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

In planning and performing our audit of 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 City of Lake City as of and for the year ended December 31, 2013 in accordance with auditing standards generally accepted in the United States of America, we considered the City of Lake City's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that 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.

### **Material Weaknesses**

We consider the following deficiencies in the City's internal control to be material weaknesses.

- **Oversight of the Financial Reporting Process**

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America (GAAP). The City does have a system of internal controls over the review of the financial statements. However, the City does not have the expertise that would enable management to conclude the disclosures are complete and presented in accordance with GAAP. The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the City's internal controls. As such, management requested us to prepare a draft of the financial statements including the related footnote disclosures. The outsourcing of these services is not unusual in entities of your size and is a result of management's cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost. As part of the audit, we noted a lack of internal controls over recording prepaid expenditures and utility receivables. The lack of controls resulted in proposing prior period adjusting journal entries and restating the 2012 financial statements. The City should continue to evaluate their internal processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

- **Material Audit Adjustments**

Management is responsible for making journal entries to adjust accounts to year end balances. The audit firm identified certain misstatements and proposed journal entries to correct them. Management reviewed the journal entries and posted them to its general ledger. The City's controls were not adequate to ensure that all accounts were adjusted to their appropriate year end balances in accordance with GAAP. We recommend the City continue to work with the auditors to identify year end journal entries that are necessary to ensure that accounts are adjusted to their appropriate year end balances with accordance with GAAP.

**Management's Response**

City of Lake City's written response to the material weaknesses identified in our audit were not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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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 the entity's internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
July 9, 2014