

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF CANNELTON

PERRY COUNTY, INDIANA

January 1, 2019 to December 31, 2021



FILED
09/27/2023

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls over Financial Transactions and Reporting.....	6-9
Annual Financial Report.....	10-11
Annual Financial Report - Late Filing.....	11-12
Training on Internal Control Standards.....	12
Certification on Internal Control Standards.....	12
100R Certified Report Filed After Due Date	13
Monthly and Annual Uploads	13-14
Capital Assets	14
Penalties, Interest, and Other Charges.....	15
Motor Vehicle Highway (MVH) - Restricted Fund	15
Overdrawn Cash Balances	15
Exit Conference	16
City Electric, Water, and Wastewater Utilities:	
Audit Results and Comments:	
Internal Controls - Utilities.....	18-19
Capital Assets	19-20
Exit Conference	21
City Street Department:	
Audit Result and Comment:	
Motor Vehicle Highway (MVH) - Restricted Fund	24
Exit Conference	25

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Arvina Bozarth	01-01-19 to 12-31-19
	Christal Moskos	01-01-20 to 06-11-20
	Kelli Preston	06-12-20 to 01-03-21
	Taylor Lawalin	01-04-21 to 04-30-21
	Heather Mullen	05-01-21 to 08-20-21
	Joe Hermann	08-21-21 to 02-14-22
	Mary Y. Snyder	02-15-22 to 09-17-23
	John Paulin	09-18-23 to 12-31-23
Mayor	Mary Y. Snyder	01-01-19 to 12-31-19
	Ralph Terry	01-01-20 to 12-31-23
President of the Board of Public Works and Safety	Mary Y. Snyder	01-01-19 to 12-31-19
	Ralph Terry	01-01-20 to 12-31-23
President Pro Tempore of the Common Council	Vincent Gigliardi	01-01-19 to 12-31-19
	Robert M. Olberding	01-01-20 to 12-31-23
General Manager of the Electric and Water Utilities	Phillip Ball	01-01-19 to 04-01-22
	Chris Herzog	04-02-22 to 12-31-23
Superintendent of Wastewater Utility	Jerry Ball	01-01-19 to 03-31-23
	Spencer Herzog	04-01-23 to 12-31-23
Chair of the Utility Service Board	Randall L. McBrayer	01-01-19 to 12-31-23
Street Commissioner	Chris Corley	01-01-19 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF CANNELTON, PERRY COUNTY, INDIANA

This report is supplemental to the audit report of the City of Cannelton (City), for the period from January 1, 2019 to December 31, 2021. 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 Statements Audit Report of the City, which provides our opinions 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 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

September 21, 2023

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CLERK-TREASURER
CITY OF CANNELTON

CLERK-TREASURER
CITY OF CANNELTON
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROL OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B53247, entitled *INTERNAL CONTROLS*.

Condition and Context

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

1. **Lack of Segregation of Duties:** Internal control activities, an integral part of which is segregation of duties, should be in place to reduce the risks of errors in financial recording and reporting. The City had not separated incompatible activities related to financial close and reporting, cash and investments, receipts, and disbursements.
2. **Monitoring of Internal Controls:** Effective internal controls over financial reporting requires the City to monitor and evaluate the quality of the system of internal control. The City did not have a process to identify or communicate corrective actions to improve internal controls.
3. **Risk Assessment:** The City had no risk assessment process to identify, analyze, and respond to potential threats that could impact the internal control system.

The failure to establish a proper system of internal controls enabled material misstatements or irregularities to occur and remain undetected.

Financial Close and Reporting

The City had not established 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 Annual Financial Report (AFR) and financial statements.

The City failed to properly review the financial information prepared and submitted in Gateway to ensure all transactions of the City had been properly recorded and reported. The Clerk-Treasurer prepared and entered the financial information in Gateway; however, there was no oversight, review, or approval process in place to ensure financial transactions, the AFR, and the financial statements were accurate.

Due to the lack of internal controls, the financial information presented for audit included the following errors:

1. For 2019, receipts, disbursements, and ending cash and investments balance were understated by \$74,054, \$36,933, and \$37,121, respectively. There were multiple funds in which these misstatements occurred, but they were not material in the aggregate.
2. For 2020, the Trash Utility-Operating fund disbursements were overstated and ending cash and investments balance was understated by \$2,097. This misstatement was immaterial.
3. For 2021, beginning cash and investments balances for two funds were overstated in total by \$14,156, and understated for one fund by \$2,969 for a net overstatement of beginning cash and investments balances of \$11,187.

