

MUNICIPALITY OF TRIPP – HUTCHINSON COUNTY

SPECIAL REVIEW

November 23, 2011 Through December 31, 2018

MUNICIPALITY OF TRIPP – HUTCHINSON COUNTY
SPECIAL REVIEW

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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

Governing Board
Municipality of Tripp
Tripp, South Dakota

Pursuant to a request from the governing board of the Municipality of Tripp we performed procedures for the purpose of determining the potential amount of funds misappropriated from the Municipality during the time period of November 23, 2011 through December 31, 2018.

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

This report begins with an executive summary of our findings. Following the executive summary are additional sections with detailed information related to our findings and recommendations.

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.

Sincerely,

Martin L. Guindon, CPA
Auditor General

August 22, 2019

MUNICIPALITY OF TRIPP SPECIAL REVIEW

I. Background/Predication

The South Dakota Department of Legislative Audit (DLA) started an Internal Control Review of the Municipality of Tripp (Municipality) on September 24, 2018. An Internal Control Review is a special examination as defined by South Dakota Codified Law (SDCL) 4-11-4.1.

After spending several weeks obtaining and reviewing documents provided by the Municipality's Finance Officer Jennifer Friederich, we were still having difficulties verifying amounts in the Municipality's accounting records and financial reports. We then requested information related to remittances to the Municipality from Hutchinson County and the State of South Dakota. We were unable to trace all of the remittances to the Municipality's accounting and banking records.

We met with Ms. Friederich on November 6, 2018 to investigate the discrepancies. Ms. Friederich was unable to provide an explanation of the discrepancies between the amounts recorded in the accounting records and the information received from Hutchinson County and the State of South Dakota.

On November 8, 2018, we met with the Regional President for BankWest, the Municipality's banking institution. After obtaining authorization, BankWest provided us with copies of bank statements for the Municipality.

We compared the bank statements received from BankWest with the bank statements provided to us by Ms. Friederich and determined that Ms. Friederich had provided us altered bank statements. Also, while reviewing the BankWest provided bank statements, we found that the Municipality was making large payments to a US Bank credit card account.

Based upon the above predication, on November 19, 2018, we met with Municipality of Tripp officials to discuss our preliminary findings.

The Municipality requested that DLA start an engagement to conduct a special review of the transactions of the Municipality, to include the Municipality's credit card account and any other questionable transactions.

II. Executive Summary

We conducted a review of the Municipality's banking records, credit card transactions, payroll payments and other accounting records for the period November 23, 2011 to December 31, 2018. Our review included examination of relevant documents and records along with interviews of appropriate Municipal personnel.

Based on the procedures performed and interviews conducted during the special review, our significant findings are as follows:

1. Municipal Finance Officer Jennifer Friederich received payroll checks in excess of authorized pay in the amount of \$132,831.01. See Finding 1 for details.
2. Municipal Finance Officer Jennifer Friederich made inappropriate charges to the Municipality's credit card using credit card bank card checks in the amount of

\$237,184.53. In addition, the Municipality had to pay for convenience check fees totaling \$5,611.56 and interest on cash advances totaling \$6,035.64. See Finding 2 for details.

3. Municipal Finance Officer Jennifer Friederich made inappropriate payments to credit card accounts, not related to the Municipality of Tripp, from the Municipality's bank account in the amount of \$18,814.82. See Finding 3 for details.
4. Municipal Finance Officer Jennifer Friederich provided altered bank statements and accounting records to us. See Finding 4 for details.
5. Unsupported and potentially inappropriate charges were made to the Municipality's credit card in the amount of \$6,539.43. See Finding 5 for details.
6. Inappropriate and unauthorized payments were made for wireless phone services in excess of the amount authorized in the amount of \$5,679.06. See Finding 6 for details.
7. We found a significant difference between cash amounts deposited to the Municipality's bank account when Municipal Finance Officer Jennifer Friederich was employed and after she resigned. See Finding 7 for details.

III. Scope

The specific objectives of the special review were as follows:

1. Determine whether Municipal Finance Officer Jennifer Friederich was paid the amount authorized by the Municipality for employment and expenses.
2. Determine whether charges to the Municipality's credit card were appropriate.
3. Determine whether expenses paid from the Municipality's bank account were appropriate Municipal expenses.
4. Determine whether documents provided to us were proper and valid records of the Municipality.
5. Determine whether cash collections were deposited in the Municipality's bank account.

