



Executive Governance Summary

City of New Prague

New Prague, Minnesota

For the year ended December 31, 2023



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April 30, 2024

Management, Honorable Mayor and City Council
City of New Prague, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of New Prague, 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, *Government 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 to you dated December 5, 2023. Professional standards also require that we communicate 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 identify one deficiency in internal control that we consider to be material weaknesses described in the following pages as item 2023-002, and 2023-001 that we consider to be a significant deficiency.

Condition: During our audit we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investments and found the City to have limited segregation of duties in these areas as noted below.

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.

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

Cause: Currently, the Finance Director has control of payroll checks, sets up and maintains all employee records, issues checks to employees, initiates payroll transfers for direct deposit, and approves payroll. The Accounting Technician runs the payroll, posts activity to the general ledger and prepares the payroll tax returns. The Finance Director and Accounting Technician alternate the reconciliation of bank accounts.

Recommendation: We recommend the City review the spreadsheet provided to see if any duties can be adjusted to properly segregate the four categories of duties. It is important that the Council is aware of this condition and monitors all financial information.

Management Response:

The City has already taken measures to attempt to comply even though they are relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated Progress from Prior Year:

No update from the prior year.

Internal Control Over Disbursements

Cause: The Accounting Technician maintains the signature plate, sets up and maintains vendors, posts to the general ledger, prepares checks, and maintains accounts payable records. The Planning Technician Receptionist opens mail and mails checks to vendors. The Purchase/Inventory Clerk matches invoices to purchase orders and maintains the purchase journal. The Finance Director and Accounting Technician alternate the reconciliation of the bank accounts.

Recommendation: We recommend the City review the spreadsheet provided to see if any duties can be adjusted to properly segregate the four categories of duties. It is important that the Council is aware of this condition and monitors all financial information.

Management Response:

The City has already taken measures to attempt to comply even though they are relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements, regular review of bank reconciliations and budget comparisons. The duties of setting up and maintain vendors, opening the mail, maintaining the general ledger, preparing checks, and mailing the checks have been separated as much as allowed with the limited number of staff.

Updated Progress from Prior Year:

No update from the prior year.



Internal Control Over Cash Receipts

Cause: The Planning Technician Receptionist opens mail and takes deposits to the bank. The Billing Clerk receives and endorses checks/currency and prepares the deposit.

Recommendation: We recommend the City review the spreadsheet provided to see if any duties can be adjusted to properly segregate the four categories of duties. It is important that the Council is aware of this condition and monitors all financial information.

Management Response:

The City has already taken measures to attempt to comply even though they are relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes review of deposits, regular review of financial statements, regular review of bank reconciliations and budget comparisons.

Updated Progress from Prior Year:

No update from the prior year.

Internal Control Over Utility Billing

Cause: The Billing Clerk sets up and maintains customers and rates, generates billing statements, mails billing statements, and prepares the deposit.

Recommendation: We recommend the City review the spreadsheet provided to see if any duties can be adjusted to properly segregate the four categories of duties. It is important that the Council is aware of this condition and monitors all financial information.

Management Response:

The City has already taken measures to attempt to comply even though they are relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes review of deposits, regular review of financial statements, regular review of bank reconciliations and budget comparisons.

Updated Progress from Prior Year:

No update from the prior year.

Internal Control Over Journal Entries

Cause: The accounting technician posts all journal entries, which have not been through an approval process.

Recommendation: SAS No. 145 required evaluating the design and implementation of certain controls including journal entries and other adjustments. Through our audit testing we determined there were lack of controls related to journal entries. We recommend implementing a formal approval process for all manual journal entries.

Management response:

The City will implement an approval process for manual journal entries going forward.



2023-002

Material Audit Adjustments

<i>Condition:</i>	Adjustments were needed to record and adjust the beginning EDA balances, coding of bond proceeds coded to the incorrect fund, debt service fund tax revenues, and capital project activity.
<i>Criteria:</i>	The financial statements are the responsibility of the City's management.
<i>Cause:</i>	The financial statements required material audit adjustments to be reasonably stated.
<i>Effect:</i>	This indicated that it would be likely that a misstatement may occur and not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review bond proceed coding to ensure they are recorded in the proper project fund, review tax levy revenue recorded compared to the approved levy, and review large capital projects that are done in conjunction with outside agencies for portions owned by the City.

Management response:

The City will review the adjustments necessary and try to eliminate these entries in the future.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards*.

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 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 estimates affecting the financial statements include depreciation on capital assets, allocation of wage expenses, liability for the City's pension, and the liability for the City's other postemployment benefits (OPEB).

- 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 the City Council within the City's budget and are derived from each employee's estimated time to be spent serving in the respective function of the City. These allocations are also used in allocating accrued compensated absences payable.



- 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 OPEB liability is based on several factors including, but not limited to, anticipated retirement age for active employees, life expectancy, turnover, and healthcare cost trend rates.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements 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. We proposed several journal entries that we consider to be audit entries or corrections of management decisions of which the following we consider to be material audit adjustments:

- To correct beginning EDA balances.
- To correct the coding of tax receipts.
- To adjust capital asset balances.
- To correct the coding of bond proceeds.

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 April 30, 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.

Written Policies and Procedures

The City has documented some of its accounting policies and procedures during the year. We recommend that the staff continue creating and adopting written accounting policies and procedures.



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.

The following item did not materially affect the financial statements, however we feel should be brought to your attention for future improvements:

- The City's budget did not match the budget approved by the Council.

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, the Schedules of Employer's Contributions and the Schedule of Changes in the City's Total OPEB Liability and Related Ratios), 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 or statistical sections, which accompany 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 them.

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: ⁽¹⁾

GASB Statement No. 100 - Accounting Changes and Error Corrections

Effective: 12/31/2024

GASB Statement No. 101 - Compensated Absences

Effective: 12/31/2024

GASB Statement No. 102 - Certain Risk Disclosures

Effective: 12/31/2025

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



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
Mankato, Minnesota
April 30, 2024

