

MUNICIPALITY OF JEFFERSON

INTERNAL CONTROL REVIEW

November 29, 2016

MUNICIPALITY OF JEFFERSON
TABLE OF CONTENTS

	<u>Page</u>
Report on the Limited Study of Internal Control Performed in Accordance with South Dakota Codified Law 4-11-4.1.....	1



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 Jefferson
Jefferson, South Dakota

We have made a study of selected elements of internal control of the Municipality of Jefferson (Municipality) in effect at November 29, 2016. 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 November 29, 2016.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at November 29, 2016 as discussed below:

- a. 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.

b. The Municipality did not properly maintain the following necessary records:

1. General Ledger
2. Cash Receipts Journal
3. Cash Disbursements Journal
4. Revenue Budget Record
5. Expenditure Budget Record
6. Accounts receivable general ledger
7. Utility Deposit Record
8. General Journal

We recommend the Municipality properly establish and maintain the necessary accounting records. We have provided assistance to the new Finance Officer to establish these records.

c. The Municipality did not issue duplicate receipts as required by SDCL 9-22-3. We recommend the Municipality issue duplicate receipts for all cash collections, and record all transactions in a Cash Receipts Journal identifying the payer, date and form of payment, including batch receipts for utilities and receipts for direct deposits as required by SDCL 9-22-3.

d. The 2015 annual financial report contained financial reporting errors resulting in inaccurate and incomplete information being presented. We recommend the Municipality accurately complete the annual financial report. We have provided assistance to the new Finance Officer regarding proper financial reporting.

e. The vouchers used by the Municipality had the following inadequacies:

1. The vouchers did not contain evidence of verification by the finance officer.
2. The vouchers did not contain the check number issued for the purchases.
3. The vouchers were not coded to the fund, function and object to facilitate the proper approval by the governing board and for the proper posting to the Cash Disbursement Journal and Expenditure Budget Record.

We recommend that vouchers be properly prepared and verified as required by SDCL 9-23-1.

f. The Finance Officer did not perform proper monthly cash reconciliations for the funds held by the Municipality. We recommend the Municipality prepare proper monthly reconciliations.

g. Payments, in excess of \$40,700, were made to three employees representing payments in lieu of providing health insurance and life insurance. In addition, payments, in excess of \$11,400, were made to the Finance Officer for additional work to clean the finance office and to perform work for the street department. The payments were not formally approved in the minutes of the governing board and payroll withholding taxes were not applied to these payments. We recommend all salary payments be formally approved by the governing body and included in the minutes and that proper payroll withholding taxes be applied.

h. Time sheets were not maintained to support the payment of hourly payroll and leave records were not on file to support paid leave taken.

We recommend that hourly payroll be documented by time sheets and that paid leave taken be documented by leave records.

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 fluid and cursive, with a large initial "M" and "G".

Martin L Guindon, CPA
Auditor General

November 29, 2016