

COLLINSVILLE AREA RECREATION DISTRICT

AGREED UPON PROCEDURES

DECEMBER 31, 2011

Hughes & Associates

Certified Public Accountants, P.C.

1321 D'Adrian Professional Park
Godfrey, IL 62035

618-466-6278
Fax 618-466-8663

Independent Accountant's Report on Applying Agreed-Upon Procedures

Management and Board of Trustees
Collinsville Area Recreation District

We have applied certain agreed upon procedures to selected records and transactions of Collinsville Area Recreation District (CARD) for the twelve month period ending December 31, 2011. Our procedures were made in accordance with the arrangements set forth in our letter to you dated July 16, 2012. This engagement to apply agreed upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose.

The procedures we performed are summarized in the supplement to this report. Because the procedures do not constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion or any other form of assurance on any of the items specified in the report.

In connection with the procedures mentioned in the report, we were not engaged to and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly we do not express such an opinion. Had we performed additional procedures or had we made an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to the accounts specified in the attached supplement and does not extend to any financial statements of CARD Bank taken as a whole.

This report is intended solely for the use of management and the board of directors, and should not be used by anyone other than these specified parties.

Hughes & Associates, CPA, P.C.

Hughes & Associates, CPA, P.C.
September 14, 2012

ACCOUNTING PROCEDURES AND MANUAL

We were unable to obtain internally prepared written procedures performed by the accounting department. We did obtain a copy of the independent auditor's "Walk through Procedures", that they used in their determination of their audit opinion on CARD's financial statements.

We did note that CARD does not have a manual of accounting policies and procedures. The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and will assist management in delegating and segregating duties. The manual should include:

- An organizational chart.
- Job descriptions, outlining duties and responsibilities.
- Descriptions of methods, procedures and accounting principles to be followed including explanations and examples of principle transactions.
- A chart of accounts with detailed explanation of the items to be included therein.
- Any other documents or forms for which uniformity of use is desired.

We recommend that CARD develop a comprehensive accounting policies and procedures manual. In the process of developing the manual, we recommend a comprehensive review of the existing accounting system, offering management the opportunity to eliminate or improve procedures and thereby create a more efficient and effective system.

MAINTAIN FIXED ASSET RECORDS

At the present time, fixed asset records are not maintained by CARD. Fixed assets represent approximately 90% of the total assets reported on CARD's annual audit and are based on records maintained by CARD's independent auditor, these records are not in sufficient detail for the effective management of fixed assets. We recommend that CARD maintain detailed fixed asset records and reconcile these records to the general ledger on a regular basis to ensure accurate accounting for assets. Specifically, fixed asset records should include the following data:

- Description of the asset.
- Acquisition Cost.
- Date placed in service.
- Estimated useful life.
- Depreciation method.
- Depreciation expense and accumulated depreciation for the year
- Date asset retired and selling price if applicable

Complete information such as the above on all fixed assets would provide excellent control for the safeguarding of these assets, which are significant in costs. Better assessment and evaluation could also be made regarding the reliability of certain fixed assets and the need for replacements, etc.

CAPITALIZATION POLICY NEEDS TO BE FORMALIZED

At present, no formal fixed assets capitalization policy exists. We suggest a policy be implemented in order to more effectively control and account for CARD's property and equipment. We suggest the present capital expenditure policy be reviewed in order to more effectively regulate and control CARD's practice in this area. To accomplish this goal, we suggest the following:

- Establish a minimum dollar amount for capitalization within the various property accounts.
- Prepare written guidelines for proper account classification of all routine fixed asset additions (furniture and fixtures, leasehold improvements, etc.).
- Formalize CARD's policy to differentiate between maintenance and repair items and long-term improvement items.

Implementation of the above recommended policies will create much more consistent accounting treatment for purchases of fixed assets.

FIXED ASSET DISPOSAL POLICY NEEDS TO BE IMPLEMENTED

At present, CARD does not have a formal procedure to ensure that disposals of fixed assets, whether by destruction, sale, scrapping, or trade-in, are reported to the accounting department. Without such a procedure, the likelihood of a disposal going unrecorded increases substantially. A formal policy to ensure the reporting of fixed asset dispositions should be adopted and should require the necessary level of approvals based on the value of the asset. We suggest that a simple, yet standardized, form should be developed to provide adequate approvals for disposal, details and other pertinent information as evidence of adherence to CARD's policy. This form would also provide the necessary accounting documentation for recording the disposal into the accounting records.

EMPLOYEE CREDIT CARD USAGE

Many CARD employees possess and use district credit cards. CARD's reimbursement procedure was to pay the credit card statements in full each month. Employees are not required to prepare expense reports to be turned in to the accounting department on a monthly basis supporting the need for the use of a credit card. Documentation was not always attached to the credit card statements. These issues and the lack of documentation with respect to the business purpose for many of these expenditures are serious internal control weaknesses. We recommend CARD's management determine if missing documents were misplaced or never filed and, going forward, a policy over credit cards should be developed and strictly enforced.

