

CITY OF LITCHFIELD, MINNESOTA

MANAGEMENT LETTER

DECEMBER 31, 2008

Conway, Deuth & Schmiesing, PLLP  
Certified Public Accountants  
Litchfield, Minnesota

CITY OF LITCHFIELD, MINNESOTA  
YEAR ENDED DECEMBER 31, 2008  
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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Litchfield  
Litchfield, Minnesota

We have completed an audit of the financial position of the City of Litchfield, Minnesota for the year ended December 31, 2008. As a result of this audit, we have issued the following reports: Required Communications and Schedule of Findings on Accounting Issues and Internal Controls.

Our comments and recommendations related to observations made during our visit are communicated in the following pages for the administration's consideration. Although these comments are not based on an in-depth study of a particular subject area or potential problem, the administration is often able to utilize this information in future decisions or actions.

We would like to acknowledge the assistance and courtesies extended to us by the personnel of the City of Litchfield during our audit. We look forward to discussing with you matters presented herein.

The information presented on the following pages is intended for the information of the Council and management. However, this report is matter of public record and its distribution is not limited.

*Conway, Deuth & Schmiesing, PLLP*

CONWAY, DEUTH & SCHMIESING, PLLP  
Certified Public Accountants  
Litchfield, Minnesota

June 15, 2009



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June 15, 2009

Honorable Mayor and City Council  
City of Litchfield  
Litchfield, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Litchfield, Minnesota for the year ended December 31, 2008, and have issued our report thereon dated June 15, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated January 7, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Litchfield, Minnesota. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

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Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated January 7, 2009, and in various planning meetings held via email and phone conversation in December 2008 and January 2009.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Litchfield, Minnesota are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the City of Litchfield, Minnesota during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 estimate affecting the financial statements was:

Management's estimate of depreciation is based on the number of years an asset is in service. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*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. Material misstatements detected as a result of audit procedures were corrected by management.

*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 June 15, 2009.

*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 principal 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.

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

*Conway, Deuth & Schmiesing, PLLP*

CONWAY, DEUTH & SCHMIESING, PLLP  
Certified Public Accountants  
Litchfield, Minnesota

June 15, 2009

## CITY OF LITCHFIELD, MINNESOTA

### SCHEDULE OF FINDINGS ON ACCOUNTING ISSUES AND INTERNAL CONTROLS

We noted certain matters involving the internal control structure and its operation that we consider being control deficiencies under standards established by the American Institute of Certified Public Accountants. A control deficiency 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 misstatements on a timely basis.

#### INTERNAL CONTROL

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the valuation of these factors necessarily requires estimates and judgments by management.

It should be recognized that within the City, an inherent risk is present with certain positions. It is very common for City's such as the City of Litchfield, to assign many major responsibilities to a few key individuals in an attempt to operate within limited budgets. The audit did not raise any specific concerns with any position. The inherent risk is again addressed only to maintain the awareness of the internal control structure and to encourage the Council's continual review of financial information at monthly meetings.

#### GENERAL RECOMMENDATIONS

The purpose of financial statements is to provide the users with insight as to the financial condition and the results of operations of the organization. In order to make financial decisions on a timely basis, financial statements must be prepared timely and correctly.

The following items are informational or areas of concern, which need to be addressed:

#### CROSS-TRAINING

Due to the small number of office staff, duties, such as check writing, payroll, and utility billing, need to be performed by other staff in instances of unexpected absences. We recommend that the City continue implementing cross-training procedures and develop operating manuals and instructions to allow available personnel the capability to perform the non-routine duties on a timely basis.

#### JOURNAL ENTRY APPROVAL

During our test of journal entries we noted they were not being approved before or after posting them to the general ledger. We recommend that the City implement stronger controls over the journal entry process such as reviewing and authorizing entries before posting.

#### UTILITY BILLING ADJUSTMENTS

During our review of utility billing, we noted that manual adjustments to the utility billing system are not being reviewed and approved. We suggest that adjustments to utility billing be reviewed and approved by a designated individual and maintained on file for further audit review requests.

## INVENTORY ADJUSTMENTS

Liquor store inventory is adjusted after cycle counts at various time throughout the year. We suggest these adjustments be reviewed by an individual other than liquor store personnel on a random basis to verify the extent of variances and why they are occurring.