

## Township Best Financial Practices

TOI Annual Conference  
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Keri-Lyn J. Krafthefer, Partner  
Ancel, Glink, Diamond, Bush,  
DiCianni & Krafthefer P.C.  
1979 N. Mill Street, Suite 207  
Naperville, IL 60563  
(312) 604-9126  
[kkrafthefer@ancelglink.com](mailto:kkrafthefer@ancelglink.com)  
[www.ancelglink.com](http://www.ancelglink.com)

Nathan J. Gaskill, CPA, Partner  
Lauterbach and Amen, LLP  
27W457 Warrenville Road  
Warrenville, IL 60555  
(630) 393-1483  
[ngaskill@lauterbachamen.com](mailto:ngaskill@lauterbachamen.com)  
[www.lauterbachamen.com](http://www.lauterbachamen.com)

## Township Financial Functions

- Adopt budget and appropriation ordinance
- Adopt levy
- Annual audit
- Approve expenditures/warrants from township and road district

## Stay out of the News!



### **Township Best Financial Practices**

- **Accounting and Financial Reporting**
  - Elements of Financial Accounting, Financial Audits
- **Internal Controls**
  - Separation of Duties
    - Deposits; Disbursements; Bank Reconciliations & Financial Reporting
    - Examples of Fraud – DIXON, ILLINOIS
- **Mandatory Reporting**
  - Comptrollers Report, Treasurer's Report, Tax Levy Ordinance, Budget & Appropriations Ordinance

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### **Accounting and Financial Reporting**

Elements of Financial Accounting

- Assets = What is Owned
- Liabilities = What is Owed to Others
- Equity = What is Owed to the Owners
- Accounting Equation: Assets = Liabilities + Equity
- Income
- Expense
- Balance Sheet (Statement of Net Position)
- Income Statement (Statement of Activities)
- Generally Accepted Accounting Principles (GAAP)
- Governmental Accounting Standards Board (GASB)

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### **Accounting and Financial Reporting**

Elements of Financial Accounting

**Assets - Liabilities = Equity**

Home - Bank Mortgage = Equity

Township Cash – Liabilities (A/P) = \$\$ Avail. To Spend

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## Accounting and Financial Reporting

Financial Audits/Annual Financial Statements

- When is an Audit Required?
  - If your revenue is \$850,000 or greater, you must have an annual audit by a CPA within 6 months of the close of the fiscal year. 60 ILCS 1/80-20.
  - If your revenue is under \$850,000, independent auditing committee must do an audit within 6 months of the close of the fiscal year
  - In the event of the end of a term of office or a vacancy in the office of Supervisor, townships with revenue under \$850,000 must have an audit by a CPA within 6 months of that event
- Conducted by Independent CPA or committee
  - Definition of Independence
  - Independent auditing committee: 3 township electors chosen by township board. May not be a township board member or relative. Committee members must be proficient in accounting.

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## Accounting and Financial Reporting

Financial Audits/Annual Financial Statements

- Includes a Review of Internal Controls
- Management Letter
  - Top 10 Management Letter Comments & Recommendations
- To Render an Opinion on Compliance with GAAP
- FORENSIC AUDIT vs. Agreed Upon Procedures

### Accounting and Financial Reporting

#### Annual Financial Report

Example: Balance Sheet

TOWNSHIP OF [REDACTED]	
Balance Sheet - Governmental Funds	
February 28, 2013	
	Amount
ASSETS	
Cash and Investments	\$ 1,016,797
Receivables - Net of Allowance	
Taxes	813,173
Accounts	
Due from Other Funds	375
Prepays	1,000
Total Assets	<u>1,831,245</u>
LIABILITIES	
Accounts Payable	5,074
Other Payables	-
Due to Other Funds	<u>(3,382)</u>
Total Liabilities	1,693
DEFERRED EMPLOY OF RESOURCES	
Property Taxes	526,173
Total Liabilities and Deferred Sources of Resources	<u>2,219,713</u>
FUND BALANCES	
Nonspendable	11,260
Restricted	-
Unassigned	<u>1,803,513</u>
Total Fund Balances	<u>1,814,773</u>
Total Liabilities, Deferred Sources of Resources and Fund Balances	<u>4,034,486</u>

This note to the financial statements is an integral part of this statement.

