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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Commissioners
Legislative Coordinating Commission

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 and the general fund of Legislative Coordinating Commission as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the entity's basic financial statements, and have issued our report thereon dated June 29, 2020.

In connection with our audit, nothing came to our attention that caused us to believe that Legislative Coordinating Commission failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 entity's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen

Minneapolis, Minnesota
June 29, 2020

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Board Members
Legislative Coordinating Commission
St. Paul, Minnesota

We have audited the financial statements of the governmental activities and general fund of Legislative Coordinating Commission as of and for the year ended June 30, 2019, and have issued our report thereon dated June 29, 2020. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Legislative Coordinating Commission are described in Note 1 to the financial statements.

As described in Note 8, the entity changed accounting policies related to the State Employees Retirement Fund (SERF) administered by MSRS by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, Accounting and Financial Reporting for Pensions, as of June 30, 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

As described in Note 8, the entity changed accounting policies related to the State Other Postemployment Benefits (OPEB) plan administered by the State of Minnesota by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, as of June 30, 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

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 estimates affecting the financial statements were:

- The estimated proportionate share of Minnesota State Retirement System State Employees Retirement Fund net pension liability and the related deferred inflows and outflows of resources. These estimates are based on an actuarial report and reliance on the key assumptions utilized in that report. The assumptions utilized by the actuaries appeared reasonable.

- Management's estimate of the OPEB liability is based on actuarial calculations. Managements estimate of the Commission's proportionate share of Minnesota Retirement System State Employees Retirement Fund net pension liability is based on guidance from GASB Statement Nos. 68 and 71 and the plan's allocation tables. The plan's allocation tables allocate a portion of the plan's net pension liability based on the Commission's prior fiscal year contributions as a percentage of the total contributions received for the related year by the plan.

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

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

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

Difficulties encountered in performing the audit

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

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

The following material misstatements detected as a result of audit procedures were corrected by management:

- Adjustment to Accounts Payable and related expenditures to reduce both in the amount of $131,649.

- Adjustment to Accrue the Net Pension Liability as it relates to MSRS of $114,000, the related Deferred Outflows of $346,000 and related Deferred Inflows of $545,000. The adjustments also properly booked a $283,000 reduction in pension expense for the change in the Net Pension Liability and related Deferred Inflows and Deferred Outflows as they relate to MSRS during the fiscal year ending June 30, 2019.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated June 29, 2020.

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 principle to the entity’s financial statements or a determination of the type of auditors’ 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.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other audit findings or issues

We have provided a separate letter to you dated June 29, 2020, communicating internal control related matters identified during the audit.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management’s responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the Combining Balance Sheet for General Fund, Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – General Fund, and the Statements of Revenues, expenditures, and Changes in Departmental Fund Balances – Budget Actual (collectively, the Other Information) accompanying the financial statements, which is the responsibility of management, was prepared for purposes of additional analysis and is not a required part of the financial statements. Such information was not subjected to the auditing procedures applied tin the audit of the financial statements, and, accordingly, we did not express an opinion or provide any assurance on it.

* * *

This communication is intended solely for the information and use of the board members and management of Legislative Coordinating Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 29, 2020

INDEPENDENT AUDITORS' 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*

Commissioners and Management of
Legislative Coordinating Commission
St. Paul, Minnesota

We have audited, in accordance with the 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 and general fund of Legislative Coordinating Commission, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Legislative Coordinating Commission's basic financial statements, and have issued our report thereon dated June 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Legislative Coordinating Commission's internal control over financial reporting (internal control) to determine the 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 Legislative Coordinating Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Legislative Coordinating Commission'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 have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002 and 2019-003 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2019-004 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Legislative Coordinating Commission'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 determination of financial statement amounts. 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*.

Legislative Coordinating Commission’s Response to Findings

Legislative Coordinating Commission’s response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Legislative Coordinating Commission’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 29, 2020

<u>2019 – 001</u> – Internal Control over the Financial Reporting Process

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: The Commission did not have the proper internal controls in place to prepare the financial statements, but they were able to review the financial statements and material adjustments, accept responsibility and make all management decisions.

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in conformity with generally accepted accounting principles.

