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# City of Beaver Bay, Minnesota

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Report on Petitioners' Concerns

January 1, 2024, to September 30, 2025

Audit Practice Division



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## Report on Petitioners' Concerns

Petitioners  
Mayor and Members of the City Council  
City of Beaver Bay, Minnesota

### Introduction

Eligible voters of the City of Beaver Bay, Minnesota, petitioned the Office of the State Auditor (OSA) to examine the books, records, accounts, and affairs of the City in accordance with Minn. Stat. § 6.54. The statute allows the OSA, in the public interest, to confine the scope of the examination to less than that requested by the petition. Communications with petitioner representatives assisted us in developing an understanding of the petitioners' areas of interest or concern. We established that some of the issues raised were not within the scope of this examination. The procedures performed were limited to addressing the issues discussed below for the period of January 1, 2024, to September 30, 2025.

The OSA has completed its examination into the concerns identified by the petitioners of the City. The objectives of the procedures performed were to address the concerns of, and to answer the questions raised by, the petitioners. Where applicable and appropriate, we make recommendations to the City in this report.

### Petitioners' Concerns and Our Findings

#### Bank Reconciliations

The petitioners requested information regarding whether the City's bank reconciliations were being performed and the accuracy of the reconciliations.

The OSA requested and examined the City's written Claims Procedures and Bank Reconciliations included in the City of Beaver Bay Municipal Policy – Internal Controls Policy. The City's policy related to bank reconciliations states, "A file of monthly bank statements and reconciliation reports shall be maintained; reconciliation reports shall be approved by the City Council on a monthly basis."

The OSA obtained and examined a sample of six bank reconciliations for the period of January 1, 2024, to September 30, 2025. It was determined that for the four 2024 bank reconciliations tested, general ledger Cash Control Statements did not reconcile to the bank statements, outstanding check and deposit listings were not maintained, and differences were noted between the bank statements and general ledger. For the two 2025 bank reconciliations tested, documentation was maintained and no issues were noted. Additionally, there was no evidence that the reconciliations were provided to or approved by the City Council on a monthly basis.

#### Recommendation

We recommend bank reconciliations be accurately completed and reviewed in a timely manner, including approval by the City Council monthly. Supporting documentation, including Cash Control Statements and outstanding checks and deposits, should be maintained.

## Credit Card and Other Expenditures

The petitioners requested information regarding the purpose and accounting for expenditures, including credit card expenditures.

### Credit Cards

Under Minn. Stat. § 471.382, a city council “may authorize the use of a credit card by any city . . . officer or employee otherwise authorized to make a purchase on behalf of the city . . . .” The statute states that if a city officer or employee “makes or directs a purchase by credit card that is not approved by the city council . . . the officer or employee is personally liable for the amount of the purchase.” Finally, “[a] purchase by credit card must otherwise comply with all statutes, rules, or city . . . policy applicable to city . . . purchases.”

The OSA requested and examined the City’s written Credit Card Use Policy. The City’s Credit Card Use Policy includes the following requirements:

- Claims presented to the City for payment must be in writing and itemized. Billings from credit card companies do not contain the details necessary to satisfy these requirements; therefore, the City must retain original invoices and receipts for all items charged on a City credit card.
- The City will not use credit cards for carrying debt. The City will pay all credit balances each month. The City will not be responsible for the interest charges accrued due to the delayed submission of receipt and payment requests. Such payment delays caused by the employee or officer failing to submit the necessary receipts to support the credit card statement in a timely manner shall be the responsibility of the employee or officer. The City will use all methods available to ensure collection of the interest and carrying charges.
- Individuals failing to comply with the policy shall have credit card privileges revoked and will be responsible for interest and late charges that result from their failure to comply.

The OSA obtained and examined a sample of 25 credit card expenditures based on the credit card statements for the period of January 1, 2024, to September 30, 2025.

From this sample of credit card expenditures, it was determined that four gas purchases lacked a receipt or invoice to support the purchase or public purpose, and there was no documentation of review and approval by supervisory level staff prior to payment for the 25 items tested. The City Council received and approved a listing of checks which included payment to Park State Bank for the credit card statements, but they did not receive the documentation for each expenditure or the credit card statements. The OSA also noted that while the City has a credit card policy and acknowledgement form, it was not completed by any staff that used or had access to the credit card.

### Non-Credit Card Expenditures

The OSA requested and examined the City’s written Claims Procedures and Bank Reconciliations included in the City of Beaver Bay Municipal Policy, Internal Controls Policy. The City’s policy related to claims includes:

- Payments of claims shall be authorized by the City Council. Department heads are responsible for assigning expense codes to all claims but may have reoccurring claims which they would not need to approve on a monthly basis.
- A claims register shall be prepared for each Council meeting that details the date of the claim, invoice number, amount of the claim, and description of the expense for final City Council approval.

The OSA obtained and examined a sample of 25 non-credit card expenditures based on the disbursement ledgers for the period of January 1, 2024, to September 30, 2025.

From this sample of non-credit card expenditures, it was determined that 21 purchases lacked documentation of review and approval by supervisory staff prior to payment. The City Council approved check listings monthly at Council meetings, however, four debit card, one direct deposit, and two ACH payments sampled were not presented to the Council for approval. The Council does not receive or review supporting documentation for the payments. Additionally, the OSA also found that the City uses a debit card linked to the City's main checking account.

### Recommendation

We recommend the City develop and implement procedures over the expenditure process, including maintaining receipts, invoices, or other support and evidence of review and approval for all purchases. In addition, we recommend all staff that utilize the City credit cards review the credit card policy and sign the acknowledgement form. Further, we recommend credit card expenditures are itemized in the general ledger by transaction and vendor in accordance with Minn. Stat. § 471.38, subd. 1.