SALES TAX ON PURCHASES

During our review of credit card purchases, we noted many instances where the credit card user paid sales tax on the items purchased with the credit card. Items purchased for use by CARD are not subject to sales tax, and the payment of the tax results in an unnecessary increase in the cost of the item.

INTERNAL STAFF MEETINGS

During our review of credit card expenditures, we noted numerous instances where it appeared that rather than having a meeting in CARD facilities, the meetings were held at restaurants, with the cost of the meal charged to the CARD credit card and subsequently paid by CARD. The board should determine if this is an appropriate and efficient use of CARD resources. At a minimum, a policy should be established that prohibits or limits the use of CARD funded meetings/meals.

REVIEW OF PAY CHANGES

Our review disclosed that there is no established procedure for review and approval of gross pay changes made to the payroll records. This is a serious concern and we strongly suggest that a review and approval process be implemented to provide for better control in this area. The Board or Committee Established by the Board should approve all changes in an employee's gross pay and be able to verify the changes were correctly made in the payroll system.

COMPENSATION

During our review we noted that CARD was paying hourly employees for a 40 hour work week. CARD's personnel manual in effect during our review indicated a work week as 37.5 hours. The Board should determine the cause for this discrepancy and either revise the personnel manual or pay accordingly.

OVERTIME PAY FOR EXEMPT EMPLOYEES

During our review of payroll we noted that an employee, who would normally be considered exempt from the payment of overtime, was paid overtime. Although not prohibited, the Board should develop a policy and implement approval procedures as to the payment of overtime to otherwise exempt employees.

OVERTIME PAY ON SAME DAY AS SICK PAY

During our review, we noted that an employee received 8 hours of sick pay and on the same day was paid for 4 hours of overtime. The payment of overtime and sick pay seem to be incompatible on the same day and the personnel policy states that sick leave will not be counted in the calculations toward overtime hours. The Board should develop approval procedures to address payments to employees that are in excess of the regular approved payroll amounts.

INCORRECT COMPUTATION OF PAY INCREASE

During our review, we noted that there was a 2% pay raise given to employees. Our test of the increase computation indicated that one employee received 2.9%. Procedures should be established to check the mathematical accuracy of percentage increases and paychecks should be reviewed and approved prior to issuance.

CALCULATION OF SICK, VACATION AND PERSONAL TIME

Sick, vacation and personal time records are maintained using a manual system. Our review of this system noted several mathematical errors in the computations and we also noted that there is no differentiation on the computerized payroll records as to sick, vacation and personal time used. We also noted vacation accrued on the manual records in excess of the policy maximum of 20 days. We recommend that the CARD review its personnel manual and determine the appropriateness of CARD's current policy and make any necessary changes. We also recommend that CARD institute an automated system of tracking and reporting sick, vacation and personal time.

PERSONAL TIME

The personnel manual has no clear definition as to what should constitute a personal day off nor if the employee can use multiple days sequentially. We recommend that CARD review the policy and determine if clarification is necessary.

UNIFORMITY OF PAYROLL REPORTING

During our review, we noted that payroll reporting to the accounting department was presented in multiple formats i.e. punched time cards, automated time with rates, manual hours etc. We also noted that one format included hours written on a form which appeared to contain a photocopied departmental approval. CARD should review the methodology for reporting payroll data to the accounting department and develop a uniform reporting and approval process.

CONTINUING EDUCATION

CARD's personnel policy indicates that CARD will pay for continuing education that enhances the employees' knowledge related to their District responsibilities. We noted one instance where the course that was paid for by the District would have no bearing on the employee's performance on District tasks. The policy should be reviewed and if determined that current policy is the intention of the District, then approval procedures should be implemented to insure compliance with the policy.

OUT OF TOWN MEAL POLICY

The personnel policy indicates the meal when out of town on District business should be reimbursed at actual cost not to exceed \$40.00 per day. In our review of expenditures, we noted expenditures for meals when out of town in excess of the policy's \$40.00. These amounts were charged to the District credit card and paid by the District. CARD should adopt a policy prohibiting the use of the credit card while out of town on District business and instead reimburse employees based on the policy adopted by the District.

CELL PHONE PAYMENTS

The District pays certain employees a flat amount in order for them to maintain a cell phone. These amounts are not included on the employees W-2's as required by IRS regulation. CARD should determine if there is a need to pay for individual cell phones. If the need is there, then a policy should be developed and monitored. If the current procedure is maintained these payments should be included on the respective employee's W-2.