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## Accounting and Financial Reporting Annual Financial Report

Example: Income Statement  
(Statement of changes in  
Revenues, Expenditures, and  
Fund Balances)

TOWNSHIP OF [REDACTED]	
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	
Year Ended February 28, 2013	
	General Fund
Revenues	
Taxes	\$ 918,724
Charge for Services	26,264
Intergovernmental	-
Interest	347
Investment Income	4,207
Total Revenues	<u>949,542</u>
Expenditures	
Current	
General Government	1,211,218
Highways and Streets	-
Health and Welfare	-
Capital Outlay	-
Debt Service	47,894
Transfer Payments	-
Interest and Fund Charges	<u>17,524</u>
Total Expenditures	<u>1,228,842</u>
Net Change in Fund Balances	(279,294)
Fund Balances - Beginning as Restated	<u>1,277,274</u>
Fund Balances - Ending	<u>997,980</u>

The notes to the financial statements are an integral part of this statement.

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## Accounting and Financial Reporting Annual Financial Report

Example: Management Letter  
(Recommendations)

CURRENT RECOMMENDATIONS	
1.	<b>PETTY CASH</b>
	<b>CONCERN</b>
	During our year-end audit procedures, we noted that the Town does not have a policy with regard to petty cash. Currently, cash received from camp rental, meals, and donations are put into petty cash "fund" and expense statements are paid out of these receipts and the revenues and expenses are never recorded in the books.
	<b>Recommendation</b>
	We recommend the Town establish a petty cash policy and set a limit on what can be held in petty cash. The petty cash fund should be turned in to the administrative offices by the business owner. Also, all cash received throughout the year should be brought in to the administrative offices and deposited into the bank. All expenses should be approved through the proper channels and paid out of the finance department.
	<b>Management Response</b>
	The Town has already implemented changes to only maintain \$50 in General Fund petty cash and \$100 in Road Maintenance Fund petty cash to be used as the one source that cash is needed. Otherwise, the policy is to use the purchasing procedures to place, use the town's charge account, as applicable and if authorized, or submit for expense reimbursement.
2.	<b>FUND BALANCE POLICY</b>
	<b>CONCERN</b>
	A fund balance policy establishes a minimum level at which the projected end-of-year fund balance must be maintained. If the projected end-of-year fund balance falls below the minimum required by the governmental and proprietary funds, a fund balance policy action is pending. Financial stability, cash flow for operations, and the assurance that the Town will be able to respond to emergencies with fund strength.
	<b>Recommendation</b>
	We recommend the Town review the current fund balance policy and update it to be in compliance with GASB Statement No. 34. The Town should address fund balance reporting categories (unavailable, restricted, committed, assigned, and unassigned) as well as reserve minimum fund balance policies.

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## Management Letter

### Top 10 Management Letter Comments & Recommendations

- Petty Cash – no policy (set limits on what can be held in petty cash)
- Fund Balance Policy – establishing minimum levels for cash flow
- Accounts Payable – approval process for paying bills (board approval and warrant list)
- Netting of Revenues and Expenses – example: Fundraiser
- Capital Assets – recordkeeping of capital assets and a capital asset policy
- Investment Policy – provides internal controls for cash and investment related transactions
- Funds Over Budget – monitoring individual funds (i.e. IMRF) for spending more than budgeted at the Fund level
- Credit Cards – have a policy regarding use and access
- Payroll – Keep accurate records, do not withhold pay, oversight over timekeeping, FLSA
- Employee Benefits – Watch accrual and payout of paid benefit days

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## Administration

### Internal Controls

- Separation of Duties
  - Deposits
  - Disbursements
  - Bank Reconciliations
  - Financial Reporting
  - Payroll records
- Examples of Fraud – DIXON, ILLINOIS
- Sample Finance Department Organizational Chart (Infographic)
  - Large Township
  - Medium Township
  - Small Township

