

**MUNICIPALITY OF MITCHELL – CORN PALACE OPERATION**

**SPECIAL REVIEW**

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SPECIAL REVIEW

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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

Mayor and Councilmembers  
Municipality of Mitchell  
Mitchell, South Dakota

Pursuant to a request from the Mayor of the Municipality of Mitchell (Municipality), we performed procedures related to the cash collections, reconciliations and depositing of cash collections controls, operational (physical) controls, accounting controls related to the operation of the ticket office, concessions operation and other ancillary operations of the Mitchell Corn Palace.

These procedures did not constitute an audit conducted in accordance with generally accepted government auditing standards and does not extend to, and we do not express an opinion on, any financial statements or reports of the Municipality.

Accompanying this letter is our report on the work that we performed. The report contains an Executive Summary and a detailed section discussing the results of our procedures and related recommendations.

We would like to thank the staff of the Municipality for the cooperation and assistance provided to us while we conducted our work.

Martin L. Guindon, CPA  
Auditor General

March 10, 2014

**Special Review of  
Municipality of Mitchell – Corn Palace Operation**

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**Executive Summary**

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At the request of the Mayor of the Municipality of Mitchell (Municipality), we reviewed controls over selected functions of the Mitchell Corn Palace (Corn Palace) operations. The objective of our review was to determine whether the Corn Palace operation had adequate cash control procedures in place related to the cash collections, reconciliations and depositing of cash collections, operational (physical) controls, accounting controls related to the operation of the ticket office, concessions operation and other ancillary operations.

This section of the report summarizes our findings and related recommendations for each area that we reviewed. A more detailed description of our objectives, procedures performed and our recommendations for each area reviewed follows this executive summary.

The Corn Palace operation is an enterprise fund operation of the Municipality. During calendar year 2012 the Corn Palace revenues were as follows:

	<b>CY 2012 Revenue</b>	<b>% of Total Revenue</b>
Concessions and Vending	481,996.59	41%
Ticket Sales	426,157.99	37%
Commissions and Rentals	194,396.32	17%
Sponsorships and Advertising	35,301.38	3%
Miscellaneous	25,713.71	2%
<b>Total Operating Revenue</b>	<b>1,163,565.99</b>	<b>100%</b>

A large portion of the revenues collected are received in cash, checks and credit cards. Therefore, properly designed, implemented and monitored internal accounting controls over the operation are extremely important.

United States General Accounting Office, Government Auditing Standards, 2011 revision, states:

Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; noncompliance with provisions of laws, regulations, contracts or grant agreements; or abuse.

**Internal Controls over Corn Palace Concession Operations** – (See pages 7 to 10 for detailed analysis)

The Corn Palace concession operation is a major revenue generating portion of the Corn Palace operation and is also one of the major cash collection points of the operation. The internal controls over the concession operation's cash collection, reconciliation and accountability function are not adequately designed or functioning properly to safeguard assets or prevent and detect errors, fraud or abuse.

We found the following lack of proper internal controls related to the Corn Palace concession operation:

- Only one person is involved in counting the cash in the cash registers and making the deposit. In addition, a proper cash count reconciliation form was not used in the process of reconciling each cash register.
- Each cash register is not balanced out to a required starting balance amount each time a deposit is made.
- The detailed journal tapes from all cash registers are not retained with the summary balance tapes (z-tapes).
- Access to the cash register manager keys for the concession stand cash registers was not limited to appropriate individuals.
- Documentation of all voids of sales were not retained and/or reviewed by appropriate personnel.
- A proper policy on how personnel operating the cash registers should handle voided sales and refunds was not established.
- The current cash register system used by the Corn Palace concession operation does not have the ability to adequately review the transactional data of the cash registers if manual detail journal tapes are not retained. The current cash register system does not maintain any back up data on transactional history of sales, refunds or voided transactions.

**Related Recommendations:**

1. We recommend that more than one person be involved in counting the cash in the cash registers and making the deposit.
2. We recommend that the individual assigned to each cash register and a supervisor count the cash register contents, document the cash count using a proper cash count reconciliation form, which the two individuals performing the count and reconciliation should sign and date and the Director monitor and review the process.
3. We recommend that each cash register be balanced out to the required starting balance amount each time a deposit is made.
4. We recommend that the detailed journal tapes from all cash registers be retained with the summary balance tapes (z-tapes).

