VILLAGE OF SHERMAN, ILLINOIS

COMMUNICATION OF DEFICIENCIES
IN INTERNAL CONTROL AND OTHER
COMMENTS TO MANAGEMENT

April 30, 2018

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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, 2018, 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 deficiency in internal control identified during our audit to the Village Board of Trustees in a separate letter dated January 4, 2019 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
January 4, 2019

OTHER COMMENTS AND RECOMMENDATIONS

CONTROL DEFICIENCIES

Tax Increment Financing

During the audit, we noted that the Village expended TIF Funds on ineligible expenses totaling $88. During prior audits, we noted that the Village expended TIF Funds on ineligible expenses totaling $2,382. As of April 30, 2018, 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.

Payroll Records

During the audit we noted instances of time cards not being reviewed and approved by a second individual. We recommend that the time cards be reviewed and documentation of the review be performed by a second individual 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.

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.

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. We recommend that the Village deposit all receipts in a timely manner.

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.

OTHER COMMENTS AND RECOMMENDATIONS (Continued)

CONTROL DEFICIENCIES (Continued)

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 paymnets 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.

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 $325,196 as of April 30, 2018 that was to be paid during fiscal year 2017 and 2018 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, 2018. 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.

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.

We also noted during our review of the building permits the Zoning Officer does not sign off on all building permit applications verifying that the application meets all the requirements of the building permit before the building permit was issued. We recommend that building permits only be issued for building permit applications that have been approved by all the required individuals during the application process.

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 and insurance purposes.

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 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 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.

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. 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.

2. GASB Statement No. 82, *Pension Issues – An amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 6*8*, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal year end April 30, 2018, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is effective for fiscal year April 30, 2019. Earlier application is permitted.

3. GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This statement is effective for the Village's fiscal year ending April 30, 2020. Earlier application is permitted.

Future Accounting Pronouncements (Continued)

4. GASB Statement No. 84, *Fiduciary Activities*, improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement is effective for the Village's fiscal year ending April 30, 2020. Earlier application is permitted.

5. GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and other postemployment benefits (OPEB). This statement is effective for the Village's fiscal year ending April 30, 2019. Earlier application is permitted.

6. GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt, when resources other than refunding proceeds are place in trust to extinguish debt. This statement is effective for the Village's fiscal year ending April 30, 2019. Earlier application is permitted.

7. GASB Statement No. 87, *Leases*, 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. 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. This statement is effective for the Village's fiscal year ending April 30, 2021.

8. GASB Statement No 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* was issued in March 2018 and provides guidance on improving disclosures in the notes to the financial statements related to debt, including direct borrowings and direct placements of debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement is effective for the Village's fiscal year ending April 30, 2020.

Future Accounting Pronouncements (Continued)

9. GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. This statement is effective for the Village's fiscal year ending April 30, 2021.

10. GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61* improves 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 If defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. For all other holdings of a majority equity interest in a legally separate organization, a government should report he 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. This statement is effective for the Village's fiscal year ending April 30, 2020.