

# **VILLAGE OF MCCOOK**

McCook, Illinois

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE  
AND MANAGEMENT

As of and for the Year Ended December 31, 2018

# VILLAGE OF McCOOK

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**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE  
AUDIT TO THOSE CHARGED WITH GOVERNANCE**



To the Mayor and Board of Trustees  
Village of McCook, Illinois

In planning and performing our audit of the financial statements of the Village of McCook (the "Village") as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses 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 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, as discussed further on the following pages:

- > Internal Control Over Financial Reporting
- > Segregation of Duties
- > Internal Controls at the McCook Athletic Center

A significant deficiency is a deficiency, or a 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, as discussed further on the following pages:

- > Information Technology

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

*Baker Tilly Virchow Krause, LLP*

Oak Brook, Illinois  
June 24, 2019

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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In theory, a properly designed system of internal control staffed with enough people with sufficient training would provide the Village with the ability to not only process and record monthly transactions, but also to prepare the annual financial statements.

The definition of a material weakness in internal control includes consideration of the year-end financial reporting process. To avoid the auditor reporting a material weakness in internal control, your system of controls would need to be able to accomplish the following:

1. Present the books and records to the auditor in such a condition that the auditor is not able to identify material journal entries as a result of audit procedures.

The Village engaged us to assist in the preparation of certain accrual and other journal entries. Although we were engaged by the Village to prepare these entries, current standards state these entries should be identified by the Village's existing internal controls.

2. Be capable of preparing a complete set of year-end financial statements in such a condition that the auditor is not able to identify any material changes as a result of the audit. This includes drafting the individual fund statements, making GASB No. 34 conversion entries, drafting the government-wide statements, and preparing note disclosures.

We were engaged by the Village to prepare the Village's financial statements and accompanying notes to the financial statements. The Village does not currently have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the notes, as required by professional standards.

This level of internal control over financial reporting can be a difficult task for governments. Most governments operate with only enough staff to process monthly transactions and reports, and often rely on auditors to prepare certain year-end audit entries and handle the year-end financial reporting. As this is the case with the Village, we are required to inform you that this is a material weakness in your internal control.

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## **SEGREGATION OF DUTIES**

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A cornerstone of effective internal control is the existence of policies to support segregation of duties; this involves separation of the initiation, execution, approval and recording responsibilities for transactions. Due to the relatively small size of the Village's finance office, we noted that there are several deficiencies related to proper segregation of duties. These include:

### Payroll

The Deputy Clerk enters new employees, enters time worked, processes payroll, has access to the signature plates of authorized signers, and distributes checks. We noted that the Mayor reviews and initials the payroll register and direct deposit file for each payroll to help mitigate this risk. However, there is still a risk present when one individual has the ability to process a transaction from beginning to end. Ideally one employee would be responsible for the human resource aspect of entering new employees and pay rates. A second employee would process payroll, and both employees would be restricted by the system from performing the other person's duties.

### Accounts Payable

The Deputy Clerk has the ability to order goods and services, process accounts payable, disburse checks, and has access to the signature plates of authorized signers. Although the Deputy Clerk generally does not perform all of these duties, the ability to do so presents a risk to the Village.

To mitigate this risk, the Finance Chair reviews and documents approval of the check listings and related invoices before each Board meeting. However, the Village Board still does not have a system to monitor completeness of the bills listing. The Village also does not formally approve vendors as they are added to the accounting system. There should be an appropriate system for review and approval of vendors, especially since there is limited segregation of duties in the accounts payable department. We recommend the Village develop a system for approval of vendors, where new vendors are approved prior to payment and where an appropriate employee performs a periodic review of new vendors entered into the system. Review and approval should be documented by a signature or initials.

### Water Billing

During our audit, we noted that there is no documentation of the review of billing registers or customer accounts receivable reports. We recommend that the water department document any adjustments to customer accounts on the report and sign or initial the report to indicate it has been reviewed.

### Bank Reconciliations and Journal Entries

Bank accounts are not being reconciled by someone internally independent of the cash receipts and disbursements functions. It is recommended that the reconciliations be reviewed in detail by someone independent of these functions and signed or initialed by the reviewer to indicate approval.

