

**United City of Yorkville,
Illinois**

Report on Internal Controls

**For the Year Ended
April 30, 2010**

Wolf & Company LLP
Certified Public Accountants



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

In planning and performing our audit of the financial statements of United City of Yorkville, Illinois (the City) as of and for the year ended April 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered 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 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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 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 considered the deficiencies reported on pages 2 and 3 to be material weaknesses in internal control.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiency reported on page 4 to be a significant deficiency in internal control.

The comments that accompany this letter summarize the control deficiencies identified during the audit and suggestions regarding those matters. This letter does not affect our report dated January 18, 2011, on the financial statements of the United City of Yorkville.

This communication and the accompanying comments and recommendations are intended solely for the information and use of the City Mayor, City Council, and management and are not intended to be nor should be used by anyone other than these specified parties.

Wolf & Company LLP

Oakbrook Terrace, Illinois
January 18, 2011

MATERIAL WEAKNESSES

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 transactions. 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 have 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 be responsible for the internal control and fraud prevention programs of the City.

Current Year Status:

The City has not adopted a formal fraud prevention program. **This comment is considered repeated.**

MATERIAL WEAKNESSES

Prior Period Restatements

Comment:

The following adjustments to beginning equity account balances were needed in the 2010 audit as disclosed in the notes to the financial statements.

Fund balance has been restated as follows:

	General Fund	Land Cash Fund (Nonmajor)
Fund Balance, as Previously Reported	\$ 1,395,540	(295,847)
Adjustment to Recognize Tax Rebates Payable	(177,283)	
Adjustment to Reverse Recognition of Grant Revenue		(269,670)
	<u>\$ 1,218,257</u>	<u>(565,517)</u>
Fund Balance, May 1, 2009, as Restated	<u>\$ 1,218,257</u>	<u>(565,517)</u>

The restatement in the General Fund was made to properly align the timing of recognition of tax rebates. The Land Cash Fund restatement reflects the availability of certain grant awards.

Beginning net assets of governmental activities are restated as follows:

Net Assets, as Previously Reported	\$ 52,598,958
Adjustments to General Fund	<u>(177,283)</u>
Net Assets, as Restated	<u>\$ 52,421,675</u>

Recommendation:

Statement on Auditing Standards No. 112 dictates that material restatements of prior period amounts should be regarded as material weaknesses in internal control. The review of financial statements must be sufficient to allow for timely identification and correction of material misstatements prior to issuance. We recommend that the City evaluate its financial statement review process to ensure that all appropriate parties are involved to ensure completeness and accuracy.

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 recently issued policy, should have been used.

In addition, the policy states 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 that a significant amount of cash disbursements selected were not signed or initialed according to this policy.

Recommendations:

We have 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 for completeness prior to forwarding to the Finance Department. 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:

During our testing of current year cash disbursements, we noted several instances where purchase orders should have been used but were not. Purchase orders are an effective mechanism for maintaining control over expenditures, as well as a useful way to document proper authorizations. We recommend that the purchase order policy be enforced to meet the expenditure control needs of the City.

In addition, during our testing of current year cash disbursements, we noted several instances where required signatures on invoices or other documentation presented for payment is not consistent. We recommend employees be reminded of the existing purchase order policy and the instances when a purchase order and proper approvals need to be present.

These significant deficiencies are considered repeated.

** This comment has been amended from the prior year to combine the Purchasing Function and Cash Disbursement Comments. In addition, the comments regarding the overuse of manual checks, significant and unaccounted for check sequence gaps, and miscoding of invoices have been removed. No such instances of these deficiencies were noted in the current year.

CONTROL DEFICIENCY

Reconciliation of Deposits Payable

Comment:

During our 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. The city did take steps during the year to improve control over the General Fund liabilities by creating the Escrow Deposit Fund, an agency fund, to account for new activity.

Recommendation:

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

SATISFIED MATERIAL WEAKNESSES

Accounts Receivable

Previously Reported Comment

Comment:

During previous audits, the accounts receivable subsidiary ledger did not agree with the general ledger and could not be reconciled by Finance Department personnel. Accounts receivable subsidiary ledgers are a primary means of preventing and detecting an error in accounts receivable. The amount recorded in the general ledger should always be supported by the subsidiary ledger specifically detailing the balances owed.

We had also noted a significant amount of old account balances. Amounts believed to be uncollectible should be written off in a timely manner.

Recommendations:

We have recommended that a reconciliation of the detail to the accounts receivable general ledger balance be made at the end of each month and that any reconciling items be investigated and cleared promptly. The finance director should then review the reconciliation for completeness and accuracy.

Also, accounts receivable balances that are determined to be uncollectible should be compiled and written off, though collection practices should still continue on these accounts for a reasonable period of time after the account is written off.

