



# Executive Governance Summary

## City of Lamberton

Lamberton, Minnesota

For the year ended December 31, 2024



### *Edina Office*

5201 Eden Avenue, Ste 250  
Edina, MN 55436  
P 952.835.9090

### *Mankato Office*

100 Warren Street, Ste 600  
Mankato, MN 56001  
P 507.625.2727

### *Scottsdale Office*

14500 N Northsight Blvd, Ste 233  
Scottsdale, AZ 85260  
P 480.864.5579

February 28, 2025

Management, Honorable Mayor and City Council  
City of Lamberton, Minnesota

We have audited the financial statements of each major fund of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Lamberton, Minnesota, (the City) for the year ended December 31, 2024, and has issued our report thereon dated February 28, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted 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 dated November 15, 2024. Professional standards require that we provide you with 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 not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. As described below, we identified a deficiency in internal control that we consider to be a significant deficiencies as findings 2024-001 and 2024-002.

Finding

Description

**2024-001**

**Segregation of Duties**

*Condition:*

During our audit we reviewed internal control procedures over payroll, cash disbursements, cash receipts, utility billing, investments and manual journal entries and found the City to have limited segregation of duties in these areas.

*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.

**Internal Control Over Accounting Software**

*Cause:*

As a result of the small number of staff, the Clerk/Treasurer and the Administrative Assistant have the same access in their accounting software, Banyon.

*Recommendation:*

We recommend setting restrictions within Banyon to provide accesses based on each users job functions.

*Management Response:*

The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited to two people. The Council has addressed this circumstance by having active participation in the City's affairs.

**Internal Control Over Cash Disbursements**

*Cause:*

As a result of the small number of staff, the Clerk/Treasurer in conjunction with an administrative assistant controls and maintains the check stock, sets up and maintains vendors, approves vouchers for payment, prepares checks, signs checks in conjunction with the Mayor, mails checks to vendors, maintains the purchase journal and accounts payable records, posts transactions to the general ledger.

*Recommendation:*

While we recognize there are not enough staff members to eliminate this deficiency, we recommend that an individual, separate from the Clerk/Treasurer or administrative assistant, review cancelled checks received with the bank statement and investigate items such as; void checks, inconsistencies in check number sequence, possible alterations and unusual payees. This individual should also review bank reconciliations for accuracy and timeliness of preparation. It is important that the Council is aware of this condition and monitor all financial information.

*Management Response:*

The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited to two people. The Council has addressed this circumstance by having active participation in the City's affairs.



### **Internal Control Over Cash Receipts**

*Cause:* As a result of the small number of staff, the Clerk/Treasurer in conjunction with an administrative assistant opens the mail, receives and endorses checks and currency, prepares and takes the deposit to the bank, sets up and maintains customers, generates billing statements, maintains receipts journal and accounts receivable records, posts transactions to the general ledger, and reconciles bank accounts.

*Recommendation:* While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend that an individual separate from the Clerk/Treasurer or administrative assistant open the mail, prepare the deposit and review all deposits included on monthly bank reconciliations. It is important that the Council be aware of this condition and monitors all financial information. Additional controls might include obtaining and reviewing monthly receipt information.

*Management Response:* The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited to two people. The Council has addressed this circumstance by having active participation in the City's affairs.

### **Internal Control Over Utility Billing**

*Cause:* As a result of the small number of staff, the Clerk/Treasurer in conjunction with an administrative assistant approves new utility accounts, sets up and maintains customers and rates in the Banyon UB system, generates and mails billing statements, prepares the deposit and takes it to the bank, maintains and reconciles the receivable subledger, and controls the accuracy, completeness of and access to utility billing program and data files.

*Recommendation:* While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend the Council review exception reports from meter reading software. It is important that the Council be aware of this condition and monitors all financial information.

*Management Response:* The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited to two people. The Council has addressed this circumstance by having active participation in the City's affairs. The Maintenance Department Supervisor now approves any utility adjustments to individual accounts.

### **Internal Control Over Journal Entries**

*Cause:* As a result of the small number of staff, the Clerk/Treasurer in conjunction with an administrative assistant prepares and posts all journal entries to the accounting system.

