

MUNICIPALITY OF CHANCELLOR

INTERNAL CONTROL REVIEW

December 29, 2015

MUNICIPALITY OF CHANCELLOR
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427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

Governing Board
Municipality of Chancellor
Chancellor, South Dakota

We have made a study of selected elements of internal control of the Municipality of Chancellor (Municipality) in effect at December 29, 2015. 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. 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 in effect at December 29, 2015.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at December 29, 2015.

- a. The governing board did 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 exceeding \$150,000 during the period of this review, but the surety bond coverage for the finance officer was only \$100,000. We recommend the Municipality increase the finance officer surety bond to \$150,000.00 as required by SDCL 9-14-6.1.
- b. 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. We recommend the Municipality annually perform personal property inventories as required by SDCL 5-24-1.
- c. The water and sewer subsidiary accounts receivable records were not reconciled to a general ledger control to ensure that receivable transactions are properly recorded and mathematically accurate. We recommend the accounts receivable subsidiary records be reconciled monthly to a general ledger control.
- d. Three checks were pre-signed by the Mayor prior to the checks being completed with the payee and amounts. We recommend no checks be signed prior to their completion.
- e. The Municipality did not properly maintain the following necessary records:
 1. Revenue Budget Record
 2. Expenditure Budget Record

We recommend the Municipality properly establish and maintain the necessary accounting records.

- f. As of December 31, 2014, the Municipality incurred expenditures in excess of the amounts provided for in the annual appropriation ordinance in violation of SDCL 9-21-9. The Municipality did adopt a budget supplement on February 9, 2015; however, this was after incurring expenditures in excess of appropriation and also after the end of the fiscal year for which the appropriation ordinance was in effect. We recommend that the Municipality not incur expenditures in excess of appropriations as required by SDCL 9-21-9 and that budget supplements be presented prior to the incurring expenditures in excess of appropriations.

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

December 29, 2015