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RUSSELL A. OLSON
AUDITOR GENERAL

February 7, 2022

Municipality of Deadwood
102 Sherman Street
Deadwood, South Dakota 57732

In planning and performing our audit of the financial statements of the Municipality of Deadwood (Municipality) as of December 31, 2020 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, we considered Municipality's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

Auditing standards generally accepted in the United States of America and *Government Auditing Standards* require that we provide you with this management letter to communicate:

1. Deficiencies Noted in Internal Control:
 - a. Deficiencies in internal control which are material weaknesses or significant deficiencies. Material weaknesses and significant deficiencies will be included in the schedule of current audit findings included in the audit report and are summarized later in this letter.
 - b. Deficiencies noted in internal control which did not rise to the level of being a material weakness or significant deficiency, yet are important enough to merit attention by those charged with governance. These deficiencies are described in detail later in this letter.
2. Violations of laws, rules and regulations and provisions of contracts or grant agreements.
 - a. Material violations of laws, rules and regulations and provisions of contracts or grant agreements. Material violations will be included in the schedule of current audit findings included in the audit report and are summarized later in this letter.

- b. Immaterial violations of laws, rules and regulations and provisions of contracts or grant agreements. These violations are described in detail later in this letter.
3. All unadjusted proposed audit adjustments to the financial statements which were not corrected, including the nature, amount and effect of the uncorrected misstatements. These adjustments have been determined by management to be immaterial, both individually and in the aggregate, to the financial statements, taken as a whole. The lead schedule of potential audit adjustments has been given to and discussed with Jessica McKeown, Finance Officer.

Deficiencies Noted in Internal Control Which Are Material Weaknesses Or Significant Deficiencies which are included in the schedule of current audit findings in the audit report:

The Municipality does not have an adequate internal control system designed to provide for the preparation of the annual financial reports in accordance with generally accepted accounting principles. This item is further discussed in Current Audit Finding 2020-001. We recommend the Municipality strengthen internal controls over financial reporting.

Deficiencies Noted in Internal Control Which Did Not Rise To The Level Of Being A Material Weakness or Significant Deficiency Yet Important Enough To Merit Attention Of Those Charged With Governance:

1. Transfers are recorded between the BID Funds and General Fund, and the Parking and Transportation Fund and General Fund, for administrative and other services, but are not tied to a specific expenditure. We recommend that these transfers be considered operating transfers in and operating transfers out and budgeted as such and then approved by the Commission to be consistent with the way the transfer for the impact of gaming are recorded.
2. Verifiable invoices were not attached to support payments for Historic Preservation grants as required by Municipal policy. We recommend detailed invoices be attached to the vouchers so that the reasonableness and necessity of the items can be determined for the approved project.
3. Transfers were made between various Municipal funds without the prior approval of the Commission. We recommend all transfers, whether budgeted or not, be approved by the Commission before the transfers are made.

Material Violations of Laws, Rules, and Regulations and Provisions of Contract and Grant Agreements which are included in the schedule of current audit findings in the audit report:

None Disclosed

Immaterial Violations of Laws, Rules, and Regulations and Provisions of Contract and Grant Agreements

1. The 2019 annual report was not published after the 2019 audit was completed as SDCL 9-22-21. We recommend the annual report be published as required by SDCL 9-22-21.
2. The Municipality incurred expenditures in excess of appropriations contrary to SDCL 9-21-25. We recommend that the Municipality refrain from incurring any expenditure in excess of the amount appropriated as required by SDCL 9-21-25.
3. The annual appropriation ordinance for 2020 was not a balanced budget for all funds. We recommend that when the annual appropriations ordinance is adopted the amount of the appropriations should balance with the means of financing.

We also noted other less significant items throughout the course of the audit that were discussed with management.

This communication is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Municipality of Deadwood and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 this report is matter of public record and its distribution is not limited.

If you have any questions, please contact me.

Sincerely,

Allen L Schaefer

Allen L Schaefer
Auditor-in-Charge