

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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MANAGEMENT AND COMPLIANCE REPORT  
PREPARED AS A RESULT OF THE AUDIT  
OF THE FINANCIAL AFFAIRS OF THE

**CITY OF GREENFIELD**  
**GREENFIELD, MINNESOTA**

YEAR ENDED DECEMBER 31, 2005

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

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing (TIF)** - promotes compliance and accountability in local governments' use of TIF through financial and compliance audits.

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

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**CITY OF GREENFIELD  
GREENFIELD, MINNESOTA**

**Year Ended December 31, 2005**



**Management and Compliance Report**

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

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**CITY OF GREENFIELD  
GREENFIELD, MINNESOTA**

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Recommendations	1
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance	12

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**CITY OF GREENFIELD  
GREENFIELD, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**I. INTERNAL CONTROL**

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

03-1 Segregation of Duties

Due to the limited number of office personnel within the City of Greenfield, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the City; however, management and the City Council should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view. We understand that City officials are aware of this condition and have attempted to address this issue when possible. We encourage these efforts to continue.

Client's Response:

*Despite being an office of very few staff members, the City of Greenfield continues to take all necessary measures to ensure the best level of internal control possible. As was mentioned in the 2004 Audit response, the City of Greenfield created and filled the Accounting Clerk position which has assisted in resolving many of the segregation of duties issues. The City has drafted financial policies and procedures to establish guidelines for addressing these issues in a small office environment.*

03-2 Use of Agency Fund

Our previous report recommended that the City establish a subsidiary record for developer transactions in the Agency Fund to ensure a proper match between deposits and related expenses. We further recommended that a billing process be established for charging developers when deposits are not sufficient for the costs incurred. Progress has occurred in resolving this condition. A subsidiary record has been implemented to account for individual developer transactions. A billing system was established. However, it appears billings to developers have not been performed on a regular basis. Also, we note that at December 31, 2005, the Agency Fund had a deficit cash balance of \$64,098, indicating outstanding amounts owed by developers. As a result, we do not consider this condition resolved.

We recommend that the City continue with its billings to developers. Billings should be in sufficient amounts to eliminate existing cash deficits in the Agency Fund.

Client's Response:

*The City of Greenfield has established a subsidiary ledger to track all developer transactions. The ledger details both historical and current information for escrow deposits and expenses as a result of professional services. The ledger is updated monthly and verified through Banyon Fund Accounting. The City has established a monthly billing process to recover the costs of professional services. The City has also established a late payment finance fee to help cover some of the administrative costs. The City will also periodically reevaluate the escrow deposit requirements and determine if the escrow deposit amount requires adjustment to realign with typical costs incurred by new developments.*

04-4 Cash Disbursement Process

Our previous report noted the following conditions relative to the City's cash disbursement process:

- No initials or signatures by anyone were on the invoices to indicate they had been reviewed prior to payment.
- None of the invoices were canceled to prevent a second payment from occurring for the same invoice.
- None of the invoices indicated which fund or account was to be credited with the expenditure.

These conditions weaken control over the City's approval process for vendor payments and the reliance placed for correct posting to the general ledger. Our review of the 2005 cash disbursements found only a slight improvement in this condition.

We understand the City has taken steps to implement new procedures, some of which did not take effect until 2006. We encourage City officials to follow through with these new procedures.



Client's Response:

*With the addition of the Accounting Clerk staff member, the cash disbursement process issues previously reported have been resolved. A payment voucher is attached to each invoice. The voucher indicates the vendor name, invoice amount and account to be credited with the expenditure. Payment vouchers are signed by the appropriate department head and all invoices are initialed by the Administrator. Once the invoice is paid, it is stamped "Paid" with the date of payment and the check number is written on the payment voucher.*

04-10 Accounting for Septic System Deposits

We previously noted that contractor deposits collected by the City for septic system construction were not deposited in the bank. During our previous year's fieldwork, auditors found checks totaling \$48,000 in a locked desk drawer. One of the checks was dated in 1998. We recommended that septic system deposits be deposited in the bank and recorded in the general ledger. We also recommended that subsidiary records be maintained on the collections and City-related costs in the event additional charges may be billed to the contractors. Finally, we recommended that the City Council determine the disposition of checks totaling \$48,000 found in the desk drawer.

Our review for 2005 found that the City's accounting clerk prepared a spreadsheet to account for any deposits received and City-related costs. However, there was no activity with septic system construction and related deposits in 2005. We also found that the City Council had not yet taken any action to determine a disposition for the checks totaling \$48,000.

We again recommend that the City Council determine a disposition for the checks.

