



Phillips, Salmi & Associates, LLC  
Certified Public Accountants

**CITY OF CANTON, ILLINOIS**  
**SINGLE AUDIT REPORT**  
**YEAR ENDED APRIL 30, 2010**

## TABLE OF CONTENTS

	<b>Page Number</b>
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	1
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b>	3
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	5
<b>NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	6
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	7
<b>CORRECTIVE ACTION PLAN</b>	11



Phillips, Salmi & Associates, LLC  
Certified Public Accountants

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

To the City Council  
City of Canton, Illinois

We have audited the financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of as of and for the year ended April 30, 2010, which collectively comprise the City of Canton's basic financial statements and have issued our report thereon dated March 4, 2011. The City of Canton, Illinois, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Canton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Canton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Canton's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2010-1 through 2010-4 to be material weaknesses in internal control over financial reporting.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Canton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the finance committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Phillips, Salmi & Associates, LLC*

March 4, 2011



Phillips, Salmi & Associates, LLC  
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

To the City Council  
City of Canton, Illinois

**Compliance**

We have audited the compliance of the City of Canton with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended April 30, 2010. The City of Canton's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Canton's management. Our responsibility is to express an opinion on the City of Canton's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Canton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Canton's compliance with those requirements.

In our opinion, the City of Canton complied, in all material respects, with the compliance requirements referred to above that could have a material effect on each of its major federal programs for the year ended April 30, 2010.

## **Internal Control Over Compliance**

The management of the City of Canton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Canton's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Canton's internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2010-5 to be a material weakness in internal control over compliance.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canton as of and for the year ended April 30, 2010, and have issued our report thereon dated March 4, 2011. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Canton's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of the City of Canton. 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 statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Phillips, Salami & Associates, LLC*

March 4, 2011

**CITY OF CANTON, ILLINOIS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED APRIL 30, 2010**

<b><u>Federal Grantor / Pass-through Grantor / Program Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Pass-through Grantor's Number</u></b>	<b><u>Federal Expenditures</u></b>
<b>U.S. Department of Transportation</b>			
Passed through Illinois Department of Transportation:			
Highway Planning and Construction Program	20.205	ARA-5007(022)	\$ 315,000
Highway Planning and Construction Program	20.205	ARA-5007(023)	<u>147,428</u>
<b>Total U.S. Department of Transportation</b>			462,428
<b>U.S. Department of Commerce</b>			
Direct Program:			
Economic Adjustment - ARRA	11.307	06-01-73009	166,527
<b>U.S. Department of Housing And Urban Development</b>			
Passed through Illinois Department of Commerce and Economic Opportunity:			
Community Development Block Grants/ State's Program	14.228	08-241004	76,884
Community Development Block Grants/ State's Program	14.228	08-240001	<u>102,613</u>
<b>Total U.S. Department of Housing and Urban Development</b>			179,497
<b>U.S. Environmental Protection Agency</b>			
Direct Program:			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF96526601	221,228
<b>U.S. Department of The Treasury</b>			
<b>Bureau of Alcohol, Tobacco and Firearms</b>			
Direct Program:			
Gang Resistance Education and Training	21.053	JV-FX-0095	63

**U.S. Department of Homeland Security**

Direct Program:

Staffing for Adequate Fire and Emergency Response	97.083	EMW-2005-FF-00606	<u>12,000</u>
---	--------	-------------------	---------------

<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,041,743</u>
---	--	--	---------------------

**CITY OF CANTON, ILLINOIS  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Canton, Illinois, Illinois and is presented on the modified cash basis of accounting, which is described in the summary of significant accounting policies in the City's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in the basic financial statements. Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports.



**CITY OF CANTON, ILLINOIS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED APRIL 30, 2010**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an except for opinion on the basic financial statements of City of Canton, Illinois, Illinois. The financial statements are in accordance with the modified cash basis of accounting with the exception of the Pension Trust Funds which are recorded on the accrual basis of accounting.
2. Material weaknesses were disclosed during the audit of the financial statements as reported in the *Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards*.
3. No instances of noncompliance which are material to the financial statements of City of Canton, Illinois, Illinois were disclosed during the audit.
4. A material weakness was disclosed during the audit of the major federal award program as reported in the *Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. The auditors' report on compliance for the major federal award program for City of Canton, Illinois, Illinois expresses an unqualified opinion on the major federal program.
6. There is one audit finding relative to the major federal award programs for City of Canton, Illinois.
7. The following programs were tested as major programs:

Highway Planning and Construction Program	CFDA# 20.205
Community Development Block Grants/State's Program	CFDA# 14.228
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. City of Canton, Illinois, Illinois did not qualify as a low-risk auditee.

