

## **Fraud risk assessment reports available**

Issued: Oct. 17, 2018

Last year the Village sent out an RFQ for a fraud risk assessment. While Tinley Park hasn't had fraud-related issues as some other communities have had, as a progressive, forward-thinking organization, the Village Board thought it important that an independent outsider assess the potential for fraud. Six firms submitted proposals, and BKD, LLP was rated the most qualified firm.

BKD evaluated current fraud prevention processes and procedures, provided guidance on methods to reduce risk, and issued a report prioritizing financial risks and identifying areas most vulnerable to fraud, along with recommendations.

BKD has issued a "Report on Fraud Risk Assessment and Data Analytics Procedures" and a "Report on Process Analysis and Assessment," both attached below. The Village will begin to implement the pertinent recommendations contained in the reports.

More information will be available as the implementation of the recommendations proceeds.

# **The Village of Tinley Park**

*Report on Fraud Risk Assessment  
and Data Analytics Procedures*

March 5, 2018



Board of Trustees  
Village of Tinley Park  
16250 South Oak Park Avenue  
Tinley Park, IL 60477

Thank you for the opportunity to provide consulting services to the Village of Tinley Park (the "Village") in connection with the Board of Trustees' (the "Board") assessment of fraud risk. The procedures we performed were agreed to by the Board and were solely to assist the Board in assessing fraud risks.

Our services were provided in accordance with the Statement of Standards for Consulting Services promulgated by the American Institute of Certified Public Accountants and, accordingly, do not constitute a rendering by BKD or its partners or staff of any legal advice, nor do they include the compilation, review or audit of financial statements. We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express such an opinion. All procedures of the fraud assessment and data analytics were completed. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Because our services were limited in nature and scope, they cannot be relied upon to discover all documents and other information or provide all analysis that may be of importance in this matter. The sufficiency of the procedures are solely the responsibility of the parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures performed either for the purpose for which this report has been requested or for any other purpose.

This report is the property of **BKD, LLP**. This report is intended solely for the information and use of the Board and management of the Village and should not be used by any other party or for any other purpose without our prior consent. If any party intends to publish or otherwise reproduce this report and make reference to our firm name, BKD must be provided with the printer's proofs or masters for our review and approval before printing or other reproduction and provided with a copy of the final reproduced material for our approval before it is distributed.

**BKD, LLP**

*BKD, LLP*

March 5, 2018

## **Project Summary**

We are pleased to offer this report to the Village of Tinley Park (“Village”), which outlines the work we performed to assist the Board’s assessment of fraud risks. We performed forensic data mining services on the Village’s accounts payable, employee, payroll, vendor and general ledger files. The scope was expanded beyond the initial agreement to include current and former Trustees back to 2014 in our testing. We were then further requested to conduct testing of capital projects and the related requests for proposals/qualifications. Our services were for the period May 1, 2014, through October 31, 2017.

**Overall, our procedures did not result in findings of inappropriate activity at the Village.** The details of the procedures we performed and our results are discussed in the sections below.

## Overview of Fraud in Government and Public Administration

Fraud committed by employees and other insiders poses a significant risk for organizations throughout the world, including government and public administration. Incidents of occupational fraud are so common, their occurrence is no longer remarkable. Results of a 2016 survey conducted by the Association of Certified Fraud Examiners (ACFE) published in the “Report to the Nations” estimates organizations lose as much as five percent of their yearly revenues to fraud, waste and abuse. This same survey also addresses the most common fraud in the government and public administration industries which are listed in the adjacent table.

As noted in the adjacent table, corruption and billing schemes comprise the majority of fraud in government and public administration. Corruption, as the term is used here by the ACFE, includes “*A scheme in which an employee misuses his or her influence in a business transaction in a way that violates his or her duty to the employer in order to gain a direct or indirect benefit (e.g., schemes involving bribery or conflicts of interest).*” In government and public administration, corruption includes an override of existing controls and overexertion of power by management of the Board. This project looked for instances of overridden controls and/or misuse of power. In conjunction with data analytics procedures, we conducted select testing of capital projects for adherence to bid budget and any potential conflicts of interest.

Industry/Scheme	Government and Public Administration
Cases	229
Billing	25.7%
Cash Larceny	7.9%
Cash on Hand	10.5%
Check Tampering	9.2%
Corruption	38.4%
Expense Reimbursements	15.7%
Financial Statement Fraud	7.9%
Non-Cash	14.8%
Payroll	13.5%
Register Disbursements	1.7%
Skimming	14.0%

## Data Mining Procedures

The Village provided us with vendor master, accounts payable detail, employee master, payroll detail and general ledger detail files (the “Files”) in electronic format. A summary of these files is below:

### Summary of Files

File	Applicable Date Range
Vendor master	As of October 2, 2017
Employee master	As of October 2, 2017
Accounts payable detail	May 1, 2014 – September 22, 2017
Payroll detail	May 1, 2014 – September 29, 2017
General ledger detail	May 1, 2014 – October 31, 2017

The vendor master file contained 3,295 vendors. Of these, 3,291 vendors showed as active, and four were inactive. The employee master file contained 728 employees, which include part-time, full-time and retirees. Of these, 497 employees showed active status, 222 showed as inactive status, and 9 showed on leave status. Our analysis of accounts payable transactions encompassed 35,433 payment and invoice transactions during the period May 1, 2014, through September 22, 2017. In addition, the general ledger detail files, specific to revenue and expenditure accounts related to the General Fund, contained tens of thousands of lines of activity for the period May 1, 2014, through October 31, 2017.

In addition, BKD performed a search of social media and other internet sites for any potential matches/relationships between Trustees (including former Trustees) and Village employees or vendors. This search included a list of 20 current and former Trustees and mayors.

We analyzed the Files to identify patterns potentially indicative of irregularities (*e.g.*, conflicts of interest), errors or fraud. We provided our results to Ruth Gibson, Senior Accountant, for distribution amongst Village management for review and research as necessary.

**The Village of Tinley Park // Report on Fraud Risk Assessment  
and Data Analytics Procedures**

March 5, 2018

The procedures we performed, along with the risks assessed, are below.

