

MUNICIPALITY OF WOLSEY
INTERNAL CONTROL REVIEW
March 14, 2017

MUNICIPALITY OF WOLSEY
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 Wolsey
Wolsey, South Dakota

We have made a study of selected elements of internal control of the Municipality of Wolsey (Municipality) in effect at March 14, 2017. 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 March 14, 2017.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at March 14, 2017 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 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 as required by SDCL 9-14-6.

- b. 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.
- c. The Municipality did not properly maintain the following necessary records:
 - 1. General Ledger by Fund
 - 2. Cash Disbursements Journal
 - 3. Accounts receivable general ledger and corresponding subsidiary records
 - 4. Water Deposit Record

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.

- d. The annual appropriation ordinances for 2016 and 2017 adopted by the Municipality combined all the funds as one fund and did not separate the means of finance and appropriations for each budgeted fund as required by SDCL 9-21-2. We recommend the annual appropriations ordinance be adopted by fund as required by SDCL 9-21-2.
- e. The following deficiencies were noted in the preparation of vouchers:
 - 1. Vouchers did not indicate the fund or object from which the disbursements were to be charged. As a result, the Cash Disbursements Journal was not accounted for by fund.
 - 2. Payroll withholding taxes and insurance were combined and not recorded by fund or function.

We recommend all vouchers be properly prepared, coded and recorded by fund.

- f. The following deficiencies were noted in the recording of receipts:
 - 1. The Municipality incorrectly recorded the receipt of \$356,300 of CDBG federal grant revenue as a reduction of expenditures. As a result, the Municipality understated federal grant revenue and understated expenditures by \$356,300.
 - 2. The Municipality incorrectly recorded the receipt of \$2,049 of tobacco tax revenue from the State as a reduction of expenditures. As a result, the Municipality understated state shared revenue and understated expenditures by \$2,049.

We recommend all receipts be properly recorded and reported.

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

March 14, 2017