

VILLAGE OF SHERMAN, ILLINOIS

**COMMUNICATION OF DEFICIENCIES
IN INTERNAL CONTROL AND OTHER
COMMENTS TO MANAGEMENT**

April 30, 2015



**COMMUNICATION OF DEFICIENCIES IN INTERNAL CONTROL
AND OTHER COMMENTS TO MANAGEMENT**

To Village Management
Village of Sherman
401 St. John's Drive
Sherman, Illinois 62684

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities and each major fund of the Village of Sherman (the Village) as of and for the year ended April 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing auditing 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.

We have communicated the material weakness and significant deficiency in internal control identified during our audit to the Village Board of Trustees in a separate letter dated October 27, 2015 titled "Communication of Material Weaknesses and Significant Deficiencies in Internal Control".

During our audit we became aware of 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 letter.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Jeremy Stuenkel and John Swinford 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 information is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.



Springfield, Illinois
October 27, 2015

OTHER COMMENTS AND RECOMMENDATIONS

CONTROL DEFICIENCIES

Tax Increment Financing

During the audit we noted that the Village is allocating a portion of the Village Clerk's and the Village Administrator/Economic Development Coordinator's salary to the TIF Funds. The Tax Increment Allocation Redevelopment Act states that eligible redevelopment project costs does not include administrative costs that would still have been incurred by the municipality if it had not designated a redevelopment project area. While it appears reasonable that a portion of the Village Clerk's and Village Administrator/Economic Development Coordinator's responsibilities would not have occurred without the redevelopment project areas, the Village does not have support for the allocation of the salaries relating specifically to the TIF Funds.

During prior audits, we noted that the Village expended TIF Funds on ineligible expenses totaling \$2,206. As of April 30, 2015, the Village has not reimbursed the TIF Fund for the ineligible expenses. We recommend the Village reimburse the TIF Fund for the ineligible expenses.

Cash

During the audit we noted that the Village had uncollateralized cash balances in the amount of \$11,918 at year end. We also noted that the collateral held by an independent third party institution was not held in the name of the Village. The Village's investment policy states all funds on deposit in excess of FDIC limits must be secured by some form of collateral, witnessed by a written agreement and held at an independent third party institution in the name of the Village. We recommend the Village comply with its investment policy and obtain collateral for unguaranteed deposits.

Payroll Records

During the audit we noted instances of employees not completing and signing off on their time cards and instances of time cards not being reviewed and approved by a second individual. Since the time cards are the source document supporting the Village's payroll expenses, we recommend that employees complete and sign their own time cards to impress on the employees the need for accuracy and honesty in filling out the time cards and that by signing it they are making a representation about those matters. We also recommend that the time cards be reviewed and documentation of the review be performed by supervisors or managers who will be generally knowledgeable about the employees' attendance, hours, and work assignments during the pay period to ensure that the appropriate time is being reported.

OTHER COMMENTS AND RECOMMENDATIONS (Continued)

CONTROL DEFICIENCIES (Continued)

Intergovernmental Agreements

During the audit we noted that the Village loaned funds to the Williamsville Community Unit School District #15 with the amount to be repaid to the Village within 90 days of receipt of the TIF surplus distribution to the School District. The TIF surplus distribution was made to the School District in January 2015 and therefore, should have repaid the funds by the end of the Village's fiscal year. As the funds have not yet been repaid to the Village we recommend that the Village monitor the intergovernmental agreements to determine that the funds are repaid within the required timeframe.

Sewer Revenue

During the audit, we noted variances between the sewer amounts billed by the Village of Williamsville and the amount of receipts received by the Village during the fiscal year. We also noted significant time lags between the date of the check issued by the Village of Williamsville and the date the funds were deposited into the bank by the Village of Sherman. We recommend that the Village implement a reconciliation process between the amounts billed by the Village of Williamsville for sewer transactions and the deposits submitted to the Village. We also recommend that the Village work with the Village of Sherman to set up consistent times to receive the funds so that they can be deposited within the Village's Sewer Fund within a reasonable time.

Other

During the audit we noted that the spreadsheet maintained by the Village Administrator for building permits issued during the fiscal year did not reconcile to the building permit revenue recorded in the general ledger system. The revenue is posted to the general ledger system based upon the deposits of building permit receipts made by the Treasurer. We recommend that the Village periodically reconcile the building permit spreadsheet to the building permit revenue recorded in the general ledger system to determine that the building permit receipts are properly reported.

