

The Honorable Mayor
Members of the Board of Trustees
Village of Willowbrook, Illinois

In planning and performing our audit of the financial statements of governmental activities, the business-type activities, each major fund and the aggregate reminding fund information of the Village of Willowbrook, Illinois (Village) as of and for the year ended April 30, 2020, 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 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

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 observed the following matters that we consider to be to be a deficiency.

Control Deficiency

Entity Level Controls

Previously Reported Comments

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. During FY 2016-17, the Village began implementing changes to our payroll process as a result of recommendations noted in the payroll review. In addition, the Village implemented Positive Pay with our local bank for all accounts payable checks to mitigate the risk of fraud of Village checks being altered. The Village has segregation of duties with respect to wire and ACH transfers such that three separate employees each have a role in the process to strengthen the internal controls. Also, the Village instituted a new travel policy effective January 1, 2017, in accordance with state law to provide additional oversight over Village expenditures. Finally, the Village is in the process of revising certain policies in accordance with recommendations of our risk management agency. The Village is committed to improvement over our financial processes and implements continual enhancements as much as our limited level of staffing permits.

We observed matters that we consider to be deficiencies that we communicated to management orally. 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, accordingly, we express no opinion on it.

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 opinions 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.

New Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations (GASB 83)*

GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (ARO). This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This statement requires that recognition occurs when the liability is both incurred and reasonably estimable, and it also requires the measurement of an ARO be based on the best estimate of the current value of outlays expected to be incurred. This statement also requires disclosure about the nature of a government's AROs, the methods and assumptions used for the estimated of the liabilities, and the estimated remaining useful life of the associated tangible capital asset.

The effective date is for periods beginning after June 15, 2019.

GASB Statement No. 84, *Fiduciary Activities (GASB 84)*

GASB 84 establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

GASB 84 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 87, Leases (GASB 87)

In June 2017, GASB published GASB 87. The standard was the result of a multi-year project to reexamine the accounting and financial reporting for leases. The new standard establishes a single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. Specifically, GASB 87 includes the following accounting guidance for lessees and lessors:

Lessee Accounting – A lessee will recognize a liability measured at the present value of payments expected to be made for the lease term, and an intangible 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 will reduce the liability as payments are made and recognize an outflow of resources for interest on the liability. The asset will be amortized by the lessee over the shorter of the lease term or the useful life of the asset.

Lessor Accounting – A lessor will 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 will 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 will not derecognize the asset underlying the lease. There is an exception for regulated leases for which certain criteria are met, such as airport-aeronautical agreements.

The lease term used to measure the asset or liability is based on the period in which the lessee has the noncancelable right to use the underlying asset. The lease term also contemplates any lease extension or termination option that is reasonably certain of being exercised.

GASB 87 does not apply to leases for intangible assets, biological assets (*i.e.*, timber and living plants and animals), service concession agreements or leases in which the underlying asset is financed with conduit debt that is reported by the lessor. Additionally, leases with a maximum possible term of 12 months or less are excluded.

The effective date is for periods beginning after June 15, 2021.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period (GASB 89)

GASB 89 requires financial statements prepared using the economic resources measurement focus to recognize interest cost incurred before the end of a construction period as an expense in the period in which the cost is incurred. Such interest cost will not be capitalized as part of the historical cost of a capital asset.

It also requires that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period is to be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

GASB 89 is effective for reporting periods beginning after December 15, 2020.

GASB Statement No. 91, *Conduit Debt Obligations (GASB 91)*

GASB 91 establishes consistent recognition, measurement and disclosure between governments for conduit debt obligations. The guidance clarifies the existing definition of a conduit debt obligation, establishes a single method of reporting for issuers and enhances note disclosures.

GASB 91 is effective for reporting periods beginning after December 15, 2021.

GASB Statement No. 92, *Omnibus 2020 (GASB 92)*

GASB 92 addresses practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including issues related to leases, intra-entity transfers, fiduciary activities and fair value disclosures.

