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**CITY OF CALHOUN CITY, MISSISSIPPI**

**AUDITED FINANCIAL STATEMENT  
SEPTEMBER 30, 2019**

CITY OF CALHOUN CITY, MISSISSIPPI  
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**WATKINS, WARD and STAFFORD**  
Professional Limited Liability Company  
Certified Public Accountants

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## **Independent Auditors' Report**

Honorable Mayor and Board of Aldermen  
City of Calhoun City  
Calhoun City, Mississippi

We have audited the accompanying Statement of Cash Receipts and Disbursements of the City of Calhoun City, Mississippi, as of and for the year ended September 30, 2019, and the related notes to financial statement, as listed in the contents.

### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1 of the financial statement; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the City of Calhoun City, Mississippi's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective results of operations – cash basis of the governmental funds and the proprietary fund of the City of Calhoun City, Mississippi for the year ended September 30, 2019, in accordance with the cash basis of accounting described in Note 1 of the financial statement.

## **Basis of Accounting**

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the Statement of Cash Receipts and Disbursements of the City of Calhoun City, Mississippi. The schedule of investments, schedule of long-term debt, and schedule of surety bonds for municipal officials are presented for purposes of additional analysis and are not a required part of the Statement of Cash Receipts and Disbursements.

The schedule of investments, schedule of long-term debt, and schedule of surety bonds for municipal officials are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the Statement of Cash Receipts and Disbursements. Such information has been subjected to the auditing procedures applied in the audit of the Statement of Cash Receipts and Disbursements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Statement of Cash Receipts and Disbursements or to the Statement of Cash Receipts and Disbursements itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of investments, schedule of long-term debt, and schedule of surety bonds for municipal officials are fairly stated, in all material respects, in relation to the Statement of Cash Receipts and Disbursements.

### *Omission of Other Information*

The City of Calhoun City, Mississippi has omitted the schedule of capital assets that the cash receipts and disbursements basis, as prescribed by the Office of the State Auditor, requires to be presented to supplement the basic financial statement. The information needed to compile the schedule of capital assets was not available, and therefore, the schedule of capital assets is not presented as supplemental information. Our opinion on the basic financial statement is not affected by this missing information.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2020 on our consideration of the City of Calhoun City, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of

an audit performed in accordance with *Government Auditing Standards* in considering the City of Calhoun City, Mississippi's internal control over financial reporting and compliance.

Eupora, Mississippi  
December 15 , 2020

*Watkins Ward and Stafford, P.C.*

## BASIC FINANCIAL STATEMENT



CITY OF CALHOUN CITY, MISSISSIPPI  
Statement of Cash Receipts and Disbursements  
For the Year Ended September 30, 2019

	GOVERNMENTAL ACTIVITIES				BUSINESS-TYPE ACTIVITIES
	General Fund	ARC Mfg. Bldg. Improv. Fund	Other Nonmajor Funds	Total	Water Fund
<b>RECEIPTS</b>					
Property taxes	\$ 378,228	-	-	378,228	\$ -
Penalties and interest	6,176	-	-	6,176	-
Licenses and permits	50,814	-	-	50,814	-
Intergovernmental revenues	362,680	85,603	-	448,283	-
Charges for Governmental Services:					
Sanitation	125,004	-	-	125,004	-
Water and sewer	-	-	-	-	523,955
Fines and forfeitures	32,982	-	-	32,982	-
Interest Income	11,581	-	-	11,581	11,037
Miscellaneous revenues	34,983	-	-	34,983	5,055
Total Receipts	<u>1,002,448</u>	<u>85,603</u>	<u>-</u>	<u>1,088,051</u>	<u>540,047</u>
<b>DISBURSEMENTS</b>					
General government	167,988	-	-	167,988	-
Public safety	355,859	-	-	355,859	-
Public works	171,512	85,603	46	257,161	-
Culture and recreation	69,682	-	-	69,682	-
Economic development	47,148	-	-	47,148	-
Sanitation	136,955	-	-	136,955	-
Enterprises:					
Water and sewer	-	-	-	-	366,315
Interest on debt service	-	-	12,577	12,577	2,145
Total Disbursements	<u>949,144</u>	<u>85,603</u>	<u>12,623</u>	<u>1,047,370</u>	<u>368,460</u>
Excess of receipts over (under) disbursements	<u>53,304</u>	<u>-</u>	<u>( 12,623)</u>	<u>40,681</u>	<u>171,587</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Debt repaid	-	-	( 15,431)	( 15,431)	( 6,869)
Interfund loans and transfers	36	( 23)	28,082	28,095	( 28,095)
Sale of Capital Assets	300,000	-	-	300,000	-
Total other financing sources (uses)	<u>300,036</u>	<u>( 23)</u>	<u>12,651</u>	<u>312,664</u>	<u>( 34,964)</u>
Excess (Deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>353,340</u>	<u>( 23)</u>	<u>28</u>	<u>353,345</u>	<u>136,623</u>
<b>CASH BASIS FUND BALANCE - Beginning of Year</b>	<u>1,045,379</u>	<u>23</u>	<u>2,360</u>	<u>1,047,762</u>	<u>957,401</u>
<b>CASH BASIS FUND BALANCE - End of Year</b>	<u>\$ 1,398,719</u>	<u>-</u>	<u>2,388</u>	<u>1,401,107</u>	<u>\$ 1,094,024</u>

