



HEARNE & ASSOCIATES, P.C.

Certified Public Accountants & Business Consultants

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December 22, 2015

To the Honorable President and
Members of the Board of Trustees
Village of Worth, Illinois

In planning and performing our audit of the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Village of Worth, Illinois for the year ended April 30, 2015, 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 opinions 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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, inherent limitations in internal controls, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 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 deficiency in internal control presented in the attachment to this letter to be a material weakness.

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 internal control presented in the attachment to this letter to be a significant deficiency.

During our audit, we also became aware of the following deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency. These matters are described in the attachment to this letter.

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 personnel from the Village, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Very truly yours,

A handwritten signature in cursive script that reads "Hearne & Associates, P.C.".

Hearne & Associates, P.C.
Certified Public Accountants
Mokena, Illinois

Material Weakness

Preparation of Financial Statements

Professional standards indicate that proper internal control over the preparation of the financial statements, including disclosures, should include a comprehensive review procedure by the Village to ensure that the financial statements, including footnote disclosures, are complete and accurate. While we as your auditors are able to assist in the preparation of your financial statements, we cannot be considered a part of the internal control process to review the financial statements. This review should be performed by an individual possessing a thorough understanding of applicable generally accepted principles applicable to governments, Governmental Accounting Standards Board Statements, and knowledge of the Village's activities and operations.

Currently, the Village's personnel do not have sufficient financial reporting and accounting knowledge to perform a thorough review of the Village's financial statements and related disclosures to provide a high level of assurance that any potential material omissions or other errors would be identified and corrected. After reviewing financial statement procedures, adjusting journal entries and the financial statements with Village management, the Village was able to accept responsibility for Hearne & Associates financial statement preparation related services.

Significant Deficiency

Purchases

During our test of details, purchase authorization was not evident in nineteen percent of our sample. In addition, we noted two instances where one of the check signers was also the payee without a separate note of authorization.

Due to the size of the Village, we recommend the Village implement a purchase ordering system by which all purchases are approved before they are made and orders are noted completed with an initial by the department head that the invoice is "okay to pay." In addition, checks that are written to employees should not be signed or authorized by that employee.

Classification of Expenditures

During our audit, we noted several instances during routine procedures where expenditures were misclassified in the chart of accounts. In addition, material adjustments were needed to correct payable postings and prepaid expenditures.

We recommend the Village designate an individual to review the general ledger on a monthly basis to ensure proper classification and coding of the expenditures. In addition, this person should be responsible for reviewing and approving the year-end accounts payable listing.

Other Matters

Schedule of Grants

During our audit the Village's accounting department provided a schedule of grants received during the fiscal year. During this process it came to our attention that grants are not necessarily centrally maintained by the Village. That is if a department of the Village applies for and receives a grant then that department may maintain those records. We recommend that the Village centralize the function of maintaining the grant documents and possible responsibility for oversight of those grants. One audit issue that comes up for grants received is the determination of whether or not a Single Audit is required due to the amount of federal grant expenditures during the year. That is, if the source of funds is from the federal government (direct or pass through), then those expenditures should be reviewed to determine if an audit in accordance with the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, should be performed. In addition, certain state grants require audits in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

While the Village made strides towards providing this schedule in the current year, significant assistance was needed to compile an accurate listing. The schedule of all grants should be on a fiscal year basis (May 1st through April 30th) detailing by each grant the amount of the grant awarded, the cash received and the amount expended. This will allow the Village to alert their auditors and plan for any additional audit procedures and reporting requirements.

Upcoming Government Accounting Standards – GASB 68

The Village should be aware that next year, a new standard previously issued from the Governmental Accounting Standards Board (GASB) regarding pension plan disclosures will be coming into effect. GASB Statement No. 68 *Accounting and Reporting for Pensions*, will require governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to measure the annual costs of pension benefits in a more comprehensive and comparable manner. The Statements also enhance accountability and transparency through revised and new note disclosures and required supplementary information.

We recommend the Village become familiar with this new statement. Additionally, we recommend that the Village contact its outside actuary in a timely manner so that the proper work can be completed by the actuary for the April 30, 2016 financial statements to be issued by the Village.

Upcoming Government Accounting Standards – GASB 72

The Village should be aware that the Governmental Accounting Standards Board has issued Statement No. 72 *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting related to fair value measurements including guidance on what assets should be valued at fair market and what type of market should be used to report the valuation. It also provides new disclosures for those assets required to be presented at the fair market value.

We recommend the Village become familiar with this new statement. Statement No. 72 will be effective for the Village's financial statements for the fiscal year ending April 30, 2017.