

CITY OF CLARKFIELD, MINNESOTA

MANAGEMENT LETTER

DECEMBER 31, 2019

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
WILLMAR, MINNESOTA

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CITY OF CLARKFIELD, MINNESOTA

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Honorable Mayor and Member of the City Council
City of Clarkfield
Clarkfield, 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 Clarkfield, Minnesota, for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *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 January 6, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

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 was not changed during the year ended December 31, 2019. 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 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 estimate affecting the City's financial statements was:

Management's estimate of depreciation is based on the number of years an asset is in service. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of pension benefit liabilities is based on actuarial valuations performed by consultants specializing in those areas. We evaluated the key factors and assumptions used to develop those estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Significant Audit Findings (Cont'd)

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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Material misstatements detected as a result of audit procedures were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 September 29, 2020.

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 Management's Discussion and Analysis and the Schedules of Proportionate Share of the Net Pension Liability and Schedules of Employer Contributions, which are required supplementary information (RSI) 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 required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on supplementary information, which accompany the financial statements but are not required supplementary information. 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.

Other Matters (Cont'd)

We were not engaged to report on Elected and Appointed Officials section, which accompany the financial statements but are not required supplementary information. 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.

Emphasis of Matter

As discussed in Note 20 to the financial statements, the 2019 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Restrictions on Use

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

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
WILLMAR, MINNESOTA

September 29, 2020

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CITY OF CLARKFIELD, MINNESOTA

SCHEDULE OF FINDINGS ON ACCOUNTING ISSUES AND INTERNAL CONTROLS
DECEMBER 31, 2019

We noted certain matters involving the internal control structure and its operation that we consider being deficiencies in internal control under standards established by the American Institute of Certified Public Accountants. 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.

INTERNAL CONTROL

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the valuation of these factors necessarily requires estimates and judgments by management.

It should be recognized that within the City, an inherent risk is present with certain positions. It is very common for cities such as the City of Clarkfield, Minnesota, to assign many major responsibilities to a few key individuals in an attempt to operate within limited budgets. The inherent risk is again addressed only to maintain the awareness of the internal control structure and to encourage the Council's continual review of financial information at monthly meetings.

GENERAL RECOMMENDATIONS

The purpose of financial statements is to provide the users with insight as to the financial condition and the results of operations of the organization. In order to make financial decisions on a timely basis, financial statements must be prepared timely and correctly.

The following items are informational or areas of concern, which need to be addressed:

BANK RECONCILIATION

During our review of the City's cash accounts and balances, we noted that the City's checking and money market accounts were not reconciled timely. We recommend the City's accounts be reconciled on a monthly basis in order to detect and correct any potential outstanding checks or inaccuracies in revenue and expenditure posting. Bank reconciliations should also be reviewed by a member of Council after completion to ensure accuracy. We recommend all bank reconciliations be kept on hand.

APPROVAL OF TIMESHEETS

In our review of the payroll process, we noted the City does not have a procedure in place that requires timesheets to be reviewed and acknowledged to ensure expenses are accurate and appropriate. Per Minn. Stat. §412.271, a supervisor or other officer or employee having knowledge of the facts should sign a declaration indicating the facts recited on the payroll record are correct to the best of his/her information and belief. In addition, payroll recipients should sign a declaration stating that he/she has been paid and has done the work for which payment is received. We understand the City is reviewing payroll upon signature of the checks. We further recommend the City implement procedures to ensure that all payroll disbursements after review are authorized (initialed) by the appropriate employees or officers. These procedures will help ensure payroll disbursements are accurate, appropriate, and properly being accounted for.

CITY OF CLARKFIELD, MINNESOTA

SCHEDULE OF FINDINGS ON ACCOUNTING ISSUES AND INTERNAL CONTROLS
DECEMBER 31, 2019

GENERAL RECOMMENDATIONS (Cont'd)

OUTSTANDING CHECKS

During our review of the City's bank reconciliation, we noted outstanding checks in excess of three years. Minnesota Statutes requires uncashed checks held for more than three years to be reported and paid or delivered to the Commissioner of Commerce. It was noted that the City has initiated this process but should follow up with the Commissioner to ensure resolution.

DEFICIT CASH AND INVESTMENTS AND FUND BALANCE/NET POSITION

In 2019 and prior, certain funds reported deficit cash and fund balances. We recommend the City review these funds and transfer the appropriate amounts to resolve the deficits or implement a plan to address the deficits. A summary is listed below for your convenience.

Fund	Fund Name	Net of Cash and Investments and Interfund Balances	Fund Balance/ Net Position
240	Economic Development	\$ (251,519)	\$ (182,721)
270	Community Center	(54,786)	(24,737)
250	Swimming Pool	(26,481)	
325	2005 Improvement Bonds	(20,515)	(20,515)
335	G.O. TIF Bonds 2011A	(133,910)	
603	EDA Apartments	25,561	(161,771)
604	EDA Café	(116,039)	(161,943)

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 95

Due to the ongoing situation regarding COVID-19, the Governmental Accounting Standards Board (GASB) has issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to provide temporary relief to governments. This Statement aims to provide sufficient time to apply certain authoritative guidance through the postponement of effective dates of certain provisions that become effective for periods after June 15, 2018 and later. The Statement is effective immediately.

We recommend that management of the City take advantage of the postponed effective dates yet continue the process of implementing the Statements affected by Statement No. 95. If those Statements were already implemented, we recommend continuing to apply them to avoid the burden of reversing the effects of a previously implemented Statement until the reversed effective date. If requested, Conway, Deuth & Schmiesing, PLLP, will assist in the implementation of those Statements. Those services will be billed separate from, in addition to, your annual audit engagement fees. Please contact us with any questions.