

Honorable Mayor and Members
of the City Council
City of Spring Lake Park, Minnesota

In planning and performing our audit of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of City of Spring Lake Park as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered City of Spring Lake Park'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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Spring Lake Park'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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*. The future event or events are likely to occur.

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. We consider the following deficiencies in the City's internal control to be significant deficiencies:

Segregation of Duties

We noted that due to the nature and size of the City, proper segregation of duties is not always maintained. Management should attempt to segregate duties that are incompatible from an internal control standpoint (e.g. cash receipts, preparation of deposits, depositing cash to bank, receiving bank statements, reconciling bank accounts, reviewing reconciliations, disbursing cash, etc.) whenever possible. This will prevent any single individual access to control the entire cash process and help reduce the risk of fraud or embezzlement.

Material Audit Adjustments

The City currently relies upon its independent accountants to assist with adjustments to and preparation of the City's unaudited trial balance. Therefore, 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 by City personnel. Management should attempt to develop a financial accounting reporting staff and an accounting procedures manual to assist with ensuring that all information necessary to prepare an accurate unaudited trial balance is gathered in an organized and efficient manner. This will help ensure that any potential material misstatements are detected and corrected on a timely basis.

None of the identified deficiencies in internal control listed above are considered to be material weaknesses.

During our audit, we also became aware of the following other matters that are opportunities for strengthening internal controls and operating efficiency:

Credit Cards

To improve controls over credit cards issued to employees, the City should consider upgrading to credit cards with the following features:

- Daily adjustment of credit limits
- Limit credit card use to specific vendors/industry
- Limit purchase size by vendor/industry
- Prohibit credit card use at certain vendors/industries
- Limit credit card use to normal business hours
- Prohibit cash advances

These credit cards would allow the City to make credit available to employees only when necessary and restrict credit card use to approved vendors and industries during normal business hours.

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This communication is intended solely for the information and use of the Honorable Mayor and Members of the City Council, and management of the City of Spring Lake Park, Minnesota, the Minnesota State Auditor's Office and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Spring Lake Park's internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.

Minneapolis, Minnesota
June 16, 2021