

**MUNICIPALITY OF LAKE CITY**

**INTERNAL CONTROL REVIEW**

**May 4, 2020**

MUNICIPALITY OF LAKE CITY  
TABLE OF CONTENTS

	<u>Page</u>
Report on the Limited Study of Internal Control Performed in Accordance with South Dakota Codified Law 4-11-4.1.....	1



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REPORT ON THE LIMITED STUDY OF INTERNAL CONTROL  
PERFORMED IN ACCORDANCE WITH SOUTH DAKOTA CODIFIED LAW 4-11-4.1

Governing Board  
Municipality of Lake City  
Lake City, South Dakota

We have made a study of selected elements of internal control of the Municipality of Lake City (Municipality) in effect at May 4, 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 May 4, 2020.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at May 4, 2020 as discussed below:

- a. The 2018 and 2019 annual reports were not completed, published and filed with the Department of Legislative Audit as required by SDCL 9-22-21. We recommend the Municipality prepare, publish and file the annual financial report in accordance with SDCL 9-22-21.
- b. The 2019 and 2020 annual appropriation ordinances were not prepared or adopted as required by SDCL 9-21-2. We recommend the Municipality adopt an annual appropriation ordinance as required by SDCL 9-21-2.
- c. The Municipality did not properly maintain the following necessary records:
  1. Cash Receipts Journal
  2. Cash Disbursement Journal
  3. Cash General Ledger by Fund
  4. General Journal
  5. Accounts receivable general ledger control
  6. Revenue Budget Record
  7. Expenditure Budget Record

We recommend the Municipality properly establish and maintain the necessary accounting records. We have provided guidance to the Municipality to help establish these records.

- d. The monthly fund cash balance recorded and reported to the Governing Board did not reflect the cash balance by fund and did not include the change funds for the liquor store operation, which exceeded \$6,500 including the value of insufficient fund checks. We recommend the monthly financial report to the Governing Board include the value of all cash assets by fund. In addition, we recommend the Governing Board establish a required balance amount for the liquor store operation change fund.
- e. The Municipality did perform a physical count of the liquor store inventory; however, the cost of inventory was not computed. The computation of the value of the inventory on hand is necessary to determine the cost of sales and the net operating income or loss of the liquor store operation. We recommend the Municipality determine the cost value of the liquor store inventory on hand to allow for the determination of whether the liquor store operation is meeting the Municipality's expectations.
- f. The Municipality did not issue receipts as required by SDCL 9-22-3. We recommend the Municipality issue receipts for all cash collections and record all transactions in a Cash Receipts Journal by fund identifying the payer, date and form of payment, including batch receipts for utilities as required by SDCL 9-22-3.
- g. The Municipality did not prepare vouchers for the payment of expenditures which resulted in the following deficiencies:
  1. 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 or other evidence to indicate that the finance officer had reviewed the voucher.

2. The vouchers were not coded to the fund, function and object to facilitate the proper approval by the governing board and for the proper posting to the cash disbursement journal and expenditure budget record.

We recommend that vouchers be properly prepared and verified as recommended by the Municipal Accounting Manual.

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

May 4, 2020