

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

CITY OF CANNELTON

PERRY COUNTY, INDIANA

January 1, 2022 to December 31, 2022



**FILED**

09/27/2023



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## SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Joe Hermann Mary Y. Snyder John Paulin	01-01-22 to 02-14-22 02-15-22 to 09-17-23 09-18-23 to 12-31-23
Mayor	Ralph Terry	01-01-22 to 12-31-23
President of the Board of Public Works and Safety	Ralph Terry	01-01-22 to 12-31-23
President Pro Tempore of the Common Council	Robert M. Olberding	01-01-22 to 12-31-23
General Manager of the Electric and Water Utilities	Phillip Ball Chris Herzog	01-01-22 to 04-01-22 04-02-22 to 12-31-23
Superintendent of the Wastewater Utility	Jerry Ball Spencer Herzog	01-01-22 to 03-31-23 04-01-23 to 12-31-23
Street Commissioner	Chris Corley	01-01-22 to 12-31-23



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

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 statement of the City of Cannelton (City), for the year ended December 31, 2022, and the related notes to the financial statement, which collectively comprise the City's financial statement and have issued our report thereon dated September 21, 2023, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Report on Internal Control over Financial Reporting***

In planning and performing our audit of the financial statement, 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 opinion on the financial statement, 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or 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 of this section 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 certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(Continued)

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statement is 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 determination of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002.

***City of Cannelton's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement, 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE  
Deputy State Examiner

September 21, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

**Report on Compliance for the Major Federal Program**

***Opinion on the Major Federal Program***

We have audited the City of Cannelton's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2022. The City's major federal program is identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

**Basis for Opinion on the Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2022-003, to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* require the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statement of the City, as of and for the year ended December 31, 2022, and the related notes to the financial statement. We issued our report thereon dated September 21, 2023, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. 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 financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE  
Deputy State Examiner

September 21, 2023

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the City. The schedule and notes are presented as intended by the City.

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CITY OF CANNELTON  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2022

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Agriculture</u>					
Water and Waste Disposal Systems for Rural Communities	Direct Grant	10.760			
Wastewater Construction project - RD Grant 06			RD Grant 06	\$ -	\$ 3,295,268
Wastewater Construction project - RD Loan 05			RD Loan 05	-	2,400,144
Wastewater Construction project - RD Loan 07			RD Loan 07	-	323,000
				-	6,018,412
Total - Department of the Agriculture					
<u>Department of Housing and Urban Development</u>					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii Can-Clay Clearance	Indiana Office of Community and Rural Affairs	14.228	BC-20-101	-	497,576
Total - Department of Housing and Urban Development					
<u>Department of Justice</u>					
Edward Byrne Memorial Justice Assistance Grant Program JAG	Indiana Criminal Justice Institute	16.738	JAG 2022-0025	-	8,140
Total - Department of Justice					
<u>Department of Transportation</u>					
Highway Safety Cluster National Priority Safety Programs Indiana Criminal Justice Institute	Indiana Criminal Justice Institute	20.616	SAVE 2022-00022	-	1,424
Total - Highway Safety Cluster					
Total - Department of Transportation					
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds ARP FISCAL RECOVERY	Direct Grant	21.027	CY 2022	-	30,202
Total - Department of the Treasury					
Total federal awards expended				\$ -	\$ 6,555,754

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF CANNELTON  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Summary of Significant Accounting Policies**

*A. Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2022. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

*B. Other Significant Accounting Policies*

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

**Note 2. Indirect Cost Rate**

The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF CANNELTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
10.760	Water and Waste Disposal Systems for Rural Communities	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?	no
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**Section II - Financial Statement Findings**

**FINDING 2022-001**

Subject: Financial Transactions and Reporting  
Audit Findings: Material Weakness, Noncompliance

*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.

CITY OF CANNELTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2. **Monitoring of Controls:** Effective internal controls over financial reporting requires the City to monitor and evaluate the quality of the system of internal controls. The City did not have a process to identify or communicate corrective actions to improve internal controls.
3. **Risk Assessment:** The City did not have a 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 statement.