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

4. For 2021, the City did not report the receipt and disbursement activity for nine funds in the AFR. The omission of this financial information resulted in receipts and disbursements being understated by \$2,184,864 and \$2,318,416, respectively, and ending cash and investments balances were overstated by \$133,552.
5. For 2021, the City had errors in the reported receipt and disbursement activity for two funds, receipts and disbursements were understated by \$143,959 and \$15,230, respectively, and ending cash and investments balances were understated by \$128,729.

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

Cash and Investments

There were no internal controls, which would include appropriate segregation of duties, in place to ensure monthly bank reconcilements were complete and accurate.

The Clerk-Treasurer was solely responsible for recording all transactions in the ledger and preparing the bank reconcilements for the City Trash and Stormwater Utilities. The City's consultant was solely responsible for preparing the monthly bank reconciliation for the City's funds. As such, all reconcilements were prepared without a documented review or approval process to prevent, or detect and correct, errors.

In total, the City had eight bank accounts through the course of the audit period which should have been reconciled monthly to the City's ledgers. Of the 218 monthly reconcilements required during the audit period, 33 were selected for testing; 26 of the 33 tested, were not properly completed. Errors identified in the 26 inadequate reconcilements were as follows:

1. Four reconcilements had nothing other than the bank statement.
2. Five of the reconcilements only showed an outstanding check list and did not show an adjusted bank balance.
3. Seventeen reconcilements had an outstanding check list, reconciling items, and an adjusted bank balance; however, there was no evidence to indicate a comparison was made to the ledger balance.

Receipts

The City had not established internal controls over receipts. The Clerk-Treasurer received all the money that was collected, issued the receipt, recorded the receipt, and deposited the funds to the bank. There was no segregation of duties such as an oversight, review, or approval process over receipts.

Of the 29 receipts selected for testing, 3 could not be traced to the bank statement and had no supporting documentation indicating source (payer) and/or purpose of the receipt.

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

Disbursements

The City had not established internal controls over payroll disbursements. The Clerk-Treasurer was solely responsible for preparing payroll, initiating the direct deposit, and recording payroll transactions in the ledger. There was no segregation of duties such as an oversight, review, or approval process over payroll disbursements.

There was no evidence that payroll disbursements were presented to the Common Council for its approval for 9 of the 14 payroll disbursements tested.

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:

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

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

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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](#)."

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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the unit. The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

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

ANNUAL FINANCIAL REPORT

Condition and Context

Financial, supplemental, 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. The City had not established effective internal controls over the AFR information entered into Gateway, which resulted in the following errors:

Grants

In 2019, a review of the grant schedule, state distributions, and the City's grant files indicated the following errors reported on the City's grant schedule:

1. The amount reported on the grant schedule for the Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii federal award (ALN 14.228) was overstated by \$53,900.
2. The Disaster Grants - Public Assistance (Presidentially Declared Disasters) (ALN 97.036) federal award for \$84,016 was not included on the grant schedule.
3. The Edward Byrne Memorial Justice Assistance Grant Program (ALN 16.738) federal award for \$27,120 was not included on the grant schedule.
4. State funds totaling \$217,087 were incorrectly included on the grant schedule.
5. Several grants were missing Assistance Listings Numbers and project identification numbers.

In 2020, a review of the grant schedule, state distributions, and the City's grant files indicated the following errors reported on the City's grant schedule:

1. A Community Crossings Matching Grant awarded by the State of Indiana for \$116,666 was incorrectly included on the grant schedule.
2. Several grants were missing federal awarding agency, program name, Assistance Listings Numbers, and project identification numbers.

In 2021, a review of the grant schedule, state distributions, and the City's grant files indicated the following errors reported on the City's grant schedule:

- The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds (ALN 21.027) grant was omitted, which understated expenditures by \$167,185.

Capital Assets

The City did not provide supporting documentation for the reported capital assets. The City did not have listing of capital assets. The City chose not to present the Schedule of Capital Assets in the Financial Statements Audit Report.

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

Accounts Payables and Receivables

The amount that the City reported for the schedule of accounts payable and accounts receivable could not be verified. The City did not maintain supporting documentation. The City chose to not present the Schedule of Payables and Receivables in the Financial Statements Audit Report.

