

Finance Committee and Management
Village of Alsip
Alsip, Illinois

In planning and performing our audit of the financial statements of the Village of Alsip (the “Village”) as of and for the year ended April 30, 2009, 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 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 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis.

Significant Deficiencies

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the following deficiencies, which were identified and reported on in prior periods, to be significant deficiencies in internal control:

Purchasing and Disbursements

Currently, there is no centralized purchasing department at the Village. Department heads are responsible for initiating purchases as well as approving invoices, which are sent directly to department heads, and then forwarded to the finance department for processing. This situation provides opportunity for department heads to hold invoices to future periods, purchase items for personal use, introduce false vendors into the system, or initiate kickback schemes. We recommend the Village establish a centralized purchasing system which would initiate all purchases and receive all invoices. Such a system would still include purchase orders and invoices being approved by department heads; however, the purchasing department would be responsible for setting up new vendors, which would require an approval process.

Information Technology

During our review of information technology controls, we noted that the Finance Director and Mayor have administrative capabilities to the Village's accounting system. In addition, management does not have a documented plan with respect to what users should have access to which applications, or how the segregation of duties is defined or implemented within the accounting system. It is our understanding that management has reviewed all applications applicable to the financial statement process for areas of access rights with respect to the job function of each of the individuals and/or roles within the Village. Management should continue to monitor access rights on a periodic basis, and modify the access granted to users in order to eliminate any segregation of duties issues, or to remove access for those employees granted access beyond what their job requires. In addition, management should define roles within the accounting system to document their considerations with respect to user access and segregation of duties within the accounting system.

Material Weaknesses

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses, both of which were identified and reported on in prior periods and were still in existence during the course of our current audit:

Preparation of Financial Statements and Audit Adjustments

The Village has historically engaged Clifton Gunderson to assist it in preparing its financial statements and accompanying disclosures as well as proposing certain journal entries related to adjusting the Village's financial statements from a cash basis to a modified accrual basis or to an accrual basis, as necessary. This has been done both as a matter of convenience for management in completing the year-end financial work as well as to ensure that the reports are presented in compliance with current reporting standards and that all disclosures are complete and accurate. In many larger organizations, this function can be performed in-house, where there is sufficient expertise in accounting and financial reporting to provide a high level of assurance that any potential material omissions or errors in reporting would be identified and corrected. The financial statement preparation process is part of the internal control system for these organizations. However, in smaller operations such as the Village's, where budgetary constraints prohibit the hiring of additional personnel with an up-to-date understanding of all of the recent accounting pronouncements, existing financial personnel may not be able to perform this function with the same high level of assurance. As such, Clifton Gunderson will continue to provide this service to the Village as part of the year-end financial audit. However, we wish to remind you that as your auditors we are not part of your internal control system.

Prior Period Adjustment and Interfund Balances

Due to an accounting error in a prior period, the amounts due to the Village's debt service fund from the Village's general fund were overstated as of April 30, 2008. This is described in detail in Note 6 to the Village's financial statements for the year-ended April 30, 2009, which contain a prior period adjustment in the amount of \$1,307,291. This prior period adjustment did not have an impact on the total governmental funds or government wide financial statements. This was the result of a significant amount of old transactions (i.e. in excess of one year old) and incorrect posting of receipts and disbursements contained in the Village's interfund activity accounts. Balances in the interfund accounts continue to be significant at April 30, 2009.

We recommend that the Village investigate the interfund balances as to their status and applications and, where applicable, reimburse funds with “due from” balances from unreserved cash available in funds with corresponding “due to” balances. Where cash is not available in funds with “due to” balances, the Village needs to establish a repayment schedule to discharge the outstanding liability. In addition, any future significant interfund transactions should be reviewed and approved for accuracy by the Finance Director prior to posting to the general ledger. Any such entries should be initialed by the Finance Director as evidence of this review.