The accompanying notes to financial statement are an integral part of this financial statement.

CITY OF CALHOUN CITY, MISSISSIPPI  
Notes to Financial Statement

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

**a. Reporting Entity**

The City of Calhoun City, Mississippi, was incorporated in 1904. The City operates under a Mayor-Board of Aldermen form of government and provides all of the rights and privileges provided by statute for municipalities.

**b. Fund Accounting**

The accounts of the City of Calhoun City, Mississippi are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into fund types and categories as follows:

**Governmental Funds**

**General Fund** – The General Fund is the government's primary operating fund. It is used to account for all financial resources and the legally authorized activities of the City except those required to be accounted for in other specialized funds.

**Capital Project Funds** – Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital improvements.

**Debt Service Funds** – Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

**Proprietary Fund**

**Enterprise Fund** – The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Proprietary Fund is the Water Fund. It accounts for the activities of providing water and sewer services to citizens of the City.

**c. Basis of Accounting**

The financial statement is prepared on a cash basis, as prescribed by the Office of the State Auditor. Consequently, certain revenues are recognized when received (cash receipts) rather than when earned and certain expenses are recognized when paid (cash disbursements) rather than when the obligation is incurred.

CITY OF CALHOUN CITY, MISSISSIPPI  
Notes to Financial Statement

**Note 1: Summary of Significant Accounting Policies (Continued)**

**d. Use of Estimates**

The preparation of the financial statement in conformity with the cash receipts and disbursements basis, as prescribed by the Office of the State Auditor requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**e. Encumbrances**

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders, and contracts.

**f. Budgets and Budgetary Accounting**

The City of Calhoun City, Mississippi follows these procedures in establishing the budgetary data:

1. Prior to September 15, the City Clerk submits to the Mayor and Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them for the General and Proprietary Funds.
2. Public notice is given of the City of Calhoun City, Mississippi's budget meetings being open to the public, so that a public hearing is conducted on the budget.
3. The budget as submitted is reviewed by the Mayor and Board of Aldermen and necessary revisions are made. Then the budget is approved prior to September 30.
4. The budget is formally revised during July of each year or anytime a deficit is indicated.
5. Budgetary comparisons are employed by management as a management control device during the year for both the General and Proprietary Fund.
6. Appropriations lapse at the end of each fiscal year.

**g. Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Accounts**

The obligation for compensated absences is determined to be a long term debt. The City of Calhoun City, Mississippi's policy on annual leave is it must be taken within the year accrued based on a calendar year. The compensated absences balance at September 30 is immaterial; therefore it is not recorded in the Schedule of Long-Term Debt.

CITY OF CALHOUN CITY, MISSISSIPPI  
Notes to Financial Statement

**Note 2: Cash and Other Deposits**

At the end of the year, the City of Calhoun City, Mississippi's carrying amount of deposits was \$2,495,131, and the bank balance was \$2,224,789. The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the City of Calhoun City, Mississippi's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

**Custodial Credit Risk – Deposits.** Custodial credit risk is a risk that in the event of the failure of a financial institution, the City of Calhoun City, Mississippi will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City of Calhoun City, Mississippi does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City of Calhoun City, Mississippi. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City of Calhoun City, Mississippi. As of September 30, 2019, none of the City of Calhoun City, Mississippi's bank balance of \$2,224,789 was exposed to custodial risk.