Vendor and Accounts Payable Data	Procedure	Risks Assessed
	Identify employee/vendor matches	FV, CoI
	Identify employee/vendor proximity relationships	FV, CoI
	Identify vendors missing information	FV
	Identify vendors with mailbox service addresses	FV
	Identify vendors with other unusual characteristics	FV, IP
	Identify payments to vendors not in the vendor master file	FV, IP
	Identify unusual vendor payment trends	IP
	Identify check and invoice sequence errors	IP, DP, UP
	Identify potential duplicate paid invoices	DP, IP

**Risks Assessed Legend**

FV = Fictitious vendor  
 CoI = Conflict of interest  
 IP = Inappropriate payments  
 DP = Duplicate payments  
 UP = Unrecorded payments

Employee and Payroll Data	Procedure	Risks Assessed
	Identify potential duplicate employees	GE
	Identify employee relationships	GE
	Identify employees with mailbox service addresses	GE
	Identify employees with irregular fluctuations in hourly rate	GE, HM
	Identify employees with unusual/excessive hours	HM
	Identify employees receiving checks on nonpayroll dates	GE, IP

**Risks Assessed Legend**

GE = Ghost employees  
 HM = Hours manipulation  
 IP = Inappropriate payments

## Analysis of Vendor and Accounts Payable Data

Our analysis of vendor and accounts payable data focused on identifying characteristics indicative of fictitious vendor, conflict of interest, improper payment, duplicate payment and unrecorded payment schemes. The remainder of this section summarizes the key results of our testing of vendor and accounts payable data and is not meant to be a comprehensive discussion of all procedures performed. We provided detail of our results to management for review.

### *Employee/Vendor Matching*

Matches between the employee and vendor master files are common in fictitious vendor schemes. While it is normal for an employee to receive payment as a vendor, *e.g.*, expense reimbursements, not all employees should necessarily be receiving these types of payments. Further, it is unusual for a corporate vendor to share attributes with an employee. These shared attributes may indicate a potential conflict of interest or fictitious vendor. For instance, an employee may find a way to add a fictitious company to the vendor master file and may use their home address as the vendor address. We identified employee/vendor relationships based on the following attributes:

Attribute(s)	Description
Name, among others	Employee set up as a vendor
Any other than name	Employee related to a vendor

We identified 97 instances of an employee set up as a vendor where the vendor received at least \$1,000 in payments on or after May 1, 2014. Further, we identified 17 instances of an employee potentially related to an individual set up as a vendor where the vendor received at least \$1,000 in payments on or after May 1, 2014. We identified three instances where the vendor was a business entity and the vendor received some form of payment on or after May 1, 2014.

### **Management Response**

Management reviewed all matches provided and confirmed the reasons for employees being set up as vendors and the reasons for any employee/vendor relationships. The following summarizes the results of the review for the new instances:

- Vendor type of “O” indicates typically a reimbursement vendor or a refund vendor.
- For many years, the Village has issued reimbursements for conferences, travel, etc. to employees and for a time reimbursed employees for charges above a certain dollar limit for prescription reimbursements. This plan ended a year ago, but existed for many years as it was bargained in the police contract.



### *Employee/Vendor Proximity Relationships*

We analyzed the employee and vendor files to identify relationships based on geographic proximity. Proximity relationships are instances of a vendor's address located within a specified distance of an employee's address. Specifically, we focused on business entities located within one-tenth of a mile of an employee. We identified 370 vendors representing 627 payments to a business entity located near an employee residing in a residential neighborhood.

#### **Management Response**

Based on review of payments to the vendors, it does not appear that employees identified were related to the identified vendors.

### *Vendors with Mailbox Service Addresses*

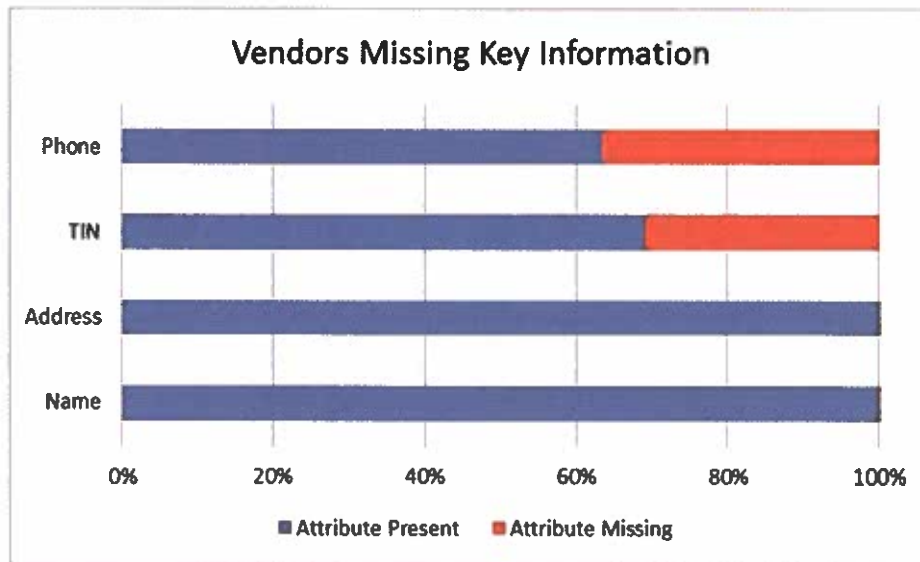
When creating fictitious vendors, mailbox service addresses give the appearance of an established company at a legitimate business address. Although these services may be legitimately used by many businesses, mailbox services are so frequently utilized in fraud schemes we consider them to be worthy of additional attention. We compared the Village's vendor master file to a database of over 11,000 mailbox service companies to identify vendors with an address matching one of these companies. We also searched the vendor file for addresses with an indication of "personal mailbox," another characteristic of a vendor using a mailbox service address. We identified 17 vendors with an address matching a mailbox service and receiving payments on or after May 1, 2014.

#### **Management Response**

Management reviewed all mailbox service matches provided, finding no exceptions.

