



## VILLAGE OF SHERMAN, ILLINOIS

COMMUNICATION OF DEFICIENCIES  
IN INTERNAL CONTROL AND OTHER  
COMMENTS TO MANAGEMENT

April 30, 2020

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## **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, 2020, 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 significant deficiencies in internal control identified during our audit to the Village Board of Trustees in a separate letter dated August 25, 2021 titled "Communication of 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 the Village Administrator and Village Treasurer 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.

*SiKich LLP*

Springfield, Illinois  
August 25, 2021

## **OTHER COMMENTS AND RECOMMENDATIONS**

### **CONTROL DEFICIENCIES**

#### **Tax Increment Financing**

During prior audits, we noted that the Village expended TIF Funds on ineligible expenses totaling \$2,470. As of April 30, 2020, the Village has not reimbursed the TIF Fund for the ineligible expenses. We recommend the Village reimburse the TIF Fund for the ineligible expenses and consult with the Village's TIF attorney regarding any questionable TIF eligible expenses.

#### ***Auditee Response***

*Adjustments will be made as recommended after consultation with the TIF Legal counsel. Future disbursements are to be discussed with legal prior to payment.*

#### **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 recommend that the Village perform an analysis each month over the amounts billed by the Village of Williamsville and the amount of receipts received from the Village of Williamsville to determine that all revenue billed for the Village has been received.

#### ***Auditee Response***

*Plans are under way to reconcile each month amounts billed by the Village of Williamsville to amounts received.*

#### **Cash Receipts**

During our review of sewer cash receipts, we noted significant time lags between the date funds were received by the Village and the date the funds were deposited into the bank. Upon further discussion it was noted that there are no procedures in place for consistent and timely deposits of cash receipts. Additionally, deposits may be maintained in various locations until they are taken to the bank. We recommend that the Village maintain all receipts in one secure location until they are taken for deposit and that all receipts are deposited in a timely manner.

#### ***Auditee Response***

*Processes are in place to deposit all receipts weekly.*

## **OTHER COMMENTS AND RECOMMENDATIONS (Continued)**

### **CONTROL DEFICIENCIES (Continued)**

#### **Capitalization Threshold**

The Village has established minimum capitalization threshold for various capital assets including a threshold of \$1,000,000 for infrastructure. While accounting principles generally accepted in the United States of America do not provide specific guidance on setting capitalization policies, this threshold appears unusually high based upon the size of the Village and may result in appropriate capital assets not being reported in the Village's financial statements. We recommend the capitalization threshold for capital assets be evaluated to determine if thresholds appear reasonable and would identify all appropriate capital assets of the Village or if they should be adjusted to include additional capital assets that should be considered in the Village's financial statements.

#### ***Auditee Response***

*Review will be made on current capitalization plan and recommendations for changed made to the Village Board for their consideration.*

#### **General Obligation Bonds, Series 2016**

During the audit we noted that the Village is depositing all property taxes related to the General Obligation Bonds, Series 2016 and paying the bond principal and interest payments out of the General Fund bank account. The General Obligation Bond ordinance requires the Village to maintain a separate 2016 General Obligation Bond and Interest Account to deposit the taxes levied and used solely for the purpose of paying the principal and interest due on the Bonds. We recommend the Village maintain a separate account in the General Fund to deposit the property taxes levied and pay the debt service payments.

#### ***Auditee Response***

*Village will review with legal counsel and make appropriate changes to comply with ordinance.*

#### **Building Permits**

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.

#### ***Auditee Response***

*Village will work on process to periodically reconcile building permits and perform fiscal year-end review to reconcile.*

## **OTHER COMMENTS AND RECOMMENDATIONS (Continued)**

### **CONTROL DEFICIENCIES (Continued)**

#### **Unclaimed Property**

During our testing of cash, we noted outstanding checks that appear to be older than three years. Per the Uniform Disposition of Unclaimed Property Act, all unclaimed checks on the Village's outstanding checks list become unclaimed property after three years. In order to avoid penalties and fines as described in Section 25.5 of the Act, we recommend that all outstanding checks greater than three years are reported and remitted to the State of Illinois Treasurer's Office on an annual basis.

