



Executive Governance Summary

City of Lakeland

Lakeland, Minnesota

For the year ended December 31, 2022



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February 15, 2024

Management, Honorable Mayor, and City Council
City of Lakeland, Minnesota

We have audited the financial statements of the We have audited the financial statements of each major fund and the aggregate remaining fund information of the City of Lakeland, Minnesota for the year ended December 31, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated December 15, 2022. Professional standards require that we provide you with the following information related to our audit.

Significant Audit Findings

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. As described below, we identified certain deficiencies in internal control that we consider to be material weaknesses, as findings 2022-001 and 2022-002

2022-001

Preparation of Financial Statements

Condition: We have been requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management’s responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement of the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause: From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

Recommendation: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the City is reviewing the financial statements, we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the City should agree its financial software to the numbers reported in the financial statements.

Management Response:

Management will review the Financial Statements in detail to ensure balances agree to internal records.

2022-002

Limited Segregation of Duties

Condition: During our audit we reviewed procedures over cash receipts and disbursements, and found the City to have limited segregation of duties over those transaction cycles.

Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

Cause: As a result of the limited number of staff, in the disbursement cycle for the Clerk’s checking account, the Clerk has access to checks and the ability endorse them. In the cash receipts cycle, the Clerk opens mail, prepares deposit slip, and takes deposit to the bank.

Effect: The existence of this limited segregation of duties increases the risk of fraud.

Recommendation: We recommend processes are reviewed to separate functions of the receipt and disbursements cycles to more than one person.

Management Response: Management will review procedures and make improvements with limited number of staff.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Minnesota legal compliance and which are described as items. 2022-003, 2022-004 and 2022-005

2022-003 Lack of support

Condition: During our audit, it came to our attention the City did not have six of twenty original invoices tested on file to support the payment.

Criteria: Minnesota statute §15.17 requires that the City keep original invoices for documentation support.

Cause: Transition from process used to store invoices with prior treasurer and ability to retrieve documents for the audit.

Effect: The City is out of compliance with Minnesota statutes.

Recommendation: We recommended that the City develop a procedure to retain original invoices.

Management Response:

Procedures have been implemented with performing accounting functions internally.

2022-004 No declaration on checks

Condition: Auditing for legal compliance requires a review of the City's claims and disbursements. Our study indicated an instance of non-compliance that we believe needs to be remedied.

Criteria: Minnesota statute 412.271 requires that each declaration for payment be signed to the effect that such account, claim, or demand is just and correct and that no part of it has been paid. The statute is satisfied if on the back of City checks is a declaration as defined in Minnesota statute 471.391 reading "I declare under the penalties of law that this account, claim, or demand is just and correct and that no part of it has been paid."

Cause: The City did not have the required statement on the back of their checks for both the main checking account and clerks checking.

Effect: The City was out of compliance with this Minnesota statute.

Recommendation: We recommend stamp checks with the declaration until new checks with the pre-printed declaration are ordered.

Management Response:

Management will obtain a stamp for checks until new checks are ordered.



2022-005

PERA Late Filing Fees

Condition: During our audit, we noted in January and October, the City paid late filing fees for PERA deposits.

Criteria: PERA requires the amounts withheld from employees' checks to be remitted within in 14 days of when the employee is paid.

Cause: Unknown.

Effect: As a result, the City is not in compliance with the requirements for PERA deposits and has been subject to late filing fees.

Recommendation: We recommend that the City remit the PERA deposit within the 14 days as required.

Management Response:

Management will implement procedures to ensure payments are made on time.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the financial statements. No new accounting policies were adopted, and the application of existing policies were not changed accordingly during the year ended December 31, 2022. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumption about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset basis and depreciation and liability for the City's pension.

- Allocations of gross wages and payroll benefits are approved by the City Council within the City's budget and are derived from each employee's estimated time to be spent servicing the respective function of the City.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

We assisted in preparing a number of year end accounting entries. These were necessary to adjust the City's records at year end to correct ending balances. The City should establish more detailed processes and procedures to reduce the total number of entries in each category. The City will receive better and timelier information if the preparation of year end entries is completed internally.



Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 15, 2024

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

We were engaged to report on the supplementary information (combining and individual fund financial statements and schedules), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles of the regulatory basis of accounting prescribed by the Minnesota Office of the State Auditor, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

We were not engaged to report on the introductory section, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information, and we do not express an opinion or provide any assurance on it.



Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Recommendations

Minnesota statute section 471.661 requires that the City develop a policy that controls travel outside the state of Minnesota for elected officials of the City. The policy needs to be approved by a recorded vote, and should include: 1) when travel outside the state is appropriate, 2) applicable expense limits, and 3) procedures for approval of the travel. The policy must be made available for public inspection and should be reviewed annually.

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Restriction on Use

This purpose of this communication is solely for the information and use of the City Council and management of the City and is not intended to be, and should not be used by anyone other than those specified parties.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.



Abdo
Minneapolis, Minnesota
February 15, 2024

