



CITY OF EVANSTON, ILLINOIS

COMMUNICATION OF DEFICIENCIES
IN INTERNAL CONTROL AND
OTHER COMMENTS TO CITY COUNCIL

For the Year Ended December 31, 2021

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COMMUNICATION OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER COMMENTS TO CITY COUNCIL

Ms. Kelly Gandurski, Interim City Manager
Mr. Hitesh Desai, City Treasurer/Chief Financial Officer
City of Evanston, Illinois

As part of the annual audit, we are required to communicate internal control matters that we classify as significant deficiencies and material weaknesses to those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we also identify certain matters which we communicate only to management. While many of these matters are operational in nature, they may include internal control deficiencies that do not meet the definition of a significant deficiency or material weakness. We have chosen to communicate these matters in this communication. As discussed on the following pages, we identified certain deficiencies in internal control. This letter does not affect our report dated July 6, 2022, on the financial statements of the City.

The City's written responses to these matters identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with Hitesh Desai, City Treasurer/Chief Financial Officer and Andrew Villamin, Accounting Manager and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Sikich LLP
Naperville, Illinois
July 6, 2022

FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued a number of pronouncements that will impact the City in the future.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset and aims to enhance comparability of financial statements among governments. This statement also requires additional notes to the financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this statement are effective for the fiscal year ending December 31, 2022.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This statement is effective for fiscal years ending December 31, 2022.

GASB Statement No. 92, *Omnibus 2020*, addresses a variety of topics including: The effective date of Statement No. 87 for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statements No. 73 to Certain Provisions of GASB Statement Nos. 67 and 68, as amended, and No. 74, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The requirements of this Statement are effective for the fiscal years ending December 30, 2022 and thereafter, except for the requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, issued to address tissues related to accounting and reporting for public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which is defined in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual

FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This Statement is effective for fiscal year ending December 31, 2023.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. This Statement establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for the fiscal year ending December 31, 2023. Earlier application is encouraged.

We will advise the City of any progress made by GASB in developing this and other future pronouncements that may have an impact on the financial position and changes in financial position of the City.

**APPENDIX A
STATUS OF COMMENTS FROM DECEMBER 31, 2020**

DEFICIENCY

Year End Financial Reporting

During our audit we identified adjustments that were required to correctly record the bond payable and amortization of related premiums/discounts, other postemployment benefits payable, special assessments receivable and to accrue asset retirement obligations. We recommend that the City review the balance sheet accounts to ensure balances are properly accrued in the correct period.

Status: Comment still applicable at December 31, 2021.

Management Response

The City will continue to carefully review the balance sheets as well as the income statement items.

OTHER COMMENTS

Deficit Fund Balances

The following deficit balances were reported as of December 31, 2021:

Fund	Deficit
Special Service Area #9	\$ 206,750
Internal Service - Insurance	4,499,181
TOTAL	\$ 4,705,931

The City should continue to monitor the deficits in the Special Service Area #9 Fund and Insurance Fund and consider adjusting rates to fall in line with expenses in these funds to ensure that they function as the cost-reimbursement accounting tool they are meant to be.

Status: Comment still applicable at December 31, 2021.

Management Response

The City will continue to monitor these funds to have positive fund balances.