We also recommend the City discontinue the use of a debit card. While Minn. Stat. § 471.382 gives the City the authority to make purchases using credit cards, the City has no similar statutory authority to use debit cards.

### Duplicate Payroll Payments

The petitioners requested information regarding whether a duplicate payroll processed on November 19, 2024, was returned by all employees or settled through other approved compensation.

The OSA requested policies and procedures related to payroll and were provided the City of Beaver Bay Employee Handbook. The employee handbook did not address or allow for payout of vacation at a time other than termination and there was no Council approval of this action noted.

The OSA obtained and examined payroll registers from the November 19, 2024, pay date, for payroll runs 901, 902, and 903 and the November and December 2024 bank statements. It was determined that a duplicate payroll run, 902, was processed and paid. The City received repayment of duplicate payment for amounts paid to all but two employees, and the amounts repaid were deposited into the City's bank account on November 21, 2024. For one of the two duplicate payments, the OSA verified that the process of paying back the duplicate payroll check has begun, with an outstanding balance owed to the City of \$69.44 as of April 16, 2026. The duplicate payment to the second employee was part of a vacation payout in the amount of \$2,908.33. The OSA was unable to verify how the City requested return of the duplicate payment amounts.

### Recommendation

We recommend the City follow its internal policies, implement additional review and oversight of the payroll process, and continue to receive the outstanding portion of the duplicate payment.

### Clerk Position Rate of Pay

The petitioners requested information regarding whether the original pay rate and supplemental raises for the City Clerk position were approved and accurately paid.

The OSA obtained and examined Council minutes and other supporting documentation for the City Clerk position's rate of pay. During the period July 5, 2023, to January 13, 2025, two different rates were paid. The details of pay rate documentation are as follows:

- The Council minutes for the July 5, 2023, meeting did not identify the rate of pay for the City Clerk position. Payroll registers showed the City Clerk position was paid \$2,000 per pay period from the date of first employment until October 6, 2023. Based on a bi-weekly schedule (26 pay periods), this would have been an annual salary of \$52,000.

- The OSA examined a signed letter from the Mayor dated February 14, 2024, approving a pay raise to \$68,900 annually beginning in October 2023. This letter stated that the rate was based upon the City Council's approval at the October 6, 2023, Council meeting. In examining the October 6, 2023, Council minutes, no salary increase was documented.
- The payroll registers showed an annual salary of \$69,800 with a bi-weekly rate of pay of \$2,908.33, however, this does not calculate correctly. The pay of \$2,908.33 paid bi-weekly calculates to an annual salary of \$75,616.58 based on 26 pay periods. Payroll registers showed the City Clerk position was paid \$2,908.33 bi-weekly from October 2023 through the date of last employment, January 31, 2025.

## Recommendation

We recommend City Council-approved pay increases be documented in Council minutes and personnel files. We also recommend the City implement procedures to ensure the proper pay rates are input into the payroll system, along with implementing a process for review and oversight of the bi-weekly payroll process.

## Holiday Pay

The petitioners requested information regarding whether employee holiday pay was proper and followed City Policy.

The OSA requested policies and procedures related to holiday pay and were provided with the City of Beaver Bay Employee Handbook. The policy states, full-time employees are eligible for eight hours of holiday pay per holiday. Part-time employees not working on the holiday, who have completed a full year of employment, receive pro-rated holiday pay based on the calculation of average hours worked per week in the previous year.

Prior to July 2024, no holiday pay was noted as being paid to employees. Beginning in July 2024 when the City switched to a new payroll system, Paylocity, holiday pay was utilized in the payroll system for both full-time and part-time employees. One issue was noted where a full-time employee was paid ten hours of holiday pay instead of eight, a \$59.52 overpayment. It was also noted that ineligible part-time employees were compensated for 143 hours of holiday pay, totaling \$2,553.07.

## Recommendation

We recommend the City develop a process for review and oversight of the bi-weekly payroll process, including holiday pay.

## Vacation Payout

The petitioners requested information regarding whether the vacation payout made to the City Clerk upon the date of last employment was proper and followed City Policy.

The OSA requested policies and procedures related to vacation payout and were provided the City of Beaver Bay Employee Handbook. The policy states employees with less than two years of service earn 80 hours of vacation pay on January 1 each year and are allowed to carryover up to 80 hours of vacation pay from the previous year.

The OSA also obtained the January 2025 payroll register and prior year vacation balance from a tracking Excel spreadsheet for the City Clerk position.

The vacation balance for the City Clerk position was 80 hours as of December 31, 2024, and earned an additional 80 hours on January 1, 2025, for a total balance of 160 hours of vacation eligible to be paid out upon the date of last employment. Recorded in the payroll register was that the City Clerk position was paid for 160 hours of vacation time on January 31, 2025, on the final paycheck. Previously, as noted above, a duplicate payroll payment from November 19, 2024, had been paid as a vacation payout for 80 hours which was not reduced from the vacation balance. As a

result, between the two checks, a total of 240 hours of vacation was paid, when only 160 hours should have been paid pursuant to the City's policy, resulting in an overpayment of 80 hours of vacation time totaling \$2,908.33.

### Recommendation

We recommend the City develop procedures to review and approve vacation payouts to ensure they follow City Policy.

### Conclusion

We were not engaged to and did not perform an audit, the objective of which would be the expression of an opinion on specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that we would have reported to you.

We are not independent with respect to the City of Beaver Bay for the period of January 1, 2024, to September 30, 2025, because we provide the Small City and Town Accounting System (CTAS) used by the City to maintain their accounting records.

This report has been prepared solely for the information and use of the petitioners of the City of Beaver Bay, Minnesota, Mayor, and City Council members, but is a matter of public record and its distribution is not limited.