

MUNICIPALITY OF CANOVA
INTERNAL CONTROL REVIEW
June 23, 2020

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RUSSELL A. OLSON
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 Canova
Canova, South Dakota

We have made a study of selected elements of internal control of the Municipality of Canova (Municipality) in effect at June 23, 2020. 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 June 23, 2020.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at June 23, 2020 as discussed below:

a. The Municipality did not properly maintain the following necessary records:

1. General Ledger
2. Revenue Budget Record
3. Expenditure Budget Record

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

- b. The annual appropriation ordinance for 2019 and 2020 adopted by the Municipality 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. We recommend the annual appropriations ordinance be adopted by fund as required by SDCL 9-21-2.
- c. A monthly minimum Sewer Fund surcharge was imposed in 2013 to retire a DENR Sewer lagoon loan. The loan resolution requires that the surcharge collections be segregated from the Sewer Fund operating cash and only be used for the payment of the indebtedness. The collections have been recorded separately as part of the Sewer Fund operating income, but the cash balance accumulated through the surcharge collections have not been segregated from the Sewer Fund operating cash balance. We recommend the Municipality compute the existing cash balance of the surcharge collections received since 2013 and segregate the cash balance for operations and debt repayment in the Sewer Fund accounting records.
- d. The vouchers did not contain a perjury statement to be signed by the claimant for personal services or travel as recommended by the Municipal Accounting Manual. In addition, there was no signature by the finance officer to verify that the services or materials were received as required by SDCL 9-23-1. We recommend the vouchers be properly verified as recommended by the Municipal Accounting Manual and SDCL 9-23-1.
- e. We noted that a CARE Wellness Center checking account had been established which used the Municipality's federal tax ID number. The CARE Wellness Center account had a balance of \$5,770.56 as of December 31, 2019 and was not accounted for as a part of the Municipality. We recommend the Municipality consult with legal counsel and formally establish the status for the operation of the CARE Wellness Center either as a part of the Municipality or consider placing the operation under another entity, perhaps a non-profit organization.

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.



Russell A. Olson
Auditor General

June 23, 2020