Other Matters

In addition to the significant deficiencies and material weaknesses discussed above, we noted the following matters which we would like to bring to your attention:

Police and Fire Pension Journal Entries

Although reconciliations of the police and fire pensions were performed on a monthly basis by the Staff Accountant during the year, the respective journal entries were not posted periodically. We recommend that these entries be posted on a timely basis, either monthly or quarterly, by the Staff Accountant and reviewed by the Finance Director. The Finance Director should also evidence this review by initialing the journal entry form.

Information Technology

Use of Spreadsheets

Management utilizes spreadsheets in several areas related to financial reporting with limited controls surrounding the use of spreadsheets. Spreadsheet software is utilized in a variety of areas to both modify and present relevant financial data to the Village. Specifically, management utilizes the spreadsheet application to maintain information, presentation of financial reports and other financial processes, etc. Management should implement additional controls around spreadsheets used as a segment of the financial reporting processes such as encryption of final versions, using passwords to protect key cells, and documenting changes made to significant spreadsheets.

SAS 70 Review

Management did not obtain, review, mitigate or assess the risks related to the User (Client) Controlled Considerations (UCC) within the SAS70 Type II audits for key financial service providers. Additionally, management did not complete a security review of other key vendors who might have access to client or employee data located within the Village’s computing environment. Based on our review of the environment and the processes completed with various third party resources, Paylocity, First Midwest Bank, Wachovia, PEBSCO Securities Corp. and Allied Benefits would be expected to provide SAS70 Type II documents which should be reviewed by management with respect to the user controlled considerations.

Additionally, management should complete a detailed security and privacy review of all vendors who have access to the Village’s client data and information. As a part of the security and privacy review process, management should define and implement a documented security review policy and process which is completed during the vendor selection and/or request for proposal processes.

Control Environment

Review of Journal Entries

Due to lack of a documented review and approval of general journal entries, there is no control to properly compensate for the risk that amounts recorded as other assets, prepaid expenses, or accrued liabilities are not accurately reported. We recommend that the Village's Finance Director review and approve all journal entries prepared by the Treasurer or Staff Accountant and evidence this review by initialing the journal entry summary.

Financial and Budgetary Reporting

The Village did not prepare an expenditure budget for the following funds: Special Tax Allocation and Insurance, which are Special Revenue Funds; and Tax Incremental Financing District and the 2000 Project, which are part of the Debt Service Fund, and account for a portion of the payments on the 2005 A and B bonds, respectively.

We recommend that the Village adopt expenditure budgets for the aforementioned funds, thus providing an effective way to measure and monitor results.

Accounting Environment

Accounting System

The Village, in prior periods, had made modifications both in the Treasurer's office personnel and the acquisition of an accounting software package; however, we did note the following deficiency:

- The preprinted and prenumbered cash receipts are not being accounted for and reconciled.

We recommend that the Village adopt policies to incorporate the aforementioned procedures in its internal control.

Compliance Considerations

A. Fund Deficit

The Village's Road and Bridge Special Revenue Fund had deficits at April 30, 2009 and 2008 of \$2,185,506 and \$2,125,230, respectively. The Road and Bridge Fund for 2009 produced negative results where the Fund's operating expenditures exceeded its revenues by approximately \$60,000. The deficit is primarily the result of the Village incurring substantial street repairs and resurfacing projects during 2004 - 2007.

We recommend that the Village continue to review the adequacy of the existing revenues to finance the Road and Bridge Fund in addition to the potential assessment of property taxes for the street and bridge area. If alternative revenue sources are not available or if existing revenue sources cannot be increased, the Village needs to decrease the Fund's operating expenditures.

B. Real Estate Tax Collections

During our prior and current engagements, we noted that Cook County had erroneously remitted real estate tax collections to the Village, amounting to approximately \$103,000. The Village had assumed the collections were for the Special Service Areas 6 - 12, 1999 and 2000 levy years. However, our analysis revealed that the Special Service Areas 6 - 12 had not levied any real estate taxes for the 1999 and 2000 levy years.

We recommend that the Village return to Cook County the tax collections made in error. We also recommend that the Village treasurer's office closely monitor the real estate tax collections as to their propriety and appropriateness.

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

Clifton Henderson LLP

Oak Brook, Illinois
October 23, 2009