

MUNICIPALITY OF EGAN
INTERNAL CONTROL REVIEW

September 19, 2011

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AUDITOR GENERAL

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

Governing Board
Municipality of Egan

We have made a study of selected elements of internal control of the Municipality of Egan (Municipality) in effect at September 19, 2011. 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 Egan. 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.

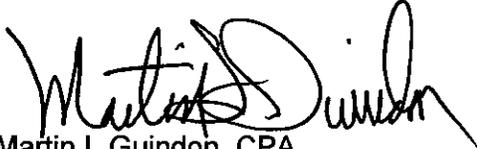
Our study was more limited than would be necessary to express an opinion on internal control of the Municipality. Also, our study would not necessarily disclose all significant weaknesses in internal controls of the Municipality. Accordingly, we do not express an opinion on internal control of the Municipality of Egan in effect at September 19, 2011.

However, our study did disclose weaknesses in internal controls of the Municipality and other matters as shown in the Schedule of Auditor's Findings section of this report and as discussed below:

- a. A comparison of the amounts received for the Municipality of Egan utility collections to the amounts deposited from January 2010 through September 2011 revealed that \$1,080 of utility collections were not deposited into the municipal bank account.
- b. The governing board has not provided sufficient surety bond coverage for the finance officer. SDCL 9-14-6.1 requires a bond equal to the amount of cash on hand but the coverage need not exceed \$150,000. The Municipality had a cash balance of approximately \$270,000 as of August 31, 2011, but the surety bond coverage for the finance officer was only \$75,000.
- c. The Municipality's annual reports for calendar years 2008, 2009 and 2010 were not prepared, presented to the governing board or published as required by SDCL 9-22-21.
- d. The minutes of the governing body's proceedings were not always published in the official legal newspaper as required by SDCL 9-18-1.
- e. The Municipality's general ledger cash balances were not properly reconciled to the bank balances resulting in inaccurate cash balances being reported to the governing board.
- f. The utility account of one governing board member was delinquent which could make them ineligible to hold office according to SDCL 9-14-2.
- g. The salaries of the municipal employees were not published in the minutes of the governing board as required by SDCL 6-1-10.
- h. The Municipality did not submit the Employee's Quarterly Federal Tax Returns (Form 941) to the United States Department of Treasury—Internal Revenue Service in a timely manner. The failure to properly remit taxes has exposed the Municipality to potentially significant penalty and interest charges by the federal government. In addition, the failure to file the required reporting forms has resulted in the federal government having incomplete earnings records for the Municipality's employees.
- i. The Municipality did not properly maintain the following necessary records:
 1. cash general ledger by fund;
 2. utility accounts receivable control record;
 3. water deposit record and general ledger control record;
 4. revenue budget record; and
 5. expenditure budget record.
- j. Numerous internal control deficiencies over disbursements were noted as follows:
 1. vouchers were not prepared for all disbursements, as required by SDCL 9-23-1;
 2. instances were noted where vouchers were not accompanied with itemized invoices;
 3. instances were noted where disbursements were not published in the official newspaper; and

4. instances were noted where the claimant for personal services or travel reimbursements had not signed or verified the request.
- k. A draft personnel policy and procedure manual exists, however, the governing board has not formally adopted the manual.

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

September 19, 2011

**MUNICIPALITY OF EGAN
SCHEDULE OF AUDITOR'S FINDINGS**

Finding Number 2011-01:

During the period July 2010 through June 2011, former Egan Municipal Finance Officer Michelle (Shelly) Roth made thirteen unauthorized payments to herself totaling \$5,914.69. In addition, the former Finance Officer issued a check written to cash in the amount of \$250.

Analysis:

SDCL 9-22-5 states:

The treasurer shall keep all moneys in his hands belonging to the municipality separate and distinct from his own moneys.

He shall not use, directly or indirectly, the municipality's money or warrants in his custody for his own benefit or that of any other person.

SDCL 9-23-2 states:

No claim against any municipality shall be audited or allowed unless it be fully itemized and a memorandum of the same entered upon the minutes of the meetings of the governing body.

Our work revealed the following unauthorized payments:

- a. We found that former Finance Officer Michelle Roth issued herself thirteen (13) checks from July 2010 through June 2011 totaling \$5,914.69. These payments were not authorized by the governing board.
- b. We found that former Finance Michelle Roth issued a check written to cash in the amount of \$250.

RECOMMENDATION:

We recommend the Municipality of Egan pursue recovery of these amounts from the former Finance Officer Michelle Roth together with the cost of this portion of the review.