

MUNICIPALITY OF LEBANON
INTERNAL CONTROL REVIEW
April 27, 2022

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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 Lebanon
Lebanon, South Dakota

We have made a study of selected elements of internal control of the Municipality of Lebanon (Municipality) in effect at April 27, 2022. 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 April 27, 2022.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at April 27, 2022 as discussed below:

- a. The Municipality did not properly maintain the following necessary records:
 1. Cash General Ledger by Fund
 2. Cash Receipts Journal
 3. Cash Disbursement Journal
 4. Accounts Receivable Record
 5. Revenue Budget Record
 6. Expenditure Budget Record

We recommend the Municipality properly establish and maintain the necessary accounting records. We provided assistance to the finance officer regarding the format of these records.

- b. 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 include a perjury statement for personal services and travel as recommended by the Municipal Accounting Manual.
- c. A monthly minimum Sewer Fund surcharge was imposed in 2011 through a revenue bond resolution to retire a Consolidated Water Facilities Construction Revenue Bond. The bond resolution requires that the surcharge for the loan be segregated from other revenues of the Municipality and be used only for the payment of the indebtedness. The collections have been recorded as part of the Sewer Fund operating income but have not been identified as surcharge revenue and the surcharge cash balance accumulated has not been segregated in the accounting system for the retirement of the Sewer Loan. We recommend the Municipality compute the existing cash balance of the surcharge collections received since 2011 and segregate the cash balances for operations and debt payment in the Sewer Fund accounting records.
- d. The official minutes gave a detailed statement of all expenditures by name and amount but did not show the service rendered as required by SDCL 9-18-1. We recommend the detailed statement of expenditures in the minutes include the purpose for the expenditure as required by SDCL 9-18-1.
- e. A municipal board member worked for several departments as a part time employee and received, in addition to board member salary, \$5,618.75 in 2021. The board had adopted the rates of pay for the services; however, there was no specific approval for the board member to perform the services. We recommend that the board specifically approve a board member to provide services as a part time employee and ensure that the Municipality is in compliance with SDCL 3-16-7 and SDCL 6-1-1 and 6-1-2.
- f. The Municipality did publish the governing board minutes in the official legal newspaper but several minutes were not published within twelve business days after each meeting, as required by SDCL. We recommend the minutes be published within twelve days after each meeting as required by SDCL 9-18-1.

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.

A handwritten signature in black ink that reads "Russell A. Olson". The signature is written in a cursive style with a large initial 'R'.

Russell A. Olson
Auditor General

April 27, 2022