**Note 3: Interfund Transfers**

Interfund transfers during the year were as follows:

	General Fund	ARC Mfg. Bldg. Improv. Fund	Other Nonmajor Funds	Water Fund
Transfers In	\$ 36	\$ -	\$ 28,082	\$ 13
Transfers Out	-	( 23)	-	( 28,108)
	<u>\$ 36</u>	<u>\$ ( 23)</u>	<u>\$ 28,082</u>	<u>\$ ( 28,095)</u>

The above interfund transfers were a transfer from the Water Fund to the W&S Revenue Bond Fund, a debt service fund; a transfer from the Water Fund to the Hurricane Creek Stabilization Fund, a capital projects fund, to open two new bank accounts; a transfer from the EWP Ditch Project Fund, a capital projects fund, to the General Fund to close a bank account; a transfer from the ARC Manufacturing Building Improvement Fund, a capital projects fund, to the General Fund to close out a bank account; and a transfer from the SLMPC Sewer Project Fund, a capital projects fund, to the Water Fund to close out a bank account.

**Note 4: Report Classifications**

Receipts and disbursements were classified according to requirements for small towns in the State of Mississippi as prescribed by the Office of the State Auditor.

CITY OF CALHOUN CITY, MISSISSIPPI  
Notes to Financial Statement

**Note 5: Property Taxes**

The City of Calhoun City, Mississippi uses the county tax rolls for the assessment of its ad valorem tax. Property is assessed in January of each year, and the tax levy is set in September of each year. Property taxes attach as an enforceable lien on property as of January of the next year and are delinquent after February 1. The millage rate for the City of Calhoun City, Mississippi for the fiscal year ended September 30, 2019 was 33.5 mills for general purposes.

**Note 6: Risk Management**

The City of Calhoun City, Mississippi is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Calhoun City, Mississippi purchases coverage of risks of loss related to theft of, damage to and destruction of assets from commercial insurance carriers.

Risk of loss related to workers' compensation for injuries to City employees is covered through the Mississippi Municipal Workers' Compensation Group, a public entity risk pool. The pool was formed on March 28, 1989, by the Mississippi Nonprofit Corporation Act, pursuant to Section 71-3-75, Mississippi Code Annotated (1972), to provide public entities within the State of Mississippi workers' compensation and employers' liability coverage. The City of Calhoun City, Mississippi pays premiums to the pool for its workers' compensation insurance coverage based on total payroll. The participation agreement provides that the pool will be self-sustaining through member premiums. The risk of loss is remote for claims exceeding the pool's retention liability.

Under *GASB Statement No. 10: Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, a liability for a claim must be reported if information prior to the issuance of the financial statement indicates that it is probable that a liability has been incurred at the date of the financial statement and that the amount of the loss can be reasonably estimated. The City of Calhoun City, Mississippi has not been exposed to any risk of loss above the applicable insurance coverage amounts at September 30, 2019; therefore, no liability has been accrued at this time.

**Note 7: Subsequent Events**

Events that occur after the Statement of Cash Receipts and Disbursements date but before the financial statement is available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Cash Receipts and Disbursements date are recognized in the accompanying financial statement. Subsequent events which provide evidence about conditions that existed after the Statement of Cash Receipts and Disbursements date require disclosure in the accompanying notes. Management of the City of Calhoun City, Mississippi evaluated the activity of the City through December 15, 2020, the date the financial statement was approved by the City of Calhoun City, Mississippi's management and thereby available to be released, and determined that there were no subsequent events that should be noted in the financial statement, except for the event in the following paragraph.

CITY OF CALHOUN CITY, MISSISSIPPI  
Notes to Financial Statement

**Note 7: Subsequent Events (Continued)**

On March 11, 2020, the World Health Organization declared the COVID-19 virus outbreak to be a pandemic. Management has evaluated the potential impact of the pandemic on its business operations. Due to the nature of the operations of the City of Calhoun City, Mississippi, it is management's opinion that there will be a financial impact related to the COVID-19 crisis; however, a true assessment of the potential impact is premature at this point.

## SUPPLEMENTAL INFORMATION

CITY OF CALHOUN CITY, MISSISSIPPI  
Schedule of Investments – All Funds  
September 30, 2019

	<u>Deposit Amount</u>
Certificate of Deposit with Renasant Bank, maturing 01/07/20, rate 0.65%	\$ <u>1,050,092</u>
Total	\$ <u><u>1,050,092</u></u>
Fund Recap:	
General Fund	\$ 536,797
Water and Sewer Fund	<u>513,295</u>
Total	\$ <u><u>1,050,092</u></u>



CITY OF CALHOUN CITY, MISSISSIPPI  
Schedule of Long-Term Debt  
September 30, 2019

	Balance Outstanding <u>09/30/2018</u>	<u>Issued</u>	<u>Redeemed</u>	Balance Outstanding <u>09/30/2019</u>
Revenue Bond:				
1996 W&S Revenue Bond	\$ <u>258,583</u>	<u>-</u>	<u>( 15,431)</u>	\$ <u>243,152</u>
Note Payable:				
Water Pollution Control Revolving Loan	\$ <u>125,718</u>	<u>-</u>	<u>( 6,869)</u>	\$ <u>118,849</u>

