



CITY OF ROCK FALLS, ILLINOIS

**ILLINOIS GRANT ACCOUNTABILITY AND
TRANSPARENCY ACT - CONSOLIDATED YEAR END
FINANCIAL REPORT**

For the Year Ended April 30, 2021

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CITY OF ROCK FALLS, ILLINOIS
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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 the City Council
City of Rock Falls, Illinois

We have audited, in accordance with 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 Rock Falls, Illinois (the City) as of and for the year ended April 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 28, 2021.

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) 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.

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 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 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2021-001 and 2021-002 that we consider to be a material weakness and finding 2021-003 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 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*.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich LLP

Naperville, Illinois
October 28, 2021

CITY OF ROCK FALLS, ILLINOIS

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended April 30, 2021

2021-001 - Year End Close Process

During our audit we proposed numerous audit adjustments, which management has reviewed and approved. Adjustments that were proposed were the result of recurring year end accruals that were not recorded, transactions that were not recorded in the proper period or classified correctly, and government-wide conversion entries such as capital assets and long-term debt.

Generally accepted auditing standards emphasizes that the external auditor cannot be part of an entity's internal control process over financial reporting. We recommend that procedures or checklists be adopted and followed to include all procedures that management determines are needed to be performed on a monthly or year end basis to ensure general ledger accounts are properly adjusted.

Corrective Action Plan: October 28, 2021.

Responsible Person for Corrective Action Plan: Robbin Blackert, Administrator

Implementation Date for Corrective Action Plan: April 30, 2022.

2021-002 - Segregation of Duties

With a limited number of staff in City offices and departments, proper segregation of duties is difficult to accomplish. A fundamental element of internal control is the segregation of certain key duties. The basic idea underlying segregation of duties is that no employee or group should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. In general, the principal incompatible duties to be segregated include:

- Custody of assets, in particular cash
- Authorization or approval of related transactions affecting those assets
- Recording or reporting of related transactions
- Execution of the transaction or transaction activity

An essential feature of segregation of duties/responsibilities within an organization is that no one employee or group of employees has exclusive control over any transaction or group of transactions.

We noted specific lack of segregation of duties listed below. This list should not be considered to be all inclusive as we did not perform a comprehensive review of all control structures throughout the City.

CITY OF ROCK FALLS, ILLINOIS

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

For the Year Ended April 30, 2021

2021-002 - Segregation of Duties (Continued)

The Superintendent of the Business office can enter invoices into the system, process checks, and mail checks. The Superintendent of the Business office can both receive and record the same cash receipt. The Superintendent of the Business office has administrative access to the accounting software (MSI) and performs accounting functions. The effectiveness of established controls is diminished when personnel involved in the accounting function have the ability to modify their access rights to the various modules of the accounting software.

The Accounts Payable/Payroll Clerk can enter invoices into the system, process checks, and mail checks. In addition, the Accounts Payable/Payroll Clerk can both receive and record the same cash receipt.

The Building Department Secretary can create permits and collect cash for permits.

Custody of assets, including check signing authority, authorization or approval of related transactions affecting those assets, recording or reporting of related transactions, and execution of the transaction or transaction activity should be segregated. With a limited staff, segregation of these duties may not be possible. In this case, it is important department heads remain diligent in their monitoring of financial transactions.

A detailed review of financial statements, budget vs. actual results, bank reconciliations, payroll registers, and invoices and supporting documentation for checks greatly enhances the internal control. This review should continue to be performed by someone other than the preparer of the documents.

Review of bank reconciliations should include tests of mechanical accuracy and tracing of items on the reconciliation to the relevant source documents. The nature of unreconciled differences should be determined and followed up on in a timely manner and any journal entries deemed necessary, as a result, be recorded.

In all cases, we recommend the City reassign duties in order to more fully segregate conflicting duties.

Corrective Action Plan: October 28, 2021.

Responsible Person for Corrective Action Plan: Robbin Blackert, Administrator

Implementation Date for Corrective Action Plan: April 30, 2022.

2021-003 - Inventory

During our testing of inventory, we noted there is no written inventory policy to provide guidance on securing inventory, and recording the activity of inventory purchased and used.

During our testing of inventory, we noted several inventory invoices selected for testing which could not be located for the Electric Department to support the average cost of inventory items

CITY OF ROCK FALLS, ILLINOIS

SCHEDULE OF FINDINGS AND RESPONSES (Continued)

For the Year Ended April 30, 2021

2021-003 - Inventory (Continued)

held at year end. In addition, several invoices could not be located for the Water Department to support the average cost of the inventory item.

We recommend the City develop an inventory control policy to provide guidelines to accurately track and secure inventory. In addition, we recommend the City retain invoices for all inventory items to support the average cost of the inventory item used and review inventory for obsolescence on a periodic basis.

Corrective Action Plan: October 28, 2021.

Responsible Person for Corrective Action Plan: Robbin Blackert, Administrator

Implementation Date for Corrective Action Plan: April 30, 2022.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Honorable Mayor
Members of the City Council
City of Rock Falls, Illinois

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Rock Falls as of and for the year ended April 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated October 28, 2021, which expressed unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Consolidated Year-End Financial Report is presented for purposes of additional analysis, as required by the Illinois Grant Accountability and Transparency Act, and are 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 basic 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sikich LLP

Naperville, Illinois
October 28, 2021

CITY OF ROCK FALLS, ILLINOIS

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For the Year Ended April 30, 2021

CSFA Number	Program Name	State	Federal	Other	Total
420-75-2398	Business Development	\$ 120,520	\$ -	\$ -	\$ 120,520
	Other grant programs and activities	19,294	399,744	-	419,038
	All other costs not allocated	-	-	24,546,652	24,546,652
	TOTALS	<u>\$ 139,814</u>	<u>\$ 399,744</u>	<u>\$ 24,546,652</u>	<u>\$ 25,086,210</u>

(See independent auditor's report on supplementary information.)