

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF ROCHESTER

FULTON COUNTY, INDIANA

January 1, 2022 to December 31, 2023



**FILED**  
11/18/2024



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Shoda D. Beehler Beth Stocking	01-01-22 to 12-31-23 01-01-24 to 12-31-24
Mayor	Theodore Denton Trent Odell	01-01-22 to 12-31-23 01-01-24 to 12-31-24
President of the Board of Public Works and Safety	Richard Figlio Brett Curnutt	01-01-22 to 12-31-23 01-01-24 to 12-31-24
President Pro Tempore of the Common Council	Brian Goodman	01-01-22 to 12-31-24



Paul D. Joyce, CPA  
State Examiner

# INDIANA STATE BOARD OF ACCOUNTS

302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769  
Telephone: (317) 232-2513  
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TO: THE OFFICIALS OF THE CITY OF ROCHESTER, FULTON COUNTY, INDIANA

This report is supplemental to the audit report of the City of Rochester (City), for the period from January 1, 2022 to December 31, 2023. 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

October 30, 2024

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CLERK-TREASURER  
CITY OF ROCHESTER

CLERK-TREASURER  
CITY OF ROCHESTER  
AUDIT RESULTS AND COMMENTS

**FINANCIAL TRANSACTIONS AND REPORTING**

A similar comment appeared in prior Report B56429, entitled *INTERNAL CONTROLS - FINANCIAL TRANSACTIONS AND REPORTING*, and in prior Reports B51994 and B60050, entitled *INTERNAL CONTROLS*.

*Condition and Context*

There were deficiencies in the internal control system of the City related to financial close and reporting, cash and investments, and journal entries.

*Financial Close and Reporting*

The City had not established effective internal controls over the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the City's financial statement. Although the Clerk-Treasurer prepared and entered the financial information into Gateway, and another employee reviewed and approved the information entered, the internal control was not effective and did not detect errors prior to submission.

Due to the lack of effective internal controls, the financial statement presented in the Financial Statement Audit Report of the City contained the following errors:

- The Sewage SRF Bond fund beginning cash and investments balance, receipts, disbursements, and ending cash and investments balance were overstated by \$1,615,692; \$4,684,584; \$734,353; and \$5,565,923; respectively, for 2022.
- The Sewage SRF Bond fund beginning cash and investments balance, receipts, and ending cash and investments balance were overstated by \$5,565,923; \$2,232,336; and \$7,798,259; respectively, for 2023.
- The Accounts Payable fund was omitted from the financial statement for years ending December 31, 2022 and 2023. As a result, the beginning balance for January 1, 2022, was understated by \$10,972 and the ending balance for December 31, 2023, was overstated by \$3,562; additionally, receipts and disbursements were understated by:
  - \$4,002,278 and \$4,031,086, respectively, for 2022.
  - \$4,313,886 and 4,299,612, respectively, for 2023.

Audit adjustments were proposed, accepted by the City, and made to the financial statement and the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Other Information in the Financial Statement Audit Report of the City.

*Cash and Investments - Bank Account Reconciliations*

The City had not established effective internal controls over cash and investments. Although bank reconciliations were prepared by one employee and then reviewed by a knowledgeable official, this did not ensure the reconciliations were prepared timely or that all bank accounts were reconciled.

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

The City did not reconcile the bank accounts related to the Sewage SRF Bond fund for December 2023. Additionally, as of October 23, 2024, the City's bank accounts related to the Sewage SRF Bond fund were not reconciled through September 2024.

*Journal Entries*

The City had not established effective internal controls over journal entries. Though the City had implemented internal controls over journal entries during the audit period, this did not ensure journal entries were recorded in a timely manner.

The City recorded Sewage SRF Bond fund receipts as journal entries, but the entries were not recorded in a timely manner. Instead of monthly entries, the City recorded receipts in batches several months apart. During 2022, receipts were posted in September and November for activity from January to September 2022, totaling \$1,132,340. During 2023, receipts were posted on six different dates for activity from October 2022 to November 2023, totaling \$657,830. Additionally, the City did not post the following activity:

- \$13,712 in receipt and \$13,712 in disbursement activity related to the Bond and Interest account for July and September 2022.
- No activity for the SRF Bond fund for December 2023 was recorded; total amounts not recorded were \$45,666 in receipt activity and \$2,350 in disbursement activity.

*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. . . ."

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 as set forth in the uniform compliance guidelines. 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](#)."

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

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories.

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1.

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**

A similar comment also appeared in the immediately prior Report B60050, entitled *SUPPLEMENTAL SCHEDULES IN ANNUAL FINANCIAL REPORT*.

#### *Condition and Context*

Financial and other information is required to be entered annually into the Indiana Gateway for Government Units (Gateway) financial reporting system, which is the source of the City's Annual Financial Report (AFR). The City entered the information as required but did not properly review the financial information entered into Gateway. Although the Clerk-Treasurer entered the information on Gateway, and a second employee approved the information input, the internal controls were not effective and did not detect or allow for correction of errors prior to submission.

