

MUNICIPALITY OF FRANKFORT – SPINK COUNTY

SPECIAL REVIEW

January 1, 2003 Through May 11, 2009

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SPECIAL REVIEW

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INTERIM ADMINISTRATOR

Governing Board
Municipality of Frankfort – Spink County
Frankfort, South Dakota

Pursuant to a request from the governing board and municipal attorney of the Municipality of Frankfort we performed procedures we deemed relevant to transactions of the Municipality for the period January 1, 2003 through May 11, 2009. The purpose of these procedures was to determine whether municipal funds may have been misappropriated during this period.

These procedures did not constitute an audit made in accordance with generally accepted government auditing standards and do not extend to, and we do not express an opinion on, any financial statements or reports of the Municipality of Frankfort.

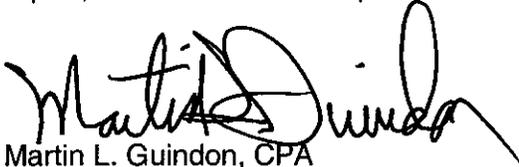
However, our special review disclosed weaknesses in internal controls of the Municipality of Frankfort in effect at May 11, 2009 and other matters, as shown in the Special Review Findings section of this report and as discussed below:

- a. The Municipality did not remit Social Security tax and Medicare tax withholdings to the United States Department of Treasury—Internal Revenue Service for calendar year 2008. As a result, the Municipality owes the federal government \$1,375.12 for the taxes that were not remitted, based on the Municipality's W-2 Forms. The failure to properly remit taxes has exposed the Municipality to potentially significant penalty and interest charges by the federal government.
- b. South Dakota Codified Laws (SDCL) 9-14-6.1 states that the amount of the bond of the municipal finance officer shall be annually established by the governing board in an amount equal to the maximum monetary total estimated to be on hand at any one time, but the amount of such bond required may not exceed one hundred fifty thousand dollars in municipalities of the second or third class. During the period of our review the Municipality had as much as approximately \$50,000 on hand, however; the coverage for the finance officer was only \$13,000.
- c. A listing of municipal employee salaries was not published with the proceedings of the first governing board meeting in January 2009, or within thirty days thereafter, in violation of SDCL 6-1-10.
- d. The Municipality did not maintain the following necessary accounting records:
 - general ledger;

- revenue budget record;
 - expenditure budget record;
 - an accurate and complete disbursement journal, and;
 - an accurate and complete receipt journal.
- e. The finance officer did not properly reconcile the bank balance of the various municipal accounts to the balances recorded in the municipality's accounting records on a monthly basis.
- f. The monthly financial reports prepared by the finance officer, and presented to the governing board were not accurate.
- g. The Municipality's annual reports (2004 to 2008) were not properly prepared, resulting in inaccurate year-end cash balances being reported.
- h. Numerous internal control deficiencies over disbursements were noted as follows:
- Vouchers were not prepared for all checks, a violation of SDCL 9-23-1.
 - Instances were noted where vouchers had no, or inadequate, supporting documentation attached.
 - Several checks did not contain dual signatures, a violation of SDCL 9-23-3.
 - The mayor did not compare the vouchers to the checks when signing the checks.
 - The bank statements were not reviewed by the board, or someone other than the finance officer.
- i. We noted payments that were not supported as proper municipal expenditures. Examples we found include seven checks issued to Reliable Office Supplies totaling \$689.65, a check to Krazy Krafts for \$370.00, a check to R&L Sanitary for \$360.00 and a check to Office Max for \$208.76. There were no vouchers prepared for any of the preceding checks, the claims were not listed in the board minutes and the checks only contained the signature of the finance officer. Also, there was another check issued to Office Max for \$292.48 that contained two signatures; however, there was no voucher prepared and the claim was not listed in the minutes.
- j. The Municipality was in violation of Revenue Bond Debt Agreement covenants due to not having the proper amount set aside each month to cover the monthly revenue bond payments. There were numerous months where no deposit was made into the Revenue Bond Payment Account or the Revenue Bond Reserve Account.

