

Responses from the Makanda Township Board to “significant deficiencies in internal control” identified in a cover letter included in the required CPA audit report conducted by outside auditors covering the financial statement of the governmental activities for Makanda Township for the fiscal year ending March 31, 2021. This audit report and cover letter was submitted to the entire Makanda Township Board and public in November, 2021.

The following are the Makanda Township Board’s responses to the questions in a cover letter included with the required 2021 CPA external audit report for the Makanda Township financial statement of Township governmental activities that identified significant deficiencies in internal control. These official responses were approved by the Board at their regular monthly meeting on April 11, 2022

1. Cash deposits at Banterra Bank were under collateralized as of March 31, 2021, by \$127,157. This creates a risk of loss for the Township in the event of bank failure. Deposits in excess of the FDIC limit should be collateralized in order to mitigate the custodial credit risk. **Board Response:** The Board presumes that this was accomplished. First Southern Bank, which holds other Township accounts, informed Supervisor Lipe that amounts held at their bank could result in some funds not covered by FDIC insurance. Therefore, money was moved from First Southern Bank to Banterra Bank. The concern outlined in the audit letter occurred March 5 - April 28, 2021. Banterra was told the \$249k in savings at their bank was to reduce the risk of custodial credit risk at First Southern Bank. Banterra assured Supervisor Lipe that all funds in all accounts at their bank would be covered by FDIC insurance. The cash deposit savings account at Banterra Bank in question by this audit comment was closed prior to the audit to purchase a new fire engine.
2. The budget of the Fire Protection Fund was modified in October, 2020. This modification transferred less than 10% per line item and as a result, a hearing was not required. It was mentioned in the minutes that the Fire Chief revised the fire budget. However, the details of the revision was not recorded in the minutes as required. **Board Response:** Although a budget hearing was not required, details of the revised fire budget were not recorded in the minutes as required and will be forthcoming and reported to the Board at a future meeting and recorded in the minutes of that meeting.
3. Segregation of duties is difficult to achieve in a small entity, therefore, compensating controls are required to mitigate fraud risk. Currently, checks are signed by the Supervisor and stamped by the Clerk as an attest. I recommend that the trustees contact the bank and require 2 signatures on each check. **Board Response:** A requirement for two signatures on each check was approved by the Board.
4. A signature stamp creates an opportunity for errors and irregularities if the stamp is not safeguarded against unauthorized use. Currently, the Township Clerk uses a signature stamp. The Township Clerk should ensure that the stamp is secure at all times with the Clerk being the only person to have access to and use of the stamp. **Board Response:** The present Township Clerk is in sole possession of the Clerk signature stamp and is the only person able to use that stamp.

5. 60 ILCS 1/80-20 requires the Township to have an independent audit committee, composed of 3 electors, inspect the Township records in the years that a CPA audit is not required and provide a report with their findings. This report should be filed with the Township Clerk and the County Clerk. An audit committee did inspect the records but there is not record in the minutes of the report being presented to the Board. **Board Response:** Members of the independent audit committee will be identified and reported to the Board and the results of the independent audit will be presented to the Board and recorded in the minutes and will be filed with the Township Clerk and County Clerk.

6. Total expenditures of the combined Township and Road District for the year ending 3/31/21 were \$304,563. Of this amount, \$117,973, or 38.7% was paid to one vendor, McMurphy Excavating. The minutes do not discuss any bid process or cost comparisons. I suggest that the Board either request bids to secure the lowest price or document in the minutes why bids were not requested. **Board Response:** The Supervisor informed the Board that the former Highway Commissioner indicated to her that bids were kept under \$20,000 per project and therefore each of the road maintenance projects were not required by law to be bid out. He indicated that he had sought out numerous contractors for normal road repair/maintenance projects but only McMurphy Excavating desired to do that work and therefore that is the reason McMurphy excavating was awarded the bulk of the Township's normal road maintenance/repair work. However, the Board fully acknowledges that other than the word of the former Highway Commissioner, it has no proof, written or otherwise, that the former Highway Commissioner actively sought out other contractors for bidding to do normal Township road maintenance/repair work. The Board further acknowledges that it agrees with the audit comment and recognizes by all appearances it does not appear there was a concerted effort on the part of the former Highway Commissioner to seek out competitive bidding for normal Township road maintenance/repair work to secure the lowest possible cost for the Township. The present Highway Commissioner has indicated that he will actively seek out competitive bidding for any significant Township road maintenance/repair projects, even if those projects do not exceed the threshold level for bidding, to secure the lowest cost possible for the Township if that work is not going to be done "in-house." Further, the present Highway Commissioner has stated that he will actively keep the Board informed both verbally and with written reports of efforts made on his part to secure competitive bidding.

7. Board oversight is a critical component of internal control in small entities where segregation of duties is not possible. Two of the above comments relate to information that either is not being presented to the Board or is not being adequately documented in Board minutes. Complete and accurate minutes are necessary to provide clarity on the oversight and intent of the Board. **Board Response:** The present Township Clerk is committed to, and has followed through with having thorough and complete minutes to secure an accurate record and documentation of all that transpires at Board meetings, including any reports to the Board and any actions taken by the Board.