

MUNICIPALITY OF ROSLYN
INTERNAL CONTROL REVIEW
January 6, 2021

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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 Roslyn
Roslyn, South Dakota

We have made a study of selected elements of internal control of the Municipality of Roslyn (Municipality) in effect at January 6, 2021. 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 January 6, 2021.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at January 6, 2021 as discussed below:

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

1. Cash General Ledger
2. Utility accounts receivable general ledger
3. Water Meter Trust Deposit Individual Subsidiary Records

We recommend the Municipality properly establish and maintain the necessary accounting 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 be properly prepared and verified as recommended by the Municipal Accounting Manual.

c. The 2010 and 2011 Water and Sewer Project Revenue Bond debt agreements required a surcharge per the both bond agreements as follow:

There shall be charged a monthly surcharge for the services provided by the improvement financed by the Bonds. The Surcharge shall be segregated from other revenues of the utility and shall be used for the payment of principal and interest on the Bonds. ... This surcharge shall remain in effect until such time as the Bonds are paid in full or discharged.

A surcharge has not been established or segregated from the other revenue of the Water and Sewer Funds to retire the debt as required by the bond agreements.

In 2018, the Governing Board passed a 1% sales tax to provide additional revenue to pay for the bonded debt created by the 2010 and 2011 Water and Sewer Revenue Projects which are being repaid to USDA Rural Development over a period of 40 years. Currently all debt payments for the 2010 and 2011 Water and Sewer Revenue Projects have been made from the Water Fund and Sewer Fund and no payments have been made from the 1% sales tax collections, which have been combined with the 2% sales tax collections in the accounting records.

We recommend the governing board consult with the Municipal Attorney and with USDA Rural Development to establish the appropriate legal and accounting procedures to fund payment of the indebtedness of the 2010 and 2011 Water and Sewer Revenue Projects.

In addition, we recommend the 1% sales tax collections be computed and segregated into a separate fund restricted for the purpose of debt retirement of the Water and Sewer Revenue Projects.

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

January 6, 2021