*Recommendation:* While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend the Council review manual journal entries monthly. It is important that the Council be aware of this condition and monitors all financial information.

*Management Response:* The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited to two people. The Council has addressed this circumstance by having active participation in the City's affairs.



Finding

Description

**2024-002**

**Preparation of Financial Statements**

*Condition:*

We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

*Criteria:*

Internal controls should be in place to provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports are generated.

*Cause:*

From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with cities of your size.

*Effect:*

It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken provide you with the completed financial statements.

The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors.

*Recommendation:*

Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. Regarding the specific situations listed above, we would offer the following specific recommendation:

- Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers.
- Agree your Banyon receipt and disbursement information to the numbers reported in the financial statements plus any applicable accruals.
- It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations.

*Management Response:*

For now, the City accepts the degree of risk associated with this condition, but is prepared to engage the services of a qualified party in the future if its own staff needs outside help in this matter.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our tests was not to provide a legal determination on the City's compliance with those requirements. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or Minnesota statute which is described below.

### Finding

### Description

**2024-003**

### **Municipal Payment to Fire Relief Association**

*Condition:*

During the audit we noted the 2024 state aid contribution to the Lamberton Fire Relief Association was not paid within 30 days.

*Cause:*

Minnesota statute 477B.042 Subd. 2 states the following:

“Subd. 6. Municipal payment. (a) (a) The municipality or independent nonprofit firefighting corporation and the affiliated relief association may agree to allocate fire state aid between the relief association and the public employees police and fire retirement plan by entering into an aid allocation agreement described in subdivision 3. (b) If an aid allocation agreement has been filed with the state auditor and is in effect, then within 30 days of receipt of the fire state aid the treasurer of the municipality must transmit to the relief association the amount of the fire state aid as determined in the aid allocation agreement. If a municipality receives fire state aid on behalf of an independent nonprofit firefighting corporation, the municipality must also transmit any remaining fire state aid to the independent nonprofit firefighting corporation.”

*Effect:*

The City is required by statute to transmit the fire state aid to the relief association within 30 days of receipt of the fire state aid. The City received the state aid on 07/01/2024 but did not transmit it until 01/13/2025.

*Recommendation:*

We recommend the City set up a payment to the fire relief association as soon as receipt of the fire state aid is received.

*Management Response:*

The City accepts the finding and will ensure timely payment to the fire relief association in future years.

## Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant policies used by the City are described in Note 1 to the financial statements. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City described in Note 1 to the financial statements. The City changed accounting policies during the year December 31, 2024, related to the accounting and financial reporting for accounting changes and error corrections (GASB 100). 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 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 made relate to depreciation on capital assets and an allocation of payroll.

- Management's estimate of depreciation is based on the estimated useful lives of the assets. Depreciation is calculated using the straight-line method.
- Allocations of gross wages and payroll benefits are derived from each employee's estimated time to be spent servicing the respective functions of the City. These allocations are also used in allocating accrued wages payable and GASB 68 pension liability.
- 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.

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 (other than the following).

#### **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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### **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 February 28, 2025.

#### **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.

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

- The City does not have procedures in place to ensure the accuracy of the Ambulance's billing company transactions it initiates for the City. We recommend that the City have a procedure in place to review the transactions and reports provided by the billing company.
- During our audit, we noted the City did not pay the 2019B debt payment that was due on December 1, 2024. Late payments could result in additional fees and interest expense. It could also affect the City's bond rating.

## Other Matters

We applied certain limited procedures to the required supplementary information (RSI) (the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions, and the Schedule of Changes in Net Pension Liability (Asset) 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 section, which accompany the financial statements but is 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.

## 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:

<b>GASB Statement No. 102</b> – <i>Certain Risk Disclosures</i>	<i>Effective: 12/31/2025</i>
<b>GASB Statement No. 103</b> – <i>Financial Reporting Model Improvements</i>	<i>Effective: 12/31/2026</i>
<b>GASB Statement No. 104</b> – <i>Disclosure of Certain Capital Assets</i>	<i>Effective: 12/31/2026</i>

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





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**Restriction on Use**

This communication is intended solely for the information and use of the City Council, management and the Minnesota Office of the State Auditor and is not intended 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  
February 28, 2025

