



CITY OF ROCHELLE, ILLINOIS

SINGLE AUDIT REPORT

For the Year Ended December 31, 2019



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CITY OF ROCHELLE, ILLINOIS
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1415 West Diehl Road, Suite 400
Naperville, IL 60563
630.566.8400

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**INDEPENDENT AUDITOR'S 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**

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

We have audited, in accordance with the 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, 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, 2018, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the 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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph in this section 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.

We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as Finding 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich LLP

Naperville, Illinois
June 17, 2020

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM; AND ON INTERNAL CONTROL
OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Rochelle, Illinois' (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Guidance Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Rochelle, Illinois', complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2019, and the related notes to financial statements, which collectively comprise the City's basic financial

statements. We issued our report thereon dated June 17, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sikich LLP

Naperville, Illinois
June 17, 2020

CITY OF ROCHELLE, ILLINOIS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2019

Federal Grantor	Pass-Through Grantor	Program Title	Federal CFDA Number	Program/Grant Number	Expenditures
Department of Transportation	Illinois Department of Transportation	Airport Improvement Program- Airport Ramp Reconstruction	20.106	RPJ-4515	\$ 37,786
Department of Transportation	Illinois Department of Transportation	Airport Improvement Program- Conduct Airport Master Plan	20.106	RPJ-4617	38,921
Department of Transportation	Illinois Department of Transportation	Airport Improvement Program- Conduct Airport Master Plan	20.106	RPJ-4580	39,069
		Total Department of Transportation			<u>115,776</u>
United States Environmental Protection Agency	Illinois Environmental Protection Agency	Brownfield Assessment & Cleanup Cooperative Agreements	66.818	N/A	14,187
		Drinking Water State Revolving Fund Cluster			
United States Environmental Protection Agency	Illinois Environmental Protection Agency	Capitalization Grants for Drinking Water State Revolving Funds	66.468*	L17-5516	1,404,056
United States Environmental Protection Agency	Illinois Environmental Protection Agency	Capitalization Grants for Drinking Water State Revolving Funds	66.468*	L17-5571	95,441
		Total Drinking Water State Revolving Fund Cluster			<u>1,499,497</u>
		Total United States Environmental Protection Agency			<u>1,513,684</u>
Department of Housing and urban Development	Department of Commerce and Economic Opportunity	Community Development Block Grant Program (Meadowbrook)	14.228	16-242028	20,464
		Economic Development Cluster			
Department of Commerce	N/A	Investment for Public Works and Economic Development Facilities	11.300*	06-01-06045	<u>2,241,692</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS					<u><u>\$ 3,891,616</u></u>

*Denotes Major Program

CITY OF ROCHELLE, ILLINOIS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2019

Note A - Basis of Presentation

The accompanying schedule of federal awards is a summary of the activity of the City's federal award programs presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when the qualifying expenditures have been incurred and expenditures have been recognized when the fund liability has been incurred.

Note B - Noncash Transactions

There was no noncash assistance reported in the schedule of expenditures of federal awards.

Note C - Other Information

There was no insurance or loan guarantees related to federal awards in the schedule of expenditures of federal awards.

The City did not elect to use the 10% federal de minimis indirect cost rate.

Note D - Subrecipients

The City had no subrecipients for the year ended December 31, 2019.

CITY OF ROCHELLE, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:
Material weakness(es) identified? X yes no
Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major federal programs: *Unmodified (CFDA #11.300 and 66.468)*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes X no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
11.300	Economic Development Cluster
66.468	Drinking Water State Revolving Fund Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

CITY OF ROCHELLE, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended December 31, 2019

Section II - Findings - Financial Statement Audit

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 Section IV "Summary Schedule of Prior Audit Findings" as Finding 2018-001.

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.

CITY OF ROCHELLE, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended December 31, 2019

Section II - Findings - Financial Statement Audit (Continued)

MATERIAL WEAKNESS (Continued)

2019-001: Inventory (Continued)

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.

Views of Responsible Officials: Management agrees with this finding and response is included in Corrective Action Plan.

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Summary Schedule of Prior Audit Findings

MATERIAL WEAKNESS

Finding 2018-001: 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.

CITY OF ROCHELLE, ILLINOIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended December 31, 2019

Section IV - Summary Schedule of Prior Audit Findings (Continued)

MATERIAL WEAKNESS (Continued)

Finding 2018-001: Inventory (Continued)

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.

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.

Views of Responsible Officials: Management agrees with this finding and response is included in Corrective Action Plan.

Status: This finding has been repeated in the current year as finding 2019-001.



Corrective Action Plan

For the Year Ended December 31, 2019

Corrective Action Plan

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.

Responsible Person for Corrective Action Plan

Chris Cardott

Implementation Date of Corrective Action Plan

December 31, 2020