



Executive Governance Summary

City of Lakeland

Lakeland, Minnesota

For the year ended December 31, 2024



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February 28, 2025

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lakeland, Minnesota for the year ended December 31, 2024. 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, 2024. 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 significant deficiencies, as findings 2024-002, 2024-003, and 2024-004.

2024-002

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

2024-003

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



2024-004 Accounting for Petty Cash

Condition: During the audit, we reviewed procedures related to cash receipts and disbursements. In our testing process, the audit team found the City had limited review for utilities paid with cash as they were added to the petty cash fund, which does not typically exceed \$250.

Criteria: Controls over monitoring petty cash are considered potential areas of audit risk as there are limited personnel monitoring cash receipts and disbursements in the city.

Cause: As a result, petty cash has not been monitored for receiving utility payments. Ideally, the City Clerk should be able to endorse and record all checks from utilities in the disbursement cycle. As noted above, there have been past instances of customers paying for utilities in cash, which hindered the Clerk’s ability to trace payments effectively into a bank account.

Effect: The existence of this limited procedures surrounding petty cash accountability in utility check billing increases the risk of fraud.

Recommendation: We recommend a formal procedure that all utility billing requires physical checks or ACH evidence for tracing payments. Petty Cash should not be used in place of a check payment from a customer. By separating customer payments from petty cash, the city will better account for all future disbursements.

Management Response:

Management will review petty cash procedures and make improvements

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.

2024-001 Electronic Funds Transfers

Condition: The City Council did not annually delegate authority to a chief financial officer to complete electronic fund transfers.

Criteria: Minnesota State Statute 471.38 subd. 3 and 3a requires a city to enact a plan containing specific requirements including an annual delegation of authority to make electronic funds transfers.

Cause: Oversight by management

Effect: Currently the City is out of compliance with the statute referenced above.

Recommendation: We recommend that the City create and adopt written policy with controls listed in the Minnesota State Statutes.

Management Response:

The council is working on approving an Electronic Fund Transfer Policy.



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. The City changed accounting policies during the year ended December 31, 2024 related to the accounting and financial reporting for accounting changes and error corrections (GASB 100). 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.

- 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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures are corrected by management were material, either individually or in aggregate, to each opinion unit's financial statements taken as a whole.

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 28, 2025.

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 is 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.

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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 28, 2025

