

MUNICIPALITY OF ISABEL
INTERNAL CONTROL REVIEW
February 10, 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 Isabel

We have made a study of selected elements of internal control of the Municipality of Isabel (Municipality) in effect at February 10, 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 Isabel. 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 Isabel in effect at February 10, 2012.

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

- a. 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 exceeding \$150,000 as of December 31, 2011, but the surety bond coverage for the finance officer was only \$50,000.
- b. The governing board did not publish a complete list of 2011 employee salaries with the proceedings of the first meeting of the year or within 30 days thereafter, or publish once any salary paid to any officer or employee who has been added or whose salary has been increased as required by SDCL 6-1-10.
- c. The Municipality maintained one enterprise fund to account for Water, Sewer, and Solid Waste activities. A separate fund should be established for each of the enterprise activities – Water Fund, Sewer Fund, and Solid Waste Fund as required by SDCL and recommended by the Municipal Accounting Manual.
- d. 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.
- e. Utility receipts are not properly supported by a batch of utility payment stubs to allow one to readily determine when a customer's payment was deposited. The utility receipt numbers are also not posted to the customer's subsidiary accounts receivable record. We noted instances where a utility receipt was written for an individual's payment and the amount was again included in another receipt written for the amount of the bank deposit. Receipts would not necessarily be written for the amount of a deposit, but rather a deposit should agree with the receipts written. Receipts should be deposited intact.
- f. Utility meter readings are not periodically verified by the Municipality to ensure the customer readings are correct.
- g. The Municipality does not prepare the following necessary accounting records on a timely basis:
 1. Cash Receipts Journal;
 2. Cash Disbursements Journal;
 3. Revenue Budget Record; and
 4. Expenditure Budget Record.

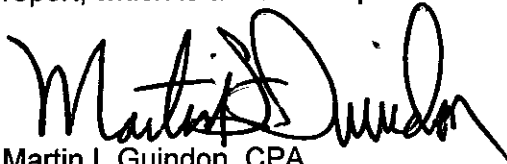
The monthly preparation of these necessary records and monthly reports of comparisons of actual revenues to budgeted revenues and actual expenditures to appropriated expenditures are beneficial in providing the governing board with timely financial information.

- h. We found no evidence of a timesheet for the utility superintendent. Timesheets should be prepared by all municipal employees. One instance was noted where the finance officer's timesheet reflected 55 hours, however she was only paid for 50 hours. In addition, the finance officer's timesheets reveal several weeks where she worked more than forty hours, part of the time performing finance office duties and part performing maintenance duties. A determination should be made as to whether

the finance officer is entitled to overtime in accordance with Fair Labor Standards Act for hours worked in excess of forty in a work week.

- i. Social Security withholdings were not being properly made from employee paychecks in 2011. The percentage withheld should have been 4.2% not 6.2% for the employees share.
- j. The 2011 and 2012 annual budgets were not adopted by ordinance as required by SDCL 9-21-2.
- k. In 2010, the Municipality incurred expenditures in excess of the amounts provided for in the annual appropriation ordinance in violation of SDCL 9-21-9. We did not determine the amounts, if any, in 2011 due to the fact the necessary accounting records were not completed at the time of our review.
- l. The Municipality has not formally adopted a policy manual to address items such as, sick and annual leave and reimbursement rates for travel.
- m. 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.
- n. The finance officer and water superintendent were receiving utility services at no cost as a form of fringe benefit. We found no evidence of a policy where the governing board has allowed or confirmed this practice. The value of such a benefit should be considered as an additional fringe benefit for federal withholding purposes.

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 10, 2012