IV. Approach

To accomplish the objectives of the special review, we performed the following procedures:

1. Examined the Municipality's bank statements received from BankWest (formerly First State Bank) for the period January 1, 2012 through March 31, 2019.
2. Obtained and examined the Municipality's payroll records and financial statements for the period January 1, 2012 through December 31, 2018.
3. Obtained and reviewed the Municipality's minutes for board meetings for the period January 1, 2012 through December 31, 2018.
4. Reviewed the Municipality's credit card statements for the period November 23, 2011 through November 22, 2018.
5. Compared cash deposits to the Municipality's bank account when Ms. Friederich was employed to cash deposits after she resigned.
6. Conducted interviews of various persons as necessary.

V. Findings

Based on the procedures performed, our significant findings are as follows:

FINDING 1

Municipal Finance Officer Jennifer Friederich received payroll checks in excess of authorized pay in the amount of \$132,831.01. Following is a summary of the evidence and information that supports our finding:

1. During the period from January 1, 2012 through December 31, 2018, numerous payroll checks issued to Ms. Friederich did not agree with the salary authorized by the Municipality.
2. We compared the payroll checks issued to Ms. Friederich from the actual bank statements obtained from BankWest to the amounts shown in the Municipality's payroll records. We noted that the Municipality's payroll records recorded the proper salary expense coded to the appropriate account classification; however, additional unsupported and unapproved amounts were added to the payroll checks that were coded to various other expense account classifications or not coded to the accounting system at all. The additional unsupported and unapproved salary amounts were coded to accounts, such as, supplies, snow removal, and professional services.
3. We reviewed the Municipality's board meeting minutes and did not find any approval for the additional amounts added to Ms. Friederich's payroll checks.

4. A summary of the payroll checks in excess of authorized pay by calendar year follows:

	<u>Check Amount</u>	<u>Authorized Net Payroll Amount</u>	<u>Overpayment Amount</u>
CY 2012 Total	\$ 76,810.80	\$ 23,407.90	\$ 53,402.90
CY 2013 Total	74,354.49	27,076.38	47,278.11
CY 2014 Total	28,358.71	28,358.71	0.00
CY 2015 Total	34,495.96	27,495.96	7,000.00
CY 2016 Total	37,823.96	27,873.96	9,950.00
CY 2017 Total	40,477.17	29,477.17	11,000.00
CY 2018 Total	34,771.94	30,571.94	4,200.00
Grand Total	<u>\$ 327,093.03</u>	<u>\$ 194,262.02</u>	<u>\$ 132,831.01</u>

FINDING 2

Municipal Finance Officer Jennifer Friederich made inappropriate charges to the Municipality's credit card using bank card convenience checks in the amount of \$237,184.53. In addition, the Municipality had to pay convenience check fees totaling \$5,611.56 and interest on cash advances totaling \$6,035.64. Following is a summary of the evidence and information that supports our finding:

1. We interviewed Municipal Officials and were told that the Municipality did have credit cards to be used for Municipal purposes. The Mayor informed us that it was his understanding that the Municipality had a credit card which was to be used for postage and submitting water samples.
2. We reviewed the Municipality's US Bank credit card statements (First State VISA / ELAN VISA) for the period from November 23, 2011 through November 22, 2018. We noted thirty-one instances where Ms. Friederich issued bank card convenience checks using the Municipality's credit card account for inappropriate transactions. We found no business reason for the Municipality to issue any of the bank card convenience checks.
3. We reviewed the board meeting minutes of the Municipality and did not find any approval for the use of bank card convenience checks, nor did we find any of the bank card convenience checks being approved by the Municipality's governing board.
4. We determined that all payments to the US Bank credit card account were paid from the Municipality's bank account.
5. In addition to the Municipality having to pay for the bank card convenience check amounts, US Bank assessed convenience check fees totaling \$5,611.56 and interest on cash advances totaling \$6,035.64. Payment for these additional fees and interest was made from the Municipality's bank account.

6. A summary of the unauthorized bank card convenience checks, convenience check fees and interest on cash advances by calendar year follows:

	Convenience Check Amount	Convenience Check Fee Amount	Interest on Cash Advances Amount
CY 2011-CY 2012	\$ 58,546.24	\$ 1,264.00	\$ 171.52
CY 2013	4,000.00	120.00	100.08
CY 2014	24,900.00	747.00	1,175.25
CY 2015	46,000.00	1,380.00	2,274.01
CY 2016	37,598.02	1,127.94	1,008.58
CY 2017	38,800.00	873.12	1,301.57
CY 2018	27,340.27	99.50	4.63
Totals	\$ 237,184.53	\$ 5,611.56	\$ 6,035.64
 Grand Total		\$ 248,831.73	

