



Honorable Mayor, Members of the City Council,
and Management
City of Breezy Point
Breezy Point, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Breezy Point (City), Minnesota as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material weaknesses

We consider the following deficiencies in the City's internal control to be material weaknesses:

- Material Audit Adjustments

As part of the audit, we proposed material and immaterial adjustments to adjust net pension liability, and related deferred inflows and outflows of resources, adjust salaries payable, prepaids, compensated absences, and accounts payable, as well as record capital asset activity, and reclassifications of revenues and expenditures to the proper accounts. These entries relate to internal controls over the year-end closeout process. The design of internal controls recording the City's transactions could affect the ability of the City to detect or prevent errors, misappropriation of assets, or fraudulent activity.

The following material weaknesses were identified and communicated in a prior period; remedial action has not yet been taken:

- Limited segregation of duties

The City Finance Specialist has the primary responsibility for virtually all of the accounting and financial duties. As a result, many of those aspects of the internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, not available in this staffing scenario. The design of the internal controls over financial reporting could affect the ability of the City to record, process, summarize, and report financial data consistently with the assertions of management in the financial statements. We recognize that the City's cost/benefit analysis has concluded the employment of additional persons for the purpose of segregating duties is not practicable from a financial standpoint, but we are required, under our professional responsibilities, to call the situation to your attention. The City should continue to utilize oversight of the budgeting, cash reconciling, receipts and disbursements process, performed by Council and the City Administrator/Clerk, to the maximum extent possible to mitigate the absence of segregation of duties.

- Internal control over the financial reporting process

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements in accordance with auditing standards generally accepted in the United States of America. The City does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures. Management has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements, including footnote disclosures.

The design of the internal controls over the financial reporting process could affect the ability of the City to conclude the financial statements and related disclosures are complete and presented in accordance with auditing standards generally accepted in the United States of America. The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls.

The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, management has reviewed and approved the annual financial statements and the related footnote disclosures.

Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

CliftonLarsonAllen LLP

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Brainerd, Minnesota
May 15, 2024