

VILLAGE OF SHABBONA, ILLINOIS

MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED
APRIL 30, 2020



November 16, 2020

The Honorable Village Mayor
Members of the Board of Trustees
Village of Shabbona, Illinois

In planning and performing our audit of the financial statements of the Village of Shabbona (the Village), Illinois, for the year ended April 30, 2020, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We do not intend to imply that our audit failed to disclose commendable aspects of your system and structure. For your consideration we herein submit our comments and suggestions which are designed to assist in effecting improvements in internal controls and procedures. Those less significant matters, if any, which arose during the course of the audit, were reviewed with management as the audit field work progressed.

The accompanying comments and recommendations are intended solely for the information and use of the Board of Trustees, management, and others within the Village of Shabbona, Illinois.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Village personnel. We would be pleased to discuss our comments and suggestions in further detail with you at your convenience, to perform any additional study of these matters, or to review the procedures necessary to bring about desirable changes.

We commend the finance department for the well prepared audit package and we appreciate the courtesy and assistance given to us by the entire Village staff.

Lauterbach & Amen, LLP

LAUTERBACH & AMEN, LLP

PRIOR RECOMMENDATIONS

1. INVESTMENT POLICY

Comment

Previously, we noted that Village does not have a formal written investment policy. A well-written investment policy will provide the Board with a strong internal control for cash and investment related transactions as well as a benchmark for monitoring the success of its investment program.

Recommendation

It is recommended that the Village create and adopt a formal investment policy. The policy should outline general investment objectives, authorized investments, safekeeping and custody requirements and any other information pertinent to the investment policy.

Status

This comment has been implemented and will not be repeated in the future.

2. FUND BALANCE POLICY

Comment

Previously and during our current year-end audit procedures, we noted that the Village does not have a formal fund balance policy. A fund balance policy establishes a minimum level at which the projected end-of-year fund balance/net position should be maintained, taking into account the constraints imposed upon the resources reported by the governmental and proprietary funds. A fund balance policy assists in providing financial stability, cash flow for operations, and the assurance that the Village will be able to respond to emergencies with fiscal strength.

It is essential to maintain adequate levels of fund balance/net position to mitigate current and future risks and to ensure tax rates. Fund balance/net position levels are also crucial consideration in long-term financial planning. Credit rating agencies carefully monitor levels of fund balance/net position and unassigned fund balance in the General Fund to evaluate the Village continued creditworthiness.

Recommendation

We recommended the Village create and adopt a fund balance policy to be in compliance with GASB Statement No. 54. The Village should address fund balance reporting categories (nonspendable, restricted, committed, assigned, and unassigned) as well as review minimum fund balance policies.

Status

This comment has not been implemented and will be repeated in the future.

Management Response

Management acknowledges this comment and this policy was approved by the Board during the July 2020 board meeting.

PRIOR RECOMMENDATIONS – Continued

3. CAPITAL ASSET POLICY

Comment

Previously, we noted the Village does not have a formal capital asset policy to provide guidance on the financial aspects and stewardship of capital assets. With respect to the financial aspects, guidance should be provided on the minimum dollar amount and minimum useful life for an item to be capitalized as a capital asset. Stewardship issues include the physical custody of capital assets.

Recommendation

We recommended that the Village adopt a capital asset policy, which addresses both financial, and stewardship issues. As part of developing the capital asset policy, a review of the current capitalization amount and estimated useful life should be performed for both financial reporting and stewardship. The capital asset policy should also establish standard depreciation methods and useful lives to be applied to specific categories of assets. With respect to stewardship, the policy should address location of assets, tagging, physical access and security and frequency of periodic inventories. Once the policy has been established, we recommended the Village undertake a complete inventory and valuation of capital assets to create detail capital asset records that are in compliance with the new policy. Additionally, as part of this process we recommended land be inventoried and valued at its estimated fair value on the date donated.

Status

This comment has been implemented and will not be repeated in the future.

Management Response

The Village adopted a capital asset policy at the end of the fiscal year and will work to implement this policy in the coming year.

PRIOR RECOMMENDATIONS – Continued

4. BANK RECONCILIATIONS – NOT PERFORMING MONTHLY

Comment

Previously and during our year-end audit procedures, we found that the bank reconciliations to the general ledger activity were not being performed on a monthly basis. One of the most important internal control features over cash receipts and disbursements is the preparation of monthly bank reconciliations. By not preparing monthly bank reconciliations, errors and omissions may occur and not be detected on a timely basis. There were significant adjustments required during the audit process to correct cash.

Recommendation

We recommended as a means of better control, that bank reconciliations be performed to the general ledger activity each month and any variances be investigated and adjusted immediately.

Status

This comment has not been implemented and will be repeated in the future.

Management Response

Management has been working to reconcile bank activity to Locis and has requested the outside accounting audit firm provide training and assistance.