

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF RENSSELAER

JASPER COUNTY, INDIANA

January 1, 2022 to December 31, 2022



**FILED**  
07/30/2024



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Frieda Bretzinger Shelby Keys	01-01-22 to 10-06-22 10-07-22 to 12-31-24
Mayor	Stephen Wood Jeffrey S. Phillips	01-01-22 to 12-31-23 01-01-24 to 12-31-24
President of the Board of Public Works	Stephen Wood Jeffrey S. Phillips	01-01-22 to 12-31-23 01-01-24 to 12-31-24
President Pro Tempore of the Common Council	George Cover Noelle Weishaar	01-01-22 to 12-31-23 01-01-24 to 12-31-24
Utility Office Manager	Heather Smart	01-01-22 to 12-31-24



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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TO: THE OFFICIALS OF THE CITY OF RENSSELAER, JASPER COUNTY, INDIANA

This report is supplemental to the audit report of the City of Rensselaer (City), for the period from January 1, 2022 to December 31, 2022. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with the Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE  
Deputy State Examiner

July 15, 2024

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CLERK-TREASURER  
CITY OF RENSSELAER

CLERK-TREASURER  
CITY OF RENSSELAER  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING**

*Condition and Context*

There were deficiencies in the internal control system of the City related to financial transactions and reporting.

The City had not separated incompatible activities related to receipts and disbursements for transfers between funds and financial reporting. A segregation of duties for each of these areas had not been properly designed or implemented to prevent, or detect and correct, errors.

*Receipts and Disbursements - Transfers Between Funds*

The City has not properly designed or implemented internal controls over recording transactions for transfers between funds to ensure the accuracy and completeness of the ledgers and financial statement.

Receipts and disbursements are to be recorded at the time of the transaction.

Transactions recorded for the transfer between funds were not completed timely as follows:

- Monthly transfers between the Sewage Construction and 2022 Sewage BAN funds were not recorded at the time of transaction. From May through November, the City recorded monthly receipts in the Sewage Construction fund for transfers totaling \$3,156,280. However, the related monthly disbursements for the transfers out of the 2022 Sewage BAN fund were not recorded in 2022.

On January 19, 2023, the City recorded the related disbursements for the transfers out with a total of \$3,156,280, which was between 2 and 8 months after the time of the transaction. The City reported the accurate totals for the transfers between funds in the 2022 financial statement.

- The City maintained a separate bank account for the Fire Station 2015 Debt Service fund. The City transferred funds from the TIF Allocation fund to the Fire Station 2015 Debt Service for the next debt payment. The City recorded the transactions of the Fire Station 2015 Debt Service fund based upon the bank statement activity and not at the time of the transaction. This resulted in the November 2022 disbursement from the TIF Allocation fund to not be receipted to the Fire Station 2015 Debt Service fund in November or December.

On January 10, 2023, the City recorded the related transfer receipt. The financial statement was not adjusted for the untimely posting.

- The City maintained separate bank accounts for the Water SRF Bond & Interest and Water SRF DSR funds as required. Monthly transfers from the Water Operating fund to the Water SRF Bond & Interest and Water SRF DSR funds were required to ensure the repayment of debt. The City recorded the transactions of the Water SRF Bond & Interest and Water SRF DSR funds based upon the bank statement activity and not at the time of the transaction. This resulted in the monthly disbursements from the Water Operating fund to not be receipted until the following month to the Water SRF Bond & Interest and Water SRF DSR funds. The financial statement was not adjusted for the untimely posting.

CLERK-TREASURER  
CITY OF RENSSELAER  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Financial Reporting*

The City had not established effective internal controls over the preparation of the Annual Financial Report (AFR) financial information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement. The AFR was submitted without evidence of an oversight or review process to ensure the accuracy and completeness of the financial information submitted.

Furthermore, the City utilities ledgers are maintained on the accrual basis of accounting and are converted to cash basis for reporting in the AFR. The City contracted with a consultant to determine the adjustments needed to convert the accrual basis ledger to report cash basis AFR and financial statement. However, the City had not designed or implemented an oversight or review process of the consultant's adjustments to ensure the accuracy and completeness of the AFR.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**ANNUAL FINANCIAL REPORT - OTHER INFORMATION**

A similar comment also appeared in prior Report B60062, entitled *SCHEDULE OF CAPITAL ASSETS*.

*Condition and Context*

Financial and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system.

CLERK-TREASURER  
CITY OF RENSSELAER  
AUDIT RESULTS AND COMMENTS  
(Continued)

The City had not established effective internal controls over the preparation of the AFR entered into Gateway. The AFR was submitted without evidence of an oversight or review process to ensure the accuracy and completeness of the financial and other information submitted.

Due to the lack of internal controls, the AFR information entered into Gateway included the following errors:

*Grants*

The federal grant information prepared and submitted in Gateway was not properly reviewed by the City. One individual prepared and entered the federal award information into Gateway, which was submitted without evidence of an oversight or review process to ensure the accuracy and completeness of the federal grant information submitted.

