

CITY OF WAYZATA
WAYZATA, MINNESOTA

Special Purpose Audit Reports

Year Ended
December 31, 2019

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CITY OF WAYZATA

Special Purpose Audit Reports
Year Ended December 31, 2019

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council and Management
City of Wayzata, Minnesota

We have audited, 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, 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 the City of Wayzata, Minnesota (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 8, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the 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 City'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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying Schedule of Findings as item 2019-001, that we consider to be a significant deficiency.

(continued)

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, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CITY'S RESPONSE TO FINDING

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
May 8, 2020



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INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

To the City Council and Management
City of Wayzata, Minnesota

We have audited, 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, 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 the City of Wayzata, Minnesota (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 8, 2020.

MINNESOTA LEGAL COMPLIANCE

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, except as described in the Schedule of Findings item 2019-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

CITY'S RESPONSE TO FINDING

The City's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings. The City's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
May 8, 2020

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CITY OF WAYZATA

Schedule of Findings
Year Ended December 31, 2019

A. SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER FINANCIAL REPORTING

2019-001 SEGREGATION OF DUTIES

Criteria – Internal control over financial reporting.

Condition – The City of Wayzata, Minnesota (the City) has limited segregation of duties in a number of areas, including controls over cash disbursements, investments, and payroll.

Context – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of the City’s business office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no one individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

Recommendation – We recommend that the City continue to segregate duties as best it can within the limits of what it considers to be cost-beneficial.

Management Response – The City agrees with the finding. The City reviews and makes improvements to its internal control structure on an ongoing basis and attempts to maximize the segregation of duties in all areas within the limits of the staff available. However, the City does not consider it cost-beneficial at this time to increase the size of its staff in order to further segregate accounting functions.

B. FINDING – MINNESOTA LEGAL COMPLIANCE AUDIT

2019-002 CLAIMS AND DISBURSEMENTS

Criteria – Minnesota Statutes § 471.425, Subd. 2.

Condition – Minnesota Statutes require cities to pay vendor claims according to the terms of each contract or within 35 days after the receipt of the goods or services, or the invoice for the goods or services, whichever is later. If such claims are not paid within the required time period, cities must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. For two disbursements selected for testing, the City did not pay the claim within the required time period, and did not pay interest on the unpaid obligation.

Context – Two of forty disbursements tested were not in compliance. This is a current year finding.

CITY OF WAYZATA

Schedule of Findings (continued)
Year Ended December 31, 2019

B. FINDING – MINNESOTA LEGAL COMPLIANCE AUDIT (CONTINUED)

2019-002 CLAIMS AND DISBURSEMENTS (CONTINUED)

Cause – The late payments were the result of the time it took to obtain department head approvals prior to forwarding the claims to the finance department for payment.

Effect – Two claims payments to vendors were not paid within the timeframe required by state statutes, and the vendors were not paid the interest to which they were entitled.

Recommendation – We recommend that the City review its claims payment procedures to ensure future compliance with this statute, and reinforce to all employees that review and approve claims for payment the importance of completing this internal control procedure in a timely manner.

Management Response – The City agrees with the finding. The City will review its payment procedures and monitor vendor submissions of claims to ensure they are paid timely in the future.