

**MUNICIPALITY OF HAZEL**  
**INTERNAL CONTROL REVIEW**  
**December 15, 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 Hazel  
Hazel, South Dakota

We have made a study of selected elements of internal control of the Municipality of Hazel (Municipality) in effect at December 15, 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 December 15, 2020.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at December 15, 2020 as discussed below:

- a. 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 \$100,000. We recommend the Municipality increase the finance officer surety bond to \$150,000 as required by SDCL 9-14-6.1.
- b. The Finance Officer did not perform proper monthly cash reconciliations for the accounts held by the Municipality. We recommend the Municipality prepare a proper monthly cash reconciliation.
- c. The Finance Officer did not present a formal financial report by fund to the governing body as required by SDCL 9-22-20. We recommend a financial report be presented to the governing board at each meeting as required by SDCL 9-22-20.
- d. The Municipality did not properly maintain the following necessary records:
  - 1. General Ledger
  - 2. Cash Receipt Journal
  - 3. Cash Disbursement Journal
  - 4. Revenue Budget Record
  - 5. Expenditure Budget Record
  - 6. Accounts receivable general ledger and control

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

- e. The 2021 annual appropriation ordinance was not properly adopted for governmental funds by department and did not include all governmental funds as required by SDCL 9-21-2. In addition, no means of finance was presented for the Sewer Fund. We recommend the budget be properly adopted for all governmental funds by department as required by SDCL 9-21-2.

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

December 15, 2020