

CITY OF LITCHFIELD, MINNESOTA

MANAGEMENT LETTER

DECEMBER 31, 2019

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

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CITY OF LITCHFIELD, MINNESOTA

TABLE OF CONTENTS  
DECEMBER 31, 2019

	<u>Page</u>
Required Communications	1-3
Schedule of Findings on Accounting Issues and Internal Controls	4-5

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Honorable Mayor and Members of the City Council  
City of Litchfield  
Litchfield, 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 Litchfield, 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 to you in our letter 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. The City implemented Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities* and Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, in 2019. Adoption of the principles of these statements results in changes in classification of Fiduciary Activities as well as additional note disclosures related to debt shown in Note 9. 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 estimates affecting the financial statements were:

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 and other postemployment benefit related items are 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.

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## 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 April 20, 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 the Management's Discussion and Analysis, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Employer Contributions, the Schedule of Changes in the City's Net Pension Liability and Related Ratios, the Schedule of Changes in the City's Total OPEB Liability, and related notes 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 RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the statements and schedules listed in the table of contents as supplementary information, 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.

Other Matters (Cont'd)

We were not engaged to report on the Elected and Appointed Officials section, 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 it.

Restriction on Use

This information is intended solely for the use of the City Council and management of City of Litchfield, 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  
LITCHFIELD, MINNESOTA

April 20, 2020

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CITY OF LITCHFIELD, 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 City's such as the City of Litchfield, Minnesota, to assign many major responsibilities to a few key individuals in an attempt to operate within limited budgets. The audit did not raise any specific concerns with any position. 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.

Throughout the course of the audit, we spoke to management regarding certain items that we see as an opportunity to improve. The following items are informational or areas of concern, which need to be addressed:

CROSS-TRAINING

In prior audits, we have recommended the City implement cross-training procedures due to the small number of office staff. Duties, such as check writing, accounts payable, payroll, and utility billing, need to be performed by other office staff in instances of unexpected absences. We would like to recognize the continued improvement on cross-training implementation by the City staff that has occurred over the past few years. We recommend continued implementation on cross-training procedures and continue to develop operating manuals and instructions to allow available personnel the capability to perform the non-routine duties on a timely basis. The City should have someone other than the main person responsible for these functions fully complete the monthly duties multiple times throughout the year. Having multiple staff fully trained in various duties will ensure during an unexpected absence the City can continue to conduct business as necessary.

PUBLIC PURPOSE

Expenditures made by the City must have a public purpose and have specific authority for the expenditure in state statute. The Minnesota Supreme Court defines an activity as meeting public purpose if all the following are met: 1) activity will benefit the community as a body; 2) activity is directly related to functions of government; and 3) activity does not have as its primary objective the benefit of a private interest. During the year, the City made a purchase that has a primary objective to benefit a private interest. We recommend the City make sure all future disbursements meet the public purpose criteria.

CITY OF LITCHFIELD, MINNESOTA

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

GENERAL RECOMMENDATIONS (Cont'd)

UPCOMING GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT NO. 87

The Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement is effective for fiscal years beginning after December 15, 2019.

We recommend that management of the City begin the process of evaluating the impact of implementation of this standard. Changes may be necessary to your financial records and it will benefit the City to begin this process now. If requested, Conway, Deuth and Schmiesing, PLLP will assist in the implementation. These services will be billed separate from, and in addition to, your annual audit engagement fees. Please contact us with any questions.