#### *Capital Assets*

The City was unable to provide a detailed capital asset record to support the capital asset amounts reported in the AFR for 2022 and 2023. The City approved the omission of the Schedule of Capital Assets from the Financial Statement Audit Report.

#### *Payables and Receivables*

The City was unable to provide records to support the accounts payable and accounts receivable amounts reported in the AFR. The City approved the omission of the Schedule of Payables and Receivables from the Financial Statement Audit Report.

#### *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:

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

"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. . . ."

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## **INTERNAL CONTROLS**

### *Condition and Context*

Internal control deficiencies resulted in the noncompliance over:

- Bank Account Reconciliation
- Capital Assets
- Overdrawn Cash Balances

These internal control deficiencies are further detailed in the comments below.

### *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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CLERK-TREASURER  
CITY OF ROCHESTER  
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. . . ."

**BANK ACCOUNT RECONCILIATIONS**

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

*Condition and Context*

Of the six monthly bank reconciliations tested, five were not prepared timely with the reconciliations taking place between 47 and 111 days after month end.

*Criteria*

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

**CAPITAL ASSETS**

A similar comment appeared in prior Reports B56429 and B60050, entitled *CAPITAL ASSETS*.

*Condition and Context*

The City had adopted a capital asset policy prior to the audit period; however, the City had not completed a physical inventory "at least once every year" as stated in Resolution 17-2002, "A Resolution Establishing a Fixed Capitalization Policy" adopted by the City. In addition, the City did not provide a detailed listing of all capital assets which included the acquisition value.

*Criteria*

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)

**OVERDRAWN CASH BALANCES**

*Condition and Context*

The financial statement presented for audit included the Sewage Department fund with an overdrawn cash balance of \$108,001, as of December 31, 2023.

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

*Criteria*

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

# City of Rochester

320 Main Street \* Rochester, IN 46975  
Ph: 574-223-2510 \* Fax: 574-223-6509 \* [www.rochester.in.us](http://www.rochester.in.us)



*Trent Odell, Mayor*

*Beth Stocking, Clerk-Treasurer*

November 8, 2024

Indiana State Board of Accounts  
302 West Washington St. Room E418  
Indianapolis, IN 46204-2768

Re: City of Rochester Audit Management Response

Thank you for the thorough review and constructive feedback on our internal control systems. We acknowledge the importance of addressing these findings promptly to strengthen our controls and reduce potential risks. The City of Rochester is committed to improving the internal control deficiencies that were identified in the 2022-2023 audit period.

## Response to Findings

### 1. Acknowledgment of Issues

We recognize the identified gaps and deficiencies in the current control environment, specifically related to financial close and reporting, control over cash, investments, and journal entries. These areas are critical to maintaining the integrity of our operations, and we are fully committed to making necessary improvements.

### 2. Corrective Actions

To address these findings, management has developed a comprehensive action plan:

- **Strengthening Procedures:** We are revising our procedures to ensure they align with best practices and adequately mitigate the risks identified. This includes implementing additional control measures, reinforcing authorization levels, enhancing segregation of duties, and review of the Clerk-Treasurer's work by persons with advanced experience and knowledge. Without the experience and knowledgeable review, errors and misstatements can occur.
- **Employee Training and Awareness:** We will conduct targeted training for relevant personnel to reinforce the importance of these controls and ensure that all employees understand their roles and responsibilities regarding internal controls. In addition, we will provide focused training for review of journal entries and bank reconciliations.

# City of Rochester

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*Trent Odell, Mayor*

*Beth Stocking, Clerk-Treasurer*

- **Enhanced Monitoring and Reporting:** To ensure sustainability of these improvements, we are establishing a regular monitoring mechanism, including more robust reporting processes. This will allow us to identify any areas with deficient controls earlier.
- **Correction Action Plans:** A separate Corrective Action Plan (CAP) will be designed addressing the repeat findings as follows:
  1. Financial Transactions and Reporting
  2. Annual Financial Report
  3. Bank Account Reconciliations
  4. Capital Assets

Each CAP will be assigned to a responsible party within management, with specific timelines for implementation. Progress for each Corrective Action Plan will be reviewed and overseen by the Clerk-Treasurer. We will also work with the State Board of Accounts to assure that the controls and the CAP's are effective and adequate.

### 3. Ongoing Commitment to Improvement

Management is committed to maintaining a high standard of internal controls to prevent similar issues in the future. Enhanced reviews will be scheduled to evaluate the effectiveness of these additional controls.

We appreciate the audit team's insights and recommendations, which provide valuable guidance as we enhance our control environment. We look forward to continued collaboration to uphold our commitment to compliance, efficiency, and transparency.

Sincerely,

E. Beth Stocking, CPA  
Clerk-Treasurer  
City of Rochester

CLERK-TREASURER  
CITY OF ROCHESTER  
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2024, with Beth Stocking, Clerk-Treasurer; Trent Odell, Mayor; Ruth Gunter, Common Council member; Marty Smith, Common Council member; Brett Curnutt, President of the Board of Public Works and Safety; and Jane Ricketts, Clerk-Admin.