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 into 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. The City had errors in the reported beginning cash and investments balances for the City's Utility funds. The beginning cash and investments balances and also the ending cash and investments balances of the aggregated Wastewater Utility funds and Water Utility funds were overstated by \$156,725 and \$14,341, respectively. In addition, the beginning cash and investments balances and also the ending cash and investments balances of the aggregated Electric Utility funds and Trash Utility fund were understated by \$40,482 and \$53,498, respectively.
2. The City did not report the receipt and disbursement activity for eight funds in the AFR. The omission of this financial information resulted in receipts and disbursements being understated by \$7,879,901 and \$7,930,651, respectively, and the ending cash and investments balance being overstated by \$50,750.
3. The City had errors in the reported receipt and disbursement activity for three funds. The receipts and disbursements were understated by \$424,446 and \$443,534, respectively, and the ending cash and investments balance being overstated by \$19,088.

In total, beginning cash and investments balances were overstated by \$77,086, receipts were understated by \$8,304,347, disbursements were understated by \$8,374,185, and ending cash and investments balances were overstated by \$146,924.

Audit adjustments were proposed, accepted by the City, and made to the financial statement presented in the Financial Statement 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 reconciliements were complete and accurate.

CITY OF CANNELTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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 has eight bank accounts which should be reconciled monthly to the City's ledgers. Of the 96 monthly reconcilements required during the audit period, 15 were selected for testing. Of the 15 tested, 11 did not have a properly completed bank reconciliation. Errors identified in the 11 inadequate reconcilements were as follows:

1. One reconciliation had nothing other than the bank statement.
2. Three of the reconcilements only showed an outstanding check list and did not show an adjusted bank balance.
3. Seven 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 record balance.

*Receipts*

The City had not established internal controls over receipts. The Clerk-Treasurer received all the money 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.

There were multiple errors with receipts for the distributions received from the state. One distribution could not be found on the ledger. Two state distributions were recorded in the wrong fund.

*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 disbursements to the ledger. There was no segregation of duties such as an oversight, review, or approval process over payroll disbursements.

For ten of ten payroll disbursements tested, there was no evidence of the department head's approval or signature prior to submission to the Clerk-Treasurer for processing. In addition, the payroll disbursements tested were not presented to the Common Council for their approval.

*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 OF CANNELTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

"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. . . .

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."

CITY OF CANNELTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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)

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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 51-15-1-1.

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)

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. . . ."

*Cause*

Management of the City had not established a proper system of internal controls that would have ensured proper recording of financial transactions and proper reporting of the AFR. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the City's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies. In addition, the City's management had not conducted a risk assessment nor adequately monitored the activity related to the City's financial reporting and transactions.

*Effect*

Without the proper implementation of an effectively designed system of internal controls, including policies and procedures that provide segregation of duties, monitoring, risk assessment, and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material misstatements or noncompliance in a timely manner. As a result, errors were identified as identified in the *Condition and Context*.

CITY OF CANNELTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2022-002**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Noncompliance

*Condition and Context*

The City had not established internal controls over the federal award information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the City's Schedule of Expenditures of Federal Awards (SEFA). The City did not have a proper system of internal controls in place to prevent, or detect and correct, errors prior to submission.

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

1. The Water and Waste Disposal Systems for Rural Communities grant was omitted, which understated expenditures by \$6,018,412.
2. The Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii grant was omitted, which understated expenditures by \$497,576.
3. Three grants had individually immaterial errors that resulted in misstatements of expenditures of \$22,998, in total.
4. Other errors included incorrect program names, entity identifying numbers, pass-through entity names, and grants not properly being identified as direct grants.

Audit adjustments were proposed, accepted by the City, and made to the Schedule of Expenditures of Federal Awards presented in this 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. . . ."

CITY OF CANNELTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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](#)."

2 CFR 200.303 states in part:

"(a) Establish and maintain effective internal control . . ."

2 CFR 200.1 states in part:

". . . *Internal controls* for non-Federal entities means:

- (1) Processes designed and implemented by non-Federal entities to provide reasonable assurance regarding the achievement of objectives in the following categories:
  - (i) Effectiveness and efficiency of operations;
  - (ii) Reliability of reporting for internal and external use; . . ."

2 CFR 200.508 states in part:

"The auditee must: . . .

- (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.

CITY OF CANNELTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502(b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414."

