

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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PETITION ENGAGEMENT

**CITY OF CENTERVILLE, MINNESOTA**

JANUARY 1, 2005, THROUGH DECEMBER 31, 2008

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CITY OF CENTERVILLE, MINNESOTA**

**January 1, 2005, through December 31, 2008**



**Petition Engagement**

**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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Petitioners  
Members of the City Council  
City of Centerville  
Anoka County

## INTRODUCTION AND BACKGROUND

Eligible voters from the City of Centerville 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 for the period January 1, 2005, through December 31, 2008.

The City is a public corporation and part of the State of Minnesota's general and uniform system of cities. The elected City Council is responsible for the care, management, and control of the City. A City Administrator is employed by the Council and is responsible for administrative duties. The City's financial statements are audited annually by an independent audit firm.

The OSA has completed its examination into the concerns identified by the petitioners of the City. The objectives of the engagement 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.

Minn. Stat. § 6.54 allows the OSA, in the public interest, to confine the scope of the examination to less than that requested by the petition. Communications with the Chief Petitioner 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 review.

## **Conflicts of Interest**

Petitioners were concerned that a conflict of interest existed between the City Finance Director and the City of Centerville. They were concerned that the Finance Director had outside employment that may have presented a conflict of interest with the City of Centerville. Furthermore, the petitioners were concerned that the Finance Director was working on business not involving the City of Centerville during the hours he was paid by the City of Centerville.

We reviewed the City of Centerville's Personnel Policies, its Code of Ethics Policy, the City's Internal Control Procedures, Disclosure of Financial Interest statements filed at City Hall, and timesheets submitted by the Finance Director for calendar year 2007. We also discussed the petitioners' concerns with the City of Centerville's City Administrator and reviewed mileage reimbursement request forms submitted by the Finance Director and payments made by the City of Centerville for cell phone usage. The following items were noted.

1. Section 5 of the City of Centerville's Code of Ethics Policy requires each public official, as defined therein, to file, as public record, in the office of the City Administrator, a statement regarding financial interests that the official may have concerning the City of Centerville. The City has developed a "Disclosure of Financial Interests" form to document the required disclosures by the public official. A "Disclosure of Financial Interests" statement signed and dated by the Finance Director on January 16, 2008, was filed with the City Administrator.

The form requires the form preparer to provide "a list naming all business enterprises known by me to be licensed by or to be doing business with the city, which I or any member of my immediate family is connected as a (an) employee, officer, owner, investor, creditor of, director, trustee, partner, advisor, or consultant" and "a list of my interests, or the interests of my immediate family, in real property located in the city, or which may be competing with the interests of the city located elsewhere, other than property occupied as a personal residence." In both instances, the Finance Director wrote "none" in response to the requests.

2. Section 6.7 of the City of Centerville's Personnel Policies states that "Employees must devote all work time to City business. Work time describes the entire workday as scheduled. No work relating to outside employment or other non-City business may be performed during work time. Outside employment may not present a conflict of interest or in any way jeopardize the welfare of the City. No Employee shall accept pay or compensation from anyone for work done during time reimbursed by the City."

Section II of the City of Centerville's Internal Control Procedures requires timesheets to document hours that the employee worked and that the timesheets be signed by the employee's immediate supervisor and the City Administrator authorizing payment for the work.

All of the Finance Director's timesheets for calendar year 2007 were signed as reviewed by the City Administrator.

3. We provided the City Administrator with copies of websites that referred to projects with which the Finance Director had been involved, including projects with the City of Centerville. The City Administrator provided a letter to us in response to the information we provided. He stated, "I have looked in more depth at the material and have provided the information to our City Attorney, Kurt Glaser. Neither Kurt nor I found any evidence that the employee has done anything illegal, improper or unethical."
4. We reviewed supporting documentation for a sample of disbursements made by the City of Centerville related to cell phone usage starting with calendar year 2005 through November 2008. Each invoice we reviewed supporting the City's disbursement indicated that the services provided were for five specific cell phone numbers. Four of the phone numbers were assigned to public works personnel, with the other assigned to the City Administrator. We also reviewed supporting documentation for a sample of disbursements paid by the City of Centerville to the Finance Director for possible reimbursements for use of his personal cell phone. No such reimbursements were noted during the period of January 1, 2005, through November 30, 2008.

