

**MUNICIPALITY OF SINAI**  
**INTERNAL CONTROL REVIEW**  
**August 25, 2020**

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REPORT ON THE LIMITED STUDY OF INTERNAL CONTROL  
PERFORMED IN ACCORDANCE WITH SOUTH DAKOTA CODIFIED LAW 4-11-4.1

Governing Board  
Municipality of Sinai  
Sinai, South Dakota

We have made a study of selected elements of internal control of the Municipality of Sinai (Municipality) in effect at August 25, 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 August 25, 2020.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at August 25, 2020 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 \$125,000 but the surety bond coverage for the Finance Officer was only \$25,000. We recommend the Municipality increase the surety bond to the total amount of cash of cash assets held by the municipality, not to exceed \$150,000 as required by SDCL 9-14-6.1.
- b. The 2020 and 2021 annual appropriation ordinances were not adopted in the format prescribed by SDCL 9-21-2 and the Municipal Accounting Manual. We recommend the appropriation ordinances be adopted as required by SDCL 9-21-2 and the Municipal Accounting Manual.
- c. The Municipality did not properly maintain the following necessary records:
  1. Accounts receivable general ledger control
  2. Revenue Budget Record
  3. Expenditure Budget Record

We recommend the accounting records be accurately maintained.

- d. The Municipality uses a Utility Fund to account for the sewer service operations and the garbage service operations combined. SDCL 9-48-29 requires the fees and charges for sewer services be kept in a separate fund. We recommend the sewer operations be accounted for in a separate fund as required by SDCL 9-48-29 and as recommended by the Municipal Accounting Manual. The garbage service operations may be accounted for in the General Fund.
- e. A monthly minimum Sewer Fund surcharge was imposed in 2014 through a revenue bond resolution to retire a Clean Water State Revolving Fund construction loan. The bond resolution requires that the surcharge for the loan be segregated from other revenues of the Municipality and be used only for the payment of the indebtedness. The collections have been recorded as part of the Utility Fund operating income and have not been segregated in the accounting system for the retirement of the Sewer Loan. We recommend the Municipality compute the existing cash balance of the surcharge collections received since 2014 and segregate the cash balances for operations and debt payment in the Sewer Fund accounting 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.



Russell A. Olson  
Auditor General

August 25, 2020