Leases and Debt

The City did not report two Wastewater Works Revenue Bonds, Series 2021A and Series 2021B. Both debt issues had outstanding principal balances at December 31, 2021. The City chose not to present the Schedule of Leases and Debt in the Financial Statements 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:

"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 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](#)."

ANNUAL FINANCIAL REPORT - LATE FILING

This same comment appeared in a Management Letter addressed to the Clerk-Treasurer for the audit period ending December 31, 2018.

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

Condition and Context

The City filed its Annual Financial Report (AFR) late every year during the audit period. The AFR is due 60 days after fiscal year end and the City submitted its reports for 2019, 2020, and 2021, on March 31, 2020 (29 days late); April 26, 2021 (56 days late); and May 21, 2022 (81 days late), respectively.

Criteria

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

"The state examiner shall require from 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](#)."

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

The City could not provide evidence that all required employees received training over the internal control standards.

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The City certified on the Indiana Gateway for Government Units financial reporting system that internal control standards were adopted, and training was received for the audit period. The City did not maintain documentation that training was provided for new employees during the audit period.

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](#)."

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

100R CERTIFIED REPORT FILED AFTER DUE DATE

Condition and Context

The City is required to submit the Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100R) by January 31st of every year for the prior year. The City submitted two of the three Form 100Rs required during the audit period late. The 2019 report was filed on February 4, 2020 (4 days late); and the 2021 report was filed on May 13, 2022 (102 days late).

Criteria

Indiana Code 5-11-13-1(b) states:

"Each audited entity shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of the officers, employees, and agents of the audited entity. The report shall indicate the respective duties and compensation of each officer, employee, and agent of the audited entity. The audited entity shall file the report in the office of the state examiner of the state board of accounts. The report must also indicate whether the political subdivision offers a health plan, a pension, and other benefits to full-time and part-time employees. However, no more than one (1) report covering the same officers, employees, and agents need be made from the state or any county, city, town, township, or school unit in any one year. The certification must be filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliements, approved Common Council minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

The City did not comply with the State Examiner Directive and failed to upload any of the monthly and annual files on the Indiana Gateway for Government Units (Gateway) financial reporting system for 2019, 2020, and 2021.

Criteria

Beginning with July 2018 files, which will be due September 15, 2018 **all** cities, towns, townships, libraries, and special districts will use the Upload App to upload files containing financial and governmental unit information on Gateway . . .

A unit is encouraged to upload prior months' files beginning with the January 2018 files. Thereafter, monthly files must be uploaded no later than the 15th day of the second succeeding month, i.e., August monthly files are due on October 15. . . .

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

Annual files are due to be uploaded on Gateway no later than March 1, 2019. Thereafter, annual files must be uploaded no later than March 1 for the prior year end unless the SBOA establishes a different date. . . .

(State Examiner Directive 2018-1)

This amended directive is effective starting with December 2020 monthly files. The upload of December 2020 monthly files will be due February 15, 2021, and by the 15th of each month thereafter unless the State Board of Accounts (SBOA) establishes a different date. This is effective for 2020 annual files which will be due for upload March 1, 2021, for calendar year end units. . . . Thereafter, annual files must be uploaded no later than March 1st . . . for the prior year end unless the SBOA establishes a different date.

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

(Amended State Examiner Directive 2018-1)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CAPITAL ASSETS

The same comment also appeared in prior Report B53247.

Condition and Context

The City did not properly account for capital assets. No capital asset policy, detailed capital asset ledger, or documentation of a physical inventory of capital assets being taken were provided for audit.

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)

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

PENALTIES, INTEREST, AND OTHER CHARGES

Condition and Context

The City paid \$15,970 in late payment penalties to the City of Tell City Utilities from January 2021 to October 2021. There were no late payment penalties paid during the last two months of the audit period.

Criteria

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

A review of disbursements paid from the Motor Vehicle Highway (MVH) Restricted fund identified one claim which didn't contain adequate documentation to determine the nature of the disbursement. There was a lack of supporting documentation to confirm that this expense paid from the MVH Restricted fund was for construction, reconstruction, or preservation of the City's highways.

