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The Honorable Mayor
Members of the Board of Trustees
Village of Willowbrook, 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 Willowbrook, Illinois (Village) as of and for the year ended April 30, 2016, 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 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.

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 of the Village's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 Village's financial statements will not be prevented or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

We observed the matter accompanying this letter that we consider to be a control deficiency.

Management's written response to the deficiency identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Control Deficiency

Entity Level Controls

Previously Reported Comment

Comments: We have considered the internal control structure, including the risk of fraud, at the Village in order to determine our audit procedures. The Village does not perform a formal fraud risk assessment and has no formal fraud prevention program. Fraud prevention requires a system of rules that minimize the likelihood of fraud occurring and at the same time maximizes the possibility of detecting any fraudulent activity. A strong fraud prevention program should incorporate the five interrelated components of internal control:

- Control environment.
- Risk assessment.
- Control activities.
- Information and communication.
- Monitoring.

Recommendations: We recommend that the Village document and adopt a formal fraud prevention program. The program should document the policies, procedures and strategies related to the five components of internal control and all components should be reviewed. The control environment sets the moral tone and is the base on which all of the other aspects of internal control are built. It is necessary that top management be responsible for the internal control and fraud prevention programs of the Village.

Current Year Status: The fraud risk assessment is in the process of being addressed by the Village. **This control deficiency is repeated.**

Management's Response: The Village has a system of internal controls in place over each area of financial transactions, and has written documentation detailing those controls which we have provided to the auditors for many years. In addition, the Village has procedural memos detailing how each of its financial processes is performed. Unfortunately, due to limited staff, the Village has not been able to perform a formal fraud risk assessment and implement a formal fraud prevention program of the scope suggested by the auditors. However, the Village remains committed to creating a policy to address these issues. In July 2013, the Village, utilizing an outside consultant, began a formal technology assessment of each of its financial processes. As of April 30, 2016, the technology assessment has been completed and the Village has already implemented some new controls during the software implementation process. In addition, the Village conducted a payroll compliance review in FY 2015-16 using an outside consultant to review the Village's payroll processes and recommend any necessary changes. The

Village has requested a sample fraud assessment policy to assist in developing a Village specific policy.

Other Matters

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

Future Pronouncements

GASB Statement No. 72, Fair Value Measurement and Application (GASB 72)

GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes that aligns with the Financial Accounting Standards Board's Topic 820. GASB 72 also provides that all assets meeting the definition of an investment in the Statement should be measured at fair value, unless the Statement provided otherwise. Certain disclosures related to all fair value measurements will be required.

GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

GASB 72 is effective for financial statements for fiscal years beginning after June 15, 2015, and any prior periods presented should be restated, including disclosures, if practical.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension (GASB 75)

GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 75 requires governments to report a liability on the face of the financial statements, in accordance with the following:

- Employers that are responsible only for OPEB liabilities for their own employees and that provide OPEB through a defined benefit OPEB plan administers through a trust that meets specified criteria will report a net OPEB liability (the difference between the total OPEB liability and the assets accumulated in trust to make the benefit payments).
- Employers that participate in a cost-sharing OPEB plan that is administered through a trust that meets specified criteria will report a liability equal to the employer's proportionate share for the collective OPEB liability for all employers participating in the plan.
- Employers that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability for their own employees.

GASB 75 requires more extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities. GASB 75 is effective for fiscal years beginning after June 15, 2017 and requires restatement of any prior years presented, if practical.

While not effective in the short term, we recommend the Village begin assessing the potential impact on the financial statements of both of these statements and begin the process of communicating this impact with those charged with governance and other stakeholders. Similar to the adoption of GASB Statement No. *68, Accounting and Financial Reporting for Pensions,* the adoption of 75 will require advance coordination with plans and actuaries so that the required information is available.

GASB Statement No. 82, Pension Issues (GASB 82)

GASB 82 provides amendments to pension guidance in GASB 67 and 68 based on three issues raised during implementation of those standards. It changes the payroll amount presented in required supplementary information back to covered payroll, being the amount on which contributions to the pension plan are based. It specifies that an actuarial valuation is not inconformity with the pension standards if it includes a deviation from the Actuarial Standards of Practice in the selection of assumptions. GASB 82 also specifies that payments made by employers to satisfy employee contribution requirements should be considered employee contributions and recognized as expense or expenditure in the same manner as other compensation.

GASB 82 is effective for financial statements for fiscal years beginning after June 15, 2016, with the exception of the provision related to a deviation from Actuarial Standards of

Practice, which will be effective for fiscal years in which the measurement date is on or after June 15, 2017. Earlier application is encouraged.

GASB Lease Project

In January 2016, GASB released an exposure draft on its lease accounting project. The proposed standard would establish a single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. Specifically, the proposed standard contemplates the following accounting guidance for lessees and lessors:

***Lessee Accounting* –** A lessee would recognize a liability measured at the present value of payments expected to be made for the lease term, and an asset measured at the amount of the initial lease liability, plus any payments made to the lessor at or before the beginning of the lease and certain indirect costs. A lessee would reduce the liability as payments are made and recognize an outflow of resources for interest on the liability. The asset would be amortized by the lessee over the shorter of the lease term or the useful life of the asset.

***Lessor Accounting* –** A lessor would recognize a receivable measured at the present value of the lease payments expected for the lease term and a deferred inflow of resources measured at the value of the lease receivable plus any payments received at or prior to the beginning of the lease that relate to future periods. The lessor would reduce the receivable as payments are received and recognize an inflow of resources from the deferred inflow of resources in a systematic and rational manner over the term of the lease. A lessor would not derecognize the asset underlying the lease.

The lease term used to measure the asset or liability would be based on the period in which the lessee has the noncancelable right to use the underlying asset. The lease term would also contemplate any lease extension or termination for which it is reasonably certain the lessee would exercise the related option.

This proposed standard would not apply to leases for intangible assets, biological assets (i.e. timber), service concession agreements or leases in which the underlying asset is financed with conduit debt that is reported on the lessor.

The deadline for comments on this exposure draft is May 31, 2016, and expected effective date is for periods beginning after December 15, 2018, or the Village’s 2020 fiscal year. It is anticipated that leases would be recognized using the facts and circumstances in effect at the beginning of the period of implementation (*i.e.*, May 1, 2020, for the Village). We will continue to keep the Village apprised of the status of this project, as its impact could be significant to the Village’s accounting and financial reporting.

IRS Activity

As outlined in their priority guidance plan for fiscal year 2016, the Internal Revenue Service (IRS) is increasing their oversight of Governmental entities tax compliance through a balanced approach of outreach, education and examination activities. The IRS plans to use and rely on data-driven analytics which will allow the IRS to improve their selections for examinations. The strategy behind this is to allow the IRS to invest their limited resources in areas that will provide the greatest impact for rising tax dollars and education. The IRS plans to focus 75% of their examinations on Governmental entities with $10 million or more in gross wages which will allow them to maximize their wage base coverage while also allowing them to address material and significant compliance issues. In addition, the IRS will also conduct specific compliance initiative projects were the IRS believes there is a high risk of non-compliance.

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

BKD, LLP

Oakbrook Terrace, Illinois
October 19, 2016