

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, 2014 to December 31, 2017



FILED
02/01/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Result and Comment:	
Internal Controls	6
Official Response.....	7-8
Exit Conference	9

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Shoda D. Beehler	01-01-12 to 12-31-19
Mayor	Mark Smiley Theodore Denton	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Mark Smiley Theodore Denton	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President Pro Tempore of the Common Council	Brian Goodman	01-01-14 to 12-31-19



STATE OF INDIANA
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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE CITY OF ROCHESTER, FULTON COUNTY, INDIANA

This report is supplemental to our audit report of the City of Rochester (City), for the period from January 1, 2014 to December 31, 2017. 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 our Financial Statements Audit Report of the City, which provides our opinion on the City's financial statements. This report may be found at 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

December 17, 2018

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CLERK-TREASURER
CITY OF ROCHESTER

CLERK-TREASURER
CITY OF ROCHESTER
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS

There were deficiencies in the internal control system of the City related to financial transactions. The City had not implemented adequate segregation of duties as they had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial reporting.

Cash and Investments

The bank reconciliations were completed by the Deputy Clerk-Treasurer and reviewed by the Clerk-Treasurer. However, there was no documentation to indicate the Clerk-Treasurer's review. Immaterial differences were noted on each monthly reconciliation.

Receipts

The City did not have documented controls over the receipt process. One person prepared the receipts without a documented review or approval process.

Payroll Disbursements

There were no documented controls over rate of pay to ensure that employees were paid the approved amounts. The Deputy Clerk-Treasurer entered the approved rates into the system and then provided the department heads with the rates outside the financial system. The department heads approved the rates, but there was no other review in the financial system.

Financial Reporting

There were no effective controls over financial reporting. The Clerk-Treasurer reviewed the financial information prior to submission of the Annual Financial Report in the Indiana Gateway for Government Units financial reporting system, which was the source for the financial statements. However, multiple adjustments were required to be made to the financial statements to reconcile to the ledger balance.

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. . . ."

City of Rochester

320 Main Street * Rochester, IN 46975
Ph: 574-223-2510 * Fx: 574-223-6509 * www.rochester.in.us



Theodore J Denton, Mayor

Shoda D. Beehler, Clerk-Treasurer

December 11, 2018

State Board of Accounts
Sarah Nagy, Audit Manager
RE: Audit report 2014-2018

Dear Sarah –

I want to thank you for our most recent audit engagement. You and your team were very gracious and helpful as I hope my team was with you. A four year audit is never easy as that is a lot of data to review. Through the course of the audit, as well as prior to, we made some significant process changes in an effort to improve not only internal controls, but also efficiencies. Outlined below are some of those changes.

- In August 2018, we ceased using the AP Fund/checking account to process all claims from all funds. During bank reconciliations we found that it was causing some challenges in balancing. The AP Fund is now used only for Payroll processing including tax and PERF payments, child support, and employee contributed benefit premiums.
- Beginning with the October bank reconciliation I sign the reconciliation after balanced and reviewed.
- Beginning with the December 21 pay cycle, we will be printing the approval sheet for Dept Heads with employee name and pay details for that period.
- In January 2019 we will be providing Dept Heads with a report for their approval that will show their employee rate for pay for that year, the report will also include the Mayor and Clerk-Treasurer's signatures. The Mayor presents pay increases to the Council for approval during budget sessions and are reflected in the budget typically approved by October 1 and salary ordinance approved by November 1.
- Any other recommendations as mentioned in the exit interview and subsequent report will be addressed to best of our ability.
- In review of the financial records from our general ledger system, we found a cash balance in an inactive Payroll Fund, that we had ceased using in 2013. In January 2017, our payroll clerk found that when we moved employee Thomas Tyler from part time to full time his PERF payments were not captured. She corrected the error and when posted the journal entry for the payment (money transfer from MVH to AP, JE 1440) she posted it to the 5010-000-110150 account and not the 6010-000-110150 account. Because the fund was flagged inactive, many screens and reports did not show this error. Upon investigating the variance found is when this was discovered. I have corrected the error in December 2018 and that balance is now back to zero for that inactive fund reducing our variance to \$942.92.
- We also found an error in the way we process our petty cash payments and reimbursements for the City Pool and City Hall/RPD. The process was never changed from our old system (Mega Systems) and with BS&A it is a significantly different

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Theodore J Denton, Mayor

Shoda D. Beehler, Clerk-Treasurer

process. We inadvertently posted the transactions in reverse and to the wrong accounts causing the petty cash accounts to be incorrect. This was corrected in 2018. I believe these corrections will reduce our variance to \$-12.92.

- We will be adding an additional review step to the AFR submission
- We will be adding an additional review step for deposits

Again, thank you for your patience and experiences during our audit.

Warmest Regards,

A handwritten signature in black ink that reads "Shoda D. Beehler". The signature is written in a cursive, flowing style.

Shoda D. Beehler, IAMC
Clerk-Treasurer, City of Rochester

CLERK-TREASURER
CITY OF ROCHESTER
EXIT CONFERENCE

The contents of this report were discussed on December 17th, 2018, with Shoda D. Beehler, Clerk-Treasurer; Theodore Denton, Mayor; and Brian Goodman, President Pro Tempore of the Common Council.