

**VILLAGE OF FOX LAKE, ILLINOIS**

**SINGLE AUDIT REPORT**

For the Year Ended  
April 30, 2015



**VILLAGE OF FOX LAKE, ILLINOIS**  
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1415 W. Diehl Road, Suite 400  
Naperville, Illinois 60563

Certified Public Accountants & Advisors  
Members of American Institute of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Mayor  
Members of the Village Board  
Village of Fox Lake, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Fox Lake, Illinois (the Village) as of and for the year ended April 30, 2015 and the related notes to financial statements, which collectively comprise the Village's basic financial statements and have issued our report thereon dated December 22, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented or detected and corrected 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies, described in the accompanying schedule of findings and questioned costs as Findings 2015-001, 2015-002, and 2015-003 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2015-002.

## **Village's Response to Findings**

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Village's responses were not subjected to the auditing procedures applied in the audit and, accordingly, we do not express an opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, appearing to read "M. J. P.", is located in the lower right quadrant of the page.

Naperville, Illinois  
December 22, 2015



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Members of American Institute of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133**

The Honorable Mayor  
Members of the Board of Trustees  
Village of Fox Lake, Illinois

**Report on Compliance for Each Major Federal Program**

We have audited the Village of Fox Lake, Illinois' (the Village) compliance of the with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Village's major federal program for the year ended April 30, 2015.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Village's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, is-sued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Village's compliance.

### ***Opinion on Major Federal Program***

In our opinion, the Village of Fox Lake, Illinois complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended April 30, 2015.

### ***Other Matters***

The results of our auditing procedures disclosed a certain instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-004. Our opinion on the major federal program is not modified with respect to this matter.

The Village's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Village's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

The management of the Village is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village as of and for the year ended April 30, 2015, and the related notes to financial statements, which collectively comprise the Village's basic financial statements. We issued our report thereon dated December 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in cursive script, appearing to read "A. M. 22P".

Naperville, Illinois  
December 22, 2015

**VILLAGE OF FOX LAKE, ILLINOIS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended April 30, 2015

<b>Federal Grantor</b>	<b>Pass-Through Grantor</b>	<b>Grant Name</b>	<b>Federal CFDA#</b>	<b>Federal Expenditures</b>
U.S. Department of Defense	N/A - Direct Award	1033 Program	**12.005	\$ 5,000
		Total U.S. Department of Defense		<u>5,000</u>
U.S. Department of Housing and Urban Development	Lake County, Illinois	Community Development Block Grant	14.218	85,000
	Lake County, Illinois	Community Development Block Grant	14.218	<u>97,369</u>
		Total U.S. Department of Housing and Urban Development		<u>182,369</u>
U.S. Department of Transportation	Illinois Department of Transportation	State and Community Highway Safety	20.600	<u>8,662</u>
		Total U.S. Department of Transportation		<u>8,662</u>
Environmental Protection Agency	Illinois Environmental Protection Agency	Drinking Water State Revolving Fund	*66.468	<u>1,167,187</u>
		Total Environmental Protection Agency		<u>1,167,187</u>
<b>TOTAL ALL FEDERAL AWARDS</b>				<u><u>\$ 1,363,218</u></u>

\* Denotes major federal program.

## VILLAGE OF FOX LAKE, ILLINOIS

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended April 30, 2015

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#### **Note A - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards is a summary of the activity of the Village's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when the qualifying expenditure has been incurred and expenditures have been recognized when the fund liability has been incurred.

#### **Note B - Other Information**

The Village received \$5,000 in federal noncash awards from the Department of Defense, 1033 Program (CFDA 12.005) during the year ended April 30, 2015. The Village did not receive any federal insurance. The Village also did not provide funds to subrecipients or have any federal loan with continuing compliance requirements.

VILLAGE OF FOX LAKE, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended April 30, 2015

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**Section I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:  
Material weakness(es) identified?  yes  no  
Significant Deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal Control over major federal programs:  
Material weakness(es) identified?  yes  no  
Significant deficiency(ies) identified?  yes  none reported

Type of auditor's report issued on compliance for major federal programs: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?  yes  no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Drinking Water State Revolving Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?  yes  no

# VILLAGE OF FOX LAKE, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2015

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### Section II - Financial Statement Findings

#### **2015-001: Unresolved Difference Between Prior Year Audited Fund Balance and Current Year Beginning Fund Balance - Significant Deficiency in Internal Control**

*Criteria:* At year end, all income and expenditures/expenses are closed into fund balance or net position accounts. These accounts summarize all of the accumulated gains and losses since the Village's inception and also serve as an indicator for the financial stability of the Village. As such, it is important for the balance to be properly stated in the Village's interim and final year end financials statements in order for the Board to have reliable information on which to base financial decisions.

*Context:* Occasionally, errors can occur during the year that cause ending prior year fund balance or net position to vary from the opening balance of the current year. Most often this occurs when adjustments are made to the financial records of a prior year after the audit has been issued. During our audit, we determine that the prior year's closed fund balance and net position equals the current year's opening fund balance and net position.

*Condition:* Prior to May 1, 2014, the Village had not reconciled its trial balance to the audit report.

