

SHELBY COUNTY, ILLINOIS

MANAGEMENT LETTER



FOR THE FISCAL YEAR ENDED
NOVEMBER 30, 2024

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August 31, 2026

Members of the County Board
Shelby County
Shelbyville, Illinois

In planning and performing our audit of the financial statements of Shelby County (the County), Illinois, for the fiscal year ended November 30, 2024, 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 and senior management of Shelby County, 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 County 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 County staff.

Lauterbach & Amen, LLP

LAUTERBACH & AMEN, LLP

PRIOR RECOMMENDATIONS

1. POLICY AND PROCEDURE MANUAL

Comment

Previously and during our current year-end audit procedures, the County does not have a policy and procedure manual. Written procedures, instructions and assignments of duties will prevent or reduce misunderstanding, error; inefficient or wasted effort duplicated or omitted procedures and other situations that can result in inaccurate or untimely accounting records. A policy and procedure manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions that management currently performs.

A policy and procedure manual will require a substantial investment of time and effort for management to develop. However, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures, for the purpose of developing the manual, management may discover procedures that can be eliminated or improved to make the system more efficient and effective

Recommendation

We understand that the County has begun the preliminary process of writing a procedure manual. A sample of areas that should be covered as the accounting portion of the procedure manual is as follows:

- Job descriptions
- Flow charts and descriptions of the accounting cycles, such as:
 - Cash receipts process - collections, deposits, bank reconciliations, etc.
 - Accounts receivable process - billing, recording, write-offs, etc.
 - Cash disbursements and accounts payable process - approvals, coding, purchasing, check preparation, invoice cancellation, general ledger posting, etc.
 - Payroll process - hiring, employee files, timecards, distribution, etc.
- Chart of accounts
- Description of standard entries and allocations
- Description of other specific accounting areas of unusual nature

Status

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

Management Response

Management acknowledges this comment and will work to correct it in the coming year.

2. GRANT ADMINISTRATION

Comment

Previously and during our current year-end audit procedures, we noted that the County did not have adequate procedures in place for tracking and monitoring grant activities. Any department within the County may apply for, and be awarded, grant funding from a variety of State and Federal sources. Each grant has unique reporting and compliance requirements. It is the County's responsibility to track and properly account for all grant monies received and to monitor the County's compliance with grant requirements. In practice, often but not always, this responsibility is assumed by the department receiving the grant.

PRIOR RECOMMENDATIONS - Continued

2. GRANT ADMINISTRATION - Continued

Comment - Continued

When responsibility for tracking and monitoring grant activity is not clearly delineated, grant compliance cannot be assured. In addition, when federal grants received by the County exceed a threshold set by OMB Circular A-133, the County is subject to Single Audit requirements. The County had not established a central tracking mechanism to monitor all grant activity so that the County is aware of when the Single Audit threshold has been exceeded.

Recommendation

In order for the County to assure compliance with individual grant requirements, we recommended the County develop specific policies and procedures for tracking and monitoring grant activities and to clearly delineate responsibility for monitoring the County's compliance with applicable requirements. In addition, to assure compliance with the Single Audit Act, we recommend the County establish a central tracking mechanism to monitor total grant activity and develop additional policies and procedures to assure the County's compliance, as an entity as a whole, with the Single Audit Act.

Status

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

Management Response

Management acknowledges this comment and will work to correct it in the coming year.

3. OUTSTANDING CHECK WRITE-OFF POLICY

Comment

Previously, we noted that the County 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 recommended the County 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.

Status

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

PRIOR RECOMMENDATIONS - Continued

4. CAPITAL ASSET POLICY

Comment

Previously and during our current year-end audit procedures, we noted the County 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 County 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 recommend the Library 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 recommend land be inventoried and valued at its estimated fair value on the date donated.

Status

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

Management Response

Management acknowledges this comment and will work to correct it in the coming year.

5. FUND BALANCE POLICY

Comment

Previously and during our current year-end audit procedures, we noted that the County 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 should be maintained, taking into account the constraints imposed upon the resources reported by the governmental funds. A fund balance policy assists in providing financial stability, cash flow for operations, and the assurance that the County will be able to respond to emergencies with fiscal strength.

It is essential to maintain adequate levels of funds balance to mitigate current and future risks and to ensure tax rates. Fund balance 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 County's continued creditworthiness.

