



# Executive Governance Summary

## City of Long Lake

Long Lake, Minnesota

For the year ended December 31, 2023



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March 19, 2024

Management, Honorable Mayor and City Council  
City of Long Lake, 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 Long Lake, Minnesota (the City), for the year ended December 31, 2023. 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 13, 2023. 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, as discussed below, we identified a certain deficiency in internal control that we consider to be significant deficiencies. We consider the deficiencies presented as findings 2023-001 and 2023-002 on the following pages to be significant deficiencies in internal control.

**Limited Segregation of Duties**

*Condition:* During our audit we reviewed procedures over cash disbursements, utility billing, payroll, and cash receipts and found the City to have limited segregation of duties in these 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, the City is not able to completely segregate all accounting functions. All cycles have the same person performing some of the authorization, custody, and recording functions.

*Effect:* The existence of limited segregation of duties increases the risk of fraud and error.

*Recommendation:* While we recognize the number of staff is not large enough to eliminate these deficiencies, we believe the risk can be reduced with better monitoring. We recommend that the City Administrator utilize the bank statement review checklist provided during audit fieldwork. This checklist includes procedures over small samples to verify proper endorsements on cancelled checks, agree amounts from cancelled checks and wire payments to supporting documentation, and agree deposits to the receipt journal as well as procedures to review the monthly bank reconciliation. Implementation of this bank statement review checklist will help improve monitoring over each of the transaction cycles. It is important that the City Council is aware of this condition and monitor all financial information.

City Council should also be reminded of their duties over finance at least annually. Some typical monitoring duties would include the following tasks:

- Claims approval is an important control and should be at the front of the meeting to ensure that the City Council reviews the claims closely.
- Monitor progress over the development of documented policies and procedures.
- The check sequence should be reported in each set of approved minutes with a corresponding amount of all checks that agrees to the City Council claims listing. The City Council should review the order the checks are approved to ensure that they are in sequence and any gaps in numbers are explained.
- Consider personnel policies that require someone else to fill finance duties for a period of time. A mandatory vacation period of one week for all finance staff and distribution of their duties for that week is often recommended.

*Management Response:*

Management intends to carry out some of these recommendations during 2023, taking into consideration cost versus benefit.



- Condition:* We were 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 to 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 ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting.
- Cause:* From a practical standpoint, we both prepare your statements and determine the fairness of the presentation at the same time in connection with our audit. This is not unusual for us to do with organizations 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. We have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.
- Recommendation:* Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. While the City is reviewing the financial statements, we recommend that 1) a disclosure checklist be utilized to ensure all required disclosures are presented and 2) the City should agree its accounting information from Banyon to the amounts reported in the financial statements.

*Management Response:*

For now, the City accepts the degree of risk associated with this deficiency and thoroughly reviews a draft of the financial statements.

**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 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported in accordance with Minnesota statutes.

**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 to the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the year ended December 31, 2023. We noted no transactions entered into by the governmental unit 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 assumptions 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 estimates affecting the financial statements were depreciation on capital assets, allocation of payroll and compensated absences, allocation of project costs, leases, other post-employment benefits, and the liability for the City's pensions.

- Management's estimate of depreciation is based on estimated useful lives of the assets. Depreciation is calculated using the straight-line method.
- Allocations of gross wages and payroll benefits are approved by City Council within the City's budget and are derived from each employee's estimated time to be spent servicing the respective functions of the City. These allocations are also used in allocating accrued compensated absences payable.
- Management's allocation of construction costs is based on amounts identified by the project engineer. These allocations are used to allocate other project costs, including engineering, to each fund.
- The City's liability for other post-employment benefits was estimated to be zero primarily based on the assumption that employees, whom participate in the health insurance plan, are receiving no implicit benefit since premiums are scaled based on age.
- Management's estimate of its pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increases and form of annuity payment upon retirement.
- Management's estimate of its lease receivable is based on the present value of lease payments expected to be received during the lease term.

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 and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 representations letter dated March 19, 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 City’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 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.

## Other Matters

We applied certain limited procedures to the required supplementary information (RSI) (Management’s Discussion and Analysis, the Schedules of Employer’s Share of the Net Pension Liability, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, and the Schedules of Employer’s Contributions), which is information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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 generally accepted in the United States of America, 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 to 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.

## Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future City financial statements: <sup>(1)</sup>

<b>GASB Statement No. 100</b> - <i>Accounting Changes and Error Corrections</i>	<i>Effective: 12/31/2024</i>
<b>GASB Statement No. 101</b> - <i>Compensated Absences</i>	<i>Effective: 12/31/2024</i>
<b>GASB Statement No. 102</b> – <i>Certain Risk Disclosures</i>	<i>Effective: 12/31/2025</i>

Further information on upcoming [GASB pronouncements](#).



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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  
March 19, 2024