### *Vendors Missing Key Information*

A name, address, taxpayer identification number and telephone number are four basic pieces of information that should be required for each vendor setup in the vendor master file. This information can help the Village verify the existence of each vendor. Our procedures identified vendors missing these key attributes, as summarized below.



### Management Response

Management reviewed and identified the reason for the missing information, noting no exceptions. “Every effort has been made in recent years to include all information and we will continue to stress this with our accounts payable staff. We make every attempt to obtain all EINs. Our normal process is not to release a check unless we have this information. Many of the vendors in this listing are “O” type vendors, which means they are reimbursement or refund vendors. If we issue a utility refund, we do not have the customer’s social security number. We also do not require this if we are issuing a documented expense reimbursement with all receipts attached. In the case of employees, in recent years Eden has created a field to link the AP vendor to the employee profile which contains all information, including social security number.” The Village has been obtaining all four attributes for vendors for the past year.

### *Checks Issued on a Weekend or Holiday*

A payment issued on a weekend or holiday, if not consistent with normal business operations, can be an indication of fraudulent activity. In addition, our procedures identified one check issued on October 13, 2014, (Columbus Day) for \$24,000, and 144 checks issued on November 11, 2016, (Veterans Day) totaling \$429,022.26. We provided the details of these payments to Village management for review.

### Management Response

Management reviewed the schedule of checks issued on a holiday noting all checks were issued on Veterans Day or Columbus Day, which are scheduled workdays at the Village.

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## *Other Accounts Payable Analysis*

Other accounts payable procedures included:

- **Duplicate payment numbers:** Of great concern are payment numbers issued on more than one occasion, which can indicate duplicate payments. Each payment number, whether check, EFT, wire or ACH payment, should be used only once. We identified two duplicate payment numbers in the accounts payable detail.
- **Check gaps:** A common fraud scheme is to issue a check to oneself, or a fictitious vendor, and not record the payment in the accounts payable detail. Therefore, it is important to record all checks in the accounts payable detail. We analyzed the check sequence to identify any check numbers not contained in the files, finding numerous instances.
- **Round \$1,000 payments:** We also analyzed the payment files for vendors with at least one payment in \$1,000 increments and identified 143 such vendors.

### **Management Response**

#### *Duplicate payment numbers*

“For check 167408, this check had three different invoices that combined for one check. As such, not a true duplicate, just the check number noted on all invoices. Similar situation for check 171757.”

#### *Check gaps*

Management reviewed the activity for each of the vendors identified and did not identify any unusual activity. The Village has multiple bank codes. In addition, some of the numbers related to credit card refunds where the Village utilized the gateway transaction number as the check number. Check numbers are all six digits, and the different bank codes have different check number ranges. All numbers are assigned by the software when checks are printed and posted. The Village has only blank check stock with no imprinted information. All checks are printed by the system as part of a check process and the computer does not skip check numbers. In some cases, the missing number is a voided check.

#### *Round \$1,000 payments*

Management reviewed all payment matches provided, finding no exceptions.

## *Duplicate Paid Invoice Analysis*

We reviewed the accounts payable detail file to identify instances of potential duplicate invoice payments. This analysis focused on the identification of duplicates based on key attributes related to the invoices: vendor, invoice number, amount and date.

BKD’s analysis did not identify any potential duplicates sharing all four key attributes.

### *Vendor Trend Analysis*

Analysis of vendor payment trends can help identify unusual patterns of activity, such as an acceleration pattern. An acceleration pattern is one in which the vendor receives increasing payments across multiple periods (monthly, quarterly, etc.). We reviewed the activity for all vendors, identifying vendors with these types of patterns. We identified 27 vendors with patterns of activity we considered unusual. We provided graphs of these vendors' activity to management for review.

### **Management Response**

Management reviewed the activity of each of the vendors identified and did not find any unusual activity.

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## Analysis of Employee and Payroll Data

Our analysis of employee and payroll data focused on identifying characteristics indicative of ghost employees, hours manipulation and improper payment schemes. The remainder of this section summarizes the key results of our testing of employee and payroll data. We provided detail of our results to management for review.

### *Employees with Multiple IDs*

Having employees with more than one ID in the payroll system increases the risk of ghost employees. For this reason, it is important to have strong controls around employee setup. We identified 10 potential instances of an employee with multiple IDs in the employee master.

#### **Management Response**

Management reviewed the identified ID numbers and confirmed that they are not duplicate employees. The Village payroll system processes payrolls for Tinley Park Public Library, Village of Tinley Park and Tinley Park Police Pension Fund. “When a police officer retires and then receives police pension, the Village does create a duplicate employee in order to process for the organization code of ‘Police Pension’.” All names appear to be valid employees at some point for the Village.

### *Employee/Employee Relationships*

Employees related based on attributes such as address and/or phone number, are common in ghost employee schemes. We analyzed the employee master to identify potentially related employees, based on common address and/or phone number. We identified 60 pairs of employees related in some way, other than a common name, to another employee. We presented the list of these employees to management.

#### **Management Response**

All labeled with “Retiree” will be duplicates based on the reason stated in previous response above. “All others appear to have been or are employed by the Village.”

### *Employees with Mailbox Service Addresses*

When creating fictitious employees, mailbox service addresses give the appearance of a legitimate address. Although these services may be legitimately used by individuals, mailbox services are so frequently utilized in fraud schemes we consider them to be worthy of additional attention. We compared the Village’s employee master file to a database of over 11,000 mailbox service companies to identify employees with an address matching one of these companies. We did not identify any employee with an address matching a mailbox service.

### *Employees with High Hours*

In addition to analyzing the amount of pay by type, we also analyzed the hours recorded by type for unusual items. Specifically, we focused on regular, overtime and vacation hours. While these types of hours may vary, there should be consistency.

Based on the analysis of standard monthly employees, the expected regular hours are 7,978 for the period May 2014 through October 2017. We identified 11 employees with more than 7,978 hours and presented them to management.

Our analysis of overtime hours indicated a high-end expectation of 880 overtime hours during the Period. We identified seven employees with more than 880 overtime hours during the period and presented them to management.

Finally, we analyzed vacation hours based on an accrual of 20 days at eight hours per day, per year. This resulted in an expected maximum vacation hours of 540 hours during the Period. We identified 86 employees with more than 540 vacation hours during the period and provided them to management for review.

