

MUNICIPALITY OF LONG LAKE

INTERNAL CONTROL REVIEW

October 24, 2011

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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 Long Lake

We have made a study of selected elements of internal control of the Municipality of Long Lake (Municipality) in effect at October 24, 2011. 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 Long Lake. 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.

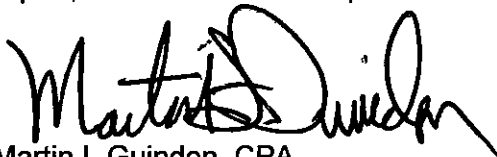
Our study was more limited than would be necessary to express an opinion on internal control of the Municipality. Also, our study would not necessarily disclose all significant weaknesses in internal controls of the Municipality. Accordingly, we do not express an opinion on internal control of the Municipality of Long Lake in effect at October 24, 2011.

However, our study did disclose weaknesses in internal controls of the Municipality and other matters as discussed below:

- a. Between January 13, 2010 and July 11, 2011 the Municipality did not provide proper public notice of council meetings, with a proposed agenda, at least twenty-four hours prior to any meeting, by posting a copy of the notice, visible to the public, at the principal office of the municipality holding the meeting as required by SDCL 1-25-1.1.
- b. The Municipality did not publish a complete list of employee salaries for 2011 with the proceedings of the first meeting of the year or within 30 days thereafter, or publish once any salary paid to any officer or employee who has been added or whose salary has been increased as required by SDCL 6-1-10.
- c. The Municipality is not maintaining a separate Water Fund as required by SDCL 9-47-1 and recommended by the Municipal Accounting Manual.
- d. 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. The Municipality had a cash balance of approximately \$70,000 as of December 31, 2010, but the surety bond coverage for the finance officer was only \$5,000.
- e. Annual inventories of personal property required of local officers and employees have not been prepared as required by SDCL 5-24-1.
- f. The Municipality did not issue duplicate pre-numbered receipts for water utility revenues in 2010 or 2011. Since July 11, 2011, receipts have not been written for all types of revenue. Issuing duplicate pre-numbered receipts is required by SDCL 9-22-3.
- g. We found no evidence the finance officer reconciled the bank balances of the various Municipal accounts to the balances recorded in the Municipality's accounting records on a monthly basis.
- h. The prior municipal governing board president pre-signed checks.
- i. Utility receipts have not been written and utility receivable records have not been maintained showing separate amounts billed and paid, a receipt date, and a customer balance. Such records allow one to evaluate collections and determine whether customers should be charged a late fee. Prior to July of 2011, utility deposit slips did not contain enough detail to determine amounts shown as paid in the utility records were deposited intact. We also determined utility meter readings are not periodically verified by the Municipality to ensure the customer readings are correct.
- j. The Municipality did not maintain the following necessary accounting records:
 1. a cash receipts journal,
 2. a cash disbursement journal;
 3. a revenue budget record;
 4. an expenditure budget record;
 5. a payroll journal; and
 6. a general ledger.

- k. The vouchers currently in use by the Municipality do not conform to the voucher prescribed in the Department of Legislative Audit - Municipal Accounting Manual. Vouchers contain no dates, check numbers, coding or verification signatures required by SDCL 9-23-1.
- l. A payroll journal was not properly maintained showing withholdings allowing one to determine proper amounts were withheld from employee paychecks and remitted to the Internal Revenue Service (IRS). Our review revealed withholdings were not being made from some employee paychecks. Correspondence from the IRS revealed the wrong 2011 941 Quarterly Federal Tax Return forms were being used resulting in over remitting social security withholdings.
- m. The 2011 annual budget was not adopted by ordinance as required by SDCL 9-21-2.
- n. The 2010 and 2011 annual appropriation ordinance did not properly specify the function and sub-function as prescribed by SDCL 9-21-2 and the Municipal Accounting Manual. The 2012 annual appropriation ordinance has yet to be approved as required by SDCL 9-21-2.
- o. In 2010 the Municipality incurred expenditures in excess of the amounts provided for in the annual appropriation ordinance in violation of SDCL 9-21-9.
- p. The 2010 annual report contained financial reporting errors resulting in inaccurate and incomplete information being presented.
- q. We recommend bank statements be mailed to the governing board for review or online query only access be granted to the governing board. In addition, 2-3 times a year, the governing board should verify the bank account, Certificates of Deposit, and investment balances with the official depository.

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

October 24, 2011