## **FINDINGS – FINANCIAL STATEMENTS AUDIT**

### 2010-1 Lack of Segregation of Duties over Financial Reporting

#### *Finding:*

Most of the accounting functions of the City rest with one individual, the Treasurer. The Treasurer has control of the accounting system, prepares and signs checks, makes deposits, and reconciles bank and investment accounts. In addition, the City is operating without effective monitoring controls over the Treasurers activities. Lack of proper segregation of accounting duties, accompanied with a lack of monitoring controls increases the risk that errors or irregularities may occur and not be detected on a timely basis.

#### *Recommendation:*

The governing body has the ultimate responsibility for setting and maintaining an organization's internal control environment. Two of the basic elements of an internal control environment are proper segregation of duties and monitoring activities. We recommend the City Council consider designing and implementing a plan to reduce the current internal control weaknesses. This plan may include revising job descriptions, additional accounting staff, and increased monitoring duties of staff outside the accounting department and/or council members.

#### *Management Response:*

Management agrees with the findings in 2010-1. To remedy this issue, the City will appoint a comptroller to provide redundancy and segregation of duties within the City's accounting department. Once this person is appointed, management will work to insure that duties within the City's accounting department are segregated properly to maximize internal controls.

### 2010-2 Lack of an All Inclusive Accounting System

#### *Finding:*

The activities of the Environmental Remediation Fund and the DCCA loan fund are not recorded in the City's accounting system. Also, several of the funds regularly use hand written checks for disbursements and inter fund transfers. Not having an automated accounting system for recording the fund activity and processing hand written checks requires the Treasurer to manually record transactions after the fact or this activity may not be recorded, whichever the case may be, this situation significantly increasing the likelihood of errors or omissions to occur. As previously noted, there are no monitoring controls over these processes.

#### *Recommendation:*

We recommend the City implement procedures to account for all funds in the City's accounting system. Also, we recommend the City consider options to better utilize the disbursement system to remove the regular use of hand written checks.

*Management Response:*

Management agrees with the findings in 2010-2. At the recommendation of previous auditors, the City's DCCA Loan fund and Environmental Remediation fund have been segregated from all other funds on the City's accounting system. Management will create separate funds for each of the above-mentioned accounts within the City's accounting software to track all receipts and disbursements within each of those funds.

2010-3 Accounting Reconciliations and Maintenance of Supporting Schedules

*Finding:*

While performing the audit, we identified several instances where the City lacked basic reconciliations and supporting schedules of key accounting areas. Specifically, there was inadequate tracking of capital asset projects, no depreciation recorded in the enterprise funds, and the beginning fund balances did not agree to the prior year audited financial statements. This lack of accounting control procedures creates situation in which inaccurate or misclassified financial statements could be generated.

*Recommendation:*

We recommend management implement policies and procedures to ensure these items are properly recorded and maintained.

*Management Response:*

Management agrees with the findings in 2010-3. It has been a common practice of the City for many years that the City auditors would prepare reconciliations of capital projects as well as depreciation schedules, with journal entries at the end of the year to account for all such activity. However, management will work with the newly-appointed comptroller to develop a system to better track depreciation expense and capital projects.

2010-4 Preparation of Financial Statements

*Finding:*

As is common in similar sized governmental entities, the City's accounting department currently does not prepare its financial statements in accordance with accounting principles generally accepted in the United States of America. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

*Recommendation:*

We recommend the City consider the costs vs. benefits of having accounting personnel on staff capable of preparing the financial statements in accordance with generally accepted accounting principles.

*Management Response:*

Management agrees with the findings in 2010-4. As the auditors point out, this is common in many similar sized municipalities. As previously mentioned, the Treasurer's office has created a more comprehensive monthly report for the City Council that is both all-inclusive and easy to understand and utilize to make financial decisions for the City. However, management will work with the newly-appointed comptroller to establish internal control procedures that make it possible to prepare financial statements in accordance with generally accepted accounting principles in the United States of America.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**

2010-5 Accounting for Grants

*Finding:*

While the City has outsourced much of the grant administration to third parties, the City still has the responsibility to track grant expenditures and to comply with grant specific requirements. During the audit, we identified the City does not have a system in place to monitor grants.