5. We recommend that access to the cash register manager keys for the concession stand cash registers be limited to appropriate individuals.
6. We recommend that documentation of all voids of sales be retained and reviewed by appropriate personnel.
7. We recommend that a policy specifying how voided sales and refunds are to be handled be established and followed by all personnel operating the cash registers.
8. We recommend the Municipality consider reviewing the current cash register system's lack of ability to maintain adequate back up of transactional history data.

**Internal Controls over Change Funds and Other Cash Collections** – (See pages 11 to 13 for detailed analysis)

The Corn Palace operation has change funds maintained at two different locations. The stated purpose for the change funds is that they are to be used to exchange larger bills from the concessions operation for smaller denominations (\$1, \$5 and \$10) when necessary. One location maintains \$500, kept in a safe with adequate surveillance coverage, the other location maintains \$3,575, kept in a safe; however, this location does not have adequate surveillance coverage. The change fund amounts have not been established by the Finance Department and independent verifications of the change funds have not been performed. The internal controls over segregation of duties, monitoring and supervision of the internal control process related to change fund procedures are not adequately designed or functioning properly to safeguard assets or prevent and detect errors, fraud or abuse.

The Corn Palace change funds procedures lacked proper internal controls over segregation of duties, monitoring and supervision of the internal control process related to change funds.

The Corn Palace operation has additional cash collections related to the ticket office operation, donation boxes, beverage vending machines and souvenir vending machines. The internal controls over the cash collection, reconciliation and accountability function were not adequately designed or functioning properly to safeguard assets or prevent and detect errors, fraud or abuse.

The Corn Palace cash collection procedures, related to the ticket office operation, donation boxes, beverage vending machines and souvenir vending machines, lacked proper internal controls over the segregation of duties, reconciliation of sales, and monitoring or supervision of the internal control process.

**Related Recommendations:**

9. We recommend that the Municipality establish and maintain a record of required balances for all change funds maintained by the Corn Palace operations and perform independent verifications of the change fund balances. In addition, the Municipality should consider providing adequate surveillance coverage of all locations of change funds.

10. We recommend that an individual assigned to the ticket office cash register and a supervisor, or another individual, count the cash register contents, document the cash count using a proper cash count reconciliation form, which the two individuals performing the count and reconciliation should sign and date and the Director monitor and review the process.
11. We recommend that two individuals count the contents of the two donation boxes, document the cash count using a proper cash count reconciliation form, which the two individuals performing the count and reconciliation should sign and date and the Director monitor and review the process. In addition, the Municipality may consider having two padlocks on each donation box; with Finance Office retaining one key and the Director or Deputy Director retaining the other key.
12. We recommend that two individuals count the beverage vending machine contents, document the cash count using a proper cash count reconciliation form, which the two individuals performing the count should sign and date and the Director monitor and review the process. The cash count reconciliation form should also contain an area to document the electronic meter readings from the beverage vending machines.
13. We recommend that two individuals count the souvenir vending machine contents, document the cash count using a proper cash count reconciliation form, which the two individuals performing the count should sign and date and the Director monitor and review the process.

**Internal Controls over Physical Security of Cash Collections** – (See page 14 for detailed analysis)

The Corn Palace operation maintains the cash collections in three different locations. The internal controls over the physical security of cash collections are not adequate to safeguard assets.

**Related Recommendations:**

14. We recommend that the Corn Palace review the physical security of the cash collections and consider consolidating to one secure location with appropriate video security surveillance coverage of the location.

**Internal Controls over Contract Process** – (See page 15 for detailed analysis)

The Corn Palace operation enters into various contracts with artists, performers and promoters for entertainment events and also enters in agreements for sponsorships of events. The internal controls over the contract process are not adequately designed or functioning properly to safeguard assets or prevent and detect errors, fraud or abuse.

**Related Recommendations:**

15. We recommend that copies of the contracts with artist, performers and promoters for entertainment events be provided to the Finance Office as support for the payments.
16. We recommend that all sponsorships be supported with a written agreement and that the agreements are monitored to assure the Corn Palace receives what has been agreed to.