LONGEVITY PAY

In December CARD pays longevity to employees who have exceeded certain years of service milestones. Longevity is not addressed in the employee manual. The only documentation supporting the computation of the benefit is a copy of a presentation made to the Board in 2007. The payment of longevity should be a component of the personnel manual. If the Board wishes to continue this practice the personnel manual should be adjusted accordingly.

PERSONAL USE OF VEHICLES

CARD's personnel policy indicates that District vehicles are for use on official District business. We noted that employees use the vehicles for commuting, including commuting outside the District. CARD should review the current District practice and determine if it should be revised. Procedures should be implemented to insure compliance with the policy.

BELOW MARKET RESIDENTIAL RENTAL TO EMPLOYEE

During our review, we noted that an employee was renting a CARD owned residence at below market rental rate. The excess amount was not reported as additional compensation to the employee. IRS regulation would require that the market rental rate in excess of the amount paid be included on the employees W-2 as additional taxable compensation. CARD should review its current practice and determine appropriateness and establish procedures to insure compliance with IRS regulations.

MILEAGE REIMBURSEMENT

CARD policy is to reimburse employees for use of their personal vehicle for District business at the lower of 32.5 cent per mile or the rate established annually by the IRS. It came to our attention that CARD is reimbursing at the IRS rate which is currently higher than 32.5 cents per mile.

LIFE AND DENTAL INSURANCE BENEFITS

The District is paying life and dental benefits for certain employees of the District. The authorization for these payments is not included in the Employee Personnel Manual. If the District wishes to provide these benefits they should revise the manual indicating coverage and participation requirements. In addition, the District should review the IRS reporting of these benefits to insure compliance with regulations.

AUDIT LEVY

We noted the determination of the amount of the audit levy and the audit budget includes an amount for salaries of CARD employees. 50 ILCS 310/1, 310/9, the statutory authority for this tax, indicates that the tax levy is to be used to pay the expense of conducting an audit performed by a Certified Public Accountant. Accordingly, the payment of CARD employee salaries from this tax appears to be an inappropriate use. We suggest that CARD discuss this item with legal counsel to determine the propriety of this charge.

ILLINOIS MUNICIPAL RETIREMENT (IMRF) LEVY

We noted the determination of the amount of the IMRF levy and the IMRF budget includes an amount for salaries of CARD employees. 40 ILCS 5/7-105, 5/7-171, the statutory authority for this tax, indicates that the tax levy is to be used to meet the requirements of the pension fund. Accordingly the payment of CARD employee salaries from this tax appears to be an inappropriate use. We suggest that CARD discuss this item with legal counsel to determine the propriety of this charge.

SOCIAL SECURITY LEVY

We noted the determination of the amount of the Social Security levy and the Social Security budget includes an amount for salaries of CARD employees. 40 ILCS 5/21-110, 5/21-110.1, the statutory authority for this tax, indicates that the tax levy is to be used to meet the cost of participation Social Security and/or Federal Medicare Program. Accordingly the payment of CARD employee salaries from this tax appears to be an inappropriate use. We suggest that CARD discuss this item with legal counsel to determine the propriety of this charge.

WORKERS COMPENSATION LEVY

We noted the determination of the amount of the Workers Compensation levy and the Workers Compensation budget includes an amount for salaries of CARD employees. 745 ILCS 10/9-107, the statutory authority for this tax, indicates that the tax levy is to be used to pay judgments and settlements or to otherwise provide protection under the Workers' Compensation and Occupational Diseases Act. Accordingly the payment of CARD employee salaries from this tax appears to be an inappropriate use. We suggest that CARD discuss this item with legal counsel to determine the propriety of this charge.

ALTERNATIVE REVENUE BONDS

Alternative revenue bonds are excluded from the District's statutory debt limitation, provided they meet certain regulatory requirements. We were unable to obtain sufficient information to determine the District's compliance with these requirements. We strongly recommend that CARD review the current debt structure with legal bond counsel to determine the District's compliance with all applicable statutes and regulations.

DISBURSEMENTS

We randomly selected checks for verification of documentation. Our selection indicates numerous disbursements that did not have departmental level approval for the expenditure, and the invoices were not cancelled. CARD should develop policies over cash disbursements to ensure that only approved invoices are paid and that invoices are properly cancelled.

BANK RECONCILIATIONS

We reviewed the bank reconciliations for the month of December 2011 and noted that they were out of balance with general ledger by \$1,321.29. Any out of balance situations should be thoroughly investigated and adjusted as soon as practical.

BIDS

During our review of expenditures, we noted an improvement project in which more than \$20,000 was expended to a single contractor without soliciting bids. We were informed that bids were not taken because this was "an insurance claim" and not necessary. We suggest the board review with legal counsel the validity of this assumption. We also believe CARD should review its procurement policy and determine at what level it should obtain written bids and quotes for operational needs and whether there should be pre-approved vendors for goods and services.

