

MUNICIPALITY OF KENNEBEC

INTERNAL CONTROL REVIEW

July 18, 2017

MUNICIPALITY OF KENNEBEC
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



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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 Kennebec
Kennebec, South Dakota

We have made a study of selected elements of internal control of the Municipality of Kennebec (Municipality) in effect at July 18, 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 July 18, 2017.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at July 18, 2017 as discussed below:

- a. 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.

- b. The 2016 annual report was not completed, published and filed with the Department of Legislative Audit contrary to the requirements of SDCL 9-22-21. We recommend the Municipality prepare, publish and file the annual financial report in accordance with SDCL 9-22-21. We have provided assistance to the new Finance Officer in the preparation of the 2016 annual report and the annual report has now been presented to the board, filed with the Department of Legislative Audit and published.
- c. Executive sessions were held without a motion, vote or purpose of the meeting as required by SDCL 1-25-1 and 1-25-2. We recommend that executive or closed meetings be held only upon a majority vote of the members of such body present and voting and indicate the purpose of the executive session as required by SDCL 1-25-1 and 1-25-2.
- d. In 2016 the Municipality received a bequest of \$25,000 from the estate of Rich Halverson stipulating that the interest earnings, after 10 years, can be spent for municipal purposes. The Municipality was not accounting for this fund in the municipal records. We recommend the Municipality account for the Rich Halverson bequest in the municipal records and report the fund in the Municipality's annual report.
- e. The municipal library maintained a separate checking account to account for fines and donations. The Municipality did not include the fines and donations account in the annual financial report of the Municipality. We recommend that the library account for the fines and donations and include them in the annual report of the Municipality.
- f. 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.
- g. The Municipality did not properly maintain the following necessary records:
 - 1. General Ledger
 - 2. Accounts Receivable Record
 - 3. Sewer surcharge restricted cash record
 - 4. Sewer construction loan restricted cash record
 - 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.

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

July 18, 2017