

MUNICIPALITY OF NORTHVILLE

INTERNAL CONTROL REVIEW

October 27, 2020

MUNICIPALITY OF NORTHVILLE
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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 Northville
Northville, South Dakota

We have made a study of selected elements of internal control of the Municipality of Northville (Municipality) in effect at October 27, 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 October 27, 2020.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at October 27, 2020 as discussed below:

- a. The governing board did not provide 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 \$100,000 during the period of this review, but the surety bond coverage for the finance officer was only \$13,000. We recommend the Municipality increase the finance officer surety bond as required by SDCL 9-14-6.1.

b. The Municipality did not properly maintain the following necessary records:

1. Revenue Budget Record
2. Expenditure Budget Record
3. Utility Accounts Receivable General Ledger Control

We recommend the Municipality properly establish and maintain the necessary accounting records.

- c. Twelve checks were pre-signed by the Board President prior to the checks being completed with the payee and amounts. We recommend no checks be signed prior to their completion.
- d. The 2019 annual financial report contained financial reporting errors resulting in inaccurate and incomplete information being presented. We recommend the Municipality accurately complete the annual financial report.
- 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 properly 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.



Russell A. Olson
Auditor General

October 27, 2020