**Proper Supporting Documentation for Credit Card Usage and Travel Reimbursement –**  
(See pages 16 to 18 for detailed analysis)

The Municipality's policy provides clear guidelines on the approval process for the review of credit card payment vouchers, including supporting documentation, such as receipts documenting the business purpose (date, time, place, amount, and business purpose of expense) for expenses charged to the Municipality's credit cards.

We noted instances where adequate supporting documentation, such as receipts documenting the business purpose (date, time, place, amount, and business purpose of expense) for expenses charged to the Municipality's credit cards were not included or provided.

We were also informed of an instance in which gifts (free tickets) were received by Municipal employees from a vendor of the Municipality which is contrary to Municipal policy.

**Related Recommendations:**

17. We recommend the Municipality clarify and emphasize the need for proper receipts and documentation (date, time, place, amount, and business purpose of expense) for charges to the Municipality's credit cards.
18. We recommend the Municipality clarify and emphasize the need to adhere to the Municipality's Gift and Gratuities Policy and not permit the acceptance of any gifts in excess of amount specified in policy from a vendor of the Municipality.

**Compliance with Disposal of Surplus Government Property Statutes** - (See page 19 for detailed analysis)

The Corn Palace operation did not comply with the State of South Dakota disposal of surplus government statutes.

**Related Recommendations:**

19. We recommend the Municipality comply with the statutes related to the disposal of surplus government property and that items be removed only when approved by the Municipality's governing board.



## **Internal Controls over Corn Palace Concession Operations**

### **Objective:**

This portion of our review focused on internal controls over the Corn Palace concession operations. Our objective was to determine if internal controls over the Corn Palace concession operations are adequately designed and operating effectively.

### **Background:**

The Corn Palace operation is an enterprise fund operation of the Municipality. During calendar year 2012 the Corn Palace concession operations revenues were \$481,996.59 or 41% of the Corn Palace total operating revenues.

A large portion of the revenues collected are received in cash, checks and credit cards. Therefore, properly designed, implemented and monitored internal accounting controls over the operation are extremely important.

United States General Accounting Office, Government Auditing Standards, 2011 revision, states:

Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; noncompliance with provisions of laws, regulations, contracts or grant agreements; or abuse.

### **Procedures Performed**

We performed the following procedures in our review of the internal controls and procedures of the Corn Palace concession operations:

- Interviewed management personnel to understand the internal controls and procedures followed for concessions operation of the Corn Palace.
- Performed cash counts of the concession operation.
- Reviewed management's documentation of prior cash counts and deposits.
- Reviewed operational capabilities of current cash register system.

### **Results of Procedures**

The Corn Palace concessions operation uses four different cash registers during busy times. There are two concession stands, each with two cash registers. Each cash register is to have around \$375.00 in coin and currency; however, our cash count testing revealed that this number varied and each cash register is not properly balanced out when deposits are made (change is not always counted).

When deposits are made and cash is counted (either at the end of an event or after a period of time), the Corn Palace Director Mark Schilling will print out summary balance tapes (z-tapes) and remove the detailed journal tapes from each of the cash registers. He also performs the counting of the cash in each register, prepares the deposit and in some instances, makes the deposit. No other personnel are usually involved. The detailed journals tapes, a critical

document supporting the reconciliation process, are not retained, but the summary balance tapes (z-tapes) are retained.

Concessions Deposit – December 9, 2013 to December 13, 2013:

We were informed that the Director has instructed the Corn Palace personnel to hold the collections if he is not available and he would perform the counting of the collections when he returned. This resulted in the concession and gift shop collections from December 9, 2013 to December 13, 2013 not being deposited until December 16, 2013.

At the end of the night of December 13, 2013 we had concessions personnel do a flash report (a flash report is done by turning the key on the cash register to a certain function and the net sales will show on the screen) of the net sales of each of the four cash registers in the concessions area. The individual handwrote the information on a piece of paper. We then obtained the summary balance tapes (z-tapes) from that night and compared the net sales from the summary balance tapes (z-tapes) to the net sales from the flash report. We noted the following:

North Concession Stand:	Flash Report	Z-Tape	Variance
Register 1	\$4,320.26	\$3,142.76	\$(1,177.50)
Register 2	\$ 965.76	\$ 965.76	\$ 0.00
South Concession Stand:			
Register 3	\$ 691.00	\$ 691.00	\$ 0.00
Register 4	\$1,676.75	\$1,680.75	\$ 4.00

The variance from South Concession Stand Register 4 is explained by having some last minute sales after doing the flash report. The variance from North Concession Stand Register 1 cannot be explained or documented due to the detailed journal tapes not being retained.