Based on the review of the Disclosure of Financial Interests statement submitted by the City of Centerville's Finance Director, the timesheets submitted by the City's Finance Director and reviewed by the City Administrator, the disbursements made to the City's Finance Director that were reviewed and approved by the City, and the City of Centerville Attorney's opinion regarding the website information provided to him, we found no evidence to support that a conflict of interest between the City's Finance Director and the City of Centerville had, in fact, occurred or that the Finance Director worked on business not involving the City of Centerville during the hours he was paid by the City.

### **Engineer Costs**

The petitioners were concerned with the amount of engineering fees paid to Bonestroo, Rosene, Anderlik & Associates, Inc., (Bonestroo) and whether a conflict of interest existed between an employee of the firm and the City of Centerville.

We reviewed City Council meeting minutes, the contractual agreement between Bonestroo and the City of Centerville, and invoices received from Bonestroo and paid by the City of Centerville for calendar years 2005 through 2008. The following items were noted.

1. The City of Centerville does not employ a City Engineer; thus, the City has a professional services contract for engineering services. The engineer is not an employee of the City of Centerville and, therefore, a conflict of interest does not exist between the engineer and the City of Centerville.

2. On August 27, 1998, the City of Centerville entered into an agreement with Bonestroo for professional engineering services, as well as for professional services in the planning, design, and construction of public works and special projects. Pursuant to the agreement, the City may also direct the engineer to provide services not related to a construction project, such as: traffic studies, transportation studies, feasibility investigations, studies and reports; sanitary sewer, water, and stormwater system master plans; environmental assessments, worksheets or impact statements; and rate studies; as well as various other services. The agreement provides for rates to be adjusted annually by Bonestroo at the first of the year. The agreement continues until either party cancels.
3. Regarding the City's monitoring and oversight of the services Bonestroo provided, the City Administrator stated, "Bonestroo provides a breakdown of hours of each person that works on any of the City's projects. As for monitoring, the City knows what projects Bonestroo is working on, and budgets are preauthorized for each. They are a professional services company, and we trust that they are submitting honest bills for the hours they work on our project. The City checks the computations and watches to make sure that Bonestroo does not exceed the allotted budget in their billings."
4. We reviewed a sample of disbursements paid by the City to Bonestroo during calendar years 2005 through 2008 and noted that all invoices sent to the City of Centerville were accompanied with supporting documentation from Bonestroo.
5. We examined the detail of a 2008 invoice from Bonestroo and compared the rates charged on the invoice to a 2008 rate schedule provided by Bonestroo and approved by the City. The rates charged on the invoice agreed with the approved rate schedule without exception.

In light of the amount of engineering fees paid by the City of Centerville to Bonestroo, we recommend that the City consider developing a Request for Proposal (RFP). The responses to this "official" statement to vendors about the services the City of Centerville requires would provide a comparison of what other vendors can provide as professional engineering services to the City and at what cost. RFPs have several benefits:

- they inform vendors that the City is looking to procure professional services and encourages vendors to make their best effort,
- they require the City to specify what it proposes to purchase,
- they alert vendors that the selection process is competitive, and
- they allow for a wide distribution and response.



Ensuing agreements or contracts could be for a specified term in years with options to extend for additional terms. By following a structured evaluation and selection procedure, the City can demonstrate impartiality. The City of Centerville should, on a regular basis, be knowledgeable about the marketplace to ensure that the most cost-effective services are being provided.

We recommend that the City Council document its decision to develop or not develop an RFP in its minutes.

We recommend there be an updated, written agreement between the City and Bonestroo since the agreement in place is currently over ten years old.

### **Development Agreement**

The petitioners were concerned that a conflict of interest existed between Centerville Mainstreet, LLC, and the City of Centerville, and that all zoning codes now refer to the redevelopment plan under Centerville Mainstreet, LLC.

We reviewed the agreement entered into between Centerville Mainstreet, LLC, and the City of Centerville; information obtained from the Minnesota Secretary of State; and the City's Check Summary Registers covering the time period of July 1, 2007, through November 30, 2008. We noted the following items.

1. On July 11, 2007, the City of Centerville entered into an agreement with Centerville Mainstreet, LLC, for Centerville Mainstreet, LLC, to be the developer for the City's downtown redevelopment project. Centerville Mainstreet, LLC, is an operating entity of The Beard Group, Inc.
2. We gathered information from the Minnesota Secretary of State's Office which stated that the manager of Centerville Mainstreet, LLC, is William Beard. According to The Beard Group, Inc.'s, website, William Beard chartered the company and is the current President/CEO. The City of Centerville is aware that there is a relationship between The Beard Group, Inc., and Centerville Mainstreet, LLC.
3. No disbursements were directly made by the City to the Centerville Mainstreet, LLC, for the period July 2007 through November 2008.