This resulted in the grant expenditures to be understated by \$3,766,816 due to the omission of the Water and Waste Disposal Systems for Rural Communities grant.

Adjustments were proposed, accepted by the City, and made to the Schedule of Expenditure of Federal Awards presented in the Federal Compliance Audit Report of the City.

*Capital Assets*

The City prepared and submitted the capital asset information into Gateway. However, the records provided by the City did not support the capital asset information reported.

The City approved the omission of the Schedule of Capital Assets from the Financial Statement Audit Report of the City.

*Criteria*

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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CLERK-TREASURER  
CITY OF RENSSELAER  
AUDIT RESULTS AND COMMENTS  
(Continued)

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

## **CAPITAL ASSETS**

### *Condition and Context*

The City did not establish internal control procedures to ensure the activity and amounts contained in the capital asset listing was accurate and complete. Due to the lack of internal controls, the City's detailed listing was determined to not be accurate and complete based on the following discrepancies:

- Ten capital assets from the detailed listing were selected for physical verification. However, seven of the ten assets selected could not be physically verified. The items not verified consisted of older vehicles and equipment.
- The City traded in a fork truck on the purchase of a new vehicle. The fork truck should have been previously listed as a capital asset and removed from the listing at the time of trade-in. However, the fork truck was not originally listed as a capital asset.
- Construction in progress (CIP) amounts were based on the fund activity and not on actual construction cost and invoices. As a result, a trencher and trailer valued at \$22,212 was misclassified as CIP instead of machinery and equipment. Additionally, the City utilities' accrual ledgers track CIP in total; however, a detailed listing by project was not included as part of the detailed capital asset listing.

Additionally, the City did not conduct a complete physical inventory of the capital assets as required.

### *Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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An integral part of the control activity component is segregation of duties. . . .

CLERK-TREASURER  
CITY OF RENNELAER  
AUDIT RESULTS AND COMMENTS  
(Continued)

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER  
CITY OF RENSSELAER  
EXIT CONFERENCE

The contents of this report were discussed on July 15, 2024, with Shelby Keys, Clerk-Treasurer; Jeffrey S. Phillips, Mayor; Noelle Weishaar, President Pro Tempore of the Common Council; Kevin Arnold, Common Council member; Joshua Davis, Building Commissioner; and Heather Smart, Utility Office Manager.

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REDEVELOPMENT COMMISSION  
CITY OF RENSSELAER

REDEVELOPMENT COMMISSION  
CITY OF RENSSELAER  
AUDIT RESULT AND COMMENT

**TAX INCREMENT FINANCING (TIF) ALLOCATION FUND USES**

This same comment appeared in a Management Letter addressed to the City officials for the audit period ending December 31, 2021.

*Condition and Context*

There were deficiencies in the internal control system of the City related to ensuring Tax Increment Financing (TIF) Allocation funds were expensed within the restricted uses authorized by Indiana Code.

A Redevelopment Commission (Commission) has the duties set forth in Indiana Code 36-7-14-11, which provides for the investigation, selection, acquisition development, and disposal of property in "areas needing redevelopment." The powers granted to a redevelopment commission in Indiana Code 36-7-14-12-2 allow the commission to develop property in the areas needing redevelopment and to carry out other activities "for redevelopment purposes." "Redevelopment" includes activities contained in Indiana Code 36-7-1-18.

Operating disbursements of the Commission to a financial consultant for the preparation of the TIF annual report and disclosures, arbitrage compliance, allocation area expansion, and TIF management report, totaling \$24,235, were made from the TIF Allocation fund. Additionally, \$5,000 was paid for legal services related to the expansion of an allocation area. These expenses were not within the restricted uses authorized in Indiana Code 36-7-14-39(b)(3) (West. 2022).

Additionally, the Commission contracted with and disbursed \$115,000 to an early childhood education provider for operations of a high-quality early childhood education program in the City "to prepare individuals to participate in the competitive and global economy." The Commission did not document in its minutes that they had made a finding that the program would benefit the City's residents, as required by Indiana Code 36-7-25-7(c).

*Criteria*

Indiana Code 36-7-14-39(b)(3) states in part:

". . . property tax proceeds . . . shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:

- (A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.
- (B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.
- (D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.
- (E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.

REDEVELOPMENT COMMISSION  
CITY OF RENSSELAER  
AUDIT RESULT AND COMMENT  
(Continued)

(F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.

(G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.

(H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under [IC 36-1-10](#).

(I) For property taxes first due and payable before January 1, 2009, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission. . . .

(J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:

- (i) in the allocation area; and
- (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance. . . .

(L) Pay the costs of carrying out an eligible efficiency project (as defined in [IC 36-9-41-1.5](#)) within the unit that established the redevelopment commission. However, property tax proceeds may be used under this clause to pay the costs of carrying out an eligible efficiency project only if those property tax proceeds exceed the amount necessary to do the following: . . .