#### **Management Response**

##### *Employees with high regular hours*

“All meter readers are paid per meter. What appears as their hours is actually the number of meters they have read. The rate per meter is \$0.40 per meter read. This is also compared to their hours worked to make certain that the Village has complied with FLSA overtime standards.”

##### *Employees with high overtime hours*

Management reviewed, noting all listed were police officers and appeared reasonable.

##### *Employees with high vacation hours*

Management reviewed and all appear to be long-time employees. “Vacation for all non-police employees award on their anniversary date and, per Village ordinance, increases with number of years worked.”

### *Employees Receiving Checks on Nonpayroll Dates*

One of the benchmarks of payroll processing is a routine schedule. This sets a firm expectation of the dates of payroll check issuance. We analyzed the payroll detail file to identify any checks issued “off-cycle.” In total, we identified 21 instances of checks being issued on nonpayroll type days, totaling 29 checks. We provided detail of these checks to management for review.

#### **Management Response**

Management reviewed the identified payroll checks, finding no exceptions. “These off-cycle payroll checks were issued primarily for severance and final checks to terminated employees.”

## **Capital Projects**

As part of our procedures, we performed transaction testing related to various departments, selecting a total of 12 capital projects. We then evaluated the projects for adherence to bid budget and indication of potential conflicts of interest.

We were able to obtain all relevant supporting documentation for each tested project, including bid packet and recommendation documentation (to the extent relevant) related to these projects. As a result of the testing, we noted four projects for which the actual costs exceeded the known bid amount. The actual costs did not significantly exceed the known bid amount for these instances. The largest variance was approximately \$4,000, or five percent, over bid.

In addition, as part of our data analytics procedures, we noted Robinson Engineering and Airy's Inc. had historically provided contributions to mayoral/trustee campaigns. Robinson Engineering was the bid consultant for most of the selected projects in our capital project testing for which bid packet information was available. However, in assessing Robinson Engineering's invoices, we did not note any instances of excessive billings related to these projects. Airy's Inc. was the vendor involved in two of the projects (both lift station projects) in our testing. In each, Airy's Inc. was selected as the bid winner as they were the lowest bidder. Further, we noted in both instances the final projects costs were under the bid amounts. In fact, in one of the projects, the final cost was under the winning bid amount even though it involved a significant, authorized change order. In none of these instances did we note an indication of personal, economic or financial interest to the Mayor or members of the Board of Trustees for the period tested (2014–2017).

## **Conclusion**

As previously mentioned, based on these procedures, we did not find indications of inappropriate or unauthorized activity. Further, we did not find indications that Trustees or the Mayor misused their influence in business transactions in a way that violated their duty to the Village in order to gain a direct or indirect benefit during the period tested (2014–2017).

# **The Village of Tinley Park**

Report on Process Analysis and Assessment

October 5, 2018





Board of Trustees  
Village of Tinley Park  
16250 South Oak Park Avenue  
Tinley Park, IL 60477

Thank you for the opportunity to provide consulting services to the Village of Tinley Park (the Village) in connection with the Board of Trustees' (the Board) assessment of fraud risk. The procedures we performed were agreed to by the Board and were solely to assist the Board in assessing fraud risk and identifying operational risks, efficiencies and potential improvements. Management is responsible for the effectiveness of its internal controls. This report specifically addresses identifying operational risks, efficiencies and potential improvements noted during our fraud risk assessment.

Our services were provided in accordance with the Statement of Standards for Consulting Services promulgated by the American Institute of Certified Public Accountants and, accordingly, do not constitute a rendering by BKD or its partners or staff of any legal advice, nor do they include the compilation, review or audit of financial statements. We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express such an opinion. All procedures of the assessment were completed. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Because our services were limited in nature and scope, they cannot be relied upon to discover all documents and other information or provide all analysis that may be of importance in this matter. The sufficiency of the procedures are solely the responsibility of the parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures performed either for the purpose for which this report has been requested or for any other purpose.

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**BKD, LLP**

*BKD, LLP*

October 5, 2018

## **Project Overview**

We are pleased to offer this report to the Village of Tinley Park (the Village), which outlines the work we performed to assist the Board's assessment of operational risks.

This report addresses several processes and topics associated with the purchasing and accounting function of the Village. We did not perform these procedures as an in-depth assessment of all internal controls or processes. The purpose of this report is to assist Village management with creating efficiencies and potential improvements. Further, this report is an indication of the historical practice for the Village and provides new Board Trustees the opportunity to continue improving Village operations. Due to the short time the current Trustees have been in place, a correct measure of current relationships between Trustees and the processes they influence cannot be made. The period specific to our procedures was from May 1, 2014, through October 31, 2017 (the Period).

To complete this project, we interviewed 20 individuals from the various Village departments as follows:

<b>Name</b>	<b>Department</b>	<b>Title</b>
Michael Mangin	Board of Trustees	Village Trustee
Claudette Flowers	Fire Department	Office Coordinator
Brad Bettenhausen	Finance	Village Treasurer
Patrick Carr	Management	Assistant Village Manager
Michael Glotz	Board of Trustees	Village Trustee
Ruth Gibson	Finance	Senior Accountant
Sue Busz	Finance	Accounts Payable Clerk
Eileen Scholz	Finance	Senior Accountant
Steve Clemmer	IT	IT Lead Technician
Kelly Mulqueeny	Public Works	Superintendent of Streets
Gerry Gabriel	Public Works	Clerk
Sandra Szczepaniak	Finance	Intern
Jackie Romanow	911/Dispatch	Quality & Training Coordinator
Lenore Sullivan	Police Department	Records Clerk
Kevin Workowski	Public Works	Director
Jean Bruno	Public Works	Office Coordinator
Paula Wallrich	Public Works	Interim Community Development Director
Denise Maiolo	Human Resources	Director
Dave Niemeyer	Management	Village Manager
Hannah Lipman	HR/Admin	Intern
John Urbanski	Public Works	Assistant Director

These interviews allowed us to gain an understanding of how processes are currently designed and functioning. We also read existing policy manuals, examined supporting documentation and conducted anonymous surveys.

