

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, 2015 to December 31, 2018



FILED
09/06/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Arvina Bozarth	01-01-12 to 12-31-19
Mayor	Mary Y. Snyder	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Mary Y. Snyder	01-01-12 to 12-31-19
President Pro Tempore of the Common Council	Jack Harris Vincent Gigliardi	01-01-15 to 12-31-18 01-01-19 to 12-31-19
General Manager of the Electric and Water Utilities	Phillip Ball	01-01-15 to 12-31-19
Superintendent of Wastewater Utility	Jerry Ball	01-01-15 to 12-31-19
Chairman of the Utility Service Board	Randall L. McBrayer	01-01-15 to 12-31-19



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 our audit report of the City of Cannelton (City), for the period from January 1, 2015 to December 31, 2018. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statements Audit Report of the City, which provides our opinion on the City's financial statements. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit 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.

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

July 22, 2019

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CLERK-TREASURER
CITY OF CANNELTON

CLERK-TREASURER
CITY OF CANNELTON
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

Condition and Context

The City had not properly maintained a complete inventory of capital assets owned. No detailed capital asset ledger was presented for audit for the City or the Trash Utility.

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)

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 separated incompatible activities related to cash and investments for the Trash Utility and financial close and reporting for the City, as a whole.

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 controls could enable material misstatements to remain undetected.

Cash and Investments

The Mayor was solely responsible for performing monthly bank reconciliements for the Trash Utility without any documented oversight, review, or approval process in place to ensure their accuracy.

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

Financial Close and Reporting

The Clerk-Treasurer prepared and submitted the financial information into the Annual Financial Report through the Indiana Gateway for Government Units financial reporting system, which is the source of the financial statements. There was no evidence of an oversight, review, or approval process that would have ensured that the information was accurate before submission.

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. . . ."

"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. . . ."

CLERK-TREASURER
CITY OF CANNELTON
EXIT CONFERENCE

The contents of this report were discussed on July 22, 2019, with Arvina Bozarth, Clerk-Treasurer; Mary Y. Snyder, Mayor; Vincent Gagliardi, President Pro Tempore of the Common Council; Ralph K. Dixon, Common Council member; and Robert M. Olberding, Common Council member.

ELECTRIC, WATER, AND
WASTEWATER UTILITIES
CITY OF CANNELTON

ELECTRIC, WATER, AND
WASTEWATER UTILITIES
CITY OF CANNELTON
AUDIT RESULTS AND COMMENTS

CAPITAL ASSETS

Condition and Context

The Utilities had not properly maintained a complete inventory of capital assets owned. The detailed capital asset ledgers presented for audit by the Water, Wastewater and Electric Utilities were last updated in 2005, 2013, and 2014, respectively.

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)

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 cash and investments and financial close and reporting for the Electric, Water, and Wastewater 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 controls could have enabled material misstatements to remain undetected.

Cash and Investments

The General Manager of the Electric and Water Utilities was solely responsible for performing monthly bank reconciliements for the Electric, Water, and Wastewater Utilities without any documented oversight, review, or approval process in place to ensure their accuracy.

ELECTRIC, WATER, AND
WASTEWATER UTILITIES
CITY OF CANNELTON
AUDIT RESULTS AND COMMENTS
(Continued)

Financial Close and Reporting

The General Manager of the Electric and Water Utilities entered the financial information for the Electric, Water, and Wastewater Utilities and the Clerk-Treasurer submitted the Annual Financial Report through the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statements. There was no evidence of an oversight, review, or approval process that would have ensured that the information was accurate before submission.

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There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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Management remediates identified issues. . . ."

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

The contents of this report were discussed on July 22, 2019, with Phillip Ball, General Manager of the Electric and Water Utilities; Randall L. McBrayer, Chairman of the Utility Service Board; Arvina Bozarth, Clerk-Treasurer; Mary Y. Snyder, Mayor; Vincent Gagliardi, President Pro Tempore of the Common Council; Ralph K. Dixon, Common Council member; and Robert M. Olberding, Common Council member.