

**CITY OF CANTON
MINNESOTA**

**INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THOSE
CHARGED WITH GOVERNANCE,
ON INTERNAL CONTROL, AND ON A
MANAGEMENT ADVISORY COMMENT**

DECEMBER 31, 2019

CITY OF CANTON
TABLE OF CONTENTS
DECEMBER 31, 2019

Page

2-4	Independent Auditors' Report on Communications With Those Charged With Governance
5-8	Adjusting Journal Entries
9-11	Independent Auditors' Report on Internal Control
12	Independent Auditors' Report on a Management Advisory Comment
13	Management Advisory Comment
	Attachment - Management Representation Letter

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE**

To the City Council
City of Canton, Minnesota

We have audited the regulatory financial statements of the City of Canton (the "City") for the year ended December 31, 2019, and have issued our report thereon dated April 1, 2020. Professional standards also require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated January 24, 2020, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with practices prescribed or permitted by the State of Minnesota Office of the State Auditor. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City of Canton solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also 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 for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material weaknesses, and material noncompliance, and other matters noted during our audit in a separate letter to you dated April 1, 2020.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance With All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by City of Canton is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2019. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

There are no material estimates included in the financial statements.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements listed on pages 5 through 8 that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to City of Canton's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested From Management

We have requested certain written representations from management which are included in the attached management representation letter dated April 1, 2020.

Management Consultations With Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with City of Canton, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the City, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as City of Canton's auditors.

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

Very truly yours,



La Crosse, Wisconsin
April 1, 2020

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

To the City Council
City of Canton, Minnesota

In planning and performing our audit of the regulatory financial statements of City of Canton (the "City"), as of and for the year ended December 30, 2019, in accordance with practices prescribed or permitted by the State of Minnesota Office of the State Auditor, we considered City of Canton's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 a 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 over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We consider the following deficiencies in City of Canton's internal control to be material weaknesses:

2019-001 - Management's Responsibility for Preparation of Financial Statements

Program: City-wide

Criteria: Adequate internal controls necessitate personnel to have knowledge and training which would enable them to prepare financial statements (and footnotes) in accordance with the financial reporting provisions of the State of Minnesota's Office of the State Auditor.

Condition: The training and knowledge of your personnel limits your ability to prepare regulatory basis financial statements.

Questioned Costs: Not applicable.

2019-001 - Management's Responsibility for Preparation of Financial Statements - Continued

Context: Personnel have adequate knowledge and experience in governmental accounting and interim reporting requirements; however, their limited knowledge and lack of training limits their ability to prepare regulatory basis financial statements.

Effect: This weakness could result in the possibility of undetected errors and irregularities.

Information: Systematic problem.

Prior Year Finding: This was prior year finding 2018-001.

Recommendation: Obtain adequate training or hire a certified public accountant (CPA) to prepare regulatory basis financial statements.

City's Response: Due to the complexities involved with preparing regulatory basis financial statements, management has weighed the cost-benefit of training personnel or hiring a CPA firm. Management has concluded to hire a CPA firm.

2019-002 - Segregation of Duties

Program: City-wide

Criteria: Separation of accounting duties is necessary for adequate internal control.

Condition: Separation of accounting duties for adjusting journal entries, cash receipts, cash disbursements, and payroll is currently limited to obtain an adequate internal control system.

Questioned Costs: Not applicable.

Context: The number of personnel limits the separation of accounting duties.

Effect: This weakness could result in the possibility of undetected errors and irregularities.

Information: Systematic problem.

Prior Year Finding: This was prior year finding 2018-002.

Recommendation: Management should monitor the accounting internal controls or hire additional personnel to be able to properly separate accounting duties.

City's Response: This weakness is impractical to entirely correct due to the limited resources and personnel available to our City. We will continue to use other controls, where practical, to compensate for this limitation.

2019-004 - Material Audit Adjustments

Program: City-wide

Criteria: Generally accepted accounting principles.

Condition: Material audit adjustments were required to prevent the City's financial statements from being materially misstated.

Questioned Costs: Not applicable.

Context: Internal controls did not identify that adjustments should be recorded.

Effect: This weakness could result in undetected errors and irregularities and misstated interim financial reports.

Information: Systematic problem.

Prior Year Finding: This was prior year finding 2018-004.

Recommendation: Improve the City's financial reporting internal controls to prevent these types of adjustments from occurring in the future. Document which accounting procedures are needed to be completed on a recurring basis to detect material adjustments.

Management's Response: The City will incorporate financial reporting internal controls to detect material adjustments, prevent materially misstated financial statements and increase the accuracy of the interim financial reports used by management.

This communication is intended solely for the information and use of management, the 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.

Hawkins Ash CPAs, LLP

La Crosse, Wisconsin
April 1, 2020

**INDEPENDENT AUDITORS' REPORT ON
A MANAGEMENT ADVISORY COMMENT**

To the City Council
City of Canton, Minnesota

We have audited the financial statements of City of Canton as of and for the year ended December 31, 2019, and have issued our report, thereon, dated _____, 2020.

A matter involving internal control and operations of the City, which came to our attention during the audit, is reported on the following page as a management advisory comment.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the organization's personnel during the course of our work. In particular, we would like to note the considerable assistance and cooperation provided to us by Brock Bergey.

We shall be pleased to discuss the matter referred to in this letter. Should you desire assistance in implementing the following suggestion, we would welcome the opportunity to assist you.

Hawkins Ash CPAs, LLP

La Crosse, Wisconsin
April 1, 2020

MANAGEMENT ADVISORY COMMENT

CURRENT YEAR COMMENT

Accounting System

During the audit we noted the City uses a basic accounting software that is not specifically designed for municipalities. Accounting systems designed for municipalities allow for integrated utility billing, payroll allocations to multiple funds, pooled cash, budget input and other advantages that could benefit the City's accounting processes.

Chart of Accounts

During the audit we noted the City does not use account numbers in its general ledger. The State of Minnesota has a standard system of accounts that corresponds to the State Financial Report Form. For our audit purposes, we assigned each general ledger account an account number. We recommend the City consider using account numbers in the general ledger. This would make daily accounting and monthly reporting easier.

Separation of Fund Activity

The City's financial statements report five governmental funds and one combined enterprise fund. Four of the five governmental funds (General, Mitson, Trail, and Vail) are all accounted for one general ledger. The City should consider separating the other governmental funds from the General Fund's general ledger for more accurate reporting and budgeting.

Budget Spreadsheet

The City's budget excel spreadsheet appeared to have inconsistent formulas in the Payroll Expense section. We recommend reviewing those formulas for accuracy.

Payroll Accounting

The City currently accounts for employee payroll withholdings as contra-expenditures in the income statement and when those withholdings are paid to the respective government agencies, that amount is also recorded as an expenditure in a separate general ledger account. This can create confusion when analyzing payroll expense accounts. We recommend the City record payroll withholdings in a payroll liability account and subsequent reduce the liability when payment is made to the government agencies. The benefit of this is the only expense shown on the income statement will be the employees' wages and the City's portion of employee taxes/PERA.

Township Fire Contracts

During the audit we noted the payments received from various Townships for fire services were inconsistent year to year. It appears the current year and prior year amounts owed by one Township were all paid in the current year. We recommend the City implement signed agreements with Townships that receive fire services.