Though our scope centered on fraud risk assessment, during our procedures we noted some operational efficiency matters, which we have included for the Board's and management's consideration. It is our hope that the observations and suggestions in this report help provide insight into your current procedures and internal controls. We appreciate the efforts of Village Board members, management and staff throughout this project. Everyone we worked with was helpful and cooperative.

## **Primary Findings and Recommendations**

### *Purchasing Process*

Throughout our interviews, many individuals expressed concerns with the purchasing process for their respective departments. Employees noted instances of inefficient approval processes requiring multiple levels of approvals with items being sent back and forth from Finance to their respective departments rather than a one-time approval of a purchase order.

According to interviews with Public Works (PW) Department personnel, the department now has a Tool Crib Operator position. This employee provides centralized purchasing for office and other supplies for the PW Department.

Further, during discussions with various Village personnel, we noted a disconnect between purchasing guidelines noted in policy and those known by personnel. Several individuals stated their knowledge of the purchasing guidelines and parameters was based on information verbally passed down to them. They were not familiar with the actual language of the policy, and did not know where to locate a copy of the policy. For example, some employees believed purchase orders were required for items over \$500, and up to that amount could be self-approved. Others believed this amount was \$2,000. In our analysis of the purchasing policy, specifically related to section 3.0 General Policy, we noted a table exists dictating the required documentation and approvals and the dollar thresholds associated with those approval levels. This table indicates a supervisor signature requirement for purchases less than \$500, but more than the \$20 petty cash maximum. Based on the table, it appears no further approvals (other than supervisor) are required until the amount of the purchase exceeds \$2,500. We have added the table below, excerpted from the purchasing policy.

# The Village of Tinley Park | Report on Process Analysis and Assessment

October 5, 2018

Purchase \$ Threshold	PettyCash	Supervisor Signature	Eden Purchase Order	PO with Supervisor or Manager approval	PO with Supervisor & Treasurer Approval	PO with Supervisor, Treasurer, & VM Approval	Require 3 or more quotes	RFP/RFQ or Bid Process
<\$20	X							
<\$500		X	Recommended					
\$500 to \$2500			X	X				
\$2501 to \$5000			X		X		X	
>\$5000			X			X	X	
>\$20,000								X

In addition, during discussions with certain personnel, it was noted purchases greater than \$2,500 required three or more quotes. This comports with the table above related to the current purchasing policy. However, these employees noted this aspect of the policy is cumbersome and limiting, as most items purchased by their respective departments exceed \$2,500. Although the policy requires three quotes, quite often these departments are not able to get three quotes for a specific purchase. Many vendors will not provide a quote for this small of an amount, as they deem it a “waste of time.”

## Recommendations

As the Village continues to grow, it should consider forming a Village-wide, centralized purchasing department with one purchasing policy that addresses concerns from each department. Heavy consideration should be given to the PW Department, as this is where the majority of spending occurs. The approval process should be completely virtual through the Eden system. The Village should also take this opportunity to centralize inventory control as well. The current opinion of some employees is that the controls over inventory and purchasing are fairly loose. For example, certain various departments can handle their own purchases, as well as the tracking of supplies. The Village continues to grow as a municipality. As such, it is approaching the size where we typically see municipalities implement a centralized inventory control and purchasing department, especially for larger projects.

In addition, the Village should ensure copies of policies are available to all employees and the location of such policies are in a known, centralized location (such as a shared network drive) and accessible by all employees. Supervisors should notify their respective personnel of the location of such core policies, as well as communicate any changes in policies.

Further, the Village should consider conducting an analysis of the impact of the threshold matrix to ensure it does not create an undue burden on the efficiency and effectiveness of the various Village departments in getting the supplies and materials they require.

### *Board Approval of Expenditures*

The Board approves every check listed (Voucher List) on all of the Village's check runs. The Board meets bi-weekly on Tuesdays and check runs occur every Friday. In most circumstances, checks are held in the safe until approved by the Board. In limited circumstances, checks are sent out to vendors at Brad Bettenhausen's discretion for payments that must be made before the next Board meeting. Each expenditure goes through multiple layers of management approval before a check is cut. The Board's approval occurs after the checks have been cut and before payment is sent (except the limited checks sent by Mr. Bettenhausen).

### **Recommendations**

The Village should consider creating a threshold for expenditure approval by the Board. Boards that we have worked with do not approve every single transaction for their entities. It is considered a management role to be in the details of everyday expenditures. This is a large inefficiency and sends a message of lack of trust in management. Additionally, the Board already approves the overall budgets and expenditure plans. In order to create efficiency in the disbursement cycle, the Board can approve check listings after payments are made. This provides a control in addition to the review and approval process related to the Finance Department for cash disbursements and provides disbursements in a more timely manner. Note that our recommendation should not be construed to indicate the Village is handling this process in a wrong or improper manner, but our recommendation is more directed towards creating a more efficient process.

BKD discussed this recommendation with Village management. Management would like to maintain the policy of holding checks for Board approval with certain exceptions for routine payments. We recommend, and management agrees, a policy should be set identifying expenditures allowed to be released prior to Board approval. We further recommend this process is tested on a periodic basis (every six months or as set by management) to ensure the policy is being followed.

### *Check Signatures/Dual Signature "Control"*

Checks issued require dual signatures. General checks require the signatures of Brad Bettenhausen and Kristin Thirion. Police Pension checks require the signatures of Brad Bettenhausen and Ray Viotello, Investigator with the Police Department. General checks are printed with both signatures already on them, while Police Pension checks are printed containing only Mr. Bettenhausen's signature. Since the signatures are already printed on the checks, the "signers" do not have to view the check and respective documentation before the check is available for disbursement.

## **Recommendations**

The Village should consider removing the signatures from both checks, as this will force the signers to actually review the checks and supporting documentation before the checks are sent out. A dual signature control fails if the signers are not required to sign the checks.

