

MUNICIPALITY OF ETHAN
INTERNAL CONTROL REVIEW
February 17, 2020

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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 Ethan
Ethan, South Dakota

We have made a study of selected elements of internal control of the Municipality of Ethan (Municipality) in effect at February 17, 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 February 17, 2020.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at February 17, 2020 as discussed below:

- a. 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.
- b. A monthly minimum Sewer Fund surcharge was imposed effective in 2013 through a board resolution to retire a State Revolving Fund construction loan. The collections have been recorded as part of the Sewer Fund operating income but have not been segregated in the accounting system. The resolution requires that the surcharge for the loan shall be segregated from other revenues of the Municipality and shall be used for the payment of the indebtedness. We recommend the Municipality compute the existing cash balance of the surcharge collections received since 2013 and segregate the cash balances for operations and debt repayment in the Sewer Fund accounting records.
- c. The Municipality did not properly maintain the following necessary records:
 1. Accounts receivable record
 2. Utility Deposit Record
 3. Expenditure Budget Record
 4. Long-Term Debt Records

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

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

February 17, 2020