

# VILLAGE OF SHABBONA, ILLINOIS

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## MANAGEMENT LETTER

FOR THE FISCAL YEAR ENDED  
APRIL 30, 2021



November 18, 2021

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, 2021, 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

## CURRENT RECOMMENDATIONS

### 1. **GASB STATEMENT NO. 87 LEASES**

#### Comment

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which provides guidance regarding the information needs of financial statement users by improving accounting and financial reporting for leases by governments. 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. In accordance with GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which was issued as temporary relieve to governments and other stakeholders in light of the COVID-19 pandemic, GASB Statement No. 87, *Leases* is applicable to the Village's financial statements for the year ended April 30, 2023.

#### Recommendation

Lauterbach & Amen, LLP will work directly with the Village to review the new lease criteria in conjunction with the Village's current leases to determine the appropriate financial reporting for these activities under GASB Statement No. 87.

#### Managements' Response

Management acknowledges this comment and will work with Lauterbach & Amen to implement when required.

### 2. **OUTSTANDING CHECK WRITE-OFF POLICY**

#### Comment

During our current year-end audit procedures, we noted that the Village does not have a formal policy for following up and processing old outstanding checks, which has resulted in several old outstanding checks being included in the bank reconciliations.

#### Recommendation

We recommend the Village develop and implement an outstanding check policy that includes procedures to follow-up and subsequently how to process the outstanding checks. This policy should be in written form and should set specific instructions for these procedures including steps to be in compliance with State unclaimed property statutes. State unclaimed property statutes note that all checks that are greater than three years old are to be sent to the State of Illinois Treasurer along with the required forms.

#### Managements' Response

Management acknowledges this comment and will work to implement it in the future.

## **PRIOR RECOMMENDATIONS**

### **1. FUND BALANCE POLICY**

#### Comment

Previously, 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 been implemented and will not be repeated in the future.

### **2. 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 an outside accounting firm provide training and assistance.