Since the detail journal tapes from each cash register are not retained, we were unable to determine why the flash report and summary balance tapes (z-tapes) reading from North Concession Stand Register 1 showed such a variance.

Cash Register System Operation:

We determined that the current cash register system used by the concession operation has the ability to perform refund and void transactions. On the summary balance tapes (z-tapes) refunds are noted with an RF. The voids will be noted with VD1, VD2, VD3 or VD4. The following are the descriptions of the void annotations:

- VD1 – Regular Mode Void (most likely used by person running till during business)
- VD2 – Void Mode Item Void (must have manager key to make this)
- VD3 – Void Mode Transaction Void (must have manager key to make this)
- VD4 – Subtotal Void (will void and abort an entire transaction)

In order to have a void show up notated with VD2 and VD3 you must have possession of the manager register key. You must insert this key into the register and turn the mode switch to the void position.

We interviewed the Director and the Deputy Director as to the location of the operator and manager keys for the cash registers. The Deputy Director informed us that she had two manager keys on a large ring of keys located in the ticket office. We viewed the keys and noted that they were manager keys (MA was etched into the keys). The Director stated that he did not know for sure where the operator keys were, and there should be one manager key in the North Concession stand (verified) and one in the South Concession stand (verified). There was a disagreement between the Director and Deputy Director as to when these keys were placed in the concession stands.

We reviewed the summary balance tapes (z-tapes) related to the December 13<sup>th</sup> deposit information noted above and noted a large voided transaction in the North Concession Stand Register 1. Since the detail journal tapes were not retained, we asked the Director for the documentation for the large void transaction (VD2/VD3 manager key void). He stated that no documentation related to void transactions is required or retained.

We reviewed the operations manual for the current cash register system used by the concession operation. We also interviewed a retired business owner and sales person who sold and installed this type of cash register system years ago. They informed us that if the detailed journal tapes are not retained this type of system has no capability to restore historical transactional information.

#### Cash Collection / Depositing Procedures Followed:

We interviewed the Director to determine how he normally performs the concession operation cash count and reconciliation. He stated that he collects all of the cash tills from the cash registers, obtains the summary balance tapes (z-tapes) and the detailed journal listing tapes from each register. He then takes the cash tills and cash register tapes to his office and counts the cash, checks and credit card batches and prepares a Corn Palace Concessions/Gift Shop Deposit form. The Corn Palace Concessions/Gift Shop Deposit does not contain a summary of the actual cash counted for each cash register; it only includes a "Cash Sales" grand total. The Director is normally the only individual involved in the initial counting of the collections.

The Director informed us that once he has completed the Corn Palace Concessions/Gift Shop Deposit form he disposes of the detailed journal tapes from the cash registers.

After the Director completes the Corn Palace Concessions/Gift Shop Deposit form, he gives it to the Deputy Director, who then verifies the deposit.

We asked the Director how he accounts for "cash long / short" situation when performing the cash counts and deposits. He stated that "cash long / short" situation are noted on the bottom of the Corn Palace Concessions/Gift Shop Deposit form. We reviewed every Corn Palace Concessions/Gift Shop Deposit form for calendar year 2013 and noted only two instances (both related to credit cards and not cash) in which a variance situation was noted on the Corn Palace Concessions/Gift Shop Deposit form.

#### Recommendations:

1. We recommend that more than one person be involved in counting the cash in the cash registers and making the deposit.

2. We recommend that the individual assigned to each cash register and a supervisor count the cash register contents, document the cash count using a proper cash count reconciliation form, which the two individuals performing the count and reconciliation should sign and date and the Director monitor and review the process.
3. We recommend that each cash register be balanced out to the required starting balance amount each time a deposit is made.
4. We recommend that the detailed journal tapes from all cash registers be retained with the summary balance tapes (z-tapes).
5. We recommend that access to the cash register manager keys for the concession stand cash registers be limited to appropriate individuals.
6. We recommend that documentation of all voids of sales be retained and reviewed by appropriate personnel.
7. We recommend that a policy specifying how voided sales and refunds are to be handled be established and followed by all personnel operating the cash registers.
8. We recommend the Municipality consider reviewing the current cash register system's lack of ability to maintain adequate back up of transactional history data.

