

VILLAGE OF NORTH  
BARRINGTON, ILLINOIS

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MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED  
APRIL 30, 2020



November 9, 2020

The Honorable Village President  
Members of the Board of Trustees  
Village of North Barrington, Illinois

In planning and performing our audit of the financial statements of the Village of North Barrington, Illinois, for the fiscal year ended April 30, 2020, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We do not intend to imply that our audit failed to disclose commendable aspects of your system and structure. For your consideration we herein submit our comments and suggestions which are designed to assist in effecting improvements in internal controls and procedures. Those less significant matters, if any, which arose during the course of the audit, were reviewed with management as the audit field work progressed.

The accompanying comments and recommendations are intended solely for the information and use of the Board of Trustees, management, and others within the Village of North Barrington, Illinois.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Village personnel. We would be pleased to discuss our comments and suggestions in further detail with you at your convenience, to perform any additional study of these matters, or to review the procedures necessary to bring about desirable changes.

We appreciate the courtesy and assistance given to us by the entire Village staff.

*Lauterbach & Amen, LLP*

LAUTERBACH & AMEN, LLP

## **CURRENT RECOMMENDATIONS**

### 1. **CAPITAL ASSET POLICY**

During our current year-end audit procedures, we noted the Village does not have a formal capital asset policy to provide guidance on the financial aspects and stewardship of capital assets. With respect to the financial aspects, guidance should be provided on the minimum dollar amount and minimum useful life for an item to be capitalized as a capital asset. Stewardship issues include the physical custody of capital assets.

#### Recommendation

We recommend that the Village adopt a capital asset policy, which addresses both financial, and stewardship issues. As part of developing the capital asset policy, a review of the current capitalization amount and estimated useful life should be performed for both financial reporting and stewardship. The capital asset policy should also establish standard depreciation methods and useful lives to be applied to specific categories of assets. With respect to stewardship, the policy should address location of assets, tagging, physical access and security and frequency of periodic inventories. Once the policy has been established, we recommend the Village undertake a complete inventory of capital assets to create detail capital asset records that are in compliance with the new policy.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

### 2. **FUND BALANCE POLICY**

During our current year-end audit procedures, we noted that the Village does not have a formal fund balance policy. A fund balance policy establishes a minimum level at which the projected end-of-year fund balance should be maintained, taking into account the constraints imposed upon the resources reported by the governmental funds. A fund balance policy assists in providing financial stability, cash flow for operations, and the assurance that the Village will be able to respond to emergencies with fiscal strength.

It is essential to maintain adequate levels of funds balance to mitigate current and future risks and to ensure tax rates. Fund balance levels are also crucial consideration in long-term financial planning. Credit rating agencies carefully monitor levels of fund balance and unassigned fund balance in the General Fund to evaluate the Village's continued creditworthiness.

#### Recommendation

We recommend the Village create and adopt a fund balance policy to be in compliance with GASB Statement No. 54. The Village should address fund balance reporting categories (nonspendable, restricted, committed, assigned, and unassigned) as well as review minimum fund balance policies.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

## **CURRENT RECOMMENDATIONS – Continued**

### 3. **COMMINGLED CASH – SSA FUNDS**

#### Comment

During our current year-end audit procedures, we noted that the Village is SSA related monies in a cash account that is commingled with the Village's General Fund.

#### Recommendation

In accordance with legal and Governmental Accounting Standards Board (GASB) reporting requirements, monies related to the operation of Special Service Areas are restricted and are required to be held separately from other funds of the Village.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

### 4. **BANK RECONCILIATIONS**

#### Comment

During our current year-end audit procedures, we noted that the general checking account on the Village's trial balances did not tie to the ending reconciled balance on the bank reconciliation. Therefore, a material adjustment was required in order to balance to the bank reconciliation as provided by the Village.

#### Recommendation

Final monthly bank reconciliations should tie to general ledger cash balances. We recommend as a means of better control, that bank reconciliations be performed each month, reviewed by another Village staff member, and any variances be investigated and adjusted immediately.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

## **CURRENT RECOMMENDATIONS – Continued**

### **5. ESCROW DEPOSITS AND DEPOSITS HELD FOR REFUND**

#### Comment

During our current year-end audit procedures, we noted that the Village does not reconcile escrow deposits or the deposits held for refund to the general ledger on a monthly basis.

#### Recommendation

We recommend that the Village reconcile the escrow deposits and deposits held for refund on a monthly basis.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

### **6. POLICY AND PROCEDURE MANUAL**

#### Comment

During our current year-end audit procedures, the Village does not have a policy and procedure manual. Written procedures, instructions and assignments of duties will prevent or reduce misunderstanding, error; inefficient or wasted effort duplicated or omitted procedures and other situations that can result in inaccurate or untimely accounting records. A policy and procedure manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions that management currently performs.

A policy and procedure manual will require a substantial investment of time and effort for management to develop. 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 the comprehensive review of existing accounting procedures, for the purpose of developing the manual, management may discover procedures that can be eliminated or improved to make the system more efficient and effective.

#### Recommendation

A sample of areas that should be covered as the accounting portion of the procedure manual is as follows:

- Job descriptions
- Flow charts and descriptions of the accounting cycles, such as:
  - Cash receipts process – collections, deposits, bank reconciliations, etc.
  - Cash disbursements and accounts payable process – approvals, coding, purchasing, check preparation, invoice cancellation, general ledger posting, etc.
  - Payroll process – hiring, employee files, time cards, distribution, etc.
- Description of standard entries and allocations
- Description of other specific accounting areas of unusual nature

## **CURRENT RECOMMENDATIONS – Continued**

### **6. POLICY AND PROCEDURE MANUAL – Continued**

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

### **7. SEGREGATION OF DUTIES**

#### Comment

During our current year-end audit procedures, we noted a lack of segregation of duties. Segregation of duties is one of the most integral components of an internal control system. Segregation of duties ensures that no one individual has access to resources (e.g., cash and investments) if the individual also is responsible for processing, summarizing and reporting information or authorizing transactions. Certain functions, such as segregating cash receipts and cash disbursements from anyone with the ability and/or responsibility to record these transactions in the general ledger and/or reconcile accounts in the general ledger provides a mechanism for preventing or detecting on a timely basis any errors or irregularities. Currently, the Village has a breakdown in the segregation of duties due to the limited staffing of the finance department.

#### Recommendation

We recommend that the organization of the finance department and the functions assigned to the individual staff and the Treasurer be reviewed and possibly modified to improve internal controls and the segregation of duties.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.

### **8. INFORMATION TECHNOLOGY**

#### Comment

During our current year-end audit procedures, we noted deficiencies in internal controls over the Village's information technology. These controls would provide the appropriate security for the Village's financial information to prevent unauthorized access or data loss.

#### Recommendation

We recommend that the following controls be reviewed and considered: monitoring of access to financial information, restriction of physical access to Village data, computer access password controls, and the Village strengthen and test firewall protection by reviewing threat logs on a daily basis.

#### Management Response

Management acknowledges this comment and will work to correct it in the coming year.