

MUNICIPALITY OF FREDERICK
INTERNAL CONTROL REVIEW

June 12, 2017

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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 Frederick
Frederick, South Dakota

We have made a study of selected elements of internal control of the Municipality of Frederick (Municipality) in effect at June 12, 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 June 12, 2017.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at June 12, 2017 as discussed below:

- a. The 2016 annual financial report contained financial reporting errors resulting in inaccurate and incomplete information being presented. We recommend the Municipality accurately complete the annual financial report. We have provided accounting assistance to the Finance Officer regarding proper financial reporting.
- b. 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.
- c. The Municipality did not properly maintain the following necessary records:
 - 1. General Ledger
 - 2. Taxes receivable general ledger
 - 3. Accounts receivable general ledger and corresponding subsidiary records
 - 4. Utility Deposit Record
 - 5. Revenue 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 governing board did not publish a complete list of employees' salaries with the proceedings of the first meeting of the year as required by SDCL 6-1-10. We recommend the governing board publish a complete list of employees' salaries with the proceedings of the first meeting of the year as required by SDCL 6-1-10.
- e. The Finance Officer did not perform proper monthly bank reconciliations for the accounts held by the Municipality. We recommend the Municipality prepare a proper monthly bank reconciliation.
- f. The following deficiencies were noted in the preparation of vouchers:
 - 1. Several vouchers were not supported by itemized invoices as required by SDCL 9-23-1.
 - 2. Payroll vouchers only reflected the net payroll and did not show deductions for withholdings or extra hours worked.
 - 3. The vouchers were not coded to the 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 did not contain a signed perjury statement for personal services or travel as required by SDCL 9-23-1. In addition, vouchers for mileage reimbursement did not contain details of travel to support mileage claimed.

We recommend vouchers be properly prepared and supported as required by SDCL 9-23-1.

- g. 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.

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 a prominent initial "M" and "G".

Martin L Guindon, CPA
Auditor General
June 12, 2017