

SECTION I--GOVERNMENTAL ACCOUNTING

INTERNAL CONTROL OF ACCOUNTING SYSTEM

The management of each municipality is responsible for establishing and maintaining an internal control structure to provide management and the taxpayers with reasonable assurance that assets are 1) safeguarded against loss from unauthorized use or disposition, 2) that transactions are executed in accordance with management's authorization, 3) are recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and 4) assets are safeguarded in accordance with SDCL.

Examples of internal control procedures which should be performed by the municipality are as follows:

- a. The finance officer/city auditor should reconcile the general ledger cash assets by fund monthly to the depository.
- b. The finance officer/city auditor should reconcile the revenue and expenditure budget records to the general ledger control for revenue and expenditures monthly.
- c. The finance officer/city auditor should reconcile the capital asset subsidiary records to the general ledger control at least yearly.
- d. Manual as well as computer records should be physically safeguarded against theft or destruction by causes such as fires.
- e. A log of computer file maintenance should be maintained. This log will provide a record of direct changes made to various accounts and should be independently reviewed periodically for propriety.
- f. Computer files should be backed up frequently and the backup should be stored off-site if possible to guard against any disaster.
- g. The general ledger accounts of each fund should be balanced on a monthly basis.
- h. A verification process should be in place to ascertain the accuracy of receipts, expenditures and payroll rates as they are initially entered into a computer system.

As the steps are completed to provide for the preceding controls, it is very important to DOCUMENT these steps. Documentation may simply be as easy as retaining an adding machine tape, initial and dating a record or it may necessitate the creation of a form or checklist.