CITY OF CALHOUN CITY, MISSISSIPPI  
Schedule of Surety Bonds for Municipal Officials  
September 30, 2019

<u>Name</u>	<u>Position</u>	<u>Surety</u>	<u>Bond Amount</u>
Amye Hill	Mayor	Western Surety	\$ 50,000
Jerry K. Vaughn	Alderman	Western Surety	\$ 50,000
Marshall Coleman	Alderman	Western Surety	\$ 50,000
Larry Bratton	Alderman	Western Surety	\$ 50,000
Dale Hays	Alderman	Western Surety	\$ 50,000
Barbara Goodson	Alderman	Western Surety	\$ 50,000
Latana Williams	Chief of Police	Western Surety	\$ 50,000
Raenell Moore	City Clerk	Western Surety	\$ 50,000
Deborah Bailey	Deputy Clerk	Western Surety	\$ 50,000

## SPECIAL REPORTS



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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 Statement  
Performed in Accordance with *Government Auditing Standards***

Honorable Mayor and Board of Aldermen  
City of Calhoun City  
Calhoun City, Mississippi

We have audited, in accordance with the 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 Statement of Cash Receipts and Disbursements of the City of Calhoun City, Mississippi as of and for the year ended September 30, 2019 and the related notes to financial statement and have issued our report thereon dated December 15, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the City of Calhoun City, Mississippi's internal control over financial reporting (internal control) to determine the 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 of Calhoun City, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Calhoun City, Mississippi'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Calhoun City, Mississippi's financial statement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 19-1 that we consider to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Calhoun City, Mississippi's financial statement is free from 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*.

## **The City of Calhoun City, Mississippi's Response to Findings**

The City of Calhoun City, Mississippi's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City of Calhoun City, Mississippi'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 of Calhoun City, Mississippi'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 of Calhoun City, Mississippi's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eupora, Mississippi  
December 15, 2020

*Watkins Ward and Stafford, PLLC*



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Edward A. Maxwell, CPA

**Independent Auditors' Report on Compliance  
With State Laws and Regulations**

Honorable Mayor and Board of Aldermen  
City of Calhoun City  
Calhoun City, Mississippi

We have audited the basic financial statement of the City of Calhoun City, Mississippi as of and for the year ended September 30, 2019 and have issued our report thereon dated December 15, 2020. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the basic financial statement disclosed no material instances of noncompliance with state laws and regulations.

This report is intended for the information of the City of Calhoun City, Mississippi's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Eupora, Mississippi  
December 15, 2020

*Watkins Ward and Stafford, PLLC*

City of Calhoun City, Mississippi  
Status of Prior Year Findings  
For the Year Ended September 30, 2019

Prior year findings:

18-1 The city does not have adequate segregation of duties for internal control purposes.

As of September 30, 2019, the finding had not been corrected. The City had the same finding in the current year.

City of Calhoun City, Mississippi  
Schedule of Findings and Responses  
For the Year Ended September 30, 2019

**Section 1: Summary of Auditors' Results**

**Financial Statement**

- |    |  |               |
|----|--|---------------|
| 1. | Type of auditors' report issued on the primary government financial statement:         | Unmodified    |
| 2. | Internal control over financial reporting:   |               |
| a. | Material weaknesses identified?  | Yes           |
| b. | Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| 3. | Noncompliance material to the financial statement?                                     | No            |

**Section 2: Financial Statement Findings**

**19-1 Material Weakness**

*Condition:* The City does not have adequate segregation of duties for internal control purposes.

*Criteria:* Segregation of duties is a key component of any internal control environment, with the primary objective being the prevention of fraud and errors. The objective is achieved through the separation of the functional responsibilities of a financial transaction among different individuals. Ideally, no single individual should be able to initiate, record, authorize, and reconcile one transaction.

*Cause:* The City has not separated the functional responsibilities of financial transactions or adequately applied internal control procedures due, in part, to a limited number of employees.

*Effect:* The lack of segregation of duties could result in misstatements, whether caused by fraud or error, that would not be prevented or detected in a timely manner.

*Recommendation:* The City should review the internal control structure of the City and, to the extent feasible, establish procedures that reduce the risk of misstatements that would not be prevented or detected in a timely manner.

*Response:* The City has segregated the duties of the employees and established such internal control procedures as economically feasible considering the number of office employees of the City.