auditor for use in the audit.
- The Village's management should identify and record, or make the auditor aware of, all capital asset additions and disposals of the Waterworks Operation and Sewerage Operation funds prior to providing the trial balance summarization to the auditor for use in the audit.
- If there are journal entries that management knowingly leaves for the auditor to calculate and record as part of the audit, the auditor should be made aware of this prior to the audit. Additionally, a member of management possessing the necessary accounting skills, knowledge, or experience should review the adjusting journal entries and the supporting documentation and provided specific approval of the calculation and the drafted adjusting journal entry.

### **Segregation of Duties**

Currently, your Administrative Assistant performs many of the accounting transactional duties for the Village. As a result, an adequate segregation of duties is absent. We recommend the implementation of the following compensatory internal control procedures to address the lack of segregation of duties:

- A Village official should review the monthly bank reconciliations being prepared by the Administrative Assistant.

- A Village official should periodically, on a random basis, review the bank statements prior to the Administrative Assistant receiving those bank statements.
- The Village official performing these internal control procedures should initial and date the bank reconciliations and bank statements reviewed to document their performance of the procedures.
- We noted several Tax Increment Financing Fund disbursements in Fiscal Year 2015 where only the Administrative Assistant had signed the check. We recommend that two authorized signers sign each check, including Tax Increment Financing Fund checks.

Specifically, as it relates to the Waterworks and Sewerage Department, we noted that the office staff is involved in issuing bills, receiving payments, and recording payments. In order to further reduce the risk associated with this lack of segregation of duties, we recommend that the Village consider implementing the following:

- We suggest that a member of the office staff and/or a Waterworks and Sewerage Department employee present a monthly report at the Village's Board meeting. Items that should be included in the report are:
  1. A comparison of the gallons of water pumped out for sale to the gallons of water billed for the previous month and fiscal year to date. This information will give the board an idea of the amount of water wastage and provide you with the opportunity to identify unusual discrepancies.
  2. A comparison of the water billings to the amount of cash received for the most recently completed monthly cycle
- We suggest that the Village separate the water billing and water cash receipts functions. This can be done by:
  1. Assigning one of these functions strictly to the Administrative Assistant and the other function strictly to another office assistant
  2. Using a local bank to accept the water receipts on behalf of the Village
  3. Having an employee or Village official outside of the office staff empty the drop box and deposit payments on a consistent basis

It is management's responsibility to determine whether the risk of loss from the lack of segregation of duties warrants the additional expense necessary to significantly reduce that risk.

**Accounting Procedures**

The following recommendations are made to address areas of weakness in your accounting procedures, which impede the efficient and effective gathering, processing, and reporting of the Village's financial information:

- We recommend that the Village fully utilize QuickBooks for all accounting procedures in order to eliminate the use of manual spreadsheets, binders, and the LOCIS system (for functions other than water billing).
- All journal entries should be reviewed and approved by a second party prior to posting to QuickBooks. Additionally, documentation should be retained for each journal entry.

**Timecard Approval**

We noted that the supervisory review of employee timecards is not consistently being documented by the supervisor's initialing of timecards. We recommend that supervisors initial the timecards they have reviewed to document their review and approval of the employee hours.

**OTHER ITEMS**

The following items are not considered to be material weaknesses or significant deficiencies but should be considered by the Village's management and Board of Village Trustees.

**Completing the Adoption of GASB-34**

The financial statements and disclosures for April 30, 2015 are presented in a format allowed by Statement 34 of the Governmental Accounting Standards Board (GASB 34); however, a full adoption of GASB 34 is not yet complete. We understand from our discussions with the Board of Village Trustees several years back that the Village would like to complete the adoption of GASB 34. If the Village Board believes this is still a goal, we are glad to provide guidance as part of another engagement.

**Investment Policy**

Illinois Public Act 90-0688 requires that every unit of government in Illinois must have a written investment policy. The Village currently does not have a written investment policy that we are aware of. We recommend that the Village adopt a written investment policy, if one does not already exist. The Illinois Municipal League has a template of an investment policy on its website, which may be useful and efficient in preparing a policy for the Village. That policy can be accessed at <http://legal.iml.org/file.cfm?key=1776>.

**Payroll Account Balance**

We noted that the payroll account had a balance of approximately \$8,000 as of April 30, 2015. Ideally, the balance would be zero between payroll dates. On the date the payroll is run, a cash transfer would be made in the amount needed to cover payroll expenses for that pay period and the balance would return to zero once those checks have been issued. We recommend that the existing excess balance be investigated and cleared and that this cash account be reconciled monthly going forward.

**Use of Cell Tower Rent Revenue**

We noted that the Cell Tower Rent revenue is not being used to make extra payments to IMRF as was originally intended upon establishment of this funding source. If the intention of the Village Board is still to utilize this funding source for IMRF, we recommend that the Village's management make appropriate arrangements with IMRF's administration to initiate these payments. Although the Village's IMRF asset value has improved in recent years, the pension liability increase has also grown. Additional funding into IMRF will help to address the growing unfunded liability amount.

**Future Accounting Standard Changes**

The GASB has approved some new pension presentation rules for employers with pension plans like IMRF. The new presentation rules are part of GASB Statement Number 68, which is effective for the Village's Fiscal Year 2016. Although this standard will not be effective for the Village for one more year, we believe you should be aware of this coming change. There will be no direct financial statement impact for the Village because the Village's IMRF activity is presented in its Governmental Activities, which are presented on the modified cash basis of accounting. Under the modified cash basis of accounting, the recordable liability required by GASB 68 is not applicable if the Village's management chooses not to modify the presentation for this liability. However, the annual note disclosure information you receive from IMRF will be changing and the Village's auditor will likely be responsible for some level of testing on the information the Village provides to IMRF for the annual actuarial calculation. We will continue to monitor the adoption of this standard by other governmental entities, which will begin at June 30, 2015, and continue to discuss this issue with the Village Board as the Village's adopting year approaches.

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

*Martin, Hood, Friese & Associates, LLC*

Champaign, Illinois  
August 04, 2015