

VILLAGE OF NORTH
BARRINGTON, ILLINOIS

MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED
APRIL 30, 2021



November 5, 2021

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, 2021, 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 RECOMMENDATION

1. GASB STATEMENT NO. 87 LEASES

Comment

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which provides guidance regarding the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. In accordance with GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which was issued as temporary relieve to governments and other stakeholders in light of the COVID-19 pandemic, GASB Statement No. 87, *Leases* is applicable to the Village's financial statements for the year ended April 30, 2023.

Recommendation

Lauterbach & Amen, LLP will work directly with the Village to review the new lease criteria in conjunction with the Village's current leases to determine the appropriate financial reporting for these activities under GASB Statement No. 87.

Management Response

Management acknowledges this comment and will work to implement by April 30, 2023, as required by GASB. In addition, management states that the only leases the Village has are small value office equipment and therefore the Village expects minimal impact as a result of GASB Statement No. 87.

PRIOR RECOMMENDATIONS

1. **CAPITAL ASSET POLICY**

Previously and 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 recommended 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 recommended the Village undertake a complete inventory of capital assets to create detail capital asset records that are in compliance with the new policy.

Status

This comment has not been implemented and will be repeated in the future.

Management Response

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

2. **FUND BALANCE POLICY**

Previously and 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 recommended 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.

PRIOR RECOMMENDATIONS – Continued

2. **FUND BALANCE POLICY – Continued**

Status

This comment has not been implemented and will be repeated in the future.

Management Response

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

3. **COMMINGLED CASH – SSA FUNDS**

Comment

Previously, 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.

Status

This comment has been implemented and will not be repeated in the future.

4. **BANK RECONCILIATIONS**

Comment

Previously, 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 recommended 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.

Status

This comment has been implemented and will not be repeated in the future.

PRIOR RECOMMENDATIONS – Continued

5. ESCROW DEPOSITS AND DEPOSITS HELD FOR REFUND

Comment

Previously and 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 recommended that the Village reconcile the escrow deposits and deposits held for refund on a monthly basis.

Status

This comment has not been implemented and will be repeated in the future.

Management Response

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

6. POLICY AND PROCEDURE MANUAL

Comment

Previously and 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

PRIOR RECOMMENDATIONS – Continued

6. POLICY AND PROCEDURE MANUAL – Continued

Status

This comment has not been implemented and will be repeated in the future.

Management Response

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

7. SEGREGATION OF DUTIES

Comment

Previously, 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 recommended 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.

Status

This comment has been implemented and will not be repeated in the future.

8. INFORMATION TECHNOLOGY

Comment

Previously, 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 recommended 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.

Status

This comment has been implemented and will not be repeated in the future.