In addition, journal entries posted to the Village's general ledger are not approved by someone other than the initiator. We recommend that a report be generated each month for all journal entries posted and reviewed by an employee who does not have access to make journal entries. The report should be signed or initialed by the reviewer to indicate approval.

There is also no evidence that budget to actual reports are being utilized by the department heads to check against their internal records for errors. It is recommended that department heads be provided with budget to actual reports and review them on monthly basis to ensure no unusual activity is recorded in their accounts. This would help mitigate the risk of many of the segregation of duties issues noted here.

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**SEGREGATION OF DUTIES (cont.)**

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Police Forfeiture Accounts

The Village of McCook receives a portion of state and federal seizure funds after Village police personnel assist on a federal or state investigation. The Police Chief has the responsibility of recording revenue, depositing revenue, initiating P.O.'s and invoices, processing checks, signing checks and reconciling the bank statement. The police forfeiture activity is not recorded regularly in the Village general ledger. There is no independent review of the police forfeiture activity or bank reconciliations. We recommend the Village implement a secondary review of the activity and regularly record the activity in the Village's general ledger.

While some of these deficiencies may be inherent due to the size of the entity, the Village should review its operations and practices to ensure that segregation can be implemented where appropriate. In the event that segregation cannot be achieved, monitoring controls should be instituted to compensate for the risk.

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## **INTERNAL CONTROLS AT THE McCOOK ATHLETIC CENTER**

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During the course of our audit of the McCook Athletic Center proprietary fund, it was noted that certain processes and procedures at the McCook Athletic Center did not have adequate segregation of duties. These included:

- > There currently is no review of the journal entries processed by the Administrative Assistant at the McCook Athletic Center.
- > There is also currently no review of the bank reconciliations processed by the Administrative Assistant at the McCook Athletic Center.
- > The Administrative Assistant is solely responsible for record keeping, directing authorization and custody of assets through the cash receipt and accounts payable process.
- > There is no formal approval of vendors for McCook Athletic Center purchases prior to being added to the accounting system.

We recommend that someone independent of the functions at the McCook Athletic Center review and approve, documented by a signature, all journal entries and bank reconciliations processed by the Administrative Assistant. Signatures of the Administrative Assistant and the reviewer should be included on these documents. The Village should also consider implementing policies and related procedures that provide better control surrounding the payment of expenses at the McCook Athletic Center. This would include pre-approving new vendors added to the system.

We also noted several deficiencies with how the Village manages revenue collected at the McCook Athletic Center from local sources such as per-use facility rental and the concession stand. Included in our observations is the following:

- > Facility rental fees were not clearly displayed by the front desk and they were not displayed on the website.
- > Financial reports are provided monthly to the Village Staff and Board members but there is no documented review. There is no review of bank reconciliations or daily deposits prepared by the MAX employee.

The Village should consider implementing policies and related procedures that provide better control surrounding the collection of these revenues. This could include, but is not limited to:

- > Developing expectations of anticipated revenue and timely comparisons to collected amounts.
- > Developing procedures for collecting cash paid for rentals to ensure consistent collection and recording of rental revenue.
- > The monthly bank statement reconciliations and daily deposits should be reviewed and documented with approval.

Installation of these procedures will mitigate the inherent risk these types of receipts possess and reduce the chance that Village assets are misappropriated or unaccounted at the McCook Athletic Center.

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## INFORMATION TECHNOLOGY

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A sufficient internal control system should include controls over the Village's information technology. These controls should appropriately secure the Village's financial information to prevent unauthorized access or data loss. Controls over information technology should include the following:

- > Procedures should exist and be followed relating to the creation, modification, and suspension of user access rights. The Village currently does not have documentation of the procedures for adding a new user to the system, changing an existing user's system access, or removing a terminated user. An access form could help facilitate this process by documenting who is gaining access or having it taken away, who approved the access change, and who is performing the access change.
- > IT security administration monitors and logs security activity at the operating system, application and database levels. However, the security access logs, violations, and other work completed by the IT contractor are not being reviewed by Village management.
- > The MAX does not have a backup and restore policy developed which would document how system backups are being taken, backup frequency, monitoring and managing of the backups, backup tape storage, and restoration procedures. Periodic restorations should take place in case the system was to ever fail.
- > The password criteria should be in line with industry standards such as password expiration, length, characters, and history. MSI passwords need to be more complex to meet industry standards. It is recommended that the Village should see if it is possible for MSI to include other capabilities such as number of login tries until the account is locked, etc.

