



VILLAGE OF SHERMAN, ILLINOIS

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COMMUNICATION OF MATERIAL WEAKNESS  
AND SIGNIFICANT DEFICIENCIES IN  
INTERNAL CONTROL

April 30, 2017

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December 5, 2017

To the Board of Trustees  
and 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, 2017, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 are not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in the Village's internal control listed on the following pages to be a material weakness.

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. We consider the deficiencies in the Village's internal control listed on the following pages to be significant deficiencies.

The Village's written responses to the significant deficiencies and material weakness identified in our audit have not been subjected to the audit procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Trustees, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

*Sikich LLP*

Sikich LLP  
Springfield, Illinois

## **MATERIAL WEAKNESSES**

### **Financial Statements in Accordance with Generally Accepted Accounting Principles**

The Board of Trustees and management share the ultimate responsibility for the Village's financial statements. While it is acceptable to outsource various accounting functions, the ultimate responsibility of the financial statements cannot be outsourced to the external auditors. The Village should have personnel possessing a thorough understanding of the accrual basis of accounting staying abreast of recent accounting developments. Such personnel would perform a comprehensive review procedure to ensure that in the preparation of its annual financial statements that such statements, including disclosures are complete and accurate. During the audit we proposed material adjustments to properly state the financial statements in accordance with accounting principles generally accepted in the United States of America including recording fixed assets, interest payable, grant activity and a prior period adjustment for the understatement of prior year accounts payable.

Included in the preparation of the Village's financial statements, 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***

*We concur with the finding. Management is committed to improving the accuracy of the Village's financial records. The Village will add accounting procedures to ensure that the annual financial statements are complete and accurate.*

## **SIGNIFICANT DEFICIENCIES**

### **Journal Entries**

During the audit, we noted journal entries that were made in the accounting system that were not reviewed and approved by a second individual. We recommend that the Village develop and implement procedures to verify all journal entries that are made in the accounting system are reviewed and approved by a second individual.

### ***Auditee Response***

*We concur with the finding. Management has instituted procedures for proper review of all journal entries entered into the accounting system by a second individual.*

### **Segregation of Duties**

A lack of segregation of duties is common among local governments. However, it does increase the risk that errors may occur and go undetected and it increases the risk of fraud. Fraud could occur where employees have access to financial records and/or assets of the Village, and could perpetrate fraud for their personal financial benefit. During our audit we noted instances where employees have access to financial records and/or assets of the Village. Specifically, we noted a lack of segregation of duties over cash disbursements. We noted the same individual records disbursements and creates checks in the accounting system, is an authorized signer on the checking account, and also reconciles the bank statements. Additionally, we noted a second review of the bank reconciliations was not performed in April of 2017. While proper segregation is not always possible in a small municipality, limited segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud. We recommend that another individual be responsible for reviewing all bank reconciliations performed during the year and the individual recording the disbursements not be an authorized signer on the account.

### ***Auditee Response***

*We concur with the finding. The Village will develop and implement additional segregation processes as recommended to reduce potential or perception of fraud.*