

CITY OF WAYZATA  
WAYZATA, MINNESOTA

Special Purpose Audit Reports

Year Ended  
December 31, 2021

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CITY OF WAYZATA

Special Purpose Audit Reports  
Year Ended December 31, 2021

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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, 2021, 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 10, 2022.

**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) 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 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 and Responses as finding 2021-001, 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 financial statements. 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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 10, 2022



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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, 2021, 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 10, 2022.

**MINNESOTA LEGAL COMPLIANCE**

In connection with our audit, we noted that the City failed to comply with provisions of the claims and disbursements section of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, insofar as they relate to accounting matters as described in the Schedule of Findings and Responses as finding 2021-002. Also, 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 – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, insofar as they relate to accounting matters. 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the legal compliance finding identified in our audit and described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

(continued)

**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 10, 2022

CITY OF WAYZATA

Schedule of Findings and Responses  
Year Ended December 31, 2021

**A. SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2021-001 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.

CITY OF WAYZATA

Schedule of Findings and Responses (continued)  
Year Ended December 31, 2021

**B. MINNESOTA LEGAL COMPLIANCE FINDING**

**2021-002 PAYROLL DECLARATION**

**Criteria** – Minnesota Statutes § 412.271, Subd. 2.

**Condition** – Minnesota Statutes § 412.271, Subd. 2 requires that when claims are made for wages paid on an hourly or daily basis, the employee shall sign a declaration, in the form prescribed in this statute, to the effect that the employee has received the wages and done the work for which the wages have been paid. This declaration was not obtained for three employees tested during the year.

**Context** – The City had not obtained the required declaration for 3 of 25 employee payroll claims tested. This is a current year finding.

**Cause** – The City changed payroll systems in 2021, and the required disclosure is no longer included on each payroll check or direct deposit remittance as it had been with the previous payroll system. In order to comply with this requirement, the City adopted a new procedure requiring each employee paid wages on an hourly or daily basis to sign the required declaration once when they are hired. However, due to an oversight, this was not done for some seasonal employees hired during the year.

**Effect** – The City did not obtain the signed declaration required to comply with this statute for some seasonal employees hired in 2021.

**Recommendation** – We recommend the City obtain the required signed claim disclosure for all employees making claims for wages on an hourly or daily basis in the future, including all seasonal employees to which this requirement applies.

**Management Response** – The City agrees with the finding. The City's Administrative Services Director will verify that appropriate internal controls and procedures are in place to assure the signed declaration necessary to comply with this requirement is obtained for all applicable employees, including seasonal employees, in the future. Appropriate corrective action will be completed by June 30, 2022.