### *Vendor Management*

Vendors currently marked as inactive were done so at the time of system conversion to Eden. There is currently no process to identify inactive vendors or remove inactive vendors. Vendor file maintenance changes are not reviewed by anyone. Of the four vendors listed as inactive in the vendor master file, we noted payments to three of these four during the Period. In fact, one of the vendors had significant activity during the Period (188 transactions totaling more than \$72,000). After talking with management it was determined the payments to these vendors were made while they were still in active status. Our testing looked at the vendor master file at a certain point in time which was after these particular vendors were changed to inactive status. While it is positive payments cannot be sent to inactive vendors, we still have vendor management recommendations below.

## **Recommendations**

Eden should be updated to mark vendors inactive after lack of activity for a certain period of time, possibly a year. Once marked inactive, a vendor would be marked active and receive payment only when approved by management. This would prevent an employee from changing the status to active by issuing a payment. Once marked inactive for a certain period of time, possibly two years, vendors should be removed from the Eden system.

Management should review all vendor maintenance changes made by the accounts payable clerk and others. As vendors are all considered “active” without consideration of actual activity, vendor information could be manipulated and checks subsequently issued for personal gain.

Updating vendor inactivity, removing inactive vendors and reviewing vendor maintenance changes will greatly reduce the fraud risks from the vendor management process. Ideally, we recommend splitting the roles of vendor maintenance and payment processing to appropriately segregate duties. In other words, the AP Manager cannot actually process payments, and the AP Clerk cannot make changes to vendors. This would require the Village to expand its Finance Department as noted in the Staffing Study.<sup>1</sup> Further, we recommend the Village ensure the audit logs are turned on. In a formal review process of vendor management, this will allow management the ability to monitor and address changes, especially if changed from inactive to active.

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<sup>1</sup> Staffing Level Analysis of Administrative Departments – Matrix Consulting Group (Page 5)

## *Super Users*

Ruth Gibson, Eileen Scholz and Brad Bettenhausen have almost unlimited capabilities in the Eden system, including Ms. Gibson and Ms. Scholz's ability to change user access rights for all Eden users and create new user accounts. This provides select users complete, unfettered access and capabilities within Eden.

## **Recommendations**

Typically, there is a segregation of duties associated with the setup of new users and changing user access rights. In order to attain this segregation, we recommend removing the ability to change setup and user access rights from the Finance Department to an IT Department role. As is typical in most organizations, and was noted during our interviews, user access rights are role based. As such, IT personnel would not need intimate knowledge of specific applications but would be able to add or remove user access rights based on provisioning documentation provided during on- or off-boarding of an employee. As noted elsewhere in this report, the Village should consider a standardized process, including documentation, for notification related to provisioning removal of access to/from Eden. Additionally, steps should be taken to review user access rights at least annually, done by someone familiar with positions and job responsibilities requiring access to Eden. As noted in the previous section, having audit logs turned on would assist in the review process. Management indicated that a new process is being put in place to address and document new user setup and user access rights.

## *Segregation of Duties*

A segregation of duties issue occurs if one individual has access to or is responsible for at least two of the following: custody of assets, recording of transactions and reviewing/reconciling related accounts. As previously mentioned, the Finance Department has three Eden super users, which creates segregation of duties issues. For instance, Ms. Scholz can transfer funds in the First Midwest Collections account, records G/L entries and performs the reconciliations for all bank accounts.

## **Recommendations**

Reconciliations should not be performed by the same individual that can record G/L entries for the account and has access to funds. These roles need to be split between Finance Department employees so that one individual cannot manipulate funds, record an entry and cover up that entry by reconciling the related account.

## *Bank Reconciliations*

During interviews with Finance staff, we noted bank reconciliations occur on a daily basis as well as a monthly basis. We obtained copies of documents purportedly reviewed for the September 26, 2017, reconciliation process, as well as those for the September 2017 monthly reconciliation. The documents we viewed agreed to the type of documents reviewed on a daily

basis, according to Finance staff interviews. We noted written procedures existed for each portion of the reconciliation process. We also noted the bank reconciliation itself is formally documented and contained a summary sheet (or reconciliation form) showing all aspects of the reconciliation process and reconciling between book and bank balances. The monthly reconciliation is completed in an Excel spreadsheet. In assessing the reconciliation documentation, we were not able to determine who had performed the reconciliation, or parts of the reconciliation, or when the reconciliation was done. We understood that, to some degree, different Finance staff handle certain parts of the monthly reconciliation.

### Recommendations

The reconciliation documentation should indicate who performed the reconciliation and when the reconciliation was performed. We recommend the Village adopt some identifying method to indicate who performed the reconciliation. This would also assist in identifying a contact person should questions arise concerning a specific reconciliation, or specific item listed in a reconciliation, as well as confirming timely performance of the reconciliations.

#### *Brad Bettenhausen*

Mr. Bettenhausen has the power to approve almost any transaction, manages those who edit user controls in Eden, can transfer funds in any bank account without approval, holds the only Village credit card in his name, has been a long-standing employee of the Village and is highly regarded by others in various departments. See *Management Override of Controls* section in the *Financial Fraud Risks Assessment* section below.

### Recommendations

In many ways, it is beneficial the Village has long-standing, well-respected employees. However, in some cases long-tenured employees garner significant trust, resulting in less oversight of monitoring their activities and responsibilities. This can create a heightened opportunity for fraud. When combined with the aforementioned abilities to control funds, manage those editing user controls and hold the credit card, the fraud risk surrounding Mr. Bettenhausen is even greater. This recommendation is not targeted at Mr. Bettenhausen specifically, it is for any individual with this level of access and control. Numerous examples exist where we have seen instances of fraud involving persons with significant control.

The Village should consider creating more checks and balances with Mr. Bettenhausen's access. The company credit card statements should be periodically reviewed by someone not under his management in the Finance Department. Implementing the recommendations in the *Super Users* and *Segregation of Duties* sections of this report will also help reduce the risks associated with Mr. Bettenhausen's abilities.

Management indicated the credit card statements are sent to accounts payable and not directly to Mr. Bettenhausen. Since accounts payable personnel report to Mr. Bettenhausen we recommend



the statements and receipts are sent to the Assistant Village Manager as a second approval from someone outside of Mr. Bettenhausen's group.