Criteria

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

OVERDRAWN CASH BALANCES

Condition and Context

The financial statements presented for audit included overdrawn cash balances for the Payroll fund on December 31, 2019, 2020, and 2021, of \$10,364, \$29,972, and \$299,705, respectively.

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)

CLERK-TREASURER
CITY OF CANNELTON
EXIT CONFERENCE

The contents of this report were discussed on September 21, 2023, with Christal Moskos, former Clerk-Treasurer; Joe Hermann, former Clerk-Treasurer; Mary Y. Snyder, former Clerk-Treasurer and former Mayor; John Paulin, Clerk-Treasurer; Ralph Terry, Mayor; Robert M. Olberding, President Pro Tempore of the Common Council; Chris Herzog, General Manager of the City Electric and Water Utilities; and Edie Powers, Head Utilities Billing Clerk.

CITY ELECTRIC, WATER, WASTEWATER UTILITIES
CITY OF CANNELTON

CITY ELECTRIC, WATER, WASTEWATER UTILITIES
CITY OF CANNELTON

INTERNAL CONTROLS - UTILITIES

A similar comment also appeared in prior Report B53247, entitled *INTERNAL CONTROLS*.

Condition and Context

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City had not established an effective internal control system that had separated incompatible activities related to financial close and reporting, cash and investments, and disbursements for the City Electric, Water, and Wastewater Utilities (Utilities).

The City had not established monitoring processes over internal controls. Monitoring processes should be selected and developed at various levels to reduce risks of error and/or fraud of the financial statements. The failure to establish these internal controls could enable material misstatements to remain undetected.

Financial Close and Reporting

The City had not established 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 Annual Financial Report and financial statements.

The General Manager of the Utilities was responsible for entering the Utilities' financial information into Gateway. For 2019 and 2020, there was no oversight, review, or approval process in place to ensure financial information entered into Gateway was accurate. For 2021, there was no financial information for the Utilities entered into Gateway or remitted to the Clerk-Treasurer, so financial information was not reported to Gateway for the Utilities.

Cash and Investments

There were no internal controls, which would include appropriate segregation of duties, in place to ensure monthly bank reconciliations were complete and accurate.

The General Manager of the Utilities was responsible for performing monthly bank reconciliations for the Utilities without any documented oversight, review, or approval process in place to ensure its accuracy.

Disbursements

The City had not established internal controls over payroll disbursements. The Clerk-Treasurer was responsible for preparing Wastewater payroll, initiating the direct deposit, and recording the payroll disbursements to the ledger. There was no segregation of duties over payroll disbursements during the audit period.

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:

CITY ELECTRIC, WATER, WASTEWATER UTILITIES
CITY OF CANNELTON
(Continued)

"Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing.
. . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

CAPITAL ASSETS

The same comment also appeared in prior Report B53247.

Condition and Context

The Utilities had not properly maintained a complete inventory of capital assets owned. Neither a capital asset policy, a detailed capital asset ledger, nor documentation of a physical inventory of capital assets being taken were provided for audit.

CITY ELECTRIC, WATER, WASTEWATER UTILITIES
CITY OF CANNELTON
(Continued)

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)

CITY ELECTRIC, WATER, WASTEWATER UTILITIES
CITY OF CANNELTON
EXIT CONFERENCE

The contents of this report were discussed on September 21, 2023, with Christal Moskos, former Clerk-Treasurer; Joe Hermann, former Clerk-Treasurer; Mary Y. Snyder, former Clerk-Treasurer and former Mayor; John Paulin, Clerk-Treasurer; Ralph Terry, Mayor; Robert M. Olberding, President Pro Tempore of the Common Council; Chris Herzog, General Manager of the City Electric and Water Utilities; and Edie Powers, Head Utilities Billing Clerk.

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CITY STREET DEPARTMENT
CITY OF CANNELTON

CITY STREET DEPARTMENT
CITY OF CANNELTON
AUDIT RESULT AND COMMENT

MOTOR VEHICLE HIGHWAY (MVH) – RESTRICTED FUND

Condition and Context

A review of disbursements paid from the Motor Vehicle Highway (MVH) Restricted fund identified one claim which didn't contain adequate documentation to determine the nature of the disbursement. There was a lack of supporting documentation to confirm that this expense paid from the MVH Restricted fund was for construction, reconstruction, or preservation of the City's highways.

Criteria

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

CITY STREET DEPARTMENT
CITY OF CANNELTON
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