At times, management may choose to outsource certain accounting functions (in this case, financial statement preparation) due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the Commission. Management is as responsible for outsourced functions performed by a service provider as it is for its own personnel.

Management is also responsible for management decisions and functions; for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Effect: The financial statements could be materially misstated or be missing certain required disclosures and possibly not caught by management.

Cause: Management was not aware of some of the adjustments and disclosures that were added into the current financial statements.

Repeat Finding: No

Recommendation: We recommend that the entity ensure that they are aware and familiar with all applicable accounting standards so that Management and the entity as a whole and properly review the financial statements to catch any material errors or missing disclosures that may be present.

Views of responsible officials and planned corrective actions: Management is in agreement with the recommendation.

<u>2019 – 002</u> – Material Audit Adjustments

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: The Commission did not have proper internal controls to ensure it was booking its share of the MSRS pension liability or their share of the related deferred inflows and deferred outflows related to that liability.

Criteria: GASB created reporting requirements for public pension plans and added disclosure requirements that apply to the Commission as their employees are enrolled in MSRS.

Context: Management was unaware that they needed to be booking this from year to year. The related pension disclosures were not included in the prior financial statement issued for June 30, 2017 and management was not aware it needed to be included.
Effect: The financial statements would have been materially misstated if this pension liability along with the related deferred inflows and outflows of resources had not been identified as a reporting requirement for the entity during the fiscal year 2019 audit.

Cause: Management of the Commission not having been provided applicable information by the State to ensure they were booking and recording properly. In turn, they were not aware they were required to disclose many of the items that were added into the current financial statements.

Repeat Finding: No

Recommendation: We recommend that the entity ensure that they are aware and familiar with all applicable accounting standards so that Management and the entity as a whole and properly review the financial statements prepared by outside vendors, and catch any material errors that may be present.

Views of responsible officials and planned corrective actions: Management is in agreement with the recommendation.

2019 – 003 – Accounts Payable

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: It was noted that there was a material amount of expenditures that should have been included in the fiscal year ending in 2020 booked into the fiscal year ending in 2019. There was also a material amount of expenditures that should have been booked into the fiscal year ending 2019 that were booked into the fiscal year ending 2018. This was due the Commission not having the proper internal control structure in place to avoid this situation.

Criteria or specific requirement: Expenditures should be recorded as they are incurred.

Context: Each year there were a few items that would get added to the list of items being recognized a year too early and eventually that list of items became material over the years.

Effect: The accounts payable would have been materially overstated, while fund balance would be materially understated at year-end had the issue not been detected as part of our audit.

Cause: Management had not implemented a robust enough procedure regarding ending accounts payable as of year-end to detect such errors in aggregate to determine if it is something they needed to be concerned with on an annual basis.

Repeat Finding: No

Recommendation: We recommend that all amounts booked to accounts payable at year-end only include expenditures that were incurred during the fiscal year the accounts payable are being booked in.

Views of responsible officials and planned corrective actions: Management is in agreement with the recommendation.

2019 – 004 – Trial Balance

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Condition: It was noted that the Commission's trial balance is created through a very manual process and controls to avoid any issues while compiling the trial balance were not properly designed to avoid all errors or omissions. While that process appears to have provided CLA with a complete summarization of the activity taking place during the fiscal year under audit ending in 2019, it opens the entity up to risk that mistakes could occur during the preparation of the trial balance at year-end.

Criteria or specific requirement: The trial balance provided for the audit should be free of errors and include all activity for the year.

Context: The Commission has to use the systems that the State of Minnesota utilizes for their accounting software and it would not make sense from an economic standpoint at this point in time to also have an additional accounting software that would track and print out a trial balance report for the entity.

Effect: The process to provide auditors with a trial balance is very manual and subject to human error.

Cause: Management does not have an accounting software with the capability to track items on a modified accrual basis and produce a financial statement trial balance at year-end.

Repeat Finding: Yes

Recommendation: We recommend implementing a review procedure that will compare the detail that is within the accounting system in place currently with the final trial balance prior to submission for the audit. This review that the trial balance is complete should be performed by an individual other than the person compiling the trial balance and what is looked at should be very well documented.

Views of responsible officials and planned corrective actions: Management is in agreement with the recommendation.