



CITY OF ROCHELLE, ILLINOIS

MANAGEMENT LETTER

For the Year Ended December 31, 2019

SIKICH.COM

1415 West Diehl Road, Suite 400
Naperville, IL 60563
630.566.8400

SIKICH.COM

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 December 31, 2019, 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 and therefore material weaknesses 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 December 31, 2018 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.

The City of Rochelle's written response to the material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Sikich LLP

Naperville, Illinois
June 17, 2020

MATERIAL WEAKNESS

We consider the following deficiency to be a material weakness:

2019-001: Inventory

Criteria: The City's Electric inventory system and procedures do not allow for accurate recordkeeping to support reporting in accordance with generally accepted accounting principles.

Condition: During our testing of City's Electric inventory, we noted certain opportunities for the City to improve its internal control over its Electric inventory.

During our review of Electric inventory costs, we noted multiple items for which the inventory cost was not calculated correctly based upon the most recent invoices. We recommend the City regularly monitor the inventory cost values and undertake a full analysis of all inventory items to ensure the average cost is properly calculated within the inventory management system.

Additionally, many items we selected for test counts during our inventory count have not been purchased in the last 7 years, therefore, there was no invoice available to review the cost of these inventory items. 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.

This is a repeat finding and is also reported in Appendix A.

Cause: It was determined that one of the primary causes for these differences is due to the City's materials management software not properly calculating the average cost of inventory items. Additionally, the City does not have a formal policy on disposal of obsolete inventory.

Effect: Inventory values are potentially misstated due to the incorrect calculation of average cost. Second, obsolete inventory is not tracked and adjusted for potential impairment.

Recommendation: We recommend the City regularly monitor the inventory cost values and undertake a full analysis of all inventory items to ensure the average cost is properly calculated within the inventory management system. Additionally, 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.

MATERIAL WEAKNESS (Continued)

2019-001: Inventory (Continued)

Views of Responsible Officials: Management agrees with this finding. The software automatically calculates average cost. A review of these costs will be done periodically to look for unreasonable values. An inventory policy to record, track, maintain adequate records, and procedure for disposal of obsolete inventory will be created. We are also creating a minor materials policy to expense those items when purchased instead of tracking them in Materials Management.

APPENDIX A
STATUS OF PRIOR YEAR RECOMMENDATIONS

MATERIAL WEAKNESS

Inventory

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

During our review of inventory costs, we noted multiple items for which the inventory cost was not calculated correctly based upon the most recent invoices. We recommend the City regularly monitor the inventory cost values and undertake a full analysis of all inventory items to ensure the average cost is properly calculated within the inventory management system.

Additionally, many items we selected for test counts during our inventory count have not been purchased in the last 7 years, therefore, there was no invoice available to review the cost of these inventory items. 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.

Status - Comment still applicable at December 31, 2019. See current year material weakness 2019-001.