



Phillips, Salmi & Associates, LLC
Certified Public Accountants

CITY OF CANTON, ILLINOIS
SINGLE AUDIT REPORT
YEAR ENDED APRIL 30, 2012

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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, each major fund, and the aggregate remaining fund information of City of Canton, Illinois as of and for the year ended April 30, 2012, which collectively comprise the City of Canton Illinois' basic financial statements and have issued our report thereon dated October 15, 2012. 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 Illinois' 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a material weakness in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Canton Illinois' 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 one material weakness in controls over compliance described in the accompanying schedule of findings and questioned costs as item 2012-2, 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

October 15, 2012



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, Illinois 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 programs for the year ended April 30, 2012. The City of Canton's major federal programs are 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 programs are 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, Illinois 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, 2012.

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, Illinois' 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 2012-2 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, Illinois as of and for the year ended April 30, 2012, and have issued our report thereon dated October 15, 2012. 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, Saloni & Associates, LLP

October 15, 2012

**CITY OF CANTON, ILLINOIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED APRIL 30, 2012**

| <u>Federal Grantor / Pass-through Grantor / Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Grantor's Number</u> | <u>Federal Expenditures</u> |
|--|---|---|--|
| U.S. Department of Homeland Security -- FEMA | | | |
| Passed through Illinois Emergency Management Agency: | | | |
| Public Assistance Grants | 97.036 | | \$ 40,161 |
| U.S. Department of Commerce | | | |
| Direct Program: | | | |
| Economic Adjustment - ARRA | 11.307 | 06-01-73009 | 469,875 |
| U.S. Department of Housing And Urban Development | | | |
| Passed through Illinois Department of Commerce and Economic Opportunity: | | | |
| Home Program | 14.239 | HO-50212 | 278,886 |
| Community Development Block Grants/ State's Program | 14.228 | 08-241004 | 251,249 |
| Community Development Block Grants/ State's Program | 14.228 | 08-240001 | 17,886 |
| Community Development Block Grants/ State's Program | 14.228 | 10-243003 | <u>144,183</u> |
| Total U.S. Department of Housing and Urban Development | | | 692,204 |
| U.S. Department of Justice | | | |
| Direct Program: | | | |
| Equitable Sharing Wire | 16.922 | | 4,203 |
| Bulletproof Vest Partnership Program | 16.607 | 1121-0235 | <u>1,103</u> |
| Total U.S. Department of Justice | | | <u>5,306</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 1,207,546</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 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, 2012**

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an except for opinion on the basic financial statements of City of Canton, 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 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 that could have a Direct and Material Effect on 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 programs.
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:

| | |
|--|--------------|
| U.S. Department of Commerce – Economic Adjustment ARRA | CFDA# 11.307 |
| 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 did not qualify as a low-risk auditee.

AUDIT FINDINGS – FINANCIAL STATEMENTS AUDIT

Finding 2012-1 Lack of Segregation of Duties over Financial Reporting

Condition:

The accounting functions of the City are under the dual custody of the Comptroller and Treasurer. At times during the year, due to a vacancy in the Treasurer position and the Comptroller having extended time off, either the Comptroller or the Treasurer had sole control of the accounting system, prepared checks, made deposits, and reconciled bank and investment accounts. During these time periods, the City was operating without effective monitoring controls over these activities.

This lack of proper segregation of accounting duties increases the risk that errors or irregularities may occur and not be detected on a timely basis.

Recommendation:

Over the past two years, the City has hired a Comptroller to complement the Treasurer which has strengthened internal controls and reduced instances of lack of segregation of duties. We recommend the City continue to improve upon the controls implemented.

Management Response:

Management will continue to improve processes and procedures to ensure accuracy of financial information and limit the opportunities of errors to occur and go undetected.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

Finding 2012-2 Accounting for Grants

Condition:

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 year, the City has implemented procedures to track grant expenditures and receipts. However, the City does not currently have system in place to monitor compliance with grant specific requirements. During the year, this lack of internal monitoring resulted in certain grant reporting to not be in compliance with grant requirements.

Recommendation:

We recommend the City designate an individual to maintain a working knowledge of grant specific requirements, monitor and track progress and review and monitor filing requirements.

Management Response:

Management will implement the recommendation.

**CITY OF CANTON, ILLINOIS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED APRIL 30, 2012**

PRIOR AUDIT FINDINGS – FINANCIAL STATEMENTS AUDIT

Finding 2011-1 Lack of Segregation of Duties over Financial Reporting

Condition:

Through most of the year, the accounting functions of the City rested with one individual, the Treasurer. The Treasurer had control of the accounting system, prepared and signed checks, made deposits, and reconciled bank and investment accounts. In addition, the City was operating without effective monitoring controls over these activities.

During the last quarter of the year, the City hired a Comptroller with governmental accounting experience. With this addition, the City has been able to segregate the disbursement functions and strengthen monitoring controls over financial reporting. However, the City still has a lack of segregation of duties related to cash receipts and manual disbursement checks.

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:

We recommend the City develop and implement a comprehensive accounting policy/procedures manual to utilize the current accounting staff and reduce the current internal control weaknesses. This plan may include revising job descriptions and increased monitoring duties of staff outside the accounting department and/or council members.

Current Status:

See current year finding 2012-1.

Finding 2011-2 Accounting Reconciliations and Maintenance of Supporting Schedules

Condition:

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 and grant proceeds. This lack of maintaining proper supporting schedules 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.

Current Status:

This finding is corrected.

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

Finding 2011-3 Accounting for Grants

Condition:

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. Specifically, the information received from the grant administrator is not reconciled with the City's general ledger. Also, the City does not monitor the grant administrator's compliance.

Recommendation:

We recommend the Comptroller 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.

Current Status:

See current year finding 2012-2.

**CITY OF CANTON, ILLINOIS
CORRECTIVE ACTION PLAN
YEAR ENDED APRIL 30, 2012**

Cognizant or Oversight Agency for Audit

The City of Canton, Illinois respectfully submits the following corrective action plan for the year ended April 30, 2012.

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, 2012

The findings from the year ended April 30, 2012 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, 2013.

FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2012-1 Lack of Segregation of Duties over Financial Reporting

Recommendation:

Over the past two years, the City has hired a Comptroller to complement the Treasurer which has strengthened internal controls and reduced instances of lack of segregation of duties. We recommend the City continue to improve upon the controls implemented.

Action Taken:

Management will continue to improve processes and procedures to ensure accuracy of financial information and limit the opportunities of errors to occur and go undetected.

FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT

2012-2 Accounting for Grants

Recommendation:

We recommend the City designate an individual to maintain a working knowledge of grant specific requirements, monitor and track progress and review and monitor filing requirements.

Management Response:

Management will implement the recommendation.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Jim Snider, City Manager, at 309-671-4200.

Sincerely,

Jim Snider, City Administrator
City of Canton, Illinois