

MUNICIPALITY OF HENRY
INTERNAL CONTROL REVIEW
August 13, 2018

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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 Henry
Henry, South Dakota

We have made a study of selected elements of internal control of the Municipality of Henry (Municipality) in effect at August 13, 2018. 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 August 13, 2018.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at August 13, 2018 as discussed below:

- a. The governing board did not provide 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 \$100,000. We recommend the Municipality increase the finance officer surety bond to \$150,000 as required by SDCL 9-14-6.1.

- 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 Finance Officer did not perform proper monthly cash reconciliations for the accounts held by the Municipality. We recommend the Municipality prepare a proper monthly cash reconciliation.
- d. 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. Accounts receivable general ledger
 - 7. Trust deposits general ledger control

We recommend the Municipality properly establish and maintain the necessary accounting records.

- e. The vouchers used by the Municipality had the following inadequacies:
 - 1. 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. In addition, there was no signature or other evidence to indicate that the finance officer had reviewed the voucher.
 - 2. 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.

We recommend that vouchers be properly prepared and verified as recommended by the Municipal Accounting Manual.

- f. Two board members were consistently delinquent one quarter and one board member was delinquent for more than one quarter on the quarterly water, sewer and garbage billings 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". In addition, the Municipality did not assess a 10% past due fee as required by the water, sewer and garbage rate ordinances. We recommend no board member be indebted to the Municipality as required by SDCL 9-14-2 and that the Municipality assess the 10% past due fee as required by the Municipal ordinances.

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 the first name "Martin" and last name "Guindon" clearly distinguishable.

Martin L Guindon, CPA
Auditor General

August 13, 2018