

MUNICIPALITY OF JAVA
INTERNAL CONTROL REVIEW
July 15, 2024

MUNICIPALITY OF JAVA
MUNICIPAL OFFICIALS
July 15, 2024

Governing Board:

Gene Buechler, Board President
Shane Ladwig
Becly Witlock
Kievre Lee
Rochelle Forgét

Finance Officer:

Eva Cagnones

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427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE, SD 57501-5070
(605) 773-3595

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 Java
Java, South Dakota

We have made a study of selected elements of internal control of the Municipality of Java (Municipality) in effect as of July 15, 2024. 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 as of July 15, 2024.

However, our study did disclose weaknesses in internal controls of the Municipality in effect as of July 15, 2024, as discussed below:

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

1. Cash General Ledger
2. Cash Receipts Journal
3. Cash Disbursement Journal
4. Accounts receivable General Ledger and Control
5. Utility Deposit General Ledger and Control

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

b. The Municipality has a 2009 USDA Water Rural Development loan. The debt reserve should be equal to one year's total of principal and interest. A debt reserve was not recorded in the accounting records, but a debt reserve should exist in the amount of \$2,652.00. We recommend the debt reserve be properly established and maintained.

c. A 2012 Sewer Borrowers Bond exists which requires an ACH quarterly payment of \$3,928.94. The agreement requires a monthly surcharge per customer of \$18.00 which is to be restricted and can only be used for debt retirement. However, the Municipality has not been segregating the collections for the debt payments and should create a Sewer Surcharge Fund in which to collect the surcharge and to make the debt payments. We recommend the Municipality estimate the amount that should be on hand as of December 31, 2023, and then move forward by accumulating the \$18.00 surcharge collections in this fund until the bonds are paid. We recommend the debt reserves be properly established and maintained.

d. The vouchers did not contain a perjury statement to be signed by the claimant for personal services or travel as required by SDCL 4-9-4 and the vouchers did not contain a signature of the Finance Officer under the verification language to verify that the goods and services received were proper expenditures of the Municipality. We recommend that vouchers for personal services and travel be signed under perjury by the claimant and be properly signed under the verification language by the Finance Officer.

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

July 15, 2024