Based on our review, the City seems to refer to Centerville Mainstreet, LLC, and The Beard Group, Inc., interchangeably, and this may be causing confusion to those referring to the City's zoning codes. We are not aware of any conflict of interest or legal concerns regarding the creation of Centerville Mainstreet, LLC, by The Beard Group, Inc.

## **Missing Checks**

The petitioners noticed gaps ranging in number from 3 to 23 in the sequence of checks from January 2008 through October 2008 from each Check Summary Register listing posted on the City of Centerville's website as a part of the City Council agenda packets. The petitioners were concerned that these checks were missing.

We discussed with City personnel the process of preparing Check Summary Register listings for the purpose of including them in City Council agenda packets and reviewed the Check Summary Register listings provided to us by the City for January through October 2008. The following items were noted.

1. There are two Check Summary Register listings prepared for every City of Centerville Council meeting. The first listing is provided to City Council members and the Mayor in their agenda packets approximately one week before the City Council meeting to allow Council members and the Mayor time to review the proposed disbursements before the Council meeting takes place. A second Check Summary Register listing is then prepared as of the day of the Council meeting, which includes additional checks to be issued that were identified after the first listing was prepared.
2. The Check Summary Register listings provided to us for the time period of January 1 through October 31, 2008, included all checks in numerical order, except for one. That one check was indicated on the Check Summary Register listing as "void." We viewed that original check, which corroborated the Check Summary Register listing as "void."

Based on this review, all checks issued by the City of Centerville were included on the Check Summary Register listings for the time period of January 1 through October 31, 2008.

## **Special Assessments**

The petitioners were concerned that the City's special assessments for local improvements were spread City-wide instead of to only those directly affected.

Special assessments for local improvements can generally be spread to benefitted parcels of property. The special assessment process allows individual property owners to raise objections to the assessment at a public special assessment hearing according to Minn. Stat. ch. 429. The law provides that, "[a]ll objections to the assessment not received at the assessment hearing . . . are waived" unless due to a reasonable cause. Minn. Stat. § 429.061, subd. 2. We reviewed whether proper notice was given by the City prior to assessing property owners.

1. Under Minn. Stat. § 429.061, an assessment hearing generally must be held. According to the statute, a city must publish a notice in the newspaper at least once, not less than two weeks prior to the assessment hearing. A city must also mail a notice to each affected property owner at least two weeks prior to the assessment hearing.
2. If a property owner attends the public hearing, objects to the special assessment to be certified on his or her property, and the special assessment is spread anyway, the property owner may appeal to the district court with the knowledge that failure might mean paying court costs. Per Minn. Stat. § 429.061, subd. 2, if the property owners fail to object at the public hearing, they waive their right to appeal.

We reviewed affidavits of publication and mailing for notice of hearings for the City of Centerville's "429 projects" for the period January 2005 through November 2008. Based on this review, we have concluded that proper notice of the public hearings was given when required, in accordance with Minn. Stat. ch. 429. The decision to use special assessments for all or part of the costs of an improvement is a matter of discretion for the City Council.

### **Tax Increment Financing (TIF)**

The petitioners were concerned about the establishment of a specific tax increment financing district relating to Northern Forest Products, LLC. Specific concerns included whether the TIF district has ended or was it extended, and whether taxes captured were used appropriately, and were any of the tax increments received used to fund private developers' costs.

We reviewed the adopted TIF plan, Anoka County property tax records, and reports filed by the City of Centerville with the TIF Division of the OSA. The following items were noted.

1. The City Council adopted a TIF District 1-5 plan on December 22, 1997.
2. Anoka County tax records indicate the parcel ID included in TIF District 1-5 identified Northern Forest Products, LLC, as the owner of the parcel.
3. TIF reports for TIF District 1-5, completed by the City of Centerville and filed with the TIF Division of the OSA, indicate only a small amount of tax increment revenue was ever received, and TIF District 1-5 was decertified in 2002.

Since TIF District 1-5 was decertified in 2002 and there was a minimal amount of tax increments received, we did not address the use of these tax increment funds.

## **Use of Eminent Domain**

The petitioners were concerned that the City of Centerville purchased houses through the use of eminent domain procedures, but the land purchased was not being used by the City.

We met with City personnel; reviewed City Council meeting minutes; reviewed a development agreement between the City of Centerville and Centerville Mainstreet, LLC; and reviewed Minnesota statutes. The following items were noted.