### *Application Access Process*

During our discussions with several Village personnel, we noted there is no formal documentation related to the provisioning or removing of access to a particular application, such as Eden or active directory, for users. According to IT personnel, the currently preferred process is for HR to create a work order in the IT ticket system when a new employee joins the Village. This work order would provide notification to the IT department regarding the first day of work for a respective employee and the need for access through active directory on that date. As mentioned previously, IT does not handle the provisioning of access to Eden. Currently, the preference is for IT to receive a work order upon termination of an employee. However, this is not typically done, and there is no formal process for removing a user's access. Considerable time (days or even weeks) may pass before IT is aware of the termination, at which time they disable the active directory access.

In discussions with Finance personnel who are tasked with adding and removing users, they stated there is no formal form or notification during the on- or off-boarding process dictating the need to add or remove user access to Eden. However, the Village is pursuing implementation of a formal form and process in place to address this issue. Further, when employees are terminated, their respective Eden access is not inactivated. The belief is that, since the user's active directory access is inactivated, the user would not have access to Eden. In order to sign onto Eden, a user must first be able to sign into an active directory account. The sign-in to Eden then occurs similar to a single sign-on process, where Eden uses the active directory sign-on information to provide a user access to Eden.

### **Recommendations**

Failure to remove system access in a timely manner could provide an opportunity for unauthorized access to the Village's systems and/or applications. This could be of particular concern if a prior employee, adversely terminated, conducts the unauthorized access, or if a current employee chooses to use a terminated employee's access and credentials. Failure to standardize the on-boarding process related to access provisioning could result in improper access assignments. Typically, an entity would have a standard form that is completed by the employee's supervisor during an employee's on-boarding process. This form would provide the employee's user access rights for applications needed to perform his or her duties. Further, the supervisor, and possibly the IT personnel responsible for the actual provisioning of access, would sign this form. In addition, this form would include an area indicating whether the change in access is to remove the access related to a terminating employee. The process for distributing this form to applicable parties should be formalized as well. It may not be that the IT ticketing system is the optimal method for this distribution, as not all applicable parties may receive the notification. An alternative distribution could be from HR via email, with the applicable form attached, to the necessary parties for notification. As previously noted, user access rights are role

based. As such, IT personnel would not need intimate knowledge of specific applications but would be able to add or remove user access rights based on provisioning documentation provided during on- or off-boarding of an employee.

Management indicated that a new process is being put in place that will address this disconnect.

### *Payroll*

In our discussions with personnel from the various Village departments, we noted time recording for employees is completed manually, at least initially. For each department, employees manually enter their respective time onto paper time sheets. Supervisors approve their respective employees' timesheets and either the supervisor, or a departmental designee, will enter the time into Eden. Typically, once the information is in Eden, it is up to the individual departments to perform reconciliations to verify the completeness of the entered information. Based on our discussions, most departments maintain the physical copies of the manual time sheets for a short period in the event there is a question over pay. After such time period, the manual time sheets are sent to the Finance Department. The Finance Department retains the time sheets in the Finance storage area and destroys them according to the records disposal certificates.

### **Recommendations**

During at least one interview, it was mentioned the Village HR Department is in the process of creating an electronic timekeeping module compatible with Eden. The software is provided by the same provider as Eden, thus it integrates with Eden. The timekeeping software is cloud based and contains a two-step approval process before integrating with Eden. To create efficiencies and reduce the potential for human error, we recommend the Village continue to pursue developing or obtaining an electronic timekeeping process and eliminate the manual process. This will allow efficient retention of source payroll records as well.

### *Expense Reimbursements*

In most instances, a Village employee, or a designated individual within their respective department, would type up a memorandum requesting reimbursement for select expense items. The receipts related to each expense would be attached to the memo and then sent to the Finance Department for processing. However, we did note at least one department used a different form for expense reimbursement reporting. Fire Department personnel complete a standardized expense report detailing each expense item. Receipts are then attached to that form and provided to the Finance Department for processing. The expense report form contains specific sections and locations for each type of expense (*e.g.*, lodging, mileage, meals, etc.), as well as maximums, if applicable (*e.g.*, maximum reimbursement amounts for breakfast, lunch and dinner).

### **Recommendations**

We recommend the Village adopt a standardized form of expense reimbursement request reporting. Though the memo version may suffice, having a standardized form provides

uniformity to the process, as well as a good summary of the activity. This standardization should exist across all departments.

### *Backup Process*

Based on interviews with numerous Village personnel, it is our understanding that documents are scanned into the Eden system, thus held electronically. Nonetheless, paper copies are still retained for backup and documentation purposes. However, the IT Department completes backup procedures for Eden and other data nightly, replicating between two server locations. As such, both server locations should contain a full set of data. In discussions with IT personnel, we learned the backup and recovery process has not been tested to ensure both locations contain a full set of data and that data can be recovered.

### **Recommendations**

The IT Department should conduct a test of the electronic backup and recovery of data, especially associated with Eden, and maintain documentation of this testing and the results. Once the backup and recovery process is confirmed, items scanned into the Eden system are no longer needed in printed format and the retention of paper backup documentation could cease. This change will reduce storage space requirements for the Village.

### *Police Department Ticketing/Collections Process*

During our interviews, the Police Department ticketing/collections process was noted as being largely inefficient. Currently, the Police Department uses Incode to manage tickets. As tickets are issued, the information is entered into Incode and Eden's Core cashiering system. The Core system allows the customer to pay via cash, check or credit for tickets, water bills and vehicle stickers.

When the Police Department receives a payment for tickets, both Incode and the Core system are updated with the payment information. When the Village receives payments for tickets, the Village calls the Police Department to confirm the status and amount due for the ticket. The Village then processes the payment and enters the information into the Core system. Finally, the Village physically sends the processed tickets over to the Police Department to be entered into Incode, as the Village does not have access to Incode.

Based on our discussions with Ruth Gibson, Senior Accountant, both Incode and the Core system are owned by Tyler Technologies. The Village plans to move to Tyler Cashiering and eliminate dual entry into Incode and the Core system. The Village already has the Tyler Cashiering in their Library and has access to unlimited users. Two roadblocks have stalled this transition: Vehicle Stickers and Staffing Issues.

