

MUNICIPALITY OF ASHTON
INTERNAL CONTROL REVIEW
September 9, 2019

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AUDITOR GENERAL

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

Governing Board
Municipality of Ashton
Ashton, South Dakota

We have made a study of selected elements of internal control of the Municipality of Ashton (Municipality) in effect at September 9, 2019. 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 9, 2019.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at September 9, 2019 as discussed below:

- a. The 2018 annual financial report was not prepared, published and filed with the Department of Legislative Audit as required by SDCL 9-22-21. We recommend the Municipality prepare, publish and file the annual financial report in accordance with SDCL 9-22-21.
- b. The 2019 appropriation ordinance first and second readings were not formally presented and approved in the minutes by the governing board as required by SDCL 9-19-7 and the appropriation ordinance was not prepared in the format required by the Municipal Accounting Manual. We recommend the appropriation ordinance be properly approved as required by SDCL 9-19-7 and prepared in the format required by the Municipal Accounting Manual.
- c. 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.
- d. The Municipality did not properly maintain the following necessary records:
 - 1. Cash Receipts Journal
 - 2. Cash Disbursement Journal
 - 3. Cash General Ledger by Fund
 - 4. Accounts Receivable General Ledger Control
 - 5. Revenue Budget Record
 - 6. Expenditure Budget Record

We recommend the Municipality properly establish and maintain the necessary accounting records.

- e. The Municipality has not established debt reserves as required by three Rural Development loans agreements. The three loans exist in the Sales Tax Debt Service Fund, the Sewer Fund and the Storm Sewer Fund. The loan agreements require that an emergency reserve be established in each of these funds equal to a maximum of the annual debt service payment and that the Sewer Fund establish an asset management reserve with a \$25 per month deposit for the life of the loan; however, the cash for the reserves has not been segregated from the other operating cash for these funds.

We recommend the Municipality establish the required Rural Development loan reserves and segregate the cash balances of the reserves from the cash balances of the Sales Tax Debt Service Fund, the Sewer Fund and the Storm Sewer Fund as required by the loan agreements.

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 9, 2019