

MUNICIPALITY OF MOUNT VERNON

INTERNAL CONTROL REVIEW

August 12, 2019

MUNICIPALITY OF MOUNT VERNON
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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 Mount Vernon
Mount Vernon, South Dakota

We have made a study of selected elements of internal control of the Municipality of Mount Vernon (Municipality) in effect at August 12, 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 August 12, 2019.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at August 12, 2019 as discussed below:

- a. The governing board did not publish a complete list of employees' salaries to include the governing board members for 2019 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.

- b. The Water Fund, Sewer Fund and Garbage Fund 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.
- c. 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 contain the perjury statement for personal services or travel as recommended by the Municipal Accounting Manual.
- d. A monthly minimum Sewer Fund surcharge was imposed in 2011 through a revenue bond resolution to retire a State Revolving Fund construction loan used for sewer improvements. The collections have been recorded as a surcharge income of the Sewer Fund; however, the Municipality has not adequately segregated the surcharge cash balance remaining after debt service payments. The bond resolution requires that the surcharge for the loan shall be segregated from other revenues of the Sewer System and shall be used for the payment of the indebtedness. 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.
- e. A Street Debt Service Fund has existed for several years which was used to pay debt service payments for various general obligation bonds and refunding bond issues. As of December 31, 2018, the Street Debt Service Fund had a cash balance of \$85,771.94 and outstanding debt principal and interest obligation of \$30,265.22. The Municipality also levied a debt service property tax levy for 2019 in the amount of \$14,200.00. We recommend the Municipality consider retiring the outstanding bonds with available cash and discontinue the debt service property tax levy.

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

August 12, 2019