#### ***Auditee Response***

*Village will take the appropriate actions as recommended.*

#### **Tax Increment Revenue Bonds, Series 2011**

During the audit we noted that the Village has unpaid principal and interest payments for the Tax Increment Revenue Bonds, Series 2011 totaling \$673,091 as of April 30, 2020 that was to be paid during previous fiscal years in accordance with the debt service requirements. The Tax Increment Revenue Bond Ordinance requires the Village to punctually pay the principal and interest becoming due in strict conformity with the terms of the bonds and the ordinance, and therefore, the Village is not in compliance with the bond covenant as of April 30, 2020. We recommend that the Village make the necessary principal and interest payments in accordance with the debt service requirements to be in compliance with the bond covenants.

#### ***Auditee Response***

*Village will review with legal counsel and take necessary action to comply.*

#### **Cash Disbursements**

During our testing of expenses, the Village was unable to provide supporting invoices for a few expense testing selections. Also, we noted that certain credit card purchases were being shipped to locations other than the Village Hall. We recommend that the Village maintain all invoices in a central location to support expenses paid for by the Village and ensure that all purchases be shipped to the Village Hall.

#### ***Auditee Response***

*Processes are now in place to ship all items to the Village Hall as recommended and to maintain all invoices in a central location at the Village Hall.*

## **OTHER COMMENTS AND RECOMMENDATIONS (Continued)**

### **CONTROL DEFICIENCIES (Continued)**

#### **Compensated Absences**

During our testing compensated absences, we the Village was allowing compensated absences time carryover in excess of Village policy. Additionally, compensated absence balances were not updated for wage increases that were retroactively applied to fiscal year ending April 30, 2020, after year-end. We recommend that the Village ensure balances are calculated, reviewed and approved. We also recommend the Village follow the compensated absence policy or adjust the policy.

#### ***Auditee Response***

*Village has established a program to calculate, review and approve compensated absences per employee and abide by vacation police per ordinance or labor union.*

### **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 and insurance purposes.

#### ***Auditee Response***

*Village will review policies on capitalization and prepare a policy that best fits the Village and present it to the Village Board for approval. An inventory is performed on major items each year during renewal of insurance with IML/RMA. The Village will keep a list of all capital assets and update.*

## **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. In accordance with Government Finance Officers Association (GFOA) approved recommendation, we recommend the Village 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.

#### ***Auditee Response***

*Village will review current fund balance classifications and recommend appropriate adjustments to assure compliance.*

#### **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.

#### ***Auditee Response***

*Village will review draft debt management policies and determine an ordinance that best fits our operation on debt management and bring it to the Village Board for review and approval.*

## **OTHER COMMENTS AND RECOMMENDATIONS (Continued)**

### **ADVISORY COMMENTS (Continued)**

#### **Accounting Procedures Manual**

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.

#### ***Auditee Response***

*Village will review and work towards an accounting and accession procedures manual to assure continuity of services for all department operations to assure continuation of services well into the future.*



## Future Accounting Pronouncements

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

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, was issued in May of 2020 to provide temporary relief to governments in light of the COVID-19 pandemic. This statement provides optional postponement of certain provisions contained in Statements No. 84, 89, 90, 91, 92, and 93 for one year from the original effective date and Statement No. 87 for 18 months.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. In general, an activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The provisions in Statement No. 84 are effective for the Village's year ending April 30, 2021.

GASB Statement No. 87, *Leases*, improves accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions in Statement No. 87 are effective for the Village's year ending April 30, 2023.

GASB Statement No. 90, *Majority Equity Interests*, improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. The provisions in Statement No. 90 are effective for the Village's year ending April 30, 2021.

## Future Accounting Pronouncements (Continued)

GASB Statement No. 91, *Conduit Debt Obligations*, provides for a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for the fiscal year ending April 30, 2023. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, addresses a variety of topics and includes specific provisions about the following: the effective date of Statement No. 87, reporting the intra-entity transfers of assets between primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan, the applicability of Statements No. 73 and No.74 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) to asset retirement obligations 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 related to the effective date of Statement No. 87, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The remainder of the statement is effective for fiscal year ending April 30, 2023.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The London Interbank Offered Rate (LIBOR), as a result of global reference rate reform, is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing the fallback provisions related to the reference rate. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replace of an IBOR. The requirements of this statement are effective for the fiscal year ending April 30, 2022. Early application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, establishes the definitions of public-public partnership arrangements (PPPs) and availability payment arrangements (APAs) and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. The statement is effective for fiscal year ending April 30, 2024.

## **Future Accounting Pronouncements (Continued)**

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 (governments). The statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) 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 statement is effective for fiscal year ending April 30, 2024.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and 84, and a supersession of GASB Statement No. 32* has the following primary objectives: (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, deferred contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The statement is effective for fiscal year ending April 30, 2021.