

**CITY OF FREEPORT, MINNESOTA
SCHEDULE OF FINDINGS AND REPOSSES
DECEMBER 31, 2017**

FINANCIAL STATEMENT FINDINGS

Finding 2014-001 Limited Segregation of Duties

Condition: The City has limited segregation of accounting duties.

Criteria: The basic premise of proper segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of the transaction.

Cause: There are a limited number of employees.

Effect: The City's lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: Although the number of employees may not be large enough to eliminate this deficiency, we recommend that the City evaluate current procedures and segregate where possible and implement compensating controls. It is important that the Council is aware of this condition and monitors all financial information.

Management's Response: Management agrees with the recommendation.

Finding 2014-002 Financial Statement Preparation

Condition: Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the City. These financial statements, including disclosures, were reviewed by management and management has taken responsibility for them.

Criteria: Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.

Cause: We believe management would require additional training in order to prepare the financial statements and year-end adjustments internally.

Effect: The outsourcing of these services is not unusual in entities of the size of the City of Freeport and is the result of management's cost benefit decision to rely on our expertise rather than incurring this internal resource cost. However, errors can occur in the financial statements that may not be detected by management.

Recommendation: We recommend that management review a draft of the financial statements in detail for accuracy. During review, we recommend a disclosure checklist be utilized to ensure all required disclosures are presented, and the City should agree the financial statement numbers to their accounting software. The City may not have the ability to implement controls that fully eliminate this finding.

Management's Response: Management agrees with the recommendation.

**CITY OF FREEPORT, MINNESOTA
SCHEDULE OF FINDINGS AND REPOSES
DECEMBER 31, 2017**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2017-001 Material Audit Adjustments

Condition: Prior to the audit, the City’s financial statements contained misstatements, the nature of which could potentially be material.

Criteria: The City is required to report accurate financial information.

Cause: The City failed to record adjustments for various year-end entries.

Effect: The misstatement in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair financial statement presentation under accounting principles generally accepted in the United States of America.

Recommendation: We recommend management perform a thorough review of the trial balance prior to the audit and ensure all transactions have been properly recorded.

Management’s Response: Management agrees with the recommendation.

LEGAL COMPLIANCE FINDINGS

Finding 2017-002 Solicitation of Sealed Bids

Condition: The City failed to properly solicit and obtain sealed bids for a contract in excess of \$100,000.

Criteria: In accordance with Minnesota Statute 471.345, the City is required to solicit sealed bids via public notice for all contracts estimated to be in excess of \$100,000.

Cause: The executed a contract in excess of the dollar amount noted above for the purchase of a fire truck, without properly soliciting sealed bids via public notice.

Effect: The failure to properly solicit and obtain sealed bids resulted in the City’s noncompliance with Minnesota Statutes.

Recommendation: We recommend all City officials thoroughly review Minnesota statutes related to contracting and bidding. We recommend the City solicit and obtain sealed bids via proper public notice for all municipal contracts estimated to exceed \$100,000, unless specifically granted the authority to bypass this process by another Minnesota Statute.

Management’s Response: Management agrees with the recommendation.

**CITY OF FREEPORT, MINNESOTA
SCHEDULE OF FINDINGS AND REPOSSES
DECEMBER 31, 2017**

LEGAL COMPLIANCE FINDINGS (Continued)

Finding 2017-003

Retention of Quotes

Condition: The City did not properly document and retain quotes obtained for equipment purchases.

Criteria: In accordance with MN Statute 471.345, the City may choose to obtain quotes for contracts estimated to exceed \$25,000, but not to exceed \$100,000, in lieu of soliciting sealed bids via public notice. However, all such quotes must be retained in the Cities records for a period of at least one year from the receipt thereof.

Cause: The City obtained quotes for the purchase of equipment, but failed to properly retain these quotes in the City's records.

Effect: The failure to retain such quotes in the City's records resulted in the City's noncompliance with Minnesota Statutes.

Recommendation: We recommend all City officials thoroughly review Minnesota statutes related to contracting and bidding, and ensure all future quotes are retained in the City's records.

Management's Response: Management agrees with the recommendation.

Finding 2017-004

State Cooperative Purchasing Venture

Condition: The City failed to consider the State's cooperative purchasing venture when purchasing equipment with a cost exceeding \$25,000.

Criteria: In accordance with MN Statute 471.345, subdivision 15, the City is required to consider the availability of equipment available through the State's cooperative purchasing venture when making purchases of materials or equipment in excess of \$25,000.

Cause: The City failed to consider the options available under the State's cooperative purchasing venture when purchasing a fire truck.

