

MUNICIPALITY OF OLDHAM
INTERNAL CONTROL REVIEW
February 12, 2016

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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 Oldham
Oldham, South Dakota

We have made a study of selected elements of internal control of the Municipality of Oldham (Municipality) in effect at February 12, 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 February 12, 2016.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at February 12, 2016 as discussed below:

- a. The water and sewer operations were accounted for as departments of the General Fund. SDCL 9-47 and 9-48 require a separate fund be established for each enterprise operation. We recommend the Municipality set up separate enterprise funds for the water and sewer operations as required by SDCL 9-47 and 9-48.
- b. The 2014 and 2015 annual reports were not completed, published and filed with the Department of Legislative Audit contrary to the requirements of SDCL 9-22-21. We recommend the Municipality prepare, publish and file the annual financial report in accordance with SDCL 9-22-21.
- c. Executive sessions were held without a motion, vote or purpose of the meeting as required by SDCL 1-25-1 and 1-25-2. We recommend that executive or closed meetings be held only upon a majority vote of the members of such body present and voting and indicate the purpose of the executive session as required by SDCL 1-25-1 and 1-25-2.
- d. The minutes gave a detailed statement of all expenditures by name and amount, but did not show the service rendered as required by SDCL 9-18-1. We recommend the detailed statement of expenditures in the minutes include the purpose for the expenditure as required by SDCL 9-18-1.
- e. 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.
- f. The water, sewer and garbage accounts receivable records were not reconciled to a general ledger control to ensure that receivable transactions were properly recorded and mathematically accurate. We recommend the accounts receivable subsidiary records be reconciled monthly to a general ledger control.
- g. The Municipality did not properly maintain the following necessary records:
 1. Revenue Budget Record
 2. Expenditure Budget Record
 3. General Ledger by Fund

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

- h. The Finance Officer did not perform a proper monthly bank reconciliation for the accounts held by the Municipality. We recommend the Municipality prepare a proper monthly bank reconciliation.
- i. 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 during the period of this review, but the surety bond coverage for the finance officer was only \$50,000. We recommend the Municipality increase the finance officer surety bond to \$150,000.00 as required by SDCL 9-14-6.1.

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" and last name "Guindon" clearly distinguishable.

Martin L Guindon, CPA
Auditor General

February 12, 2016