*Effect:* The May 1, 2014 opening balance of the General Fund did not agree to the audited ending balance in the Village's April 30, 2014 financial statements. An unreconciled difference of \$14,708 was noted.

*Cause:* The exact cause is unknown, but we believe one or both of the following occurred: Either the Village made adjustments to the trial balance after the audit was issued, or the Village did not make adjustments recommended by the audit firm.

*Recommendation:* We recommend that the Village compare its trial balances to the audited financial statements to ensure that the audited balances agree to the trial balance. Any differences should be reconciled and resolved prior to the subsequent year's audit.

# VILLAGE OF FOX LAKE, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2015

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### Section II - Financial Statement Findings (continued)

#### **2015-001: Unresolved Difference Between Prior Year Audited Fund Balance and Current Year Beginning Fund Balance - Significant Deficiency in Internal Control (continued)**

*Corrective Action Plan:* The prior year balances were prepared by a different accounting firm and the general ledger was prepared by a prior accounting firm and a prior Finance Director. The prior year work papers were reviewed to determine where the discrepancies occurred; however, it could not be determined. Therefore, the current audit firm and the current Finance Director agreed to make a prior year adjustment to correct the discrepancy. As part of the current and future audit review process, the Finance Director will compare the trial balance to the audited financial statements before the Finance Director approves the audit for release.

#### **2015-002: Preparation of the Schedule of Expenditures of Federal Awards - Significant Deficiency in Internal Control, Noncompliance**

*Criteria:* Office of Management and Budget Circular A-133 requires that entities expending more than \$500,000 in federal assistance prepare a Schedule of Expenditures of Federal Awards (SEFA) as a part of the reporting package that is given to their auditors at year end. The SEFA should state the name of the award, the federal granting agency, the Catalog of Federal Domestic Assistance number (CFDA), the pass-through agency (if applicable), and the amount of federal awards expended by grant. Since the auditor is independent of the Village, the standards require that the Village prepare the SEFA so that the auditor is not reviewing their own work.

*Context:* At the beginning of our audit, we request the SEFA to determine whether a Single Audit is required and if so, which major programs we will be required to audit. It is imperative that the information on the SEFA is complete and accurate in order for auditors to make these determinations.

*Condition:* We received a listing of grants from the Village, however, the information contained in the listing did not contain all of the information required by OMB Circular A-133.

*Effect:* The auditors prepared the SEFA on behalf of the Village. The Village reviewed the information on the SEFA to determine that the SEFA was correct.

*Cause:* The SEFA did not contain all of the information required by OMB Circular A-133.

# VILLAGE OF FOX LAKE, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2015

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### Section II - Financial Statement Findings (Continued)

#### **2015-002: Preparation of the Schedule of Expenditures of Federal Awards - Significant Deficiency in Internal Control, Noncompliance (Continued)**

*Recommendation:* We recommend that the Village prepare the SEFA in accordance with the provisions of OMB Circular A-133 or the Uniform Single Audit Guidance (as applicable) issued by the Office of Management and Budget.

*Corrective Action Plan:* The Finance Department will prepare the SEFA for the next fiscal year. As this is the first year a single audit was required for the Village, the Village provided all of the underlying documentation to the auditors. The Village was unaware that it needed to prepare a schedule form or that one was being prepared by the auditors. Due to the simplicity of schedule form, the Finance Department could have easily prepared the schedule and will do so in future.

*Auditor's Response to Corrective Action Plan:* This schedule was requested as Item C.1. on our Preliminary Client Assist Workpaper Request during preliminary audit fieldwork.

#### **2015-003: Reconciliation of Cash Received in Police Department to Cash Deposited by Finance Department - Significant Deficiency in Internal Control**

*Criteria:* Management is responsible for the establishment an internal control structure that safeguards the assets of the Village.

*Context:* The Village maintains a Police Department Office that is separate from the Village Hall. Cash is collected at the Police Department by department staff. The Police department staff record cash receipts into a receipt book. Receipts are prenumbered and filled out in triplicate. The Department retains one copy, gives one to the customer and sends one to the Finance Department. At the end of the day, the cash collected for the day is stored in a locked cabinet pending transport to the Village.

*Condition:* When the Finance Department receives the cash from the Police Department, there is no reconciliation of the cash received in finance to the cash taken in from customers in the Police Department, and no verification of the sequential integrity of the prenumbered receipts. Further, several individuals are in possession of the key to the cabinet where the cash is kept until it is transmitted to the Finance Department.

# VILLAGE OF FOX LAKE, ILLINOIS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2015

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### Section II - Financial Statement Findings (Continued)

#### **2015-003: Reconciliation of Cash Received in Police Department to Cash Deposited by Finance Department - Significant Deficiency in Internal Control (Continued)**

*Effect:* The potential exists that cash could be lost or stolen between the times it is received at the Police department to the time it is transmitted to Finance.

*Cause:* No internal controls exist to reconcile cash received at the Police department to cash transmitted to the Finance department.

