

**CITY OF ROCHELLE, ILLINOIS**

**MANAGEMENT LETTER**

April 30, 2015



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Naperville, Illinois 60563

Certified Public Accountants & Advisors  
Members of American Institute of Certified Public Accountants

The Honorable Mayor  
Members of the Council  
City of Rochelle, Illinois

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Rochelle, Illinois (the City) as of and for the year ended April 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses. In addition, we reviewed the status of the comments from the April 30, 2014 audit. The status of these comments is included in Appendix A.

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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis.

This communication is intended solely for the information and use of the Mayor, the Council and management and others within the administration of the City and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'A. M. 22P'.

Naperville, Illinois  
October 26, 2015

## **MATERIAL WEAKNESSES**

We consider the following to be material weaknesses over internal controls

### **1. Inventory**

During our testing of inventory, we noted certain opportunities for the City to improve its internal controls over inventory.

First, during our inventory observation, we noted multiple differences in the inventory listing maintained in the general ledger and what was counted as part of the year end physical inventory. Based on discussion with City officials, it was determined that one of the primary causes for these differences is that contractors often use materials but do not report usage to the City in an accurate or timely manner. We recommend the City consider the use of a perpetual inventory system to mitigate this weakness and require prompt and accurate reporting of all inventory usage.

Next, we noted during our physical inventory observation that there are items in inventory that appeared to be obsolete, potentially overstating the inventory balance and that no allowance for obsolescence has been established by the City. Based on discussion with City officials, there is not a formal policy for disposal of obsolete inventory. We recommend that the City create a formal policy over its inventory in order to ensure that there are adequate processes in place to record, track, and maintain adequate inventory records and establish a reserve for obsolete inventory by fund.

Next, we noted transformers are capitalized when purchased, not when put in service. This practice is in compliance with Federal Energy Regulatory Commission guidelines; however it is not compliant with generally accepted accounting principles. This will potentially overstate capital assets and depreciation while understating inventory. We recommend the City only capitalize assets that are placed in service.

### **2. Schedule of Expenditures of Federal Awards**

The City does not have an adequate system of controls in place to properly identify the federal funds received and expended or to properly identify the Federal program by CFDA title and number. There were several grants for which federal expenditures were not identified by the City. Additionally, there were federal awards expended but not reimbursed that were not identified as federal awards by the City. Federal funds expended could be improperly reported on the Schedule of Expenditures of Federal Awards (SEFA) and financial statements.

OMB Circular No. A-133, Subpart C, section 300 states, “the auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.”

OMB Circular No. A-133, Subpart C, section 310 states, “the auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements.”

## **MATERIAL WEAKNESSES (Continued)**

### **2. Schedule of Expenditures of Federal Awards**

We recommend the City identify the Federal program by CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. This information along with supporting documentation of expenditures (i.e. project worksheets, quarterly fiscal report forms, etc.) should be submitted to the Finance office or another designated office or individual within a reasonable time frame after year end to ensure timely and accurate completion of the SEFA. We also recommend the City designate an employee to oversee administration of the City's Federal grants to ensure proper compliance with regulations and grant agreements.

### **3. Internal Control over Financial Reporting**

Auditing standards require a determination as to whether or not an entity has the capacity to prepare financial statements that comply with generally accepted accounting principles. The City has an established policy of preparing and publishing its financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP). However, the City's personnel do not possess the accounting/financial reporting capabilities required to prepare the City's financial statements and related note disclosures which must be presented fairly in accordance with GAAP and free of material misstatement.

We recommend the City consider the cost/benefit of providing additional training on accounting and financial reporting practices to key finance staff

**APPENDIX A**  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**

**MATERIAL WEAKNESSES**

We consider the following to be material weaknesses over internal controls

**1. Inventory**

During our testing of inventory, we noted certain opportunities for the City to improve its internal controls over inventory.

First, during our inventory observation, we noted multiple differences in the inventory listing maintained in the general ledger and what was counted as part of the year end physical inventory. Based on discussion with City officials, it was determined that one of the primary causes for these differences is that contractors often use materials but do not report usage to the City in an accurate or timely manner. We recommend the City consider the use of a perpetual inventory system to mitigate this weakness and require prompt and accurate reporting of all inventory usage.

