

MUNICIPALITY OF LESTERVILLE

INTERNAL CONTROL REVIEW

April 25, 2016

MUNICIPALITY OF LESTERVILLE
TABLE OF CONTENTS

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



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

MARTIN L. GUINDON, CPA
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 Lesterville
Lesterville, South Dakota

We have made a study of selected elements of internal control of the Municipality of Lesterville (Municipality) in effect at April 25, 2016. 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 25, 2016.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at April 25, 2016 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. 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.
- c. The governing board did not publish a complete list of employees' salaries with the proceedings of the first meeting of the year as required by SDCL 6-1-10. We recommend the governing board publish a complete list of employees' salaries with the proceedings of the first meeting of the year as required by SDCL 6-1-10.
- d. The Municipality did not issue duplicate receipts as required by SDCL 9-22-3. We recommend the Municipality issue duplicate receipts for all cash collections, and record all transactions in a Cash Receipts Journal identifying the payer, date and form of payment, including batch receipts for utilities and receipts for direct deposits as required by SDCL 9-22-3.
- e. The Finance Officer did not perform a proper monthly bank reconciliation for the accounts held by the Municipality. We recommend the Municipality prepare a proper monthly bank reconciliation.
- f. The water and sewer subsidiary accounts receivable records were not reconciled to a general ledger control to ensure that receivable transactions were properly recorded and mathematically accurate. We recommend the accounts receivable subsidiary records be reconciled monthly to a general ledger control.
- g. The governing board has not provided 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 as of December 31, 2015, but the surety bond coverage for the Finance Officer was only \$75,000. We recommend the Municipality increase the Finance Officer's surety bond to \$150,000 as required by SDCL 9-14-6.1.
- h. The annual appropriation ordinance adopted by the Municipality combined all the funds as one fund and did not separate the means of finance and appropriations for each budgeted fund as required by SDCL 9-21-2. We recommend the budget be adopted by fund as required by SDCL 9-21-2.
- i. The Municipality did not properly maintain the following necessary records:
 - 1. Cash Receipts Journal
 - 2. Cash Disbursements Journal
 - 3. Revenue Budget Record
 - 4. Expenditure Budget Record

We recommend the Municipality properly establish and maintain the necessary accounting records. We have provided assistance to the new Finance Officer to establish these 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.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with the first name "Martin" and last name "Guindon" clearly distinguishable.

Martin L Guindon, CPA
Auditor General

April 25, 2016