1. One property has been taken under eminent domain from Sheehy Construction for the “Backage Road Project,” but no homes were taken under the eminent domain laws.
2. The development agreement between the City of Centerville and Centerville Mainstreet, LLC, (Developer) for the Downtown Redevelopment Project indicates that the Developer is to attempt to obtain the acquisition properties on a voluntary basis; otherwise, the City of Centerville has the authority, under eminent domain laws, to obtain the properties on an involuntary basis. The agreement also states that Phase I was to begin on or before September 30, 2007.
3. The City Administrator told us that no phases of the Downtown Redevelopment Project have been started yet due to the current housing market. In the development agreement, there is an attachment (Schedule A-1) listing the properties to be acquired. We asked the City Administrator if the listing was still current. He said that they were in the early stages of this project, and the property acquisition stage was not yet underway and would not be for a while.

Based on our review, we are not aware of any houses that have been taken by eminent domain during the period January 2005 through December 2008. Furthermore, the development agreement for the City of Centerville’s Downtown Redevelopment Project states that the City is acting under a valid public purpose, which is required for use of eminent domain. The City intends to attempt to negotiate with property owners prior to commencing eminent domain proceedings. This is in accordance with the development agreement and Minn. Stat. § 117.036, subd. 3, which requires a good faith attempt to negotiate with the owner of the property. Minn. Stat. § 117.036 also states that, “Before commencing an eminent domain proceeding under this chapter, the acquiring authority must obtain at least one appraisal for the property proposed to be acquired.” The property owner may also obtain an appraisal. The procedures required in eminent domain proceedings are set forth in Minnesota law. Ultimately, property owners may appeal to the district court.

## **Backage Road**

The petitioners were concerned that property was condemned and that costs were incurred by the City of Centerville to construct a “backage road” for a company whose building was located in Centerville.

We reviewed City Council meeting minutes and a summary of revenues and expenditures prepared by the City related to this project. The following is a summary of our findings regarding the property.

1. City Council Resolution #06-020, dated February 22, 2006, authorized the condemnation of private property for public utility and drainage easements (21st Avenue/Backage Road Improvements). The City Attorney was authorized to commence eminent domain proceedings pursuant to Minn. Stat. ch. 117 to acquire the real property interests. The City Council Resolution also stated that the City Council had determined that it was “necessary and for a public use and purpose to acquire easements over the property . . . for public utility and drainage easements and temporary construction purposes with 21st Avenue/Backage Road Improvements.” Furthermore, the City of Centerville determined that the costs involved would not outweigh the benefit the affected citizens of Centerville would receive.
2. The City of Centerville incurred legal expenditures for this project related to the acquisition of property from Sheehy Construction, who had objected to the eminent domain proceedings.
3. In 2006, per City Council Resolution #06-038, the City of Centerville issued \$2,700,000 in General Obligation Bonds, Series 2006A, to provide the majority of the funding for the Backage Road Project as well as the Hunters Crossing III project.

### **Use of Bond Proceeds**

The petitioners were concerned how proceeds from a bond issue to finance the reconstruction of County Road 14 were used. There was a concern that the proceeds may have been used to assist private developers.

We reviewed City Council meeting minutes, a bond indebtedness report prepared by the City, and expenditures funded with the bond proceeds. The following items were noted.

1. City Council Resolution #07-045 accepted the proposal on the sale of \$2,600,000 General Obligation Improvements Bonds, Series 2007A, which were issued to finance the Fairview Street Improvements project, the Old Mill Road Improvement project, and the CSAH 14 Improvements project. According to City personnel, the Old Mill Road and Hanzal Development represent the same project. This project was a petition by the property owner as a street and utility project (curb and gutter) that the City of Centerville accepted.
2. According to the Indebtedness Report at December 31, 2008, prepared by the City, the City of Centerville’s scheduled principal and interest payments on these bonds were \$2,600,000 and \$910,428, respectively. The debt payments are scheduled to be financed with \$2,499,000 of tax levies and \$1,011,428 of certified special assessments.

3. The \$2,600,000 General Obligation Improvements Bonds, Series 2007A, bond budget prepared by the City indicated \$718,256 of the bond proceeds were to fund the Old Mill Road/Hanzal Development and Fairview Street Improvements projects, with the remaining \$1,881,744 of bond proceeds funding the CSAH 14 Improvements project.
4. A review of the expenditures incurred through December 2008 determined that the bond proceeds funded only the three projects mentioned above and did not fund any other projects or private developments.

Since the City Council accepted the projects, which included the Old Mill Road/Hanzal Development project, to be financed with the issuance of the \$2,600,000 General Obligation Improvements Bonds, Series 2007A, the proceeds were used for their intended purpose.