The current vehicle sticker process uses a customer lookup table which would be unavailable in Tyler Cashiering due to a surge in customers during the three months when vehicle stickers are

sold. Also, it has been difficult to schedule implementation of Tyler Cashiering due to staffing availability in both the IT and Finance Departments.

### **Recommendations**

We recommend the Village fully implement the Tyler Cashiering system as it is already in use in the Library and unlimited user licensing is available. To curb the vehicle sticker crunch season, the Village should consider third-party outsourced software which would allow for online purchases. As more residents become aware of the online purchase option, this should alleviate much of the burden associated with the three-month busy season of purchases.

The implementation of these recommendations will require addressing staffing availability. These staffing availability issues reiterate previous recommendations in the Staffing Study conducted by the Matrix Consulting Group which recommended the Village fill vacant Treasurer's Office positions and hire an Information Technology Manager.<sup>2</sup>

### *Accessible Keys*

The Village has two separate locked drawers for blank check stock and signed checks (those printed, but held for Board approval), which are located in a desk in the Finance Department and inside the safe, respectively. Keys for the drawers containing blank check stock and signed checks are kept in AP Clerk Sue Busz's and Ms. Gibson's unlocked drawers, respectively. Many individuals in the Village know the location of these keys. The blank check stock is truly blank of all account numbers.

In discussions with various Village personnel, petty cash boxes are maintained in a similar manner. Typically, they are contained in a cash box in a locked cabinet. However, members of the respective department have knowledge and access to the key. Further, no audits are conducted of the petty cash boxes.

### **Recommendations**

The fraud risk is that improperly secured blank check stock and signed checks are at risk for misappropriation. The keys should not be held in unlocked drawers, as this control is very weak. An employee could obtain the key out of the unlocked drawer and gain access to the signed checks or petty cash boxes without anyone knowing. Further, we recommend a member from the Finance Department conduct periodic surprise audits of the various petty cash boxes located in Village departments.

### *House Accounts*

Some house accounts with vendors around town require the individual purchasing product to show identification or provide a password, while others do not require anything. These

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<sup>2</sup> Staffing Level Analysis of Administrative Departments – Matrix Consulting Group (Page 5)

unsecured house accounts may only require individuals to state “I work for the Village” to purchase products on the Village’s account.

**Recommendation**

A fraud risk exists in that an unauthorized person could make a purchase on the Village’s account. The Village should consider working with local vendors to require a password or other identification to purchase products.

*Capital Project Testing*

We have addressed the actual project testing in our Report on Fraud Risk Assessment and Data Analytics Procedures. This report addresses the processes/procedures associated with the testing. As part of our procedures, we performed transaction testing related to various departments, selecting a total of 12 capital projects. We then evaluated the purchasing process related to those projects.

During discussions with Finance Department staff, we learned Finance started maintaining a spreadsheet of capital projects, including the respective funding and disbursement activity, for each fiscal year. Our understanding is that these spreadsheets have only been maintained for the last few fiscal years.

As previously mentioned, Eden contains a document retention module, where the Finance Department maintains supporting documentation for disbursements. We were able to obtain all relevant supporting documentation for each tested project. For most of the selected projects, Robinson Engineering was the bid consultant who provided bid packet information for the required projects in our selection. Six of the projects selected for our testing were large projects that had formal bid processes. We were able to receive bid packet and recommendation documentation related to those projects.

**Recommendation**

As a best practice, as we had to follow up a couple times to get complete documentation, we recommend Finance implement a final review process, prior to payment of final invoice/contractor’s pay estimate to ensure proper documentation and authorization(s) are in place and are centrally located. Further, it may be beneficial for the Village to post not only the winning bid for each project but also a bid summary (similar to that produced by Robinson Engineering noted in tested projects) to show the bid position between each bidder.

*Request for Qualifications/Proposal Processes*

According to the purchasing policy, the Request for Qualifications (RFQ) “process is when the Village is seeking information regarding the qualifications of potential suppliers of a service.”<sup>3</sup>

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<sup>3</sup> As defined in section 2.0 of the Purchasing Policy Manual adopted under Ordinance Number 2017-O-012

During our interviews, we learned there is concern amongst several employees about the bidding process for RFQ's and the awarding of contracts. Generally, the concerns expressed included Trustees having undisclosed conflicts with bidders and inappropriately influencing which contractors are selected during the voting/selection process. We were not retained to investigate these processes and have therefore not conducted an investigation into concerns about alleged impropriety. The perception of inappropriate approvals through the RFQ process is something we believe the Village needs to address.

### **Recommendations**

Conflicts of interest exist when someone *could* abuse his or her official position for private gain. Even if there is no actual improper financial gain, the appearance (perception) of a conflict of interest can undermine the confidence and trust the citizens place in Village management. In the face of conflicts of interest, whether actual or perceived, transparency is one of the best methods in relieving potential allegations of misconduct.

We understand the Trustees sign a document (Village Appointed Commission and Board Members Ethics Statement) indicating they are free and clear of conflicts of interest with vendors or service providers. We recommend the Village consider performing data analytics procedures on a semi-regular basis (annually) that match Trustees', employees' and vendors' information to help identify nondisclosed relationships.

We further recommend that Trustees are reminded prior to discussions of RFQs and RFPs that not recusing themselves from deliberations involving related parties or business associations could violate their fiduciary duty to the Village.

### *No Hotline in Place*

We noted the Village currently does not have a hotline in place. According to the ACFE's *2016 Report to the Nations*, tips are the number one way frauds are detected. Hotlines can provide a convenient means for receiving tips related to harassment, safety, or discrimination. Organizations with hotlines are better able to detect fraud and lessen the duration of inappropriate activity leading to reduced fraud losses.

### **Recommendation**

We recommend the Village obtain a third-party, anonymous hotline service. While an internal line is better than no hotline, the ACFE states that anonymous third-party hotlines increase hotline usage thus reducing fraud risk and potential fraud losses. In general, employees are more comfortable using third-party hotlines due to concerns about the anonymity of their tips.

Thank you for the opportunity to assist you on this project. We would be happy to address any comments or questions you have.