

MUNICIPALITY OF LEBANON
INTERNAL CONTROL REVIEW

April 22, 2009

MUNICIPALITY OF LEBANON
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MUNICIPALITY OF LEBANON
MUNICIPAL OFFICIALS
April 22, 2009

Trustees:

Constance Kiernan
Pat Kilian
James Mc Roberts
(Vacant Position)
(Vacant Position)

Finance Officer:

Rachelle Griese

Attorney:

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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 Lebanon

We have made a study of selected elements of internal control of the Municipality of Lebanon in effect at April 22, 2009. Our study was performed pursuant to South Dakota Codified Laws 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 Lebanon. 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 of Lebanon.

The management of the Municipality of Lebanon 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 of Lebanon. Also, our study would not necessarily disclose all significant weaknesses in internal controls of the Municipality of Lebanon. Accordingly, we do not express an opinion on internal control of the Municipality of Lebanon in effect at April 22, 2009.

However, our study did disclose weaknesses in internal controls of the Municipality of Lebanon in effect at April 22, 2009, as shown in the Schedule of Findings section and as discussed below.

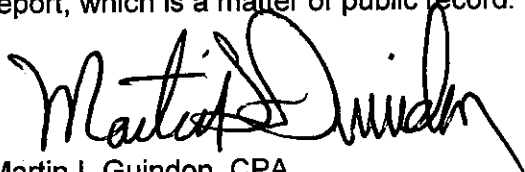
Items a. through e. discussed below were also noted as weaknesses in internal controls in our prior report on internal controls dated April 24, 2003 and were not corrected by the Municipality.

- a. The Finance Officer did not issue prenumbered duplicate receipts for the majority of revenue collected in violation of SDCL 9-22-3.
- b. The municipality did not maintain the following necessary accounting records:
 1. a revenue budget record;
 2. capital asset records;
 3. a proper check register for the Sewer Fund; and
 4. leave records for employees.
- c. For calendar year 2008, the Municipality's General Fund actual expenditures exceeded the amount appropriated by \$9,753.27 in violation of SDCL 9-21-9.
- d. The governing board pre-signs 9 blank checks each month for payroll and other purposes. Blank checks should not be pre-signed by the governing board.
- e. Liquor store revenues were susceptible to loss because the following necessary policies and controls have not been implemented or consistently applied:
 1. A profit and loss statement for the liquor store operations was not properly completed to allow the governing board to assess the profitability of the liquor store operation.
 2. The governing board did not establish a desired amount of markup for liquor resale items.
 3. The finance officer did not receive the detail cash register tapes of daily sales. As a result the finance officer was not able to review these tapes for over-rings, voided sales and so on.
 4. The governing board did not establish a policy prohibiting liquor store employees cashing personal checks.
 5. Instances were noted where petty cash at the liquor store was reimbursed, but no supporting documentation was attached to the voucher in violation of SDCL 9-23-1.
- f. The Municipality of Lebanon's annual reports (CY 2003 to CY 2007) were not properly prepared, resulting in inaccurate year-end cash balances being reported for the General Fund and Liquor Fund. Separate general ledger accounts for the cash balances were not maintained for the General Fund and Liquor Fund. Such general ledger accounts would show month-end cash balances by fund type and help facilitate the preparation of an accurate annual report. In addition, we were provided no evidence that the 2003 and 2004 annual reports were given to the governing board at the first meeting in March, published within 30 days, and filed with the Department of Legislative Audit, a violation of SDCL 9-22-21.
- g. Several of the monthly bank statements for Sewer Fund accounts were not on file at the finance office for our review.

h. Numerous internal control deficiencies over disbursements were noted as follows:

1. vouchers were not prepared for all checks, a violation of SDCL 9-23-1;
2. instances were noted where vouchers had no or inadequate supporting documentation attached;
3. several checks did not contain dual signatures, a violation of SDCL 9-23-3;
4. the board president did not compare the vouchers to the checks when signing the checks; and
5. voided checks were not always retained.

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 the first name "Martin" being the most prominent.

Martin L. Guindon, CPA
Auditor General

April 22, 2009

MUNICIPALITY OF LEBANON
SCHEDULE OF FINDINGS

Finding Number 2009-01:

Lebanon Municipal Finance Officer Rachelle Griese made two unauthorized payments to herself totaling \$692.62. Also the Municipality of Lebanon incurred an additional expense for the two unauthorized payments related to Social Security and Medicare withholdings and the related match of \$113.22. In addition, cash received for auditorium rent, received by the Lebanon Municipality Liquor Store on October 20, 2004 and delivered to the Finance Office on November 11, 2004, was not deposited until January 6, 2005.

Analysis:

SDCL 9-22-1 states:

All money belonging to the municipality derived from taxation, licenses, 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 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 improprieties were noted in the operation of the Lebanon Municipal Finance Office:

- a. We found that Finance Officer Rachelle Griese issued herself one additional payroll check in November of 2004 totaling \$346.31 and one additional payroll check in January 2005 totaling \$346.31. These payroll checks were not authorized by the governing board.
- b. We found that the Municipality of Lebanon incurred an additional expense for Social Security and Medicare withholdings and required match in the amount of \$57.38 for the November 2004 unauthorized check and \$55.84 for the January 2005 unauthorized check.
- c. Auditorium rent in the amount of \$470 in cash was receipted by the Lebanon Municipal Liquor Store and delivered to the Municipal Finance Office on November 11, 2004. The

cash was not deposited by the Municipal Finance Officer Rachelle Griese until January 6, 2005 after being instructed to do so by the governing board.

RECOMMENDATIONS:

1. We recommend the Municipality of Lebanon pursue recovery of the unauthorized payments from Finance Officer Rachelle Griese.
2. We recommend all money received by the Municipal Finance Office be deposited in a timely manner.

Entity Response:

We, Lebanon Town Board, accept the responsibility of correcting the practices that were considered Internal Control deficiencies. We will implement rules and management practices that will ensure no irregularities in the future. We will also follow up on all recommendations by the Department of Legislative Audit.