The absence of these controls could result in errors to financial data. The Board should be aware of this risk and review all financial information for unusual or unexpected activity.

**OTHER COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE**

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## **TWO-WAY COMMUNICATIONS REGARDING YOUR AUDIT**

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As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
  - > Identify types of potential misstatements.
  - > Consider factors that affect the risks of material misstatement.
  - > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

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## **TWO-WAY COMMUNICATIONS REGARDING YOUR AUDIT (cont.)**

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We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the Village Board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the Village concerning:

- a. The Village's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during December or January. Our final financial fieldwork is usually scheduled during March and April to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 8-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

**COMMUNICATION OF INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL  
WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

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## PROFESSIONAL STANDARDS UPDATE / INFORMATIONAL POINTS

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### ***GASB UPDATES***

The Government Accounting Standard Board (GASB) has been very active in recent years, issuing new standards at a fast pace. Over the next few years, your government will have many new standards to evaluate and implement. Here are the standards which may impact you in the next year:

- > GASB 83 provides accounting and financial reporting for asset retirement obligations, effective for reporting periods beginning on or after June 15, 2018
- > GASB 84 improves guidance regarding the identification of fiduciary activities and how they should be reported, effective for reporting periods beginning on or after December 15, 2018
- > GASB 88 improves certain disclosures related to debt, including direct borrowings and placements, effective for reporting periods beginning on or after June 15, 2018
- > GASB 90 clarifies accounting and financial reporting for majority equity interests, effective for reporting periods beginning on or after December 15, 2018

Other GASB pronouncements on the horizon, while the implementation dates is in the near term these are anticipated to have significant impacts on many government financial statements:

- > GASB 87 improves accounting and financial reporting for leases, effective for reporting periods beginning on or after December 15, 2019
- > GASB 89 provides guidance for accounting for interest cost incurred before the end of a construction period, effective for reporting periods beginning on or after December 15, 2019

Looking even further ahead, the Technical Agenda, below, outlines significant areas GASB is currently working on:

- > Conceptual Framework
  - Disclosure
  - Recognition
- > Major Projects
  - Financial Reporting Model
  - Revenue and Expense Recognition
  - Public-Private Partnerships
- > Practice Issues
  - Conduit Debt
  - Deferred Compensation Plans
  - Secured Overnight Financing Rate
  - Subscription-Based IT arrangements
  - Implementation Guidance
- > Pre-Agenda Research
  - Going Concern
  - Compensated Absences
  - Prior-Period Adjustments, Accounting Changes and Error Corrections

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects. Full lists of projects, as well as many resources, are available on GASB's website which is located at [www.gasb.org](http://www.gasb.org).

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**PROFESSIONAL STANDARDS UPDATE (cont.)**

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***INTERPRETING YOUR FINANCIAL STATEMENTS POST-GASB No. 75***

During the current year, the Village implemented GASB Statement No. 75, which required employers providing other post-employment benefits (OPEBs) to report the OPEB liability in their government-wide and proprietary fund financial statements. This standard is intended to parallel GASB Statements No. 68 and 73 for pensions, which together provide for more overall consistency and comprehensive guidance for pensions and other post-employment benefits.

Previously, the Village only reported an OPEB liability (or asset) to the extent that annual contributions fell short of (or exceeded) the actuarially estimated annual OPEB cost. In addition, the actuarially estimated annual OPEB cost included a mechanism to recognize the initial OPEB liability at the implementation of GASB Statement No. 45 over an extended period of years. Under the new standard your government is required to report the total OPEB liability as determined by the actuary. There are also OPEB-related deferred outflows and/or inflows due to the timing of benefit payments and to allow for smoothing of activity.

As of the December 31, 2018 measurement date used for the Village's financial statements, the actuarially determined OPEB liability for the OPEB plan is \$10,408,013 and is reported as a noncurrent liability.