## **Internal Controls over Change Funds and Other Cash Collections**

### **Objective:**

This portion of our review focused on internal controls over the change funds and other cash collection areas of the Corn Palace operation. Our objective was to determine if internal controls over the change funds and the other cash collections are adequately designed and operating effectively.

### **Background:**

The Corn Palace operation has change funds maintained at two different locations. The Corn Palace operation has additional cash collection areas related to the ticket office operation, donation boxes, beverage vending machines and souvenir vending machines.

### **Procedures Performed**

We performed the following procedures in our review of the internal controls and procedures of the Corn Palace for change funds and additional cash collection areas:

- Interviewed management personnel to understand the internal controls and procedures followed for change funds and the other cash collection areas of the Corn Palace operation.
- Reviewed management's documentation of prior cash counts and deposits.
- Reviewed operational and physical security related to the other cash collection areas.

### **Results of Procedures**

The Corn Palace operation has change funds maintained at two different locations. The stated purpose for the change funds is that they are to be used to exchange larger bills from the concessions operation for smaller denominations (\$1, \$5 and \$10) when necessary. One location maintains \$500, kept in a safe with adequate surveillance coverage, the other location maintains \$3,575, kept in a safe; however, this location does not have adequate surveillance coverage. The change fund amounts have not been established by the Finance Department and independent verifications of the change funds have not been performed. The internal controls over segregation of duties, monitoring and supervision of the internal control process related to change fund procedures are not adequately designed or functioning properly to safeguard assets or prevent and detect errors, fraud or abuse.

We found the following lack of proper internal controls related to the change funds process:

- The Finance Department has not established and does not maintain a record of the change fund balances on the accounting system.
- Independent verifications of the change funds have not been performed.
- Video surveillance coverage does not exist at one of the locations of the change funds.

The Corn Palace operation has additional cash collection areas related to the ticket office operation, donation boxes, beverage vending machines and souvenir vending machines. The internal controls over the cash collection, reconciliation and accountability function are not adequately designed or functioning properly to safeguard assets or prevent and detect errors, fraud or abuse.

The Corn Palace cash collection procedures lacked proper internal controls over the segregation of duties, reconciliation of sales, and monitoring or supervision of the internal control process. We found the following lack of proper internal controls related to the other cash collections process:

- The ticket office uses an electronic ticketing system, which does provide adequate support of sales and collections; however, a proper cash count reconciliation form is not used in the process of reconciling the cash register.
- The Corn Palace has two locations for visitors to make donations to the Corn Palace. The finance officer has a key for one location and the Corn Palace Manager has a key for the second location. The donations to be deposited are generally supported with a cash count sheet and are supposed to be counted by two employees; however, signatures of the individuals involved are not recorded on the cash count sheets.
- The Corn Palace has various beverage vending machines. A summary worksheet is prepared for the sales; however, a proper cash count sheet is not prepared to support the deposit. In addition, the beverage vending machines do have an electronic meter which has the capability of recapping the vending sales. The electronic meter reading could be recorded on the cash count sheet as additional information used in reconciling sale receipts.
- The Corn Palace has two souvenir vending machines, one a quarter press and one a penny press. The cash collections, all change, is not counted by the Corn Palace staff, but taken to the bank to be counted. The Corn Palace operation does have a coin counting machine which could be used to count the cash collections.

### **Recommendations:**

9. We recommend that the Municipality establish and maintain a record of required balances for all change funds maintained by the Corn Palace operations and perform independent verifications of the change fund balances. In addition, the Municipality should consider providing adequate surveillance coverage of all locations of change funds.
10. We recommend that an individual assigned to the ticket office cash register and a supervisor, or another individual, count the cash register contents, document the cash count using a proper cash count reconciliation form, which the two individuals performing the count and reconciliation should sign and date and the Director monitor and review the process.

