

MUNICIPALITY OF CRESBARD

INTERNAL CONTROL REVIEW

August 8, 2023

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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 Cresbard
Cresbard, South Dakota

We have made a study of selected elements of internal control of the Municipality of Cresbard (Municipality) in effect at August 8, 2023. 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 August 8, 2023.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at August 8, 2023, as discussed below:

- a. The Municipality does not have adequate internal controls in place to provide for the assurance that the proper contract amount is being paid for purchases made using cooperative purchasing agency contracts. We noted that in February 2023, the Municipality purchased a compact track loader from a vendor in the amount of \$74,397.16. The Municipality did not bid this purchase, opting rather to use a quote awarded by a cooperative purchasing agency.

Through interviews of Municipal personnel and a review of minutes of the governing board, we noted that at no time, prior to the purchase being approved, did Municipal personnel review the quote of the cooperative purchasing agency to ensure that the price listed in the purchase order agreed with the cooperative purchasing agency contract. This lack of review resulted in a lack of assurance that the Municipality paid the correct price for the compact track loader.

We recommend that the County design and implement an internal control system to provide for assurance that the proper contract amounts are being paid for purchases made using cooperative purchasing agency contracts.

- b. A monthly minimum Sewer Fund surcharge and Water Fund surcharge was imposed to retire State construction loans. The collections have been recorded as part of the Sewer Fund and Water Fund operating income but have not been segregated in the accounting system. The debt resolutions require that the surcharge for the loans be segregated from other revenues of the Municipality and be used for the payment of the indebtedness. We recommend the Municipality compute the existing cash balance of the surcharge collections received and segregate the cash balances for operations and debt repayment in the Sewer Fund and Water Fund accounting records.
- c. The governing board did not provide 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 \$50,000. We recommend the Municipality increase the finance officer surety bond to \$150,000 as required by SDCL 9-14-6.1.
- d. The Water Fund, Sewer Fund and Garbage Fund subsidiary accounts receivable records were not reconciled to a general ledger control to ensure that receivable transactions were properly recorded and mathematically accurate. We recommend the accounts receivable subsidiary records be reconciled monthly to a general ledger control.
- e. 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. We recommend that vouchers for personal services and travel be signed under perjury by the claimant.

- f. Two unissued checks which were not completed as to the payer and amount which were pre-signed by the board president. We recommend all checks be completed and approved by the governing prior to signing the checks.

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

August 8, 2023