

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, 2010, 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been 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.

### **Material Weaknesses**

A material weakness is a deficiency, or a 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, 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 General Fund from the Village's Senior Citizen Complex Fund and Water and Sewer Fund were overstated as of April 30, 2009, which were offset by an overstatement in the amount due to the Village's Debt Service Fund from the Village's General Fund. This is described in detail in Note 6 to the Village's financial statements for the year ended April 30, 2010, which contain a prior period adjustment in the amount of \$512,339. 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, 2010.

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.

### **Significant Deficiency**

A significant deficiency is a deficiency, or 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, which was identified and reported on in prior periods and was still in existence during the course of our current audit:

#### ***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.

### **Other Matters**

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

#### ***Control Environment***

##### **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; Tax Incremental Financing District and the 2000 Project, which are part of the Debt Service Fund.

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

## ***Compliance Considerations***

### **A. Fund Deficit**

The Village's Road and Bridge Special Revenue Fund had deficits at April 30, 2010 and 2009 of \$2,131,042 and \$2,185,506, respectively. The Road and Bridge Fund for 2010 produced positive results, where the Fund's operating revenues exceeded its expenditures by approximately \$54,000. 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. During 2010, the County requested payment for two of the service areas totaling \$41,939; however, a liability remains for approximately \$73,000.

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.

### **C. Amounts due to Cook County**

In a prior period, we noted that the Village contracted with Cook County on road work, where the Village's portion of approximately \$1,500,000 was covered by the County, however, it was to be re-paid by the Village. To date, the County has not submitted an invoice for the amount due.

We recommend that the Village investigate the amount due to Cook County and re-pay the amount to avoid any penalties.

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 Gunderson LLP*

Oak Brook, Illinois  
November 1, 2010