11. We recommend that two individuals count the contents of the two donation boxes, document the cash count using a proper cash count reconciliation form, which the two individuals performing the count and reconciliation should sign and date and the Director monitor and review the process. In addition, the Municipality may consider having two padlocks on each donation box; with Finance Office retaining one key and the Director or Deputy Director retaining the other key.
12. We recommend that two individuals count the beverage vending machine contents, document the cash count using a proper cash count reconciliation form, which the two individuals performing the count should sign and date and the Director monitor and review the process. The cash count reconciliation form should also contain an area to document the electronic meter readings from the beverage vending machines.
13. We recommend that two individuals count the souvenir vending machine contents, document the cash count using a proper cash count reconciliation form, which the two individuals performing the count should sign and date and the Director monitor and review the process.

## **Internal Controls over Physical Security of Cash Collections**

### **Objective:**

This portion of our review focused on internal controls over the physical security of cash collections of the Corn Palace operation. Our objective was to determine if internal controls over the physical security of cash collections are adequately designed and operating effectively.

### **Background:**

The Corn Palace operation maintains cash collections in three different locations. The Corn Palace operation also has a security video surveillance system installed in and around the Corn Palace.

### **Procedures Performed**

We performed the following procedures in our review of the internal controls and procedures of the Corn Palace physical security of cash collections:

- Interviewed management personnel to understand the internal controls and procedures followed related to the physical security of cash collections of the Corn Palace.
- Observed management's physical security of cash collections.

### **Results of Procedures**

The Corn Palace operation maintains the cash collections in three different locations. The internal controls over the physical security of cash collections were not adequate to safeguard assets.

We found the following lack of proper internal controls related to the physical security of cash collections:

- The Corn Palace operation maintains cash collections in three separate locations.
  - One of the locations does not contain security video coverage. The entrance to the location is able to be locked and does have a small safe to hold some of the collections; however, the remaining amount is stored in a less secure cabinet. This is the location where the majority of all cash collections are counted.
  - Another location does contain security video coverage; however, the location does not permit a clear enough image of the cash collection position.
  - The final location does have adequate security video coverage.
- The current video security system used for a portion of the Corn Palace operation does not have the ability to store more than 3 to 5 days security data.

### **Recommendations:**

14. We recommend that the Corn Palace review the physical security of the cash collections and consider consolidating to one secure location with appropriate video security surveillance coverage of the location.



## **Internal Controls over Contract Process**

### **Objective:**

This portion of our review focused on internal controls over the contract process of the Corn Palace operation. Our objective was to determine if internal controls over contract process are adequately designed and operating effectively.

### **Background:**

The Corn Palace operation enters into various contracts with artist, performers and promoters for entertainment events and also enters into agreements for sponsorships of events.

### **Procedures Performed**

We performed the following procedures in our review of the internal controls and procedures of the Corn Palace contract process:

- Interviewed management personnel to understand the internal controls and procedures followed for the contract process of the Corn Palace operations.
- Reviewed vouchers for the payments to artists, performers and promoters of various entertainment events held at the Corn Palace during calendar year 2013.
- Reviewed sponsorships, and related agreements when available, for various events held during calendar year 2013.

### **Results of Procedures**

The Corn Palace operation lacked proper internal controls over the contract process were not adequately designed or functioning properly to safeguard assets or prevent and detect errors, fraud or abuse. We found the following lack of proper internal controls related to the contract process:

- The vouchers for the payments to the artist, performers and promoters for entertainment events did not always include the contract as supporting documentation for the payment.
- Written agreements related to sponsorships were only available for 10 of 34 sponsorships during calendar year 2013. Fourteen of the sponsorships represented trade agreements for which no written agreements were available, therefore it is not possible to monitor whether the agreements were complied with. We did determine two instances occurred in which the sponsorship agreement was not monitored resulting in the Corn Palace not receiving \$2,000 in promised sponsorships.

### **Recommendations:**

15. We recommend that copies of the contracts with artist, performers and promoters for entertainment events be provided to the Finance Office as support for the payments.
16. We recommend that all sponsorships be supported with a written agreement and that the agreements are monitored to assure the Corn Palace receives what has been agreed to.

