

Selden Fox

Accounting for your future

619 Enterprise Drive | Oak Brook, Illinois 60523 | www.seldenfox.com
p 630.954.1400 | f 630.954.1327 | email@seldenfox.com

October 8, 2020

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

In planning and performing our audit of the financial statements of the **Village of Wayne, Illinois** (Village), as of and for the year ended April 30, 2020, 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 opinion on the financial statements, but not for the purpose of expressing our 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; therefore, material weaknesses or 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 and other deficiencies that 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 consider the following deficiencies in the Village's internal control to be material weaknesses.

Year End Financial Reporting Process

Generally accepted auditing standards, "*Communicating Internal Control Related Matters Identified in an Audit*," defines the terms *significant deficiencies* and *material weaknesses* in internal control over financial reporting.

Among others, lack of controls over the period end financial reporting process is considered a deficiency in internal control. In addition, when the auditor identifies a material misstatement (i.e., a material audit adjustment) in the financial statements that was not initially identified by the entity, there is ordinarily a corresponding material weakness. The standard emphasizes that the external auditor cannot be part of an entity's internal control process over financial reporting. Accordingly, we require evidence and documentation from management to support our evaluation about the effectiveness of internal controls over financial reporting.

Year End Financial Reporting Process (cont'd)

Selden Fox, Ltd. in conjunction with management has prepared the drafts of the financial statements of the Village, including note disclosures, as part of the audit process for the year ended April 30, 2020. In addition, we have performed the required evaluation under the guidelines of this audit standard as to whether management, other employees, or those charged with corporate governance have the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the Village's transactions or in preparing its financial statements, including note disclosures, and have determined that management does not have the expertise to prepare all necessary note disclosures.

It is typical for entities the size of the Village to have this comment, and **we only recommend action if there is a cost-benefit realized in doing so**. Many entities have decided action is not cost-beneficial.

Also, the Village keeps its general ledger on a modified cash basis. The Village does provide us with information to record substantially all recurring year-end accruals. However, journal entries, including establishing accruals at the beginning of the year and reversing the prior year's year-end accruals must be made to the unadjusted trial balance in order to properly present current year activity for the fund financial statements. As a result, the financial statements included in the audit report are substantially different than those the Board is ordinarily accustomed to viewing. **If the Village feels there are benefits outweighing the costs** (consisting primarily of additional time commitments from the bookkeeper) from converting the general ledger from a cash basis to a modified accrual basis, **we recommend** the Village convert the general ledger to the modified accrual basis. From a governance standpoint, reviewing items on a cash basis may be more practical for the Village; however, those charged with corporate governance may not be aware of all liabilities that exist on a timely basis if payables and accruals are not recorded.

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 consider the following deficiencies in the Village's internal control to be significant deficiencies.

Cash and Check Receipts

Currently, mail containing certain cash receipts (usually in the form of checks) is delivered unopened to the employee responsible for recording and depositing the receipts in the bank. Since that employee has the ability to control the cash receipts process from receipt to bank reconciliation, it is possible that some receipts received may not be properly deposited in the bank and no other employee or Village official would know. While we have not found any such fraud or error, we believe it is worth pointing out. If mail containing cash receipts is opened in the presence of two individuals, a log created, and that log signed off by both individuals, it could mitigate at least some of this risk.

Year End Financial Reporting Process (cont'd)

Payroll Approval Process

During our testing of internal controls over the payroll system, we noted there was no evidence of approval of timecards for administrative and public works employees. Instead, the timecards are summarized onto a spreadsheet which is reviewed by the Treasurer.

We recommend that as part of the review process, the Treasurer also foot and reference the timecards to the summarized spreadsheet, and indicate such review by initialing the timecards.

In addition, we noted another matter involving internal control and its operation that we determined did not constitute a significant deficiency or material weakness that merits the attention of management.

Police Fines Receivable

The Village does not maintain a listing of traffic fines issued, but not paid. From a financial perspective, this is not significant to the financial statements, but we believe it is a good practice to have a list that is reviewed to ensure the Village is collecting fines where possible.

During our audit, we noted the following operational or administrative matter we believe to be of potential benefit to you.

Accounting for Leases

The Governmental Accounting Standards Board (GASB) issued Statement No. 87 that provides new accounting and reporting guidance on leases. This statement was originally effective for fiscal years ending after December 15, 2020, but subsequently postponed the effective date of the standard for 18 months. Despite this delay, the Village should be taking steps now to prepare for implementation.

Under this new standard, all leases lasting longer than one year will be reported by the lessee as a right-to-use asset and a long-term liability in the statement of net position in the government-wide and proprietary fund financial statements. Governments should consider the potential impact of reporting additional debt in the financial statements may have on existing legal debt limitations and bond covenants.

At this time, management should also evaluate its policies and procedures for tracking and reporting leases, including creating a centralized location to store and hold all lease agreements. All department heads should be responsible for forwarding any new lease agreements, as well as any modifications of existing lease agreements, to the Finance Department. In addition, the Board and management should review and update its capital asset policies to include consideration of intangible right-to-use assets that will be recorded under this new standard.

Future Accounting and Auditing Pronouncements

The Governmental Accounting Standards Board (GASB) has issued a number of pronouncements that become effective in future years, including GASB Statement No. 95 that postponed the effective date of most of these statements by one year due to the COVID pandemic. The effective dates shown below are the newly extended effective dates that may impact the Village. Those recently issued statements which may have an impact on the Village are detailed below:

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses the accounting and financial reporting requirements for legally enforceable liabilities associated with the retirement of a tangible capital asset. Statement No. 83 is effective for the fiscal year ending April 30, 2021.

GASB Statement No. 84, *Fiduciary Activities*, addresses the accounting and financial reporting requirements for activities meeting the criteria of fiduciary activities as defined in the Statement. Statement No. 84 is effective for the fiscal year ending April 30, 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, requires additional essential information related to debt be disclosed in the notes to the financial statements. Statement No. 88 is effective for the fiscal year ending April 30, 2021.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires interest cost incurred before the end of a construction period be recognized as an expense in business-type activity or enterprise fund financial statements. Statement No. 89 is effective for the fiscal year ending April 30, 2022.

GASB Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for the fiscal year ending April 30, 2021.

GASB Statement No. 91, *Conduit Debt Obligations*, provides for a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice. Statement No. 91 is effective for the fiscal year ending April 30, 2023.

GASB Statement No. 92, *Omnibus 2020*, improves the consistency and comparability in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Statement No. 92 is effective for the fiscal year ending April 30, 2023.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, addresses the accounting and financial reporting implications that result from the replacement of an interbank offered rate in derivative instruments and lease agreements. Statement No. 93 is effective for the fiscal year ending April 30, 2023.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by establishing definitions of public-public and public-private arrangements (PPPs), and availability payment arrangements (APAs), and providing uniform guidance on accounting and financial reporting for transactions that meet these definitions. Statement No. 94 is effective for the fiscal year ending April 30, 2024.

Future Accounting and Auditing Pronouncements (cont'd)

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, improves financial reporting by establishing definitions of subscription-based information technology arrangements, and providing uniform guidance on accounting and financial reporting for transactions that meet these definitions. Statement No. 96 is effective for the fiscal year ending April 30, 2024.

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

We would like to take this opportunity to express our appreciation to you, and to the Village's staff, for the courtesy and cooperation extended to our staff during the audit. Should you wish to discuss further any of the matters referred to, or if we can be of assistance in implementing any of the suggestions, we will be pleased to do so at your convenience.

Selden Fox, Ltd.