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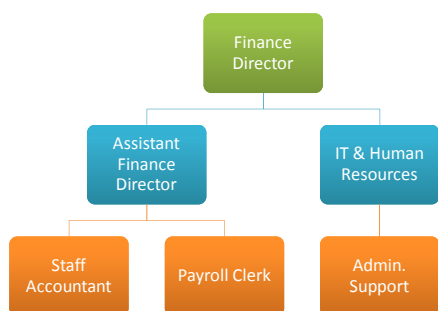
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## Administration

### Sample Large Township Finance Department Organizational Chart



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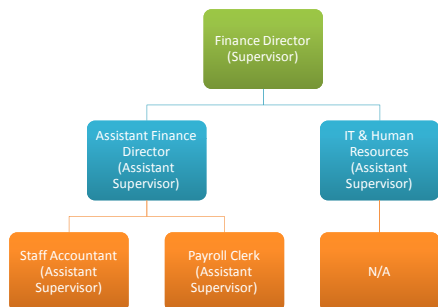
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## Administration

### Sample Medium Township Organizational Chart



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Administration  
Sample **Small Township**  
Finance Department Organizational Chart

Township  
Supervisor

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## Mandatory Reporting

- Annual Comptroller's Report
- Treasurer's Report
- Tax Levy Ordinance
- Budget & Appropriations Ordinance

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## Mandatory Reporting

Illinois State Comptroller – Local Government Division – Annual Financial Report



LOCAL GOVERNMENT DIVISION  
ANNUAL FINANCIAL REPORT  
STATE OF ILLINOIS  
COMPTROLLER  
JUDY BAAR TOPINKA

**Select the Local Government Unit - Step 1**

The counties listed on the left are for the current fiscal year. For new fiscal year units, please select the Local Government Unit listed on the right and click the county name for further details.

The Annual Financial Report is submitted from the state way every year. Please the report report. Please use the dropdown menu to select the unit of all units. Other changes may include the reported number of employees.

Select the Fiscal Year: 
 Select the Type of Unit: 
 Select the State character in the name of your unit:

[Continue](#)

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## Summary

Township Best Financial Practices

- **Accounting and Financial Reporting**
  - Elements of Financial Accounting, Financial Audits
- **Internal Controls**
  - Separation of Duties
    - Deposits; Disbursements; Bank Reconciliations & Financial Reporting
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## Payment of Bills

- **Township Board must examine and audit township and road district bills before they are paid. 60 ILCS 1/80-10, 80-15.**
  - Except general assistance, wages, social security taxes
  - Sufficient background documentation?
  - Money in line item/budget?
  - Separate approval required for expenditures, even if they are accounted for in the budget
  - Discretion over town funds, highway commissioner and assessor
  - Have a written policy, adopted by resolution, regarding the payment of bills between meetings
  - Have a written policy, adopted by resolution, regarding the Supervisor's or Administrator's ability to commit to the expenditure of funds, with a limit.
  - You can require any account to be verified by affidavit. 60 ILCS 1/80-25.

## Payment of Bills

- **Townships must comply with the Local Government Prompt Payment Act, 50 ILCS 505/1**
  - All bills must be approved or disapproved within 30 days after the goods/services are received or the invoice is received.
  - All bills must be paid within 30 days after approval.
- **Supervisor must pay bills within 20 days after clerk provides certificate of audit by board. 60 ILCS 1/80-50 (a)**
- **Wages must be paid at least once a month, and no later than 15 days after end of pay period. 60 ILCS 1/80-50 (b)**
- **Supervisor's failure to pay bills can result in bond forfeiture. 60 ILCS 1/80-50 (c).**

## Contact Information

Nathan J. Gaskill, CPA, Partner  
Lauterbach and Amen, LLP  
27W457 Warrenville Road  
Warrenville, IL 60555  
(630) 393-1483  
[ngaskill@lauterbachamen.com](mailto:ngaskill@lauterbachamen.com)  
[www.lauterbachamen.com](http://www.lauterbachamen.com)

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