FINDING 3

Municipal Finance Officer Jennifer Friederich made inappropriate payments to credit card accounts, not related to the Municipality of Tripp, from the Municipality's bank account in the amount of \$18,814.82. Following is a summary of the evidence and information that supports our finding:

1. We reviewed the Municipality's bank statements obtained from BankWest for the period from January 1, 2012 through December 31, 2018. We found twenty-seven instances where Ms. Friederich issued a Municipal check or made online payments from the Municipality's bank account for payments to credit card accounts not related to the Municipality.
2. A summary of the payments from the Municipality's bank account to credit card accounts not related to the Municipality from January 1, 2012 through December 31, 2018 follows:
 - 15 online payments from the Municipality's bank account totaling \$13,737.20 were issued to pay a Walmart credit card account.
 - 10 payments (1 check and 9 online payments) from the Municipality's bank account totaling \$2,331.95 were issued to pay an AMZ-Storecard credit card account.
 - 1 online payment from the Municipality's bank account for \$1,856.54 was issued to pay a First Bankcard credit card account.
 - 1 online payment from the Municipality's bank account for \$889.13 was issued to pay a Target credit card account.
3. We reviewed the board meeting minutes of the Municipality and did not note any approval for a Walmart, AMZ-Storecard, First Bankcard or Target credit card

accounts. We also found no approval for the use of the Municipality's bank account to pay the Walmart, AMZ-Storecard, First Bankcard or Target credit card accounts.

FINDING 4

Municipal Finance Officer Jennifer Friederich provided altered bank statements and accounting records to us. Following is a summary of the evidence and information that supports our finding:

1. We asked Ms. Friederich to provide us with copies of the official Municipal accounting records, copies of Municipal bank statements and investment account statements for use during our internal control review. After much delay in producing the requested records, Ms. Friederich provided us copies of what she represented as the official records of the Municipality.
2. We reviewed the copies of the accounting records, bank statements and investment account statements provided by Ms. Friederich and attempted to reconcile the accounting records to the bank balances. We encountered numerous problems in reconciling the records to the bank statement details.
3. We requested a bank confirmation of the Municipality's bank accounts. We did not receive the original bank confirmation back from BankWest; however, we received a letter on BankWest letterhead appearing to be a confirmation of the BankWest balances. We determined Ms. Friederich initiated the return of a false bank confirmation to us. We found the information contained in the false bank confirmation (other than the letterhead and signature) on a storage device at the Municipality.
4. Due to the difficulties in reconciling the bank statements to the accounting records and responses we had received from Ms. Friederich, we met with the BankWest officials and requested that they provide us a copy of the Municipality's bank statements. Upon reviewing the statements from BankWest, we determined that Ms. Friederich had provided us with altered bank statements and accounting records.
5. A summary of the altered records provided to us which were represented by Ms. Friederich as being the official records of the Municipality follows:
 - Altered Municipal bank statements. Some of the alterations noted were:
 - Account balances (beginning, debits, credits, ending) were changed.
 - Deposit amounts altered.
 - Online payments removed.
 - Deposit slip copies altered.
 - Fictitious deposit slips added.
 - Altered cancelled check payment amounts.
 - Altered investment account statements.
 - Altered accounting records. Some of the alterations noted were:
 - Accounting records did not reflect the actual amount of the payroll checks issued to Ms. Friederich.

- Accounting records did not reflect the actual amounts of deposits.
- Accounting records did not accurately reflect the payments made to the Municipality's credit card account.

FINDING 5

Unsupported and potentially inappropriate charges were made to the Municipality's credit card in the amount of \$6,539.43. Following is a summary of the evidence and information that supports our finding:

1. We interviewed Municipal Officials and were told that the Municipality did have credit cards to be used for Municipal purposes. The Mayor informed us that it was his understanding that the Municipality had a credit card which was to be used for postage and submitting water samples.
2. We reviewed the Municipality's US Bank credit card statements (First State VISA / ELAN VISA) transactional data for the period from August 1, 2016 through November 22, 2018. We noted 142 transactions charged to the Municipality's credit card account for unsupported and potentially inappropriate transactions. We classified the unsupported and potentially inappropriate transactions and summarized them as follows:

Type of Transaction	Number of Transactions	Amount of Transactions
Amazon Digital-Marketplace-Kindle Services	31	\$ 679.05
Gas-Convenience Stations Charges	64	2,263.52
Grocery Stores Charges	40	1,954.38
Walmart Stores Charges	4	877.10
SD GF&P Camping Reservations	3	765.38
Total Unsupported - Potentially Inappropriate Charges	142	\$ 6,539.43

FINDING 6

Inappropriate and unauthorized payments were made for wireless phone services in excess of the amount authorized in the amount of \$5,679.06. Following is a summary of the evidence and information that supports our finding:

1. We interviewed the Mayor and were told that the Municipality did have a wireless cell phone service and the Mayor informed us that it was his understanding that the wireless cell phone service was for law enforcement use. The Mayor did not believe that the Municipality had approved providing wireless cell phone service to the Finance Officer; however, such approval may have occurred prior to his involvement.
2. We reviewed the Municipality's bank statements obtained from BankWest for the period from January 1, 2014 through December 31, 2018. We prepared a listing of checks issued to Verizon Wireless.

