

MUNICIPALITY OF DUPREE
INTERNAL CONTROL REVIEW
February 6, 2012

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REPORT ON THE LIMITED STUDY OF INTERNAL CONTROL
PERFORMED IN ACCORDANCE WITH SOUTH DAKOTA CODIFIED LAW 4-11-4.1

Governing Board
Municipality of Dupree

We have made a study of selected elements of internal control of the Municipality of Dupree (Municipality) in effect at February 6, 2012. Our study was performed pursuant to South Dakota Codified Law (SDCL) 4-11-4.1 and was limited to selected accounting controls contained in the codified laws and other selected controls we felt were significant to the Municipality of Dupree. Our study was not conducted in accordance with the standards established by the American Institute of Certified Public Accountants for the purpose of giving an opinion on internal control in effect at the Municipality.

The management of the Municipality is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objective of internal controls is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operations of policies and procedures may deteriorate.

Our study was more limited than would be necessary to express an opinion on internal control of the Municipality. Also, our study would not necessarily disclose all significant weaknesses in internal controls of the Municipality. Accordingly, we do not express an opinion on internal control of the Municipality of Dupree in effect at February 6, 2012.

However, our study did disclose weaknesses in internal controls of the Municipality and other matters as discussed below:

- a. The Municipality did not publish a \$72 per month raise for an employee in the 2011 minutes as required by SDCL 6-1-10.

- b. Adjustments made to the accounting software reports have not been reviewed and approved of by the governing board. In addition, a printed copy of the reports should be attached to the month-end bank reconciliation for review.
- c. Personal property inventories were not filed annually on the thirty-first day of December, or within ten days thereafter as required by SDCL 5-24-1.
- d. We recommend bank statements be mailed to the governing board for review or online query only access be granted to the governing board. In addition, 2-3 times a year, the governing board should verify the bank account, Certificates of Deposit, and investment balances with the official depository.
- e. Utility deposits are not supported by a list of names and amount of individual deposit. A review of utility deposits indicated one deposit being held may be subject to unclaimed property. The Municipality should contact the State Treasurer with questions regarding SDCL 43-41B Uniform Unclaimed Property Act.
- f. Numerous internal control deficiencies over disbursements were noted as follows:
 - 1. We noted that the governing board had pre-signed checks, such practice should be discontinued immediately;
 - 2. The Municipality has no policy in place for determining at what rates individuals should be reimbursed for meals while traveling;
 - 3. Instances were noted where vouchers did not contain an approval signature of the governing board;
 - 4. Instances were noted where disbursements were not published in the official newspaper; and
 - 5. Instances were noted where the voucher for a credit card payment did not contain adequate supporting documentation (original invoices).
- g. Numerous internal control deficiencies over payroll disbursements were noted as follows:
 - 1. Federal income tax withholding was not properly calculated in accordance with IRS Circular E in 2011;
 - 2. An instance was noted where an employee was paid wages through a travel reimbursement voucher, with no federal withholding being applied;
 - 3. An instance was noted where an individual was paid for cleaning the finance office but their pay was not treated as wages subject to withholdings; and
 - 4. Travel reimbursements for non-overnight meals were not treated as a fringe benefit subject to withholding as required by IRS regulations.

This report is intended solely for the use of management and the governing board and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.


Martin L. Guindon, CPA
Auditor General

February 6, 2012