OPEB activity under GASB Statement No. 75 is reported in the government-wide financial statements and proprietary fund financial statements, similar to long-term debt. The implementation of this new standard does not require changes to how you pay for or fund your OPEB benefits.

The accounting and reporting for other post-employment benefits has become more complex with the implementation of GASB Statement No. 75. We are available to answer questions on how this new accounting standard affects your financial statements.

**REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE**

To the Mayor and Board of Trustees  
Village of McCook, Illinois

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the Village of McCook for the year ended December 31, 2018 and have issued our report thereon dated June 24, 2019. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED  
IN THE UNITED STATES OF AMERICA***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audit according to the planned scope and timing previously communicated to you in our prior year Report on Internal Control dated June 22, 2018.

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**REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (cont.)**

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***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES******Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note I to the financial statements. As described in Note I, the Village changed accounting policies related to reporting the other post-employment benefit liability by adopting GASB Statement No. 75 in 2018. Accordingly, the accounting change has been retrospectively applied to the prior period presented.

We noted no transactions entered into by the Village during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- > The Village's liability related to the pensions
- > Other post-employment benefits liability
- > Capital assets including depreciation

***Financial Statement Disclosures***

The disclosures in the financial statements are neutral, consistent, and clear.

***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

We encountered no significant difficulties in dealing with management in performing our audit.

***CORRECTED AND UNCORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatement identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

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**REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (cont.)**

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For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village's financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. Cash-basis adjustments were made to properly reflect investment activity in the Village's pension accounts, record the account activity in the police forfeiture accounts, and to record interfund activity.

The Village maintains its general ledger on the cash basis of accounting. As part of the audit, we made all necessary entries to convert the Village's fund level cash basis information to the modified accrual basis of accounting used for external reporting. These entries have been furnished to management. We also made all entries required to prepare the Entity-wide Statement of Net Position. These entries are summarized on the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities, both of which are included within the Village's Basic Financial Statements.

There were also proposed adjustments, which collectively, were immaterial to the Village's financial statements and, as such, were not adjusted. These entries have been furnished to management and are included as an attachment to the management representation letter, which is located in the appendix to this report.

***DISAGREEMENTS WITH MANAGEMENT***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Village that, in our professional judgment, may reasonably be thought to bear on our independence.

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**REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (cont.)**

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Relating to our audit of the financial statements of for the year ended December 31, 2018, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Village in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, and provided no services to the Village other than audit services provided in connection with the audit of the current year's financial statements and non-audit services which in our judgment do not impair our independence.

- > Financial statement preparation
- > Adjusting journal entries
- > Trial balance formatting from general ledger data
- > Annual Financial Report preparation
- > Compilation of Illinois Department of Insurance reports
- > Compilation of the Treasurer's Annual Statement
- > Compiled pension financial statements
- > Bookkeeping assistance

None of the preceding non-audit services constitute an audit under generally accepted auditing standards.

***OTHER AUDIT FINDINGS OR ISSUES***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***OTHER MATTERS***

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

***RESTRICTION ON USE***

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

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**REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (cont.)**

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We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

*Baker Tilly Virchow Krause, LLP*

Oak Brook, Illinois  
June 24, 2019

**APPENDIX**

**MANAGEMENTS' REPRESENTATIONS AND SUMMARY OF UNCORRECTED FINANCIAL  
STATEMENT MISSTATEMENTS**



# Village of McCook

5000 GLENCOE AVENUE  
McCOOK, ILLINOIS 60525  
Phone: (708) 447-9030  
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June 24, 2019

Baker Tilly Virchow Krause, LLP  
1301 W. 22<sup>nd</sup> Street, Suite 400  
Oak Brook, Illinois 60523

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Village of McCook as of December 31, 2018 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of McCook and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

## *Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
8. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
9. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.
10. There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
11. Guarantees, whether written or oral, under which the Village is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

12. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
16. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

17. We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.

*Other*

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

19. We have a process to track the status of audit findings and recommendations.

20. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

22. The Village has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

23. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

24. There are no:

- a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
- b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
- c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
- d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
- e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

25. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

- a. Financial statement preparation
- b. Adjusting journal entries
- c. Trial balance formatting from general ledger data
- d. Annual Financial Report preparation
- e. Compilation of Illinois Department of Insurance reports
- f. Compilation of the Treasurer's Annual Statement
- g. Compiled pension financial statements
- h. Bank reconciliation assistance

None of these nonattest services constitute an audit under generally accepted auditing standards.

