

**MUNICIPALITY OF MELLETTE**

**INTERNAL CONTROL REVIEW**

**March 20, 2019**

MUNICIPALITY OF MELLETTE  
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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 Mellette  
Mellette, South Dakota

We have made a study of selected elements of internal control of the Municipality of Mellette (Municipality) in effect at March 20, 2019. 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 March 20, 2019.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at March 20, 2019 as discussed below:

- a. 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 in 2018, but the surety bond coverage for the Finance Officer was only \$100,000. We recommend the Municipality increase the Finance Officer's surety bond to \$150,000 as required by SDCL 9-14-6.1.

- 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 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 identifying the payer, date and form of payment, including batch receipts for utilities as required by SDCL 9-22-3.
- d. The Municipality did not properly maintain the following necessary records:
  - 1. General Ledger
  - 2. Cash Receipts Journal
  - 3. Cash Disbursement Journal
  - 4. Revenue Budget Record
  - 5. Expenditure Budget Record
  - 6. Accounts receivable record general ledger
  - 7. Utility Deposit Record

We recommend the accounting records be accurately maintained.

- e. The Municipality did not prepare vouchers to support the payment of claims. SDCL 9-23-1 requires that before any claim against any municipality is allowed that an itemized invoice must be accompanied by a voucher. The use of a voucher facilitates the approval, coding and verification of the claims against the Municipality. We recommend the Municipality prepare vouchers to support all claims against the Municipality as required by SDCL 9-23-1.

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.



Martin L Guindon, CPA  
Auditor General

March 20, 2019