Next, we noted during our physical inventory observation that there are items in inventory that appeared to be obsolete, potentially overstating the inventory balance and that no allowance for obsolescence has been established by the City. Based on discussion with City officials, there is not a formal policy for disposal of obsolete inventory. We recommend that the City create a formal policy over its inventory in order to ensure that there are adequate processes in place to record, track, and maintain adequate inventory records and establish a reserve for obsolete inventory by fund.

Next, we noted transformers are capitalized when purchased, not when put in service. This practice is in compliance with Federal Energy Regulatory Commission guidelines; however it is not compliant with generally accepted accounting principles. This will potentially overstate capital assets and depreciation while understating inventory. We recommend the City only capitalize assets that are placed in service.

**Status** - Comment still applicable at April 30, 2015. See current year material weakness #1.

**2. Schedule of Expenditures of Federal Awards**

The City does not have an adequate system of controls in place to properly identify the federal funds received and expended or to properly identify the Federal program by CFDA title and number. There were several grants for which federal expenditures were not identified by the City. Additionally, there were federal awards expended but not reimbursed that were not identified as federal awards by the City. Federal funds expended could be improperly reported on the SEFA and financial statements.

## **MATERIAL WEAKNESSES (Continued)**

### **2. Schedule of Expenditures of Federal Awards (Continued)**

OMB Circular No. A-133, Subpart C, section 300 states, “the auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.”

OMB Circular No. A-133, Subpart C, section 310 states, “the auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements.”

We recommend the City identify the Federal program by CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. This information along with supporting documentation of expenditures (i.e. project worksheets, quarterly fiscal report forms, etc.) should be submitted to the Finance office or another designated office or individual within a reasonable time frame after year end to ensure timely and accurate completion of the SEFA. We also recommend the City designate an employee to oversee administration of the City's Federal grants to ensure proper compliance with regulations and grant agreements.

**Status** - Comment still applicable at April 30, 2015. See current year material weakness #2.

### **3. Year End Cutoff and Prior Period Adjustment**

During our testing of certain balance sheet accounts, we noted that the City did not adjust or incorrectly adjusted certain amounts, specifically:

We noted the City did not adjust the ambulance receivable or create an allowance for doubtful accounts during the fiscal year causing the ambulance receivable to be overstated. We recommend that the City determine an estimated uncollectible amount of ambulance receivables and adjust the receivable or allowance for doubtful accounts on a regular basis.

Additionally, during our audit multiple adjustments were required to properly record certain tax revenues (income, sales, etc.) received from the state of Illinois as the City was not properly recording amounts in accordance with GASB Statement No. 33. We recommend that the City review revenue cutoff at year-end to ensure proper revenue recognition.

Next, we noted that the City was not properly recording grant amounts using the matching principle. This required a prior period adjustment to record grant revenues in the same period as when the underlying expenditures were incurred. We recommend all grants are reviewed as part of the year-end close process and are properly recorded using the matching principle.

## **MATERIAL WEAKNESSES (Continued)**

### **3. Year End Cutoff and Prior Period Adjustment (Continued)**

Last, we noted multiple adjustments that were necessary to accrue additional receivables and payables at year-end. We recommend the City review significant revenue accounts at year-end to ensure that all receivables are properly recorded. Additionally, we recommend that the City review any significant expenditure/expense accounts as part of the year-end close to ensure all significant payables are properly recorded at year-end.

**Status** - Comment has been implemented as of April 30, 2015.

### **4. Internal Control over Financial Reporting**

Auditing standards require a determination as to whether or not an entity has the capacity to prepare financial statements that comply with generally accepted accounting principles. The City has an established policy of preparing and publishing its financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP). However, the City's personnel do not possess the accounting/financial reporting capabilities required to prepare the City's financial statements and related note disclosures which must be presented fairly in accordance with GAAP and free of material misstatement.

We recommend the City consider the cost/benefit of providing additional training on accounting and financial reporting practices to key finance staff

**Status** - Comment still applicable at April 30, 2015. See current year material weakness #3.