In addition, according to the Revenue Bond Debt Agreement covenants, monies on hand in the Revenue Bond Reserve Account shall be used only to pay maturing principal and interest when other moneys in the Revenue Bond Payment Account are insufficient. Contrary to this provision, on July 12, 2006, \$5,000 was transferred from the Municipality's Revenue Bond Reserve Account to the Frankfort Community Center and then sixteen days later \$5,000 was transferred from the Frankfort Community Center to the Municipality's regular checking account. (The Frankfort Community Center is not affiliated with the Municipality of Frankfort, however; the former Finance Officer Rita Hunt was also the bookkeeper for the Frankfort Community Center at the time the transfers were made.) The Municipality also transferred \$3,000 on October 3, 2006 from the Revenue Bond Reserve Account to the Municipality's regular checking account.

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.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is stylized with a large, looped initial "M" and a long, sweeping tail.

Martin L. Guindon, CPA
Auditor General

June 5, 2009

MUNICIPALITY OF FRANKFORT SPECIAL REVIEW FINDINGS

Finding Number 2009-01:

During the period of October 2003 through May 2009, former Frankfort Municipal Finance Officer Rita Hunt made unauthorized payments to herself of approximately \$55,300 and unauthorized payments to the Frankfort Community Center of approximately \$3,400. In addition, the Municipality was assessed bank fees of approximately \$1,400 due to low bank balances, overdraft fees and early withdrawal fees on certificates of deposit.

Analysis:

SDCL 9-22-1 states:

All money belonging to the municipality derived from taxation, license, fines, forfeitures, the operation of waterworks or other public utility owned or operated by it, or from any other source, shall be paid into the municipal treasury, and the governing body by the annual appropriation ordinance shall designate to what fund or funds such money shall be applied.

SDCL 9-22-5 states:

The treasurer [finance officer] 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.

The following irregularities were noted in the operation of the Municipality of Frankfort finance office:

- a. As detailed in the Schedule of Unsupported and Unapproved Payments to the Finance Officer, Finance Officer Hunt issued 103 additional checks to herself from October 2003 through May 2009 totaling \$55,296.54 more than the amount that was authorized by the governing board of the Municipality of Frankfort. The additional checks issued to the Finance Officer had no supporting voucher prepared, were not listed in the Municipality's disbursement journal and were not listed in the governing board minutes.
- b. The Municipality was assessed bank fees from January 2005 through May 2009 of \$922.00. The bank fees were comprised of overdraft fees for having insufficient funds in the Municipality's accounts and monthly service fees for having low balances in the various accounts.

- c. The Municipality was assessed penalties of \$494.02 for early withdrawal of certificates of deposit on three separate occasions covering a period of June 2008 through March 2009. The monthly financial reports presented to the municipal council did not reflect the withdrawals from the certificates of deposit.
- d. We reviewed the bank statements of the Municipality of Frankfort from January 2003 through May 2009 and found three checks totaling \$3,418.15 that were written to the Frankfort Community Center without proper board authorization. Former Finance Officer Rita Hunt was also the bookkeeper for the Frankfort Community Center at the time the checks were written.

RECOMMENDATION:

We recommend the Municipality of Frankfort pursue recovery of these amounts from former Finance Officer Hunt.

SCHEDULE OF UNSUPPORTED AND UNAPPROVED PAYMENTS TO THE FINANCE OFFICER

Summary	Amount Approved by Municipal Council	Amount Actually Paid	Amount of Overpayment to Finance Officer
Payments to Rita Hunt for Calendar Year 2003	\$ 2,571.45	\$ 6,007.45	\$ 3,436.00
Payments to Rita Hunt for Calendar Year 2004	2,887.29	10,153.84	7,266.55
Payments to Rita Hunt for Calendar Year 2005	3,643.88	7,576.86	3,932.98
Payments to Rita Hunt for Calendar Year 2006	3,468.36	9,976.76	6,508.40
Payments to Rita Hunt for Calendar Year 2007	3,413.71	17,048.13	13,634.42
Payments to Rita Hunt for Calendar Year 2008	3,396.27	20,589.58	17,193.31
Payments to Rita Hunt Through May 2009	1,843.65	5,168.53	3,324.88
Total	\$ 21,224.61	\$ 76,521.15	\$ 55,296.54