GASB 92 is effective for reporting periods based on individual topics discussed therein. Earlier application is encouraged and is permitted by individual topic to the extent that all requirements associated with an individual topic are implemented simultaneously.

GASB Statement No. 93, *Replacement of Interbank Offered Rates (GASB 93)*

GASB 93 addresses the accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

GASB 93 is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements (GASB 94)*

GASB 94 establishes the definitions of public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs). The statement also provides uniform guidance on accounting and financial reporting for transactions that meet those definitions.

GASB 94 is effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged.

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance (GASB 95)

In response to the challenges arising from COVID-19, on May 7, 2020, GASB approved GASB 95. GASB approved an 18-month postponement for GASB 87, *Leases*. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later have a one-year postponement. This change is effective immediately. Early application is still encouraged. The effective dates on GASBs discussed above have already been adjusted to account for the postponements issued in GASB 95.

The new effective dates are listed below:

- Statement 83 – reporting periods beginning after June 15, 2019
- Statement 84 and Implementation Guide 2019-2 – reporting periods beginning after December 15, 2019
- Statement 87 and Implementation Guide 2019-3 – fiscal years beginning after June 15, 2021, and all reporting periods thereafter
- Statement 88 – reporting periods beginning after June 15, 2019
- Statement 89 – reporting periods beginning after December 15, 2020
- Statement 90 – reporting periods beginning after December 15, 2019
- Statement 91 – reporting periods beginning after December 15, 2021
- Statement 92, paragraphs 6 and 7 – fiscal years beginning after June 15, 2021
- Statement 92, paragraphs 8, 9, and 12 – reporting periods beginning after June 15, 2021
- Statement 92, paragraph 10 – government acquisitions occurring in reporting periods beginning after June 15, 2021
- Statement 93, paragraphs 13 and 14 – fiscal years beginning after June 15, 2021, and all reporting periods thereafter
- Implementation Guide 2017-3, Questions 4.484 and 4.491 – the first reporting period in which the measurement date of the (collective) net OPEB liability is on or after June 15, 2019
- Implementation Guide 2017-3, Questions 4.85, 4.103, 4.108, 4.109, 4.225, 4.239, 4.244, 4.245, and 5.1-5.4 – actuarial valuations as of December 15, 2018, or later
- Implementation Guide 2018-1 – reporting periods beginning after June 15, 2019
- Implementation Guide 2019-1 – reporting periods beginning after June 15, 2020

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96)

GASB 96 provides guidance on governments that are utilizing more cloud-based solutions for their information technology (IT) needs, and paying for the use of third-parties' IT software on a subscription basis. The accounting and financial reporting for what GASB refers to as subscription-based information technology arrangements (SBITAs) has been inconsistent because of a lack of authoritative guidance. The standard is effective for reporting periods after June 15, 2022, and all reporting periods thereafter, with early implementation encouraged. The statement would be applied retroactively, using the facts and circumstances that exist at the beginning of the fiscal year of implementation. Due to the COVID-19 pandemic, the effective date was delayed one year from that originally proposed.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statement No. 14 and No. 84, and a supersession of GASB Statement No. 32* (GASB 97)

GASB 97 amends guidance for determining financial accountability between the primary government and a potential component unit (PCU). The new guidance pertains to instances where the PCU does not have its own governing board and the primary government's board is effectively acting as the board of the PCU. In these instances, the primary government is considered to have the equivalent of the ability to appoint a voting majority of the PCU. However, this treatment would not apply to defined contribution pension/OPEB plans or defined contribution other employee benefit plans (such as IRC 457 plans). The requirements, as they relate to defined contribution pension/OPEB plans or other employee benefit plans, were effective upon issuance of GASB 97. For all other arrangements, the effective date is for fiscal periods beginning after June 15, 2021.

GASB 97 also amends the criterion that a financial benefit or burden relationship exists if the primary government is legally obligated or has otherwise assumed the responsibility to make contributions to a pension or OPEB plan. This criterion now only applies to contribution obligations to defined benefit pension or OPEB plans. This amended criterion was effective upon issuance of GASB 97.

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 8, 2020