### **Trail Grant**

The petitioners were concerned that a grant awarded to the City to be spent on a trail system was used towards constructing sidewalks and that the City's participation in the trail project will not be completely financed by the grant.

The petitioners provided us with an article published August 19, 2008, in the *Quad Community Press*, which mentioned the discussion of the trail grant and that the cost of the 26 trails is expected to be more than \$1.7 million. Our review of the City Council meeting minutes did not note any mention of the \$1.7 million figure as indicated in the newspaper article.

We reviewed the City's application for federal Transportation Enhancement funds, the approved grant agreement provided to the City of Centerville, City Council meeting minutes, and had a discussion with City personnel. The following items were noted in this review.

1. During 2007, the City of Centerville applied for a federal Transportation Enhancement grant, which was awarded March 3, 2008, for the purpose of tying all neighborhood trails to the Regional Trail. The City has until the end of 2010 to spend the grant funds. According to our discussion with City personnel, the City of Centerville has expended funds for this project only on engineering costs, which are not eligible to be reimbursed by the grant. Thus, no reimbursement for expenditures had been made as of December 2008.
2. The \$706,500 federal grant required a \$235,500 local match and is on a reimbursement basis; therefore, the City of Centerville will expend costs first and then request reimbursement of the costs. The City anticipates that the local match funds will be provided through park dedication fees.
3. The scope of the grant project includes the construction of a pedestrian/bicycle trail linkage.

Based on our review, funding related to the federal Transportation Enhancement grant is required to be spent on qualified activities, which may include sidewalks that were part of the project description submitted on the federal Transportation Enhancement fund application. The City of Centerville is required to provide \$235,500 of its own funds for this project as well. As of December 2008, the City had not incurred any costs that would result in reimbursement of grant funds from the federal government.

### **Public Works Building**

The petitioners were concerned that money from the Water and Sewer Funds was used to help purchase the City's new public works building.

We reviewed City Council meeting minutes; the City's audited annual financial reports for the years ended December 31, 2005 through 2008; and the management letters (required communications letters) issued by the City's independent auditors for each of the annual audits. The following items were noted.

1. City Council Resolution #007-027, adopted July 11, 2007, authorized the purchase of the land and building at 2085 Cedar Street for a cost of \$1,400,000, which the City Council determined to be in the best interest of the City. Funding was authorized as follows: \$800,000 from the General Fund, of which \$413,000 would be provided from the General Fund capital reserve; \$200,000 from the Water Fund; and \$400,000 from the Sewer Fund.  
  
Included in the City resolution was authorization for a short-term loan to the General Fund from the Sewer Fund in the amount of \$400,000 to be repaid upon sale of the existing public works site. The loan is to be repaid on or about September 1, 2009, with interest at six percent from the date funds are transferred to the date repaid.
2. Staff operating out of the public works building include those maintaining streets, parks, water utilities, and sewer utilities.
3. The independent auditor's schedules of findings for the City of Centerville contained in the above-mentioned audited annual financial reports did not include any written comments related to transfers or sufficiency of unrestricted net assets of the Water Fund and Sewer Fund.
4. The independent auditor's management letters advise the City of the importance of completing water and sewer rate analyses to ensure sufficient revenue to cover operating costs. The cash and investment balances in the Water and Sewer Funds, after adjusting for cash advances, have increased each year from 2005 to 2007.

5. During 2008, the Water Fund and the Sewer Fund disbursed the \$200,000 and \$400,000, respectively, previously authorized for the public works building. The Water and Sewer Funds had sufficient cash reserves so the cash and investment balances, again after adjusting for cash advances, decreased by only \$55,184 and \$223, 791, respectively.

Based on this information, transactions for the purchase of the public works building appear reasonable and appropriate. The fact that some money from the Water and Sewer Funds was used for the purchase should not have a bearing on special assessments, as only properties benefitting can be specially assessed. Centerville's hook-up fees are classified as nonoperating revenue to provide funding for expansion. Water and sewer rates charged for services are based on the City's operating costs.

### **Mileage and Uniform Reimbursements**

The petitioners were concerned that mileage and uniform reimbursements were not in accordance with City policies or were not properly approved. Specifically, they were concerned that the City Administrator and the Finance Director were allowed to submit mileage reimbursement requests without the same level of support as other employees and that a \$50 annual uniform allowance was given to public works staff without proper City Council approval.

We discussed the adopted City policy and procedure regarding employee mileage reimbursement with the City Administrator, reviewed a sample of claims submitted by the City Administrator and the City Finance Director for reimbursement of mileage, and reviewed City Council meeting minutes. We noted the following.