*Cause*

Management of the City had not established a proper system of internal controls that would have ensured proper reporting of the SEFA. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the City's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

*Effect*

Without the proper design or implementation of the components of a system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material misstatements. As such, material misstatements of the SEFA remained undetected. The SEFA included the errors identified in the *Condition and Context*.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**Section III - Federal Award Findings and Questioned Costs**

**FINDING 2022-003**

Subject: Water and Waste Disposal Systems for Rural Communities - Internal Controls

Federal Agency: Department of Agriculture

Federal Program: Water and Waste Disposal Systems for Rural Communities

Assistance Listings Number: 10.760

Federal Award Numbers and Years (or Other Identifying Numbers): RD Grant 06,  
RD Loan 05,  
RD Loan 07

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles,  
Procurement and Suspension and Debarment

Audit Finding: Material Weakness

CITY OF CANNELTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Condition and Context*

The City had not properly designed or implemented a system of internal controls, which would include appropriate segregation of duties that would likely be effective in preventing, or detecting and correcting, material noncompliance related to expenditures made from the Water and Waste Disposal Systems for Rural Communities grant funds.

*Activities Allowed or Unallowed and Allowable Costs/Cost Principles*

Under the Water and Waste Disposal Systems for Rural Communities program, the United States Department of Agriculture's (USDA) Rural Utilities Service (RUS) awards direct loans, loan guarantees, and project grants for new and improved water and waste disposal systems, serving rural areas where financing is not available from commercial sources at reasonable rates and terms. Loan and grant funds may be expended on eligible project costs, as approved by the RUS. These expenditures include items such as land acquisition, water rights, legal fees, engineering fees, construction costs, and the purchase of equipment.

The City relied solely on the contracted engineer and the USDA to ensure that program disbursements were for allowable activities and allowable costs. The City did not have an oversight or approval process in place to ensure the compliance prior to payment.

*Procurement and Suspension and Debarment*

Federal regulations allow for informal procurement methods when the value of the procurement for property or services does not exceed the simplified acquisition threshold, which is set at \$250,000. However, Indiana Code 5-22-8 has a more restrictive threshold of \$150,000 or less for when small purchase procedures may be used. This informal process allows for methods other than the formal bid process. The informal process is divided between two methods based on thresholds. Micro-purchases, typically for those purchases \$10,000 or under, and small purchase procedures for those purchases above the micro-purchase threshold, but below the simplified acquisition threshold. Micro-purchases may be awarded without soliciting competitive price rate quotations. If small purchase procedures are used, then price or rate quotations must be obtained from an adequate number of qualified sources.

The City relied solely on the contracted engineer and the USDA to ensure that program disbursements were properly procured and that applicable vendors were not suspended or debarred prior to entering into a covered transaction. The City did not have oversight or approval process in place to ensure the compliance prior to payment.

The lack of internal controls was a systemic issue, which occurred throughout the audit period.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

CITY OF CANNELTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Cause*

A proper system of internal controls was not designed by management of the City. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the City's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

*Effect*

Without the proper implementation of an effectively designed system of internal controls, including policies and procedures that provide segregation of duties and additional oversight as needed, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that management of the City, design and implement a proper system of internal controls that would provide segregation of duties for the review all payments to ensure its an allowable activity, allowable cost, properly procured, and the vendor is not suspended or debarred. Additionally, policies and procedures should be implemented to ensure appropriate reviews, approvals, and oversight are taking place.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.



CITY OF CANNELTON INDIANA

210 South 8<sup>th</sup> Street, Cannelton, Indiana 47520

MAYOR  
RALPH D TERRY 812 547 8994

CLERK/TREASURER  
812 548 2292 JOHN PAULIN

## CORRECTIVE ACTION PLAN

### ***FINDING 2022-001***

#### **Finding Subject: Financial Transactions and Reporting**

#### **Summary of Finding:**

Material weaknesses and noncompliance were found involving Financial Close and Reporting, Cash and Investments, Receipts, and Disbursements.

