

MUNICIPALITY OF TRIPP
INTERNAL CONTROL REVIEW
September 24, 2018

MUNICIPALITY OF TRIPP
TABLE OF CONTENTS

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



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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 Tripp
Tripp, South Dakota

We have made a study of selected elements of internal control of the Municipality of Tripp (Municipality) in effect at September 24, 2018. 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 September 24, 2018.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at September 24, 2018 as discussed below:

- a. We identified weaknesses in the internal accounting controls over cash assets as follows:
1. The Municipality did not require or include any governing board members as authorized agents on many of the financial accounts of the Municipality. We determined that the Finance Officer was the only authorized agent on the Municipality's credit card which did not allow other Municipal officials access to credit card statements or to make inquiries of the transactions. With technological advances in the financial, investment and credit card industries, it is possible to authorize one or more of the governing board members to have query only access to the accounts. This would allow the governing board to review the activity in the financial and credit card accounts in real time. We recommend the Municipality assure that one or more governing board members are appointed as authorized agents on all financial institution accounts and credit card accounts and that they monitor the activity of the accounts.
 2. The Municipality's governing board did not receive or review the statements of the Municipality's financial institution accounts and compare the statements with the reconciled cash balances of the Municipality. We recommend the Municipality implement internal accounting control procedures to monitor the reconciliation of the accounting records to the balance of the bank statements. We recommend the Municipality reconcile the current cash balances of the Municipality's accounts and make appropriate adjustments to the accounting records.
 3. The water deposit general ledger control record of the Water Fund was not reconciled to a subsidiary record of water deposits by name to ensure that the water deposits were mathematically accurate and properly recorded. We recommend the water deposits subsidiary records be reconciled monthly to a general ledger control.
- b. We identified weaknesses in the internal accounting controls over the revenue process as follows:
1. The Cash Receipts Journal was not accurately maintained in sufficient detail to adequately account for all revenue collections of the Municipality. The Cash Receipt Journal did not provide details as to the purpose of the collection, who it was received from and the amount, to sufficiently support the amounts deposited in the Municipality's bank account. In most cases the receipts issued combined revenue from several sources without enough detail to accurately determine the source. We recommend the Municipality maintain a Cash Receipts Journal in sufficient detail to properly account for all collections and support the amounts deposited in the Municipality's bank account.
 2. The water, sewer and garbage subsidiary accounts receivable records were not reconciled to a general ledger control to ensure that receivable transactions and revenues were properly recorded and mathematically accurate. We recommend the accounts receivable subsidiary records be reconciled monthly to a general ledger control.

- c. We identified weaknesses in the internal accounting controls over the expenditure process as follows:
1. The Municipality did not prepare vouchers to support the payment of claims. SDCL 9-23-1 requires that before any claim against any municipality is allowed an itemized invoice must be accompanied by a voucher. The use of a voucher facilitates the approval, coding and verification of the claims against the Municipality. We recommend that the Municipality prepare a voucher for all claims against the Municipality as required by SDCL 9-23-1.
 2. The Municipality's governing board approved claims, including payroll expenses, against the Municipality from a listing of claims; however, the governing board did not review or compare a voucher with supporting documentation of the claim against the listing they received to determine if the listing was complete or correct in amounts. In addition, the governing board did not compare the listing or vouchers to the actual checks written to pay the claims to verify the checks were issued to the proper payee and in the correct amount. We recommend the governing board compare the vouchers to the listing of claims provided to the governing board and to the checks issued for proper payee and amount prior to being mailed or distributed.

The Municipality's lack of proper internal accounting controls over cash assets and the revenue and expenditure processes results in an increased risk that the Municipality's financial transactions were not properly recorded, and its assets were not adequately safeguarded.

While conducting our internal control review, we found irregularities related to the Municipality's cash accounts, payroll payments and credit card transactions. The Municipality requested that we conduct a special review of transactions, to include the credit card account, and any other questionable items to determine the potential amount of funds misappropriated from the Municipality. We have issued a separate report, Municipality of Tripp – Hutchinson County Special Review – November 23, 2011 through December 31, 2018, detailing the findings and recommendation for the special review. That report should be read in conjunction with this report.

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

September 24, 2018