*Recommendation:*

We recommend the Treasurer or another member of the management team track receipts and disbursements specific to each grant within the accounting system and monitor grant activities. This would include recordkeeping and a working knowledge of the status and compliance requirements of each outstanding grant.

*Management Response:*

Management agrees with the findings in 2010-5. To remedy this issue, the Treasurer's office has created a more comprehensive monthly report, including an Excel spreadsheet to track monthly grant receipts from all of the City's outstanding grants. Additionally, management will work with the City auditors create a system to make sure that the accounting for grant related expenditures is accurate going forward.

**CITY OF CANTON, ILLINOIS  
CORRECTIVE ACTION PLAN  
YEAR ENDED APRIL 30, 2010**

Cognizant or Oversight Agency for Audit

The City of Canton, Illinois respectfully submits the following corrective action plan for the year ended April 30, 2010.

Name and address of independent public accounting firm:

Phillips, Salmi & Associates, LLC  
Certified Public Accountants  
112 S. Main  
Washington, IL 61571

Audit period: Year ended April 30, 2010

The findings from the year ended April 30, 2010 schedule of findings and questioned costs is discussed below. The findings are numbered consistently with the number assigned in the schedule. The anticipated completion date for the corrective action of the finding is April 30, 2011.

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**SIGNIFICANT DEFICIENCY**

2010-1 Lack of Segregation of Duties over Financial Reporting

*Recommendation:*

The governing body has the ultimate responsibility for setting and maintaining an organization's internal control environment. Two of the basic elements of an internal control environment are proper segregation of duties and monitoring activities. We recommend the City Council consider designing and implementing a plan to reduce the current internal control weaknesses. This plan may include revising job descriptions, additional accounting staff, and increased monitoring duties of staff outside the accounting department and/or council members.

Action Taken:

Management agrees with the findings in 2010-1. To remedy this issue, the City will appoint a comptroller to provide redundancy and segregation of duties within the City's accounting department. Once this person is appointed, management will work to insure that duties within the City's accounting department are segregated properly to maximize internal controls.

## 2010-2 Lack of an All Inclusive Accounting System

### *Recommendation:*

We recommend the City implement procedures to account for all funds in the City's accounting system. Also, we recommend the City consider options to better utilize the disbursement system to remove the regular use of hand written checks.

### *Action Taken:*

Management agrees with the findings in 2010-2. At the recommendation of previous auditors, DCCA Loan fund, and Environmental Remediation fund have been segregated from all other funds on the City's accounting system. Management will create separate funds for each of the above-mentioned accounts within the City's accounting software to track all receipts and disbursements within each of those funds.

## 2010-3 Accounting Reconciliations and Maintenance of Supporting Schedules

### *Recommendation:*

We recommend management implement policies and procedures to ensure all basic reconciliations and supporting schedules of key accounting areas are properly recorded and maintained.

### *Action Taken:*

Management agrees with the findings in 2010-3. It has been a common practice of the City for many years that the City auditors would prepare reconciliations of capital projects as well as depreciation schedules, with journal entries at the end of the year to account for all such activity. However, management will work with the newly-appointed comptroller to develop a system to better track depreciation expense and capital projects.

## 2010-4 Preparation of Financial Statements

### *Recommendation:*

We recommend the City consider the costs vs. benefits of having accounting personnel on staff capable of preparing the financial statements in accordance with generally accepted accounting principles.

### *Action Taken:*

Management agrees with the findings in 2010-4. As the auditors point out, this is common in many similar sized municipalities. As previously mentioned, the Treasurer's office has created a more comprehensive monthly report for the City Council that is both all-inclusive and easy to understand and utilize to make financial decisions for the City. However, management will work with the newly-appointed comptroller to establish internal control procedures that make it possible to prepare financial statements in accordance with generally accepted accounting principles in the United States of America.

## FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT

### 2010-5 Accounting for Grants

#### *Recommendation:*

We recommend the Treasurer or another member of the management team track receipts and disbursements specific to each grant within the accounting system and monitor grant activities. This would include recordkeeping and a working knowledge of the status and compliance requirements of each outstanding grant.

#### *Action Taken:*

Management agrees with the findings in 2010-5. To remedy this issue, the Treasurer's office has created a more comprehensive monthly report, including an Excel spreadsheet to track monthly grant receipts from all of the City's outstanding grants. Additionally, management will work with the City auditors create a system to make sure that the accounting for grant related expenditures is accurate going forward.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Aaron Anderson, Treasurer, at 309-357-3771.

Sincerely,

Jim Snider, City Administrator  
City of Canton, Illinois