**Contact Person Responsible for Corrective Action: John Paulin, Clerk-Treasurer**

**Contact Phone Number and Email Address: 812-547-8994, [canneltoncct@gmail.com](mailto:canneltoncct@gmail.com)**

**Views of Responsible Officials:** We concur with the finding.

#### **Description of Corrective Action Plan:**

The City plans to identify, implement, and monitor internal controls related to the City's financial transactions and reporting as follows:

##### *Financial Close and Reporting:*

The City plans to implement internal control procedures in which one City employee enters financial information into Indiana Gateway for Government Units (Gateway), and another person reviews the information for accuracy prior to submission.

##### *Cash and Investments:*

The City plans to implement a review process to ensure monthly bank reconciliations are completed and correct. Monthly Bank reconciliations will be prepared for all City and Utility depository accounts by Clerk-Treasurer and Utility Manager, and reconciliations will be reviewed by Mayor or another employee/official other than preparer.

##### *Receipts:*

Receipts and deposit tickets for the City will be prepared by Clerk-Treasurer and reviewed by another employee/official other than Clerk-Treasurer prior to deposit to bank.

##### *Disbursements:*

Each pay period, department heads will approve employee's time records prior to submitting payroll documentation to Clerk-Treasurer for processing.

A detailed listing of payroll disbursements will be certified by the Clerk-Treasurer and presented to the City Council for their approval.

**Anticipated Completion Date:**  
January 2024



CITY OF CANNELTON INDIANA

210 South 8<sup>th</sup> Street, Cannelton, Indiana 47520

MAYOR

RALPH D TERRY 812 547 8994

CLERK/TREASURER

812 548 2292 JOHN PAULIN

## CORRECTIVE ACTION PLAN

### ***FINDING 2022-002***

#### **Finding Subject: Preparation of the Schedule of Expenditures of Federal Awards**

#### **Summary of Finding:**

Schedule of Expenditures of Federal Awards (SEFA) contained material errors and City had not established internal controls to prevent, or detect and correct, errors prior to submission.

**Contact Person Responsible for Corrective Action: John Paulin, Clerk-Treasurer or Ralph Terry, Mayor**

**Contact Phone Number and Email Address: 812-547-8994, [canneltoncct@gmail.com](mailto:canneltoncct@gmail.com)**

**Views of Responsible Officials:** We concur with the finding.

#### **Description of Corrective Action Plan:**

The City will implement a requirement that all approved federal award documentation be maintained in the Clerk-Treasurers/Mayors office. Clerk-Treasurer will enter federal award data to the grant schedule into Indiana Gateway for Government Units (Gateway), and the Mayor will review the information for accuracy prior to submission.

#### **Anticipated Completion Date:**

February 2024



CITY OF CANNELTON INDIANA

210 South 8<sup>th</sup> Street, Cannelton, Indiana 47520

MAYOR

RALPH D TERRY 812 547 8994

CLERK/TREASURER

812 548 2292 JOHN PAULIN

## CORRECTIVE ACTION PLAN

### ***FINDING 2022-003***

**Finding Subject:** Water and Waste Disposal Systems for Rural Communities - Internal Controls

**Summary of Finding:**

Material weaknesses found involving *Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Procurement and Suspension and Debarment* for the Water and Waste Disposal Systems for Rural Communities major federal program.

**Contact Person Responsible for Corrective Action:** John Paulin, Clerk-Treasurer and Ralph Terry, Mayor

**Contact Phone Number and Email Address:** 812-547-8994, [canneltoncct@gmail.com](mailto:canneltoncct@gmail.com) (Clerk-Treasurer) [canneltonmayorusa@gmail.com](mailto:canneltonmayorusa@gmail.com) (Mayor)

**Views of Responsible Officials:** We concur with the finding.

**Description of Corrective Action Plan:**

*Activities Allowed or Unallowed and Allowable Costs/Cost Principles*

The City Council will review program disbursements to ensure that program disbursements were in compliance with *Activities Allowed or Unallowed, Allowable Costs/Cost Principles* requirements.

*Procurement and Suspension and Debarment*

The City plans to review existing policies and procedures and make any needed changes to ensure that they are in compliance with the federal compliance requirements for procurement as well as suspension and debarment. Furthermore, controls will be established to ensure that the City's policies related to compliance with the federal compliance requirements for procurement as well as suspension and debarment are followed.

**Anticipated Completion Date:**

January 2024

## OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.