(M) Expend money and provide financial assistance as authorized in section 12.2(a)(27) of this chapter.

The allocation fund may not be used for operating expenses of the commission."

Indiana Code 36-7-25-7 states in part:

"(a) As used in this section, 'eligible entity' means a person whose principal functions include the provision of:

- (1) educational programs;
- (2) work training programs;
- (3) worker retraining programs;
- (4) marketing and advertising of land located in an allocation area; or

REDEVELOPMENT COMMISSION  
CITY OF RENSSELAER  
AUDIT RESULT AND COMMENT  
(Continued)

(5) any other programs;

designed to prepare individuals to participate in the competitive and global economy.

(b) After making the findings set forth in subsection (c), a commission, or two (2) or more commissions acting jointly, may contract with an eligible entity to provide:

(1) educational programs;

(2) work training programs;

(3) worker retraining programs;

(4) marketing and advertising of land located in an allocation area; or

(5) any other programs;

designed to prepare individuals to participate in the competitive and global economy.

(c) Before a commission may contract for a program described in subsection (b), the commission must find that the program will promote the redevelopment and economic development of the unit, is of utility and benefit, and is in the best interests of the unit's residents. . . ."

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)

REDEVELOPMENT COMMISSION  
CITY OF RENSSELAER  
EXIT CONFERENCE

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COMMON COUNCIL  
CITY OF RENSSELAER

COMMON COUNCIL  
CITY OF RENSSELAER  
AUDIT RESULT AND COMMENT

**UTILITY BOARD**

*Condition and Context*

There were deficiencies in the internal control system of the City related to the Utility Board required responsibilities.

The City established a Utility Board in accordance with Indiana Code 8-1.5-3-4 in 1991. Per City Code 34.52, the Utility Board consists of the Common Council members, whose term on the Utility Board coincides with their term as a member of the Common Council. The responsibilities of the Utility Board include, but are not limited to, submitting a budget of its financial needs to the next year in the detail required by the municipal legislative body; recommendation to the legislative body reasonable and just rates and charges for services to the patrons of each utility and making monthly reports to the fiscal officer of the receipts and disbursements of money belonging to each utility; and an annual report of the condition of the utility.

The Utility Board did not meet as a Board to exercise its powers and duties to operate the Utilities in accordance with Indiana Code 8-1.5-3-4. Instead, the Common Council acted during its meetings for all City services, including the Utilities.

*Criteria*

Indiana Code 8-1.5-3-4 states in part:

"(a) The board has general supervisory powers over the utilities under its control, with responsibility for the detailed supervision of each utility to be vested in its superintendent, who is responsible to the board for the business and technical operation of the utility. The board shall:

- (1) fix the number and compensation of employees;
- (2) adopt rules governing the appointment of employees including making proper classifications and rules to:
  - (A) determine the eligibility of applicants;
  - (B) determine by competitive examination the relative fitness of applicants for positions;
  - (C) establish eligible lists arranged according to the ratings secured;
  - (D) provide for the appointment of those having the highest ratings; and
  - (E) provide for the promotion of employees;
- (3) subject to [IC 36-4-9-2](#), appoint a superintendent or manager of each utility under its control who is responsible to the board for the business and technical operation of the utility; the board shall make the appointment on the basis of fitness to manage the particular utility to which he is to be assigned, taking into account his executive ability and his knowledge of the utility industry;

COMMON COUNCIL  
CITY OF RENSSELAER  
AUDIT RESULT AND COMMENT  
(Continued)

- (4) subject to [IC 36-4-9-12](#), hire attorneys when required for the operation of the utility;
  - (5) hire professional or expert personnel when required for the operation of the utility;
  - (6) submit a budget of its financial needs for the next year in the detail required by the municipal legislative body;
  - (7) recommend to the legislative body reasonable and just rates and charges for services to the patrons of each utility;
  - (8) appropriate, lease, rent, purchase, and hold all real and personal property of the utility;
  - (9) enter upon lands for the purpose of surveying or examining the land to determine the location of any plant or appurtenances;
  - (10) award contracts for:
    - (A) the purchase of capital equipment;
    - (B) the construction of capital improvements; or
    - (C) other property or purposes that are necessary for the full and efficient construction, management, and operation of each utility;
  - (11) adopt rules for the safe, economical, and efficient management and protection of each utility;
  - (12) deposit at least weekly with the municipal fiscal officer all money collected from each utility to be kept in a separate fund subject to the order of the board; and
  - (13) make monthly reports to the fiscal officer of the receipts and disbursements of money belonging to each utility and an annual report of the condition of the utility.
- (b) The board may purchase by contract electricity, water, gas, power, or any other commodity or service for the purpose of furnishing the commodity or service to the patrons of the municipally owned utility or to the municipality itself. . . ."

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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COMMON COUNCIL  
CITY OF RENNELAER  
AUDIT RESULT AND COMMENT  
(Continued)

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