

**MUNICIPALITY OF FAIRFAX**  
**INTERNAL CONTROL REVIEW**  
**November 8, 2019**

MUNICIPALITY OF FAIRFAX  
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 Fairfax  
Fairfax, South Dakota

We have made a study of selected elements of internal control of the Municipality of Fairfax (Municipality) in effect at November 8, 2019. 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 8, 2019.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at November 8, 2019 as discussed below:

- a. The official 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.

- b. The 2012, 2013, 2014 and 2018 annual reports were not completed, published and filed with the Department of Legislative Audit as required by SDCL 9-22-21. We recommend the Municipality prepare, publish and file the annual financial reports in accordance with SDCL 9-22-21.
- c. During the period of our review, the Municipality did not provide public notice, with proposed agenda, at least twenty-four hours prior to official meetings, by posting a copy of the notice, visible to the public, at the principal office of the Municipality prior to holding the public meeting as required by SDCL 1-25-1.1. We recommend proposed agendas be posted as required by SDCL 1-25-1.1.
- d. 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 and file personal property inventories as required by SDCL 5-24-1.
- e. 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. Utility accounts receivable general ledger and corresponding records

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

- f. A board member was delinquent for more than six months on the monthly sewer and garbage billings at the end of October 2019 which is contrary to SDCL 9-14-2. SDCL 9-14-2 states "No person may hold any municipal office who is a defaulter to the municipality". We recommend no board member be indebted to the Municipality as required by SDCL 9-14-2.
- g. The Municipality collected commissions based upon the authorization of SDCL 35-4-19 for on-sale and off-sale liquor and beer establishment purchases. However, a formal operating agreement has not been approved for the current establishments. SDCL 35-4-21 provides the format for the on-sale establishment operating agreement and SDCL 35-4-23 provides a format for the off-sale establishment operating agreement. We also noted that payment of commissions to the Municipality from establishments during the time period we reviewed were not made in a timely manner. We recommend formal operating agreements be adopted by resolution as allowed by SDCL 35-4-19 in the format required by SDCL 35-4-21 and 23.

The Municipality has approved operating agreements with the on-sale and off-sale operation establishments effective January 1, 2020.

- h. The Municipality did not issue receipts as required by SDCL 9-22-3. We recommend the Municipality issue receipts for all cash collections.
- i. The vouchers did not contain a perjury statement to be signed by the claimant for personal services or travel as recommended by the Municipal Accounting Manual. We recommend that vouchers be properly prepared and verified as recommended by the Municipal Accounting Manual.
- j. The 2019 annual appropriation ordinance adopted by the Municipality was not published as required by SDCL 9-21-2. We recommend the appropriation ordinance be published by December 31 as required by SDCL 9-21-2.

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

November 8, 2019