Client's Response:

*In regard to the septic deposit checks totaling \$48,000, the City Council will develop an action plan at the October 17, 2006 meeting to address this issue.*

*Presently, City staff has developed a procedure to handle septic system escrow deposits. The checks are cashed and the deposit is tracked through a subsidiary ledger. Once the septic system has been installed and passed inspection the unused escrow dollars will be returned to the depositor.*

## PREVIOUSLY REPORTED ITEMS RESOLVED

### **Investment Reconciliations (03-3)**

The previous report indicated that investment accounts were not reconciled to the general ledger each month. We recommended that an investment schedule be maintained and reconciled to the general ledger monthly. In 2005, the City retained a consultant to analyze 2004 investment transactions and reconcile year-end balances with the general ledger. In this process, the consultant discovered that a \$30,000 investment at US Bank had matured in 2003; no action to receive the principal and related interest was taken by the City until 2005.

### **Resolution**

We found that reconciliations of the City's investments with the general ledger were occurring monthly. Also, we noted that all investments that matured in 2005 were received by the City.

### **Accounting Policies and Procedures (04-1)**

Our previous report recommended that written policies and procedures for the City's financial activities be developed and those policies be adopted by the City Council. The report identified several areas for which policies and procedures should be developed.

### **Resolution**

We found that the City Council has adopted policies and procedures in the following areas:

- receipt and deposit of funds,
- purchase of goods and services,
- approval and payment of bills,
- record keeping for payroll activities,
- reconciliation of bank accounts,
- maintenance of various files (such as contracts and invoices),
- accounting for capital assets,
- accounting for the use of restricted funds and reimbursable grants, and
- interim financial reporting.

### **Bank Reconciliations (04-2)**

Our previous report recommended that reconciliations between the City's bank accounts and the general ledger be performed monthly. Reconciliations should be initialed and dated by the preparer.

### **Resolution**

Bank reconciliations are now performed monthly. The reconciliations are retained in an electronic form, so the initials and dates of the preparer in a handwritten style is not possible. However, we still recommend that the reconciliations indicate their preparer and the date of preparation.

### **City's Receipting Process (04-3)**

Our review of the City's receipting process found that wire transfers were not receipted or recorded in the general ledger; a receipt in the amount of \$73,570 was not posted to the general ledger; several receipts contained no coding information for posting to the general ledger; and individual receipt numbers were used more than once.

### **Resolution**

We found that wire transfers are now recorded in the general ledger. We found no instances in which receipts were not posted to the general ledger. Receipts are now coded for posting to the general ledger. We found that duplicate receipt numbers were again used in 2005. Apparently, there was a mistake in the ordering process that caused duplicate receipt numbers to be received again. However, we believe City officials are fully aware of the need to avoid this from occurring again, and so we feel the matter is resolved.

### **Time Sheet Records (04-5)**

Our previous report recommended that time sheets be signed by the employee and supervisor prior to payment being made.

### **Resolution**

We found that time sheets and time cards are now signed by the employee and approved by the supervisor.

### **Leave Time Records (04-6)**

Our previous report recommended that procedures be established to record all leave time earned, taken, and outstanding in a centralized record.

### **Resolution**

We found that leave time records are maintained both by the accounting clerk and Administrator. The records are compared periodically to correct any differences identified. We do recommend that these procedures currently being practiced be included in the record keeping procedures for payroll activities that is noted in resolved comment 04-1 above.

### **1099 Forms (04-7)**

Our previous report noted that for the year ended December 31, 2004, there was no evidence that 1099 forms were sent to eligible parties. We recommended that procedures be established to ensure compliance with Internal Revenue Service regulations.

#### **Resolution**

We found that for the year ended December 31, 2005, 1099 forms were completed by the City.

### **Petty Cash Policy (04-8)**

Our previous report recommended that the City establish procedures for the use of its petty cash fund and that the procedures be adopted by the City Council.

#### **Resolution**

We found that petty cash procedures were approved by the City Council.

### **Accounting for Building Permit Records (04-9)**

Our previous report noted that building permit collections were not tracked until a final disposition of inspections had occurred. We recommended that the City maintain records to account for revenues from building permits and the related inspections costs.

#### **Resolution**

We found that a spreadsheet had been implemented to account for collections from building permits and the related costs.

## **II. OTHER FINDINGS AND RECOMMENDATIONS**

### **A. MINNESOTA LEGAL COMPLIANCE**

#### **PREVIOUSLY REPORTED ITEMS RESOLVED**

##### **Security Interest in Pledged Collateral (04-11)**

Our previous report stated that the City did not have documentation that it had a perfected security interest in pledged collateral in compliance with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). We recommended that the City require its depositories to comply with the FIRREA and to provide proof of compliance in the form of a board or committee resolution to the City. Specific securities pledged at the time of the resolution should be provided to the City.

##### **Resolution**

The required information noted above was acquired by the City in the latter part of 2005.

### