

MUNICIPALITY OF WENTWORTH

INTERNAL CONTROL REVIEW

November 7, 2016

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

Governing Board
Municipality of Wentworth
Wentworth, South Dakota

We have made a study of selected elements of internal control of the Municipality of Wentworth (Municipality) in effect at November 7, 2016. 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 November 7, 2016.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at November 7, 2016 as discussed below:

- a. 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 exceeding \$150,000 during the period of this review, but the surety bond coverage for the Finance Officer was only \$100,000. We recommend the Municipality increase the Finance Officer surety bond to \$150,000 as required by SDCL 9-14-6.1.

- b. 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. The personal property inventory was prepared by the Municipality during this Internal Control Review.
- c. The Municipality's 2015 annual report included a Sales Tax Fund and a Street Fund which should have been reported as functions of the General Fund. The garbage service transactions were reported in the Sewer Fund instead of as function of the General Fund and the actual sewer operations were reported in the Water Fund. SDCL 9-47 and 9-48 require the water and sewer operations to be reported as separate funds. We recommend the Municipality's funds be properly recorded and reported as required by generally accepted accounting principles and SDCL 9-47 and 9-48. The funds were properly established by the Municipality during this Internal Control Review.
- d. The Municipality did not properly maintain the following necessary records:
 - 1. General Ledger
 - 2. Accounts receivable general ledger and corresponding records
 - 3. Cash Receipts Journal
 - 4. Utility Deposit Record
 - 5. Revenue Budget Record
 - 6. Expenditure Budget Record

We recommend the Municipality properly establish and maintain the necessary accounting records. The records were established by the Municipality during this Internal Control Review.

- e. The vouchers used by the Municipality had the following inadequacies:
 - 1. The vouchers did not contain a perjury statement to be signed for personal services and/or travel in accordance with SDCL 9-23-1. In addition, evidence of verification by the Finance Officer was not included on the voucher.
 - 2. The vouchers were not coded to the fund, function and object to facilitate the proper approval by the governing board and for the proper posting to the Cash Disbursement Journal and Expenditure Budget Record.

We recommend that vouchers be properly prepared and verified as required by SDCL 9-23-1. The voucher form was properly established and the vouchers were properly coded by the Municipality during this Internal Control Review.

- f. Ten checks were pre-signed by the board president prior to the checks being completed with the payee and amounts. We recommend no checks be signed prior to their completion.

- g. Employees were paid a check in lieu of health insurance benefits and a check for a bonus which did not include payroll withholdings or matching. We recommend that all benefit checks be included as salary and be subject to the applicable payroll withholding taxes.
- h. The annual appropriations ordinance adopted by the Municipality for 2016 and 2017 combined all the funds as one fund and did not separate the means of finance and appropriations for each budgeted fund as required by SDCL 9-21-2. In addition, the budgeted appropriations for governmental expenditures were not separated by function or subfunction as required by SDCL 9-21-2. We recommend the appropriations ordinance be adopted as required by SDCL 9-21-2.

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

November 7, 2016