

**MUNICIPALITY OF LETCHER**  
**INTERNAL CONTROL REVIEW**  
**October 25, 2016**

MUNICIPALITY OF LETCHER  
TABLE OF CONTENTS

	<u>Page</u>
Report on the Limited Study of Internal Control Performed in Accordance with South Dakota Codified Laws 4-11-4.1 .....	1
Schedule of Findings .....	4



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REPORT ON THE LIMITED STUDY OF INTERNAL CONTROLS  
PERFORMED IN ACCORDANCE WITH SOUTH DAKOTA CODIFIED LAWS 4-11-4.1

Governing Board  
Municipality of Letcher

We have made a study of selected elements of internal control of the Municipality of Letcher (Municipality) in effect at December 31, 2015 at the request of the Municipality's Board President, Mark Chada. Our study focused primarily on the financial activity which occurred during 2013, 2014 and 2015; however, we also reviewed the financial activity related to payments to the Finance Officer for 2011 and 2012. 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 of Letcher. 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 of Letcher in effect at December 31, 2015.

However, our study did disclose weaknesses in internal controls of the Municipality and other matters as shown in the Schedule of Findings section of this report and as discussed below:

- a. Numerous internal control deficiencies over disbursements were noted as follows:
  1. Instances were noted where checks had been signed prior to having the payee or amounts filled in and vouchers completed with invoices attached.
  2. Instances were noted where vouchers were not accompanied by itemized invoices.
  3. Instances were noted where checks had cleared the bank prior to the approval date shown on the voucher.
  4. Instances were noted where disbursements were not included in the minutes of the official meetings of the Governing Board.
  5. Instances were noted where vouchers could not be located to support the amount paid.
  6. Instances were noted where the name on the voucher had been changed to agree with the name on the issued check.
  7. Instances were noted where checks were issued out of sequence.
  8. Instances were noted where employees were paid at rates different from the amount approved in the minutes.
- b. The Finance Officer had not prepared a utility bill or made payment to the Municipality for her personal water and sewer usage in 2013, 2014, or 2015.
- c. There were nine instances where the Finance Officer had paid herself for hours worked beyond her contracted wage without providing time records to substantiate the payment of these sums.
- d. There were five instances where the Finance Officer had paid herself an amount greater than approved by the Governing Board for office rent.
- e. The approval of wages paid to part-time municipal employees was not noted in Governing Board minutes.
- f. The Municipality's annual reports for calendar years 2009, 2010, 2011, 2012, 2013, and 2014 were not prepared, presented to the Governing Board or published as required by SDCL 9-22-21.
- g. The annual appropriations ordinance was not adopted in the manner outlined in SDCL 9-19-7 and 9-21-2.

- h. The monthly bank statement reconcilements were not retained, documenting that the Municipality's accounting records agreed with the bank.
- i. Signed minutes for each Governing Board meeting were not retained by the Municipality.
- j. The Governing Board has not provided 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. According to the December 31, 2015 bank statements, the Municipality had a combined cash balance of approximately \$219,000, but the surety bond coverage for the finance officer was only \$50,000.
- k. We noted checks were written for cash from the Fire Reserve Fund in the amount of \$1,300 in 2014 and \$2,200 in 2015 without accompanying vouchers or support showing the purpose of these withdrawals.
- l. A contract had not been prepared outlining which of the Finance Officer's duties were considered base pay duties and those duties which were considered extra pay duties.

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

MUNICIPALITY OF LETCHER  
SCHEDULE OF FINDINGS

**Finding Number 2016-001:**

During the period August 2011 through December 2015, the former Letcher Municipal Finance Officer made three unauthorized payments to herself totaling \$11,951.46. In addition, the former Finance Officer made unauthorized payroll compensation to herself totaling \$6,007.18 in excess of the amount authorized.

**Analysis:**

SDCL 9-22-5 states:

The treasurer shall keep all moneys in his hands belonging to the municipality separate and distinct from his own moneys.

He shall not use, directly or indirectly, the municipality's money or warrants in his custody for his own benefit or that of any other person.

SDCL 9-23-2 states:

No claim against any municipality shall be audited or allowed unless it be fully itemized and a memorandum of the same entered upon the minutes of the meetings of the governing body.

Our work revealed the following unauthorized payments:

- a. The former Finance Officer issued herself three (3) unauthorized checks from August 2011 through December 2015:

1. Check #3962 dated August 6, 2011	\$ 5,000.00
2. Check #4094 dated October 31, 2012	2,739.56
3. Check #6520 dated October 7, 2014	<u>4,211.90</u>
Total Unauthorized Payments	<u>\$11,951.46</u>

These payments to the former Finance Officer were not authorized by the Governing Board.

- b. The former Finance Officer issued three (3) additional payroll checks over the amount authorized by the Governing Board. In addition, the former Finance Officer paid herself additional amounts in excess of the amount authorized by the Governing Board. A summary of the unauthorized payroll amounts are:

1. Three (3) unauthorized additional payroll checks	\$3,022.18
2. Overpayment of authorized rent	225.00
3. Unauthorized payment of trustee fee	<u>2,760.00</u>
Total Unauthorized Payroll Payments	<u>\$6,007.18</u>

**RECOMMENDATION:**

We recommend the Municipality of Letcher consult with legal counsel to determine whether it is appropriate to pursue recovery of the unauthorized payments noted in this finding.