



Honorable Mayor and Management
City of Crosslake
Crosslake, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Crosslake as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, 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.

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. 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 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.

Material weaknesses

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

- The City Administrator/Treasurer has primary responsibility for virtually all of the duties related to electronic deposits, journal entries, and capital assets. The City Clerk is responsible for calculating, recording, receiving, mailing, posting cash receipts, preparing bank deposits, initiating and recording electronic sewer billing, and reconciling the monthly billing activity for the City's sewer enterprise fund. As a result, many of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, not available in this staffing scenario. The design of the internal controls over financial reporting could affect the ability of the City to record, process, summarize, and report financial data consistently with the assertions of management in the financial statements. We recognize that it may not be economically feasible for the City to employ additional staff for the purpose of segregating duties practicable from a financial standpoint, but we are required, under our professional responsibilities, to call the situation to your attention. The City should continue to utilize Council oversight of the budgeting, cash reconciling, and receipts and disbursements process to the maximum extent possible to mitigate the absence of segregation of duties.

- Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles. The City does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures to ensure they are complete and presented in conformity with U.S. generally accepted accounting principles. Management has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures.

The design of the internal controls over the financial reporting process could affect the ability of the City to conclude the financial statements and related disclosures are complete and presented in conformity with U.S. generally accepted accounting principles. The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls.

The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 29, 2024