

Selden Fox

Accounting for your future

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October 17, 2018

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, 2018, 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 deficiency in the Village's internal control to be a material weakness.

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, 2018. In addition, we have performed the required evaluation under the guidelines of this audit standard and have determined that management, other employees, or those charged with corporate governance do not 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. As a result, the financial statements you see throughout the year, including those you provide to us, may be misstated and not in accordance with GAAP.

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 deficiency in the Village's internal control to be a significant deficiency.

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.

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.

Also, we noted other matters we believe to be of potential benefit to you.

Future Accounting and Auditing Pronouncements

GASB has issued a number of other pronouncements that become effective in the future years. We bring them to your attention now for consideration in any future plans for the Village.

GASB Statement 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions, establishes new accounting and financial reporting requirements for local governments that offer OPEB plans administered through trusts that meet specific criteria. Statement No. 75 is effective for the fiscal year ending April 30, 2019.

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, 2020.

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, 2020.

GASB Statement No. 85, Omnibus 2017, addresses the accounting and financial reporting requirements miscellaneous topics for which there is inconsistency in present practice. Topics addressed include blending component units, goodwill, fair value measurement and application, and postemployment benefits. Statement No. 84 is effective for the fiscal year ending April 30, 2019.

GASB Statement No. 86, Certain Debt Extinguishment Issues, addresses the inconsistency in accounting and financial reporting requirements for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. Statement No. 86 is effective for the fiscal year ending April 30, 2019.

GASB Statement No. 87, Leases, addresses the accounting and financial reporting requirements for leases by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Statement No. 87 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, 2020.

Future Accounting and Auditing Pronouncements (cont'd)

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, 2021.

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.