MAINTENANCE OF GENERAL LEDGER

CARD maintains approximately 15 different funds each with its own general ledger system. These funds are not consolidated on a regular basis to enable management to get an overall view of financial condition and operating results of the District as a whole. There is no apparent legal requirement to maintain all of these separate ledgers and it creates the need for numerous transfers between individual general ledger bank accounts during the year. This appears to make the system unduly complicated and the constant transfer between accounts greatly increases the chance for error. In general, an accounting and information system should be designed to provide management with accurate and timely financial information to enable well informed business decisions to be made. The present system appears to fail in meeting these expectations. We strongly suggest that CARD seriously consider creating an accounting information system that will facilitate the production of accurate financial information and related preparation of financial statements, provide for accountability of assets and the maintenance of accurate historical record of operations. Accounting and financial information is the language of business and must be properly assessed and comprehended to allow management to guide and direct an entity into the future. We recommend that the general ledgers be consolidated to as few funds as legally required. The accounting system should be adjusted to reflect the needs of overall management and department heads based on departmental accounting within the same general ledger.

COMBINING CASH ACCOUNTS

We noted that CARD maintains numerous cash accounts. This requires that a significant amount of time be spent on the monthly accounting responsibilities and weakens the overall cash controls due to the number of accounts maintained. To save time and money and increase the efficiency of operations, we suggest that some of these accounts be combined and otherwise eliminated. If it is necessary to track the cash balance of a particular program or fund, the

features of the accounting software should be used to accomplish this task

CONFLICT OF INTEREST POLICY NEEDED

We noted that CARD does not have a formal policy regarding employee conflicts of interest. In recent years, issues of conflicts have become much more in view and many companies have elected to develop or formalize such a policy. We recommend CARD adopt a formal policy covering potential conflict of interest situations. This policy should identify all business relationships and other dealings between CARD and its officers, trustees, key employees and other such parties with whom CARD conducts business.

AUDIT COMMITTEE NEEDED

In an effort to improve communications between management, Board Members, and the auditor, we suggest the establishment of an audit committee to assist the Members of the Board in accomplishing their fiduciary duty and responsibility to CARD in the financial realm. The audit committee would be responsible for engaging the independent auditors, reviewing the overall audit plan, reviewing the audited financial statements and the related management letter; creating a summary and conclusion; and reporting the resulting summary and conclusion to the Board of Directors. Recently issued Statements on Auditing Standards require, in certain circumstances, that the independent auditor have a direct contact with such a committee of the governing board. An audit committee is advantageous because it ensures direct communication between the independent auditor and the Board. Our experience has been that Board Members generally approve of audit committees because these committees prove to be the most effective and time efficient method of communication within the Board.

INVESTMENT POLICY

The employees of CARD were unaware of the District's investment policy. CARD should review its current investment strategy to determine if it is in compliance with the policy currently in effect.

OTHER PROCEDURE ITEMS

We were unable to obtain a written record of policies and procedures of the accounting department and were therefore unable to review their processes.

CARD
2011 SUMMARY OF CREDIT CARD TRANSACTIONS

Card	Total Expended	General Commodities	Fuel	Gallons	Food & Travel	Car Wash	No Support
BB	61.01	61.01					
BL	7,739.45	5,205.13	392.58	110.15			
BA	2,943.42	569.43	2,160.69	622.12			2,141.74
CW	537.21	27.05	502.21	138.79			213.30
CF	5,990.81	4,120.56				7.95	
CJ	1,423.80	198.50	1,090.91	289.60	1,601.76		268.49
EL	621.48	584.47	37.01	11.94			134.39
GK	2,181.28	624.07	1,475.40	373.33			
GR	4,013.45	1,075.61	2,813.18	829.96		81.81	
JL	1,162.74	11.85	867.88	235.05			124.66
KG	3,819.64	793.07	2,534.58	742.14	36.48		283.01
KR	1,659.42	904.53	116.85	31.42			455.51
KB	10,980.48	3,191.59	6,525.20	1,824.78	280.05		638.04
MB	47,945.70	39,187.81	62.07	15.14	5,528.61		983.64
MM	6,314.86	5,245.45	130.40	40.29	418.47		3,167.21
RR	11,845.51	5,332.03	3,507.48	1,097.70	523.59		520.54
RB	7,943.45	4,737.95	105.62	30.73	285.77		2,482.41
MS	4,835.80	3,626.53	51.00	12.26			2,814.11
SW	8,556.48	5,377.21	337.51	81.87	190.70		1,158.27
TK	510.91		510.91	137.84			2,651.06
	<u>131,086.90</u>	<u>80,873.85</u>	<u>23,221.48</u>	<u>6,625.11</u>	<u>8,865.43</u>	<u>89.76</u>	<u>18,036.38</u>