

**MUNICIPALITY OF FRANKFORT**

**INTERNAL CONTROL REVIEW**

**September 19, 2016**

MUNICIPALITY OF FRANKFORT  
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REPORT ON THE LIMITED STUDY OF INTERNAL CONTROL  
PERFORMED IN ACCORDANCE WITH SOUTH DAKOTA CODIFIED LAW 4-11-4.1

Governing Board  
Municipality of Frankfort  
Frankfort, South Dakota

We have made a study of selected elements of internal control of the Municipality of Frankfort (Municipality) in effect at September 19, 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 September 19, 2016.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at September 19, 2016 as discussed below:

- a. 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.

- b. The 2012 through 2015 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. The Municipality did not properly maintain the following necessary records:
  - 1. General Ledger
  - 2. Accounts Receivable General Ledger and corresponding subsidiary records
  - 3. Cash Receipts Journal
  - 4. Cash Disbursements Journal
  - 5. Revenue Budget Record
  - 6. Expenditure Budget 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 sewer operation was accounted for as a department of the General Fund. SDCL 9-48 requires a separate fund be established for each enterprise operation. We recommend the Municipality set up a separate enterprise fund for the sewer operation as required by SDCL 9-48.
- e. The subsidiary 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.
- f. The Finance Officer did not perform proper monthly bank reconciliations for the accounts held by the Municipality. We recommend the Municipality prepare proper monthly bank reconciliations.
- g. The annual appropriations ordinance adopted by the Municipality for 2015 and 2016 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 budget be adopted by fund as required by SDCL 9-21-2.
- h. The annual appropriations ordinance was not published by December 31, 2015 as required by SDCL 9-21-2. We recommend the annual appropriation ordinance be published as required by SDCL 9-21-2.
- i. The monthly Sewer and Garbage billing for each household is approximately \$46. We reviewed 31 of the approximately 100 utility accounts at June 30, 2016 and determined the outstanding utility accounts receivables exceeded \$17,000. In addition, we noted that the outstanding utility accounts receivable of municipal board members were approximately \$2,400 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 the Municipality address the issue of delinquent sewer and garbage utility accounts receivable. We also recommend no board member be indebted to the Municipality as required by SDCL 9-14-2.

- j. The following deficiencies were noted in the preparation of vouchers:
1. The vouchers did not contain a perjury statement to be signed for personal services or travel in accordance with SDCL 9-23-1. In addition, evidence of verification by the finance officer was not included on the voucher.
  2. Several vouchers were not supported by itemized invoices as required by SDCL 9-23-1.
  3. The vouchers were not coded to the fund, function and object to facilitate the proper approval by the governing board and for the proper posting to the cash disbursement journal and expenditure budget record.
  4. The vouchers paid directly by the BASEC loan agreement on behalf of the Municipality for public improvements for the ball field and the bar and grill were not recorded in the cash disbursement journal. As a result, the vouchers were not included in the monthly financial statements or listed in the minutes as approved by the governing board.

We recommend all vouchers be properly prepared as required by SDCL 9-23-1 and be properly supported, coded, recorded, approved and reported in the governing board minutes.

- k. The transfers of cash from the Municipal checking account to other bank accounts for the sewer debt service reserve and community improvement savings were incorrectly recorded as cash disbursements. We recommend the transfers not be recorded as disbursements in the cash disbursements journal.
- l. Several checks were noted which contained only the signature of the Finance Officer. SDCL 9-23-3 requires the signature of the Mayor and the Finance Officer to disburse municipal funds. We recommend all disbursements of municipal funds be signed as required by SDCL 9-23-3.

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

September 19, 2016