## Proper Supporting Documentation for Credit Card Usage and Travel Reimbursement

### Objective:

This portion of our review focused on internal controls over credit card usage of the Corn Palace operation personnel for a portion of CY 2012 and CY 2013. Our objectives were:

1. To determine if internal controls over credit card usage are adequately designed and operating effectively;
2. To determine if credit card payment vouchers have adequate support as to time, place and business purpose;

### Background:

The Municipality has authorized the use of credit cards by the employees of the Municipality. The Municipality of Mitchell Personnel Policy and Procedures Manual – January 2005 states:

#### **7.11 Credit Card Acquisition and Use Policy**

**Cards** – *Cards may be used to pay for pre-authorized purchases through the Internet, if it is the only means of payment accepted by the vendor. The card may not be used to pay for meals that qualify for reimbursement through per diem or for any item which does not directly benefit the City of Mitchell.*

**Receipts** – *All purchases made with said card shall be accounted for with purchase receipts retained from the point of sale at which the item(s) were purchased. The employee initiating the purchase will list the item(s) acquired on the purchase receipt and their purpose. The department head shall immediately verify, by signature on the invoice, that the purchase was necessary and to the benefit of the City of Mitchell and shall submit the invoice to the Finance Office with appropriate account expense coding information. Charges submitted to the Finance Office for payment without the proper documentation will not be processed and may become the responsibility of the employee through garnishment. Personal use of the credit card is strictly prohibited. Misuse of credit card accounts or repeated failure to provide proper documentation will be the responsibility of the employee and will be considered grounds for disciplinary action up to and including termination and any restitution.*

**Perks** – *Any perks, credits or items of value earned because of the use of said card may only be used for the benefit of the municipality and not for that of the cardholder. Except, frequent flier credits may accrue to the employee/official actually incurring the credit, in accordance with Official Opinion No. 90-04 of the SD Office of the Attorney General. (Policy added 4/08)*

#### **3.6 Gift and Gratuities**

*It is the policy of the City that employees are prohibited from soliciting and accepting any rebate, money, entertainment, gift, or gratuity (except meals during business meetings) from any person, company, firm, or corporation. Abuse of this policy may subject the employee to disciplinary action. Personal receipt of gifts is prohibited, and if received, must be reported immediately to the Department Head. Gifts of an advertising or*

*promotional nature may be accepted if the value is under \$15.00 (examples include calendars, pens, caps, etc.) (Amended 3/06)*

### **Procedures Performed**

We performed the following procedures in our review of the internal controls and procedures of the Corn Palace operation's employee credit card usage:

- Interviewed management personnel to understand the credit card usage process and documentation requirements followed by the Municipality.
- Reviewed expense vouchers for the payment of credit card expenses for all personnel of the Corn Palace for November 2012 to December 2013.
- Prepared an analysis of the credit card usage compared to travel expense worksheets.

### **Results of Procedures**

The Corn Palace Director has two separate credit cards assigned to him, the Deputy Director has a credit card assigned to her and two of the Corn Palace maintenance personnel have a credit card assigned to each of them.

The following unsupported or unusual charges were noted on the credit cards of the Corn Palace Director:

- November 7, 2012 (Transaction Date) – A \$3,587.90 charge was made at AA Vacations. The only support included was a confirmation statement from American Airlines Vacations. This confirmation did not include any details on the destination, travelers or accommodations included. The support included was not adequate to comply with Municipal Policy. We were later able to confirm with AA Vacations that this charge was for two individuals, Mark Schilling (Director) and Jerilyn Mickelson (Deputy Director) for a trip to Las Vegas, leaving April 4<sup>th</sup>, returning April 9<sup>th</sup>. The package included airfare, two rooms, car rental, taxes and insurance. We discussed this trip with the Deputy Director and she stated that she, a friend of hers and the Director all went on this trip. The Deputy Director's friend paid for her own airfare. She stated that the three of them attended the Academy of Country Music (ACM) awards show which was held on Sunday, April 7, 2013. We inquired if the tickets to the ACM awards show were included in the travel package. She informed us that the tickets were given to the Director by a representative from Romeo Entertainment Group (a vendor of the Municipality). A representative from Romeo Entertainment Group also attended the ACM's with the Director, Deputy Director and a friend of Deputy Director. Receiving free tickets to the ACM award show from a vendor of the Municipality goes against Municipal policy.
- November 25, 2012 – A \$70.00 charge was made at Allegiant Air. No supporting documentation was included for this purchase in violation of Municipal policy.
- January 4, 2013 – A \$52.99 charge was made at Directed-Smartstart. No supporting documentation was included for this purchase in violation of Municipal policy. We determined through an online search that this is an app for a smartphone that will remotely start a vehicle.