Effect: The failure to the State's cooperative purchasing venture resulted in the City's noncompliance with Minnesota Statutes.

Recommendation: We recommend all City officials thoroughly review Minnesota statutes related to contracting and bidding. When considering future purchases of materials or equipment over \$25,000, the City should review the availability of such items through the State's cooperative purchasing venture.

Management's Response: Management agrees with the recommendation.

**CITY OF FREEPORT, MINNESOTA
CORRECTIVE ACTION PLANS
DECEMBER 31, 2017**

FINANCIAL STATEMENT FINDINGS

Finding 2014-001 Limited Segregation of Duties

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will review current procedures and implement additional controls where possible.
3. Official Responsible
Rodney Atkinson, Mayor, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

Finding 2014-002 Financial Statement Preparation

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City may continue to have the auditor prepare the financial statements and will continue to document the annual review of the financial statements and related footnote disclosures. The City will revisit this decision on an ongoing, annual basis.
3. Official Responsible
Adrianna Hennen, City Clerk/Treasurer, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

**CITY OF FREEPORT, MINNESOTA
CORRECTIVE ACTION PLANS
DECEMBER 31, 2017**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2017-001 Material Audit Adjustments

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will thoroughly review the trial balance prior to audit fieldwork and make any adjusting entries before submitting the trial balance to the auditors.
3. Official Responsible
Rodney Atkinson, Mayor, is the official responsible for ensuring corrective action.
4. Planned Completion Date
December 31, 2018.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

LEGAL COMPLIANCE FINDINGS

Finding 2017-002 Solicitation of Sealed Bids

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will review Minnesota statutes related to contracting and bidding and will ensure the City has appropriate policies in place comply with these statutes. Bids for future contracts estimated to exceed \$100,000 will be properly solicited via public notice, unless specifically granted the authority to bypass this process by another Minnesota Statute.
3. Official Responsible
Adrianna Hennen, City Clerk/Treasurer, is the official responsible for ensuring corrective action.
4. Planned Completion Date
December 31, 2018.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

**CITY OF FREEPORT, MINNESOTA
CORRECTIVE ACTION PLANS
DECEMBER 31, 2017**

LEGAL COMPLIANCE FINDINGS (Continued)

Finding 2017-003 Retention of Quotes

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will review Minnesota statutes related to contracting and bidding and will ensure the City has appropriate policies in place comply with these statutes. Quotes obtained for future purchases will be retained in the City's records.
3. Official Responsible
Adrianna Hennen, City Clerk/Treasurer, is the official responsible for ensuring corrective action.
4. Planned Completion Date
December 31, 2018.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

Finding 2017-004 State Cooperative Purchasing Venture

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City will review Minnesota statutes related to contracting and bidding and will ensure the City has appropriate policies in place comply with these statutes. The City will consider the availability of materials and equipment through the State's cooperative purchasing venture when executing future purchases of this nature in excess of \$25,000.
3. Official Responsible
Adrianna Hennen, City Clerk/Treasurer, is the official responsible for ensuring corrective action.
4. Planned Completion Date
December 31, 2018.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

CITY OF FREEPORT, MINNESOTA

**REPORT TO THE MEMBERS
OF GOVERNANCE**

JUNE 5, 2018

**SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants**

**CITY OF FREEPORT, MINNESOTA
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June 5, 2018

Members of Governance
City of Freeport, Minnesota

We are pleased to present this report related to our audit of the basic financial statements of the City of Freeport (the City) as of and for the year ended December 31, 2017. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

This report is intended solely for the information and use of the City's members of governance and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the City of Freeport.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

CITY OF FREEPORT, MINNESOTA REQUIRED COMMUNICATIONS

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Auditor's Responsibility under Professional Standards

Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated January 4, 2018. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. The City did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Alternative Treatments Discussed with Management

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The only estimate we have deemed significant to the financial statements is the estimate included in the calculation of overall net pension liability and deferred inflows/outflows of resources for the pension plan in which the City's employees participate.

**CITY OF FREEPORT, MINNESOTA
REQUIRED COMMUNICATIONS**

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.

There were no uncorrected misstatements discovered during the course of our audit.

Audit adjustments have been proposed by us and recorded by the City for the purpose of recording or adjusting current year receivables, special assessments and property taxes, accounts payable, and payroll liabilities, as well as current year capital asset activity and depreciation, and debt service activity.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Letter Communicating Significant Deficiencies and Material Weaknesses in Internal Control Over Financial Reporting

We have separately communicated the significant deficiencies identified during our audit of the financial statements, and this communication is included within the compliance section of the City's financial report for the year ended December 31, 2017.

Certain Written Communications Between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated June 5, 2018.