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To the Shelby County Board
County of Shelby, Illinois

In planning and performing our audit of the financial statements of Shelby County as of and for the year ended August 31, 2019, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered Shelby County, Illinois's internal control over financial reporting (internal control) as a basis for designing audit 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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 significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

The following material weaknesses and significant deficiency are discussed in more detail in the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

We consider the following deficiencies in Shelby County, Illinois's internal control to be a material weakness:

Shelby County lacks sufficient internal controls over the preparation of financial statements in accordance with the modified cash basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Shelby County, Illinois's internal control to be significant deficiencies:

The sheriff's office does not employ a systematic process for tracking employee hours and calculating wages and overtime.

Proper segregation of duties does not exist in the offices of the county clerk, sheriff, and tourism.

In addition, we have noted other matters involving the internal control and its operation:

Accounting records are typically centralized, which allows for more accurate and complete financial reporting. The fee offices activity and corresponding transfers, the sheriff's special account, and airport farm account are not recorded in the central accounting records maintained by the Treasurer's office. In addition, the Treasurer's office is not aware of the details of all bank accounts within the County. We recommend that the County record all governmental activity on the central trial balances throughout the year or have the Treasurer's office compile the financial information at year end. We also recommend that the Treasurer hold a listing of all bank accounts used within the County.

Various departments handle their own payroll-related record keeping. Due to the specialized nature of payroll processing, centralizing the payroll function would typically lead to efficiencies and better compliance in payroll, human resource, and related reporting functions.

Sheriff deputies are employed under an Illinois Fraternal Order of Police (FOP) union contract. The deputies were originally working 40 hours per week. In 2015, the County's law enforcement committee and the bargaining unit of the FOP agreed to a ten hour workday, four days on, four days off rotating schedule for deputies. Due to this change, deputies began working an average of seventy hours per pay period instead of eighty, but their wages did not decrease. The contract contains language of five eight-hour workdays per week. The contract also includes a wage table for deputies that displays an hourly rate, which appears to be calculated based upon on a forty hour workweek. The sheriff's department stated that deputies

receive the base pay outlined in the contract regardless of how many hours per week that they work. The Department also noted that management can adjust the required amount of hours work per week as the FOP contract states that shifts may be rotated pursuant to management needs. The Shelby County State's Attorney has not provided a legal opinion on the handling of deputies' wages in fiscal year 2019. We recommend the County obtain an opinion. In addition, we recommend any contract changes between negotiating years should be clearly formalized in writing. We noted that, in January 2020, the sheriff's department altered deputies' schedules so that they are working forty hours each week while the matter is being resolved.

The County's payroll period is a two week period from Sunday to Saturday with paychecks written on the Friday of the second week. Currently, time records must be submitted before employees finish the workweek in which they are paid. This system causes adjustments to possibly occur in future periods. To help prevent errors in recordkeeping, we recommend that the County adopt a pay schedule in arrears. We noted the board recently voted to change the pay schedule to be in arrears.

The State of Illinois, through the Grant Accountability and Transparency Act (GATA), now requires grantees to file The Consolidated Financial Year End Report. In the current year, the report was not prepared in a timely manner for review by the GATA coordinator or the external auditors. We recommend the County implement a process to accumulate the reporting information throughout the year in order assemble the report within one month after year-end.

The County prepares their financial statements on the modified cash basis of accounting, which requires the County to report their capital assets. In the current year, the County identified capital assets at year end. Through our testing, we noted two capital assets were not identified at year-end. We recommend the County implement a system to identify capital assets throughout the year in addition to reviewing the capital asset schedule at year end.

For most bank accounts maintained by the County, interest income is recorded in the general ledger in the month after interest income is posted to the County's bank account. Interest income should be recorded in the general ledger in the month interest income is posted to the County's bank account.

In various departments within the County, employees do not track their hours worked or employees' time worked is not reviewed. All employees should track their time for purposes of accurate hourly compensation and/or to document hours worked for IMRF participation.

We noted beginning fund balance had to be adjusted due to prior year journal entries not being posted or being posted in the incorrect period. All journal entries should be posted by the County in the correct period so that beginning fund balances carry forward to the following year correctly.

Receipts in the financial software are recorded using journal entries instead of a cash receipts function. We recommend that journal entries should be reserved for true adjustments. Management noted that they have not purchased the receipts module in their software.

Concerning the two rural public transit grants, most of the expenses reimbursed by the state are expenses of the operator, CEFS. However, the County expended some amounts for supplies and the salary of the Program Compliance and Oversight Manager. When the County receives rural public transit grant proceeds, they forward the entire amount to the operator. After the end of the grant period, the operator reimburses the County for the salary and supplies. We recommend that the County expenses be withheld from the payments to the operator.

We noted the indemnity fund is not budgeted. Management stated that they will budget this fund in the future.

The Township Bridge Supervisory Fund, fund 27, is presented as a private purpose trust fund in the financial statements. The County highway engineering payroll is paid from this fund. However, the County Bridge or Federal Aid matching reimburses this fund for engineering payroll costs through the budget line item “materials” or “construction of roads.” The County Highway Department management believes fund 27 should be eliminated and County highway engineering payroll be paid through the County Highway fund. We recommend reviewing the purpose of the fund and eliminating it if the fund is unnecessary.

Several of the County’s expense account balances appear lower than they actually are due to offsetting expenses with revenues, including vehicle expense accounts offset by insurance proceeds and County bridge expense accounts offset by receipts from townships. Revenues from outside the County should be recorded in revenue accounts. Reimbursements from outside the County should also be recorded in a revenue account unless the reimbursements are dollar-for-dollar amounts and closely match the timing of the expense. This allows for greater transparency in reporting of revenues and expenses.

The County must assess the benefits received versus the cost involved in implementing any recommendations. However, we believe that by making the above suggestions, the County will continue to improve upon the strong controls that are already in place. We will review the status of these comments during our next audit engagement.

West & Company, LLC