*Recommendation:* The Village should consider the need for cash to be collected at the Police department. If it is determined that this is necessary, the Village should implement a process that (1) requires that all cash transactions at the Police Department will generate a receipt. This could be accomplished by the use of a cash register at the Police Department; (2) total cash received by the Police Department be balanced to the receipts generated at the end of the business day, and the balancing process should be reviewed by an individual that is separate from the cash receipting process; (3) if cash cannot be immediately transmitted to the Finance Department, access to cash in any temporary storage area should be limited to one or two individuals; (4) cash transmitted to the Finance Department should be reconciled to the balancing reports generated at the end of the business day.

*Corrective Action Plan:* The Police Department is open 24 hours a day; therefore, cash must be received by the department. The Police Department currently receives a nominal number of cash payments (approximately 5) per month; therefore, it is cost prohibitive to purchase a cash register. The Police Department already records receipts in triplicate. The Accounting Clerk will go to the Police Department on a monthly basis to review the cash receipt book to make sure the cash receipts are all accounted for and have been sent to the Village Hall for deposit. The Police Department provides a Money Receipt summary to the Village within 24 hours of receipt when cash payments are made. If no cash payments are made, no summary is provided to the Village. The money receipt summary is reconciled to the amounts and detail of information sent from the Police Department to the Village. The Village has three keys to the cabinet where cash is stored. The key owners are the Records Clerk and the two administrative assistants working in the Police Department who collect cash.

## VILLAGE OF FOX LAKE, ILLINOIS

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2015

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#### Section III - Federal Award Findings and Questioned Costs

##### **2015-004: Requisitioning of Equipment from Law Enforcement Support Office (LESO) Program - CFDA 12.005, Noncompliance, Equipment and Real Property Management**

*Criteria:* The LESO program is a program created by the federal government to transfer excess military equipment to civilian law enforcement agencies. Equipment obtained through the LESO program is subject to requirements imposed by the federal government for acquisition, management, and disposition of the equipment.

*Context:* During the year, we noted through conversations with Village officials that the Village acquired equipment through the LESO program.

*Condition:* We noted that during the year under audit, and prior to the year under audit, the Village was not inventorying and tracking equipment according to the provisions of OMB Circular A-110.

*Effect:* Until recently, after the period under audit, the Village did not complete an inventory of the equipment received through the LESO program. As such, the Village could have disposed of equipment without complying with the applicable federal and state requirements.

*Cause:* The Village did not establish the internal controls necessary to ensure that it complied with applicable federal and state requirements in relation to the equipment acquired through the LESO program.

*Questioned costs:* None identified.

*Recommendation:* The Village should establish the controls necessary to comply with OMB Circular A-110 and the new Uniform Administrative Requirements. Specifically, the Village should implement a process that identifies all assets acquired through federal programs. The Village should ensure that the equipment is used for the program it was acquired for, or, when appropriate, other federal programs. Equipment records should be maintained that identify the asset, the location of the asset, the date of acquisition, the expected useful life, and the federally funded portion of the asset. A physical inventory of the assets should be taken at least once every two years and reconciled to the equipment records. An appropriate control system should be used to safeguard equipment, and equipment should be adequately maintained. When equipment with a current per unit fair market value of \$5000 or more is no longer needed, it may be retained or sold with the federal agency having a right to a proportionate (percent of federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

## VILLAGE OF FOX LAKE, ILLINOIS

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended April 30, 2015

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#### **Section III - Federal Award Findings and Questioned Costs (continued)**

##### **2015-004: Requisitioning of Equipment from Law Enforcement Support Office (LESO) Program - CFDA 12.005, Noncompliance, Equipment and Real Property Management (Continued)**

*Corrective Action Plan:* The Village was not aware of the purchases through the LESO program made by a recently deceased officer. The equipment was not purchased and used by the Village or Police Department, but rather taken and used for the Explorer Program. The items were not disclosed to the Village Administration. The Village has met with the LESO program administration to discuss flaws in the federal program and will be requesting that notification of any purchases made by the Police Department be sent to the Village Administrator.

The deceased police officer's conduct in obtaining items from the LESO program was not in compliance with the Village's purchasing policy, adopted by ordinance and in existence at the time. The policy provides: "The Village Code designates the Mayor and the Village Administrator as the purchasing agent for the Village (Village Code, Section 1-8D-3J)". Also the policy states, "Employees of the Village who are given authority to purchase on behalf of the Village must exercise this responsibility with the utmost measure of fairness and integrity and solely for the purpose of serving the residents of Fox Lake. Purchases by employees should be in the best interest of the Village and never for the personal gain of the employee, either directly (e.g., purchase for the employee's personal use) or through a conflict of interest (e.g., a family member owns a company and wants Village business). Employees are required to only exercise the purchasing authority granted to them by the Village Administrator and their Department Director. Employees must follow the procedures established in this policy document to ensure purchases are being made in a manner that complies with Illinois State Statute and the Fox Lake Code of Ordinances. Employees who abuse their purchasing authority are subject to immediate disciplinary actions, up to and including termination of employment and prosecution by law enforcement."

Therefore, the Village has controls in place and will work with the LESO administration to increase communication and strengthen the Village's oversight in the use of the program.

#### **Section IV - Prior Federal Award Findings**

None