26. The Village of McCook has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
27. The Village of McCook has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
28. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if any. Component units have been properly presented as either blended or discrete.
29. The financial statements properly classify all funds and activities.
30. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
31. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
32. The Village of McCook has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
33. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
34. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
35. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
37. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).

- 
38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
39. The entity meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
40. Tax-exempt bonds issued have retained their tax-exempt status.
41. We have appropriately disclosed the Village of McCook's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.
42. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
43. With respect to the supplementary information, (SI):
- a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
44. We assume responsibility for, and agree with, the findings of specialists in evaluating the GASB 75 and pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
45. We agree with the restatement presented in the current year's financial statements.
46. We assume responsibility for, and agree with, the information provided by the IMRF as audited by RSM relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.
47. We have evaluated and considered all potential tax abatements and believe all material tax abatements have been properly reported and disclosed.

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48. We have implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and believe that all liabilities, deferred outflows and deferred inflows have been identified and properly classified in the financial statements and any other required classifications and RSI have been computed in compliance with the Standard.

Sincerely,

Village of McCook

Signed:   
Title: Mayor

Signed:   
Title: Deputy Clerk

Village of McCook  
**SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS**

December 31, 2018

	<b>Financial Statements Effect - Debit (Credit) to Financial Statement Total</b>						<b>Change in Beginning Net Position/ Fund Balances</b>
	<b><u>Total Assets/ Deferred Outflows</u></b>	<b><u>Total Liabilities/ Deferred Inflows</u></b>	<b><u>Total Net Position/ Fund Balances</u></b>	<b><u>Total Revenues</u></b>	<b><u>Total Expenses/ Expenditures</u></b>	<b><u>Change in Net Position/ Fund Balances</u></b>	
<b>Business-Type Activities</b>	134,469	-	(134,469)	-	-	-	(134,469)
<b>Max Fund</b>	134,469	-	(134,469)	-	-	-	(134,469)



# Village of McCook

5000 GLENCOE AVENUE  
McCOOK, ILLINOIS 60525  
Phone: (708) 447-9030  
Fax: (708) 447-2584

June 24, 2019

Baker Tilly Virchow Krause, LLP  
1301 W. 22nd Street  
Suite 400  
Oak Brook, IL 60523

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Village of McCook Police Pension Fund and the Village of McCook Firefighter's Pension Fund (the "Funds") as of December 31, 2018 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the plan net position and the respective changes in financial position, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

### *Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
8. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
9. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
11. Guarantees, whether written or oral, under which the Funds is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

12. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of Name of Governing Body (City Council, Village Board, etc.) or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
16. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.

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*Other*

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. We have a process to track the status of audit findings and recommendations.
20. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
22. The Funds has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
24. There are no:
  - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
  - c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
  - d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
  - e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
25. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
  - a. Financial statement preparation
  - b. Adjusting journal entries
  - c. Trial balance formatting from general ledger data
  - d. Compilation of Illinois Department of Insurance reports

None of these nonattest services constitute an audit under generally accepted auditing standards.

26. The Village of McCook Police Pension Fund and the Village of McCook Firefighter's Pension Fund (the "Funds") has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
27. The Village of McCook Police Pension Fund and the Village of McCook Firefighter's Pension Fund (the "Funds") has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
28. The financial statements properly classify all funds and activities.
29. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
30. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
31. The Village of McCook Police Pension Fund and the Village of McCook Firefighter's Pension Fund (the "Funds") has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
32. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
33. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
34. We have appropriately disclosed the Village of McCook Police Pension Fund and the Village of McCook Firefighter's Pension Fund (the "Funds") 's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.
35. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

36. We assume responsibility for, and agree with, the findings of specialists in evaluating the Funds' pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

Sincerely,

Village of McCook Police Pension Fund and the Village of McCook Firefighter's Pension Fund (the "Funds")

Signed: Thomas M. Ferris  
Title: President

Signed: Joseph Myrick  
Title: President

Signed: Rene Botica  
Title: Deputy Clerk