3. We reviewed the board meeting minutes of the Municipality and did not find any specific approval as to whom was to receive wireless cell phone service through the Municipality. Based on our interviews and review of the wireless service accounts, we believe that 2 wireless phone service accounts and 1 hotspot device (potential use by law enforcement) were authorized by the Municipality. We estimated the monthly wireless service amount for 2 wireless phone service accounts and 1 hotspot device to be \$151.76 per month from CY 2014 through CY 2018.
4. We obtained copies of the actual billing statements for wireless service and noted that the Municipality was paying for up to 4 wireless accounts and 1 hotspot device. The charges noted on the billing statements included several equipment purchases.
5. We noted the actual payments to Verizon Wireless exceeded estimated authorized amount for wireless services by \$5,679.06. A summary of the payments to Verizon Wireless in excess of the estimated authorized amount follows:

Calendar Year	Verizon Wireless Actual Payments (4 Lines-1 Hotspot)	Verizon Wireless Estimated Authorized Amount (2 Lines-1 Hotspot)	Actual Payments In Excess Of Estimated Authorized Amount
CY 2014	\$ 2,588.78	\$ 1,823.52	\$ 765.26
CY 2015	2,749.91	1,823.52	926.39
CY 2016	2,995.95	1,823.52	1,172.43
CY 2017	2,846.40	1,823.52	1,022.88
CY 2018	3,463.66	1,671.56	1,792.10
Totals	\$ 14,644.70	\$ 8,965.64	\$ 5,679.06

FINDING 7

We found a significant difference between cash amounts deposited to the Municipality's bank account when Municipal Finance Officer Jennifer Friederich was employed and after she resigned. Following is a summary of the evidence and information that supports our finding:

1. We reviewed the Municipality's bank statements obtained from BankWest for the period from January 1, 2017 through March 31, 2019. This was the time period for which the bank statements contained deposit slips which detailed the deposit of cash proceeds. Prior to that time period the actual bank statements did not contain detail of cash deposits.
2. We found that during the entire calendar year of 2017 (January 1, 2017 to December 31, 2017) the bank statement deposit slips indicated that \$1,092.09 in cash deposits were made to the Municipality's bank account, with most of the cash deposits made in June, July and August.
3. We found that during the time period from January 1, 2018 to November 20, 2018 (the date when Ms. Friederich resigned) the bank statement deposit slips indicated

that \$974.69 in cash deposits were made to the Municipality's bank account, with most of the cash deposits made in May, June, July and August.

4. We found that during the time period after Ms. Friederich resigned through March 31, 2019 (4 months), the bank statement deposit slips indicated that \$5,556.00 in cash was deposited in the Municipality's bank account. An average of \$1,389.00 in cash deposits per month.
5. We believe that a significant amount of cash collections made by the Municipality were not deposited in the Municipality's bank account. However, due to the altered accounting records (see Finding 4) and lack of detail of cash deposits on the deposit slips, the amount is not determinable.

VI. Summary of Findings

The following table provides a summary of the inappropriate or unsupported expenses charged to the Municipality of Tripp identified in the previous findings:

Total of all payroll checks received by Jennifer Friederich in excess of authorized pay	\$ 132,831.01	Finding 1
Total inappropriate charges to the Municipality's credit card using bank card checks, including convenience check fees and interest on cash advances	248,831.73	Finding 2
Total inappropriate payments to credit card accounts not related to the Municipality of Tripp	18,814.82	Finding 3
Total unsupported and potentially inappropriate charges made to the Municipality's credit card	6,539.43	Finding 5
Total potentially inappropriate payments for wireless phone services	5,679.06	Finding 6
Potential cash not deposited in Municipality's bank account	<u>Indeterminable</u>	Finding 7
Grand Total	<u>\$ 412,696.05</u>	

VII. Recommendation

We recommend the Municipality of Tripp consult with legal counsel and consider options for the recovery of amounts identified in this report and the cost of our special review.