OTHER COMMENTS AND RECOMMENDATIONS (Continued)

ADVISORY COMMENTS

Capital Assets

During the audit we noted that the Village has not established a formal policy concerning the acquisition and disposal of property and equipment. A formal capital asset policy should be established to determine that the Village is in compliance with governmental financial reporting standards, to provide a basis for determining appropriate insurable values, and to establish responsibility for property control. Included in the policy should be procedures for monitoring capital asset additions and disposals during the year to update the financial statements at the end of the fiscal year and the required documentation necessary for additions and disposals. We recommend that the Village adopt formal policies relating to capital assets which include the definition of the Village's capital assets, the capitalization threshold, property accounting and control, and depreciation method.

In addition, during the audit we noted that a physical inventory was not performed over capital assets. We recommend that the Village perform a physical inventory over capital assets to properly update the capital asset listing maintained for financial reporting purposes.

Purchasing

The Village currently does not have a purchasing policy in place as part of their internal controls. The purpose of a purchasing policy is to help control spending of Village resources and to help ensure that the Village pays only for items that are actually received. The policy should provide for approval of purchases, including establishment of reasonable limitations on approval authority of specific individuals.

Included in the purchasing policy should also be a section addressing credit cards. The purpose of a credit card policy is to provide the Village officials and staff with guidelines and directions for the acquisition of goods and services using a Village issued credit card to ensure that public money is spent efficiently and effectively and in accordance with statutes, regulations, and Village policies. The policy should outline the individuals eligible to use the credit cards, the types of transactions allowed, and the responsibilities of the cardholder when making a purchase. We recommend that the Village establish a formal credit card policy to provide to officials and staff to ensure that the use of the credit cards is in accordance with Village expectation.

OTHER COMMENTS AND RECOMMENDATIONS (Continued)

ADVISORY COMMENTS (Continued)

Fund Balance and Reserve Policy

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints upon how resources reported in governmental funds may be used, thereby improving this information by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Statement 54 is effective for financial statements for the Village's year ending April 30, 2012. In accordance with Government Finance Officers Association (GFOA) approved recommendation, we recommend the District establish a formal policy to comply with the changes in fund balance classifications established by GASB Statement 54. Accordingly, we have provided the Village Administrator with both the GFOA's approved recommendation and an actual example of a Fund Balance and Reserve Policy created and adopted by another municipality.

Debt Management Policy

During the audit we noted that the Village does not have a formal debt management policy. The GFOA Best Practice recommends the adoption of a comprehensive written debt management policy that addresses the amount and type of debt issued, the issuance process, and the management of a debt portfolio. The implementation of a written debt management policy signals to rating agencies and the capital markets that the Village is well managed and should meet its obligations in a timely manner. We recommend that the Village establish a debt management policy to monitor the forms of debt that the Village has currently incurred and to monitor bond covenants and federal regulations concerning debt.

Other

We noted that the Village does not have an accounting procedures manual. A well-devised accounting manual can help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by the Board. It will take some time and effort for the development of a manual; however we believe this time will be more than offset by time saved later in training accounting personnel and reviewing the work performed by accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

Future Accounting Pronouncements

The Governmental Accounting Standards Board has issued a number of pronouncements that may impact the Village in the future.

1. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which replaces Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and No. 50, *Pension Disclosures – an amendment of GASB No. 25 and No. 27*, requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and requires new note disclosures and required supplementary information. This statement is effective for the Village’s year ending April 30, 2016.
2. GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement is effective for the Village’s year ending April 30, 2016.
3. GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurement. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for the Village’s year ending April 30, 2017.
4. GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for financial statements for the Village’s year ending April 30, 2018.

5. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The statement builds upon the existing framework for financial reports of defined benefit OPEB plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 74 enhances note disclosures and RSI for both defined benefit and defined contribution OPEB plans. Statement No. 74 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions in Statement No. 74 are effective for OPEB plan or sponsoring employer financial statements for the Village's year ending April 30, 2018.
6. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments and replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as they relate to governments that provide benefits through OPEB plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 75 requires governments providing defined benefit OPEB to recognize their long-term obligation for OPEB as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The provisions in Statement No.75 are effective for the Village's year ending April 30, 2019.
7. GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP: officially established accounting principles – GASB Statements (Category A) and GASB Technical Bulletins; GASB Implementation Guides; and literature of the American Institute of Certified Public Accountants cleared by the GASB (Category B). Statement No. 76 also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Statement No. 76 is applicable for the Village's year ending April 30, 2017 and should be applied retroactively. Earlier application is permitted.
8. GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements, and (2) those that are entered into by other governments and reduce the reporting government's tax revenues. The provisions in Statement No. 77 are effective for the Village's year ending April 30, 2017.