

**United City of Yorkville,  
Illinois**

**Report on Internal Controls**

**For the Year Ended  
April 30, 2011**

**Wolf & Company LLP**  
Certified Public Accountants



To the Honorable Mayor,  
Members of the City Council  
United City of Yorkville, Illinois

We have audited the financial statements of the United City of Yorkville, Illinois, as of and for the year ended April 30, 2011. In accordance with auditing standards generally accepted in the United States of America, we considered the United City of Yorkville, Illinois' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 of the effectiveness of the City'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 a certain deficiency in internal control that we consider to be a significant deficiency and another deficiency that we consider to be a material weakness.

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 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 by the entity's internal control. 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 by the entity's internal control.

The comments that accompany this letter summarize the control deficiencies and a material weakness identified during the audit and suggestions regarding those matters. This letter does not affect our report dated September 29, 2011, on the financial statements of the United City of Yorkville, Illinois.

This communication and the accompanying comments and recommendations are intended solely for the information and use of the members of the City Council, management, and others within the organization, and are not intended to be and should not be used by anyone other than these specified parties.

We have already discussed many of these comments and recommendations with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

*Wolf & Company LLP*

Oakbrook Terrace, Illinois  
September 29, 2011

## MATERIAL WEAKNESS

### Fraud Risk Assessment and Prevention

#### Previously Reported Comment

*Comment:*

One of the primary fraud risks is the risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect fraud. Fraud prevention requires a system of rules that minimize the likelihood of fraud occurring and at the same time maximizes the possibility of detecting any fraudulent activity. A strong fraud prevention program should incorporate the five interrelated components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. It was noted that the City does not currently have a formalized fraud prevention policy.

*Recommendation:*

We had recommended that the City document and adopt a formal fraud prevention program, including performance of a risk assessment to identify, analyze, and manage the risk of asset misappropriation. The program should document the policies, procedures and strategies related to the five components of internal control and all components should be reviewed. It is necessary that top management is responsible for the internal control and fraud prevention programs of the City.

*Current Year Status:*

The City has developed a draft form fraud prevention policy to be included in a pending revision of the employee personnel manual. **This comment will be considered satisfied with the adoption of the fraud prevention policy.**

## SIGNIFICANT DEFICIENCY

### Cash Disbursements Policies and Purchasing Function

#### **Previously Reported Comment**

##### *Comments:*

During our audits of prior years, we came across multiple instances where purchase orders were not used and, according to the previous policy, should have been used.

In addition, the policy had stated that all invoices submitted for payment must be signed or initialed by the department head to indicate approval of payment. Our testing in prior years noted a significant number of cash disbursements that were not signed or initialed according to this policy.

##### *Recommendations:*

We had recommended that purchase orders be used according to the established policy adopted by the City and matched to the appropriate documentation for payment, i.e. original vendor invoice, copy of check, other supporting documentation. Department heads should review all documentation prior to forwarding to the Finance Department for completeness. Once the item has been paid, the original documentation should be cancelled, filed in the Finance Department, and maintained under the City's records retention policy.

Invoices submitted for payment must be signed or initialed for approval by an authorized department head prior to payment by the Finance Department.

##### *Current Year Status:*

In March of 2011, the procurement policies of the City were amended. Purchase orders are no longer required under the revised policy. The primary means of controlling cash disbursements under the revised policy is that all invoices require the review and approval of department heads or their designee prior to payment.

During our testing of current year cash disbursements, we noted no instances where evidence of approval was lacking.

**This significant deficiency is considered satisfied.**

## CONTROL DEFICIENCY

### Reconciliation of Deposits Payable

#### **Previously Reported Comment**

*Comment:*

During the prior year audit, the Deposits Payable account in the General Fund was unable to be reconciled to a supporting detail. The amount recorded in the general ledger should always be supported by a detail specifically identifying the balances owed.

*Recommendation:*

The amounts that were not able to be reconciled dated back to prior years. We recommended that the City investigate these balances, determine the validity of any recognized liabilities, and make any necessary adjustments.

*Current Year Status:*

The City investigated this account in the current year and created a proper sub-ledger detail. Individual amounts were investigated and amounts that are no longer liabilities of the City were written off. The detail was reconciled to the general ledger at year end.

**This control deficiency is considered satisfied.**