1. The City of Centerville does not require any type of support (such as Mapquest<sup>®</sup> or odometer readings) to be submitted with mileage reimbursement requests. The City of Centerville's procedure is to have the accounts payable/payroll clerk review employee mileage reimbursement requests; however, this review is not evidenced on the actual reimbursement forms.
2. The City Administrator and the City Finance Director were not allowed to provide any less or different support for their mileage reimbursement requests than that required of other employees, and they were prepared according to City policy.
3. The November 30, 2005, City Council meeting minutes indicate that the City Council approved City employees who are union members and already receiving a \$350 per year clothing allowance will continue to receive that amount, and the non-union City employees will receive reimbursement for clothing up to \$50 per year in 2005 and \$60 per year beginning in 2006. All clothing will have the City logo on it.
4. Expense reimbursement forms are not consistently signed by either the employee or a supervisor.



We recommend that all employees sign their own expense reimbursement request forms and that support for mileage claims (such as Mapquest<sup>®</sup> or odometer readings) be included with employee expense reimbursement request forms. The expense reimbursement form should have written evidence that it was reviewed by a responsible party. We also recommend that the City of Centerville strengthen its current policies and procedures to include the recommendations outlined. The City Council is charged with auditing claims, and the procedures mentioned would allow them to do so more effectively.

The annual uniform allowance being given to staff was properly approved by the City Council.

### **Public Services Billing**

The petitioners were concerned that the increase in the cost of public services (building inspections, water utility, sewer service, and road work) was inflated based on the City of Centerville allocating all City employees' salary and fringe benefits on these services.

We reviewed the time allotment and related salary and fringe benefit expense allocation prepared by the City of Centerville and compared this with the actual wages and salaries expenditures charged to various accounts for the period January 2005 through December 2008 to determine if the time allocation was consistently applied. We noted the following upon our review.

1. A time study had been performed by the City of Centerville many years ago, but could not be supported as to how the breakout was calculated.
2. Employees' wages and salaries expenditures were allocated to various functions: administration, building inspection, city hall, public works, cultural and recreation, recycling, storm water, water, sewer, and cable television. The variances between the planned expense allocation and the actual expenses allocated for the period January 2005 through December 2008 were minimal, with the highest variance being five percent in a given year.
3. When comparing the actual wages and salaries expenditures charged to the accounts for the period January 2005 through December 2008 as a percentage of the employees' total salary to the time allotment percentages provided by the City, the variances were minimal, with the highest variance being seven percent in a given year.

Based on the City-prepared time allotment, wages and salaries expenditures were allocated on a consistent basis and have not changed over time. Since the time study was performed a number of years ago, we recommend that the City of Centerville prepare an updated time study to ensure that it reflects current time actually being worked in the respective areas.

## **Allocation of Expenses**

The petitioners were concerned about the allocation of salary expense for the City Administrator and the City Finance Director.

We reviewed the time allotment and related salary and fringe benefit expense allocation prepared by the City of Centerville. We noted the following.

1. The City Administrator's salary and fringe benefit expense was allocated to the General Fund as follows: 90 percent to administration and 10 percent to inspection.
2. The City Finance Director's salary and fringe benefit expense was allocated as follows: 75 percent to administration and 5 percent to inspection (both in the General Fund), 10 percent to the Water Fund, and 10 percent to the Sewer Fund.

The allocation of the salary and fringe benefit expenses does not seem unreasonable; however, we recommend that the City continue to monitor the time being spent by these positions to allow for future allocation revisions if deemed necessary.

## **Investment Accounts**

The petitioners were concerned that the City of Centerville had numerous investment accounts and possibly many transfers were made between these accounts.

We reviewed the monthly investment statements received by the City from Smith Barney for the period January 1, 2005, through November 30, 2008, and compared the amounts at December 31, 2005, 2006, and 2007, included in the City's audited annual financial reports to verify that all investments were included. We noted the following.

1. All investments (money market account and direct obligations or obligations guaranteed by the United States or its agencies) were held with Smith Barney in one account for the period January 1, 2005, through November 30, 2008.
2. All cash withdrawals made during the period January 1, 2005, through November 30, 2008, from the Smith Barney account were traced to deposits on bank statements from Mainstreet Bank.
3. In each of the aforementioned audited annual financial reports for the City of Centerville, the independent auditor included a schedule of findings. In the report for the calendar year 2007, the auditor commented that the City was found to have limited segregation of duties in the transaction cycle relating to investments because the City Finance Director had responsibilities over all duties of authorization, custody, record keeping, and reconciliation. The auditor recommended review of investment statements prior to the

City Finance Director receiving them. In response to the auditor's finding, City management stated, "Management has initiated changes in the investment procedures to ensure that there is separation between initiation and authorization and that the Finance Director only has authority to move funds between existing accounts."

