

MUNICIPALITY OF SUMMIT
INTERNAL CONTROL REVIEW
December 27, 2021

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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 Summit
Summit, South Dakota

We have made a study of selected elements of internal control of the Municipality of Summit (Municipality) in effect on December 27, 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 on December 27, 2021.

However, our study did disclose weaknesses in internal controls of the Municipality in effect on December 27, 2021 as discussed below:

- a. An asphalt paving construction contract was entered by the Municipality with a contractor in 2021 in excess of \$100,000 (total of contract was \$219,300.11) and was not advertised for competitive bids as required by SDCL 5-18A-14. A quote was provided for the construction contract, but the payments were split over a three-year period. An Attorney General Report opinion issued directs that when the total acquisition price of an item will exceed the bid limit, and installment payments are made over a period of years, then advertisement for competitive bids is required. We recommend that public improvement contracts exceeding \$100,000 be advertised for competitive bids as required by SDCL 5-18A-14.
- b. The Municipality approved plans for a new addition which it stated would be named Summit North Side Addition. The project is proposed to have two phases. Phase 1 of the project was estimated at a cost of \$334,000. The total estimated project cost was \$678,000. SDCL 5-18A-14 states the "if the purchasing agency intends to enter into a contract for any public improvement that involves the expenditure of one hundred thousand dollars or more... the purchasing agency shall advertise for bids or proposals. The Municipality did not properly advertise for bids or proposals as required by SDCL 5-18A-14.

In addition, the Municipality awarded a contract to a construction company related to Phase 1 of the project based on a quote: \$94,678.50 for the sewer and \$94,786 for the water, for a total of \$189,464.50. The construction company is owned by a member of the Municipality's governing board. SDCL 6-1-1 makes it unlawful for any officer of a municipality to be interested in any contract enter into by said municipality, except as allowed by SDCL 6-1-2. SDCL 6-1-2 (4) states: "Any contract for which competitive bidding procedures are followed pursuant to chapter 5-18A or 5-18B, and where more than one such competitive bid is submitted". Since the Municipality did not properly bid the public improvement project, the awarding of a contract to a company owned by a member of the governing board may not be in compliance with SDCL 6-1-1 and 6-1-2.

We recommend that public improvement contracts exceeding \$100,000 be advertised for competitive bids as required by SDCL 5-18A-14 and that the Municipality consult with legal counsel as to the effects of the contract awarded to a company owned by a member of the governing board.

- c. The appropriation ordinance for 2021 and 2022 adopted by the Municipality combined all the funds in one column and did not separate the means of finance and appropriations for each budgeted fund as required by SDCL 9-21-2. In addition, the appropriations ordinance was not in the form as prescribed by the Municipal Accounting Manual and was published only once. We recommend the annual appropriations ordinance be adopted by fund and in the form prescribed by the Municipal Accounting Manual and as required by SDCL 9-21-2.
- d. The Municipality did not properly maintain, to include all necessary information, the following necessary records:
 1. General Ledger by Fund
 2. Utility Accounts Receivable General Ledger Control

3. Cash Disbursements Journal
4. Revenue Budget Record
5. Expenditure Budget Record

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

- e. The Municipality has established funds which do not have third party restrictions or specific revenue streams that would require a separate fund. We recommend the Municipality review the fund structure and report the funds without third party restrictions as a function of the General Fund or applicable enterprise fund.
- f. The Municipality has established funds which do not have third party restrictions or specific revenue streams that would require a separate fund. We recommend the Municipality review the fund structure and report the funds without third party restrictions as a function of the General Fund or applicable enterprise fund.
- g. The Rural Development Revenue Bond agreements require the Municipality accumulate a debt reserve account to provide enough cash to retire a full year of principal and interest payment for each bond issue. As of December 31, 2021, the Municipality should have had a balance of \$31,356.90 in the Sewer Fund debt reserve account and \$11,952.00 in the Water Fund reserve account. At the end of 2021, there appears to be no established reserve except a balance of approximately \$9,700 which is left in a construction fund for which there is no construction in progress. We recommend the Municipality establish the debt reserves as required bond agreements.
- h. The three outstanding Rural Development Revenue Bonds required the Municipality, through ordinances, to establish and segregate a separate surcharge for each Revenue Bond, in addition to the operating charges for the Water Fund and Sewer Fund. The purpose for the surcharge is to provide revenue to pay for the principal and interest of each specific bond. The current rate structure does not provide for collection of a surcharge as required. We recommend the Municipality review the rate structure and establish operating rates and surcharge rates for debt reduction as required for each Revenue Bond issue and segregate the collections and cash balances as required by the Revenue Bond Agreements.
- i. The governing board did not publish a complete list of daycare operations employees' salaries for 2020 or 2021 with the proceedings of the first meeting of the year as required by SDCL 6-1-10. The minutes for 2020 and 2021 stated that the daycare payroll was to be the same as the previous year but did not identify the employees and payroll amounts. We recommend the governing board approve and publish a complete list of employees' salaries with the proceedings of the first meeting of the year as required by SDCL 6-1-10.
- j. The official published minutes did not give a detailed statement of all expenditures to include credit card payments and debit cards payments as required by SDCL 9-18-1. We recommend the published minutes include a detailed statement of all expenditures made as required by SDCL 9-18-1.

- k. The following internal control weakness over the disbursement procedure existed:
1. Expenditure approved by the governing board were documented with only invoices instead of a voucher supported with itemized invoices as required by SDCL 9-23-1.
 2. Because voucher forms were not used, the documentation for expenditures did not contain a perjury statement to be signed by the claimant for personal services or travel as recommended by the Municipal Accounting Manual. In addition, there was no signature or other evidence to indicate that the finance officer verified that the goods or services were received.
 3. The invoices used to support expenditures did not contain documentation to support the corresponding check number issued or the expenditure coding to be recorded on the QuickBooks check register. As a result, expenditures were recorded which did not identify the fund or purpose as required by the Municipal Accounting Manual.
 4. Several checks recorded in the QuickBooks check register did not contain the same check number as printed on the check.
 5. Some expenditures approved by the governing board and recorded including debit and credit card purchases were not supported with itemized invoices as required by SDCL 9-23-2.
 6. Several checks were not signed by the Board President or Finance Officer as required by SDCL 9-23-3.

We recommend that vouchers be properly prepared, supported, verified and recorded as required by SDCL 9-23-1 and by the Municipal Accounting Manual. We also recommend that checks issued be properly signed as required by SDCL 9-23-3.

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

December 27, 2021