Current Year Status:

During the current year, the accounts receivable subsidiary ledger was analyzed and reconciled to the general ledger. Substantial uncollectible amounts were written off. **This comment is considered satisfied.**

Capital Assets

Previously Reported Comment

Comment:

We previously noted that capital asset balances were misstated in a number of different areas, involving both governmental activities and business activities. Several of these adjustments could have been avoided had proper documentation been received by the Finance Department in a timely manner. The issuance of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB Statement No. 34), and the implementation of this standard by the City in prior years should have also implemented procedures to relay pertinent information to the Finance Department for the development, completion, or acceptance of capital assets owned by the City.

Recommendation:

We have recommended that the City adopt a policy to recognize capital assets as they are being constructed, as they are completed, and/or as they are accepted from developers. Implementing such a policy would reduce future prior period adjustments to the capital asset accounts.

Current Year Status:

The City has developed a consistent methodology for tracking all capital assets. There were no adjustments to capital assets in the current period. **This comment is considered satisfied.**

SATISFIED SIGNIFICANT DEFICIENCIES

Parks and Recreation Cash Receipts

Previously Reported Comment

Comment:

During our prior year reviews of the cash receipts process, it came to our attention that the Parks and Recreation Department collects funds from program participants and other sources of revenue and records these amounts in its accounting software program used for program registration purposes. Collections are then taken to the Finance Department to be deposited with financial institutions. The cash is counted by the Finance Department in the presence of Parks and Recreation Department personnel. In the prior year, it came to our attention that the Parks and Recreation cash collections for services did not always reconcile to what was provided in the bank deposit.

Recommendation:

We have recommended, in the past, that a reconciliation of cash receipts be performed on a monthly basis. Revenue reports from the Parks and Recreation Department software should be compared to revenue recorded by the Finance Department's general ledger. Any variances should be investigated and corrected in a timely manner.

Current Year Status:

During our current year audit testing of parks and recreation cash receipts, we noted no instances where the supporting detail did not reconcile to what was provided in the bank deposit. **This significant deficiency is satisfied.**

Interfund Activity

Previously Reported Comment

Comment:

During prior year audits, interfund transactions were recorded by the Finance Department in each fund in the aggregate, but did not reflect in detail amounts due to or due from other funds at a specific point in time. For instance, amounts that were due from the Water Operating Fund were netted against other amounts due from or to other funds in the Sewer Maintenance Fund. Ideally, each fund would reflect amounts owed to other funds and amounts owed from other funds in separate general ledger accounts.

Recommendation:

We have recommended that the Finance Department review the process of recording interfund transactions and establish separate accounts for amounts owed to other funds and amounts owed from other funds. Establishing these accounts will simplify the reconciliation process of interfund activity.

Current Year Status:

This significant deficiency is satisfied.

SATISFIED CONTROL DEFICIENCIES

Actuarial Valuations of Pension Funds

Comment:

We noted during our prior year audits that actuarial valuations for the Police Pension Fund were not being performed annually. Valuations of pension funds in which the City has a fiduciary responsibility should be performed on an annual basis, to determine City funding obligations.

Recommendation:

We have recommended that a policy be adopted to perform annual actuarial valuations for the Police Pension Fund in a timely manner and contributions be determined accordingly.

Current Year Status:

The Police Pension Fund did have an actuarial valuation performed for the fiscal year ending April 30, 2010. **This control deficiency is satisfied.**

Transfers between Banks

Previously Reported Comment

Comment:

Transfers of funds from one bank to another are limited through the use of manual checks. A majority of these transactions are for payroll purposes, from the Special Revenue Funds to the General Fund. The procedures used for these transactions are inconsistent. At times the funds go to the payroll checking account directly, and other times the funds go to the City's general checking account and then to the payroll checking account. The inconsistency of this procedure leaves room for error.

Recommendation:

We recommend that the City consider using wire transfers to move money from one account to another for payroll purposes. Procedures could be established with the bank so that one employee may request a wire transfer directly to the City's payroll account and another employee may verify/authorize the amount of the transfer. This process, or a similar procedure, would reduce the number of manual checks (see prior significant deficiency comment), eliminate inconsistent procedures, simplify reconciliations, and provide proper review and approval for the transfers.

Current Year Status:

The City reduced the amount of manual checks between funds to a manageable level. **This control deficiency is considered satisfied.**

SATISFIED CONTROL DEFICIENCIES

Accounting Procedures Manual

Previously Reported Comment

Comment:

We noted during our prior year audits that a comprehensive accounting procedures manual does not exist for the City. Written procedures, instructions, and assignments of duties would prevent or reduce misunderstandings, errors, inefficient or wasted efforts, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs.

Recommendation:

It usually takes some time and effort for management to develop a complete manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of developing a comprehensive accounting manual, a review of existing procedures might discover additional procedures that can be eliminated or improved to make the system more efficient and effective.

Current Year Status:

The Finance Department has compiled procedures for significant transaction classes into a central location. **This control deficiency is considered satisfied.**