Based on this information, the City of Centerville's investments were held in one account with Smith Barney, and all cash withdrawals were accounted for during calendar years 2005 through 2007. An audit by us of the City's response to the independent auditor's finding is not within the scope of this review, though typically the City's independent auditors perform follow-up on auditee corrective actions or plans during the succeeding audit. In the audited financial report for the City of Centerville for 2008, the independent auditor repeated its finding because the City Finance Director continued to have responsibility over all previously mentioned duties relative to the investment transaction cycle, though the auditor commented "...but there is some review of the statements by the City Administrator." The City's management repeated its response to this finding.

## **Minutes**

The petitioners were concerned that the official meeting minutes from the Parks and Recreation committee meetings for calendar years 2006 and 2007 were no longer available on the City of Centerville's website ([www.Centerville.mn.us](http://www.Centerville.mn.us)).

We met with City personnel and reviewed Minnesota statutes. We noted the following.

1. When the hyperlink related to the minutes for the Parks and Recreation committee meeting minutes was selected, it displayed 'image not available' and 'text not available.' In order to view the minutes, the 'download electronic file' hyperlink must be selected. We tried this various times and were able to view all of the Parks and Recreation committee meeting minutes for calendar years 2006 and 2007.
2. The Parks and Recreation committee meeting minutes are available on the City of Centerville's website only. Furthermore, it was determined that the approved City Council meeting minutes are available on the City's website and are also burned onto DVDs, which are unalterable and kept at a separate location.

Minn. Stat. § 13D.01, subd. 4, states that, "(a) The votes of the members of the state agency, board, commission, or department; or of the governing body, committee, subcommittee, board, department, or commission on an action taken in a meeting required by this section to be open to the public must be recorded in a journal kept for that purpose."

Minn. Stat. § 13D.01, subd. 5, states that, "The journal must be open to the public during all normal business hours where records of the public body are kept."

It is our conclusion that providing meeting minutes on the City of Centerville's website alone does not fulfill the requirements of the Open Meeting Law, Minn. Stat. ch. 13D. In order to comply, we recommend the City of Centerville keep meeting minutes open to the public at City Hall (where the records are kept) during all normal business hours.

### **Hidden Springs Park**

The petitioners were concerned with the funding of the purchase of land which became Hidden Springs Park. The petitioners were also concerned with the choice of engineer for this project.

We met with City personnel and reviewed City Council meeting minutes, a cost analysis prepared by the City related to the purchase of the land and ensuing project costs, and a grant agreement between the Minnesota Department of Natural Resources and the City of Centerville. The following is a summary of our findings for the purchase of the Hidden Springs Park land.

1. The grant agreement and authorization for closing on the land purchase from the St. Paul Regional Water Services was approved in the September 21, 2006, City Council meeting minutes. The purchase price was \$536,000.
2. A project breakdown of the revenues and expenditures for the Hidden Springs Park project indicated that the land purchase was funded in part by a \$150,000 grant from the Minnesota Department of Natural Resources. The remaining portion of the purchase is being financed from park dedication fees. Since all of the anticipated park dedication fees had not been received, an interfund loan to the Park Capital Projects Fund from the Sewer Fund was made.
3. Engineering services were provided by Bonestroo.

### **2009 Street and Utility Improvement Project**

The petitioners were concerned with the scope of the 2009 Street and Utility Improvement Project.

We met with City personnel and reviewed City Council meeting minutes, a Revenue/Expenditure Audit Summary report for calendar years 2007 and 2008 that was prepared by the City, and the costs incurred through 2008 which are only "soft costs" (engineering and administrative costs). The following items were noted.

1. City personnel stated that planning for the 2009 Street and Utility Improvement Project began in 2007 with a project estimate of \$7.0 to \$7.5 million. In mid-summer of 2008, the project estimate was reduced to approximately \$3.5 million.

2. By Resolution #08-015, the City Council ordered the street improvements with the work to be designed, bid, and a construction contract awarded by December 31, 2010. Bonestroo was designated as the project engineer.
3. City Council Resolution #08-016 stated that the Council authorized Bonestroo to prepare plans and specifications for the making of the improvements.