- January 8, 2013 – A \$123.49 charge was made at Chula Vista Resort. No supporting documentation was included for this purchase in violation of Municipal policy.
- April 8, 2013 – A \$440.00 charge was made at Emeril's New Orleans Fish House in Las Vegas, Nevada. No supporting documentation was included for this purchase in violation of Municipal policy. Charging meals to the credit card also goes against Municipal policy. We asked the Deputy Director about the charge to Emeril's New Orleans Fish House. She stated that the Director paid for a meal at this restaurant when they went to attend the ACM award show. This meal was attended by the Director, the Deputy Director, her personal friend and a representative from Romeo Entertainment Group, a vendor of the Municipality.
- October 24, 2013 – A \$50.00 charge was made at Ruby Tuesday in Mitchell, South Dakota. No supporting documentation was included for this purchase in violation of Municipal policy. Ruby Tuesday is a restaurant and charging meals to the credit cards is also against Municipal policy.
- December 8 & 9, 2013 – Four charges were made at Amazon.com totaling \$1,019.43. The four separate charges were for the purchase of four sets of luggage. The Director Mark Schilling has given the Municipality a check for \$1,019.50 as reimbursement for these charges. Personal use of the credit card is strictly prohibited by Municipal Policy.

In addition, during our review of credit card charges (credit card statement closing dates November 7, 2012 through November 8, 2013) we noted that the Director traveled to various destinations fifteen times. We were unable to determine why in only two of the fifteen travel events did the Director make request for and receive reimbursement for meals. Both occasions were trips to Las Vegas, Nevada.

**Recommendations:**

17. We recommend the Municipality clarify and emphasize the need for proper receipts and documentation (date, time, place, amount, and business purpose of expense) for charges to the Municipality's credit cards.
18. We recommend the Municipality clarify and emphasize the need to adhere to the Municipality's Gift and Gratuities Policy and not permit the acceptance of any gifts in excess of amount specified in policy from a vendor of the Municipality.

## **Compliance with Disposal of Surplus Government Property Statutes**

### **Objective:**

This portion of our review focused on compliance with statutes related to the disposal of surplus government property.

### **Background:**

South Dakota Codified Law (SDCL) 6-13-1 requires the Municipality's governing board to, by appropriate motion, determine that equipment is no longer necessary, useful, or suitable for the purpose for which it was acquired.

SDCL 6-13-1. Disposal of property by governing board

The governing board of a political subdivision may sell, trade, loan, destroy, or otherwise dispose of any land, structures, equipment, or other property which the governing board has, by appropriate motion, determined is no longer necessary, useful, or suitable for the purpose for which it was acquired. No motion is required to sell, trade, loan, destroy, or otherwise dispose of consumable supplies, printed text, zoo animals, or subscriptions.

### **Procedures Performed**

We performed the following procedures in our review of the compliance with disposal of surplus property statute:

- Interviewed management personnel to understand the Municipality's process and documentation requirements for disposal of surplus government property.
- Reviewed personal property inventory report (Asset Reinventory Report) for the Corn Palace operation. The report includes both capital asset and noncapital asset items.
- Performed spot check of personal property inventory report.

### **Results of Procedures**

During our review of the personal property inventory report (Asset Reinventory Report) for the Corn Palace operation we noted that 14 asset items had been marked as "Disposed" and 2 items had been marked "Surplus Auction". We were informed by the Finance Office that none of the 14 items marked as disposed were properly declared surplus by the Municipality's governing board as required by SDCL 6-13-1.

In addition, of the 14 items listed as disposed, we determined that 2 of the items are actually still physically present at the Corn Palace. Also, we noted 5 items that were physically located at Corn Palace which were not on the personal property inventory report.

### **Recommendations:**

19. We recommend the Municipality comply with the statutes related to the disposal of surplus government property and that items be removed only when approved by the Municipality's governing board.