PRIOR RECOMMENDATIONS - Continued

5. FUND BALANCE POLICY - Continued

Recommendation

We recommended the County create and adopt a fund balance policy to be in compliance with GASB Statement No. 54. The County 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 will work to correct it in the coming year.

6. TIMELINESS OF AUDIT

Comment

Previously and during our current year-end audit procedures, we noted the County was not in compliance with the State of Illinois audit requirement, which states that local governments are required to submit their financial statement audit within 180-days of their fiscal year-end.

Recommendation

We recommended that the County communicates an action plan to the State Comptroller, which should outline the anticipated completion dates for the fiscal year 2024 and 2025 audits.

Status

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

Management Response

Management acknowledges this comment and will work to correct it in the coming year.

7. OFF-BALANCE SHEET ACCOUNTS

Comment

Previously and during our current year-end audit procedures, we noted that the County had certain funds and accounts that were not consistently recorded, monitored, or reconciled within the County's ERP system. Historically, these accounts have been maintained or reconciled by the department heads for the necessary fund and accounts, rather than being recorded by the appropriate departments throughout the year. The decentralized approach of assigning reconciliation responsibilities to the appropriate department increases the risk of errors or omissions of the County's financial records. It also limits the County's ability to monitor financial activity and may delay the identification and correction of such discrepancies.

Additionally, we noted that the County did not formally approve a budget for the following funds reported within the County's audit: Township MFT, State's Attorney Automation, Circuit Clerk Marriage, Circuit Clerk Trust, Circuit Clerk Court, Sheriff Special, Inmate Commissary, Local Bridge, Township Construction, and Shop with a Cop.

PRIOR RECOMMENDATIONS - Continued

7. OFF-BALANCE SHEET ACCOUNTS - Continued

Recommendation

We recommended that the County establish internal control procedures to ensure that all accounts are regularly recorded, monitored, and reconciled by the County Treasurer's office. This includes assigning responsibility for each account, implementing a reconciliation schedule, and maintaining adequate documentation to support account balances. Strengthening internal oversight will enhance the accuracy and reliability of the County's financial reporting.

Additionally, we recommended that budgets be established for the funds previously noted to reinforce the County's commitment to public transparency and responsible stewardship of resources.

Status

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

Management Response

Management acknowledges this comment and will work to correct it in the coming year.

8. FUNDS OVER BUDGET

Comment

Previously and during our current year-end audit procedures, we noted that the following funds had an excess of actual expenditures over budget for the fiscal year:

<u>Fund</u>	<u>2023</u>	<u>2024</u>
Social Security	\$ 44,002	28,124
Airport	—	47,518
States Attorney Forfeited	500	—
Pet Population	—	1,376
Coroner Special	—	3,815
Sale in Error	9,860	—
Drainage	103,846	—

Recommendation

We recommend the County investigate the causes of the funds over budget and adopt appropriate future funding measures.

Status

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

Management Response

Management acknowledges this comment and will work to correct it in the coming year.

UPCOMING STANDARDS

1. **GASB STATEMENT NO. 101 COMPENSATED ABSENCES**

In June 2022, the Governmental Accounting Standards Board (GASB) issued Statement No. 101, *Compensated Absences*, which establishes standards of accounting and financial reporting for (a) compensated absences, and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other post-employment benefits (OPEB). The statement requires that a liability should be recognized for any type of leave that has not been used at year-end if (a) The leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Examples of leave that should be reviewed, and potentially measured under GASB Statement No. 101 are vacation leave, paid time off leave, holiday leave, and sick leave. Examples of leave that are excluded from GASB Statement No. 101 are parental leave, military leave, and jury duty leave. This Statement is applicable to December 31, 2024 fiscal year-ends and thereafter.

2. **GASB STATEMENT NO. 102 CERTAIN RISK DISCLOSURES**

In December 2023, the Governmental Accounting Standards Board (GASB) issued Statement No. 102, *Certain Risk Disclosures*, which establishes the requirements for disclosing, in the notes to the financial statements, the risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. Governments may be vulnerable to risks from certain concentrations or constraints that limit its ability to acquire resources or control spending. Concentration risk is a lack of diversity related to an aspect of a significant inflow of resources (revenues) or outflow of resources (expenses). Constraint risk is a limitation that is imposed by an external party or by formal action of a government's highest level of decision-making authority. This Statement is applicable to June 30, 2025 fiscal year-ends and thereafter.