The project was properly approved by the City Council. It is outside of our scope to re-assess the scope of this City project. It is up to the City of Centerville's management (City Council and Mayor as representatives of the citizens of Centerville) to decide where the City's funds are best spent to benefit its citizens. We cannot make such a judgment on behalf of the City of Centerville. We trust the City of Centerville is mindful of the current state of the economy and is cognizant of the current and future financial health of the City when deciding on whether to move forward with current projects or to implement future projects.

### **City Indebtedness**

The petitioners were concerned about the amount of debt that the City had outstanding at December 31, 2008.

We reviewed an Indebtedness Report as of December 31, 2008, and City Council meeting minutes. We noted the following.

1. The City's total debt principal outstanding, consisting of four bond issues, was \$7,851,896 at December 31, 2008. The scheduled interest to be paid related to this balance is an additional \$2,495,123. All bond issuances noted above were properly approved through City Council resolutions. The repayment of this debt is expected to be from \$4,426,075 of tax levies and \$5,920,944 of certified special assessments levied on property owners who specifically benefited from the improvements.

Minn. Stat. § 475.53, subd. 1, states, "except as otherwise provided in sections 475.51 to 475.74, no municipality, except a school district or a city of the first class, shall incur or be subject to a net debt in excess of three percent of the market value of taxable property in the municipality." The City of Centerville is not a city of the first class because it has less than 100,000 inhabitants.

2. Pursuant to Minn. Stat. § 475.51, subd. 4, net debt is defined to include “the amount remaining after deducting from its gross debt the amount of current revenues which are applicable within the current fiscal year to the payment of any debt and the aggregate of the principal of the following: (1) Obligations issued for improvements which are payable wholly or partly from the proceeds of special assessments levied upon property specially benefited thereby, including those which are general obligations of the municipality issuing them, if the municipality is entitled to reimbursement in whole or in part from the proceeds of the special assessments . . . .” Several types of debt are deducted from gross debt in the calculation of net debt. The result is that, with only few exceptions, the only obligations subject to the debt limit are general obligation bonds payable solely from ad valorem property taxes.

Most debt obligations for which some other source or revenue is pledged as security are excluded from the legal debt limit. Improvement assessment bonds, tax increment bonds, utility revenue bonds, pure revenue bonds, capital improvement bonds under an approved capital improvement plan, judgment bonds, and similar bonds may be issued without regard to the statutory debt limit. *See* the League of Minnesota Cities’ Handbook for Minnesota Cities, chapter 24.

Of the City’s total debt principal outstanding, three of the four bond issues are supported by special assessments, leaving only \$701,896 subject to the legal debt limit.

3. The 2008 total market value of taxable property for the City of Centerville, according to information provided by the Anoka County Department of Property Records & Taxation, was \$372,405,100. The net debt limit for the City is then \$11,172,153 (three percent of the \$372,405,100).

The City of Centerville was within the statutory legal debt limit; however, we again remind the City, especially with the current state of the economy, to understand the impact on its current and future financial health when deciding to move forward with current projects or to implement future projects. The legal debt limit is separate from the practical debt limit of the City, which is the debt burden beyond which the credit-worthiness of the City is put into question.

### **Insurance**

The petitioners were concerned about the process the City of Centerville may have followed in securing an insurance agent of record.

We spoke with City personnel, reviewed proposals received by the City of Centerville relating to the hiring of an insurance agent of record, and reviewed the City of Centerville’s Check Summary Register listings for the period January 1, 2005, through December 16, 2008. The following items were noted.

1. The City of Centerville purchases all of its insurance through the League of Minnesota Cities Trust. As suggested by the League of Minnesota Cities Trust, the City of Centerville requested proposals for and hired an insurance agent of record to represent the City for a three-year period. An agent of record's duty is to process claims on the City's behalf as well as to assist with the insurance application.
2. The City received three bids for an insurance agent of record. The City Council accepted the proposal received from Paul Steffel, dated February 2, 2006, that stated that services would be provided for a flat rate of \$700 per year. Proposals were not required to include offers of discounts on insurance to City of Centerville officials or employees. None of the proposals included any such offers or discounts. Disbursements made by the City to Paul Steffel for the period February 2006 through December 2008 were in accordance with the proposed rate.

Based on our review, the process the City of Centerville followed to secure an insurance agent of record was appropriate.

#### 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 relating to the petitioners' concerns as identified in this report. 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.

This report has been prepared for the information of the petitioners of the City of Centerville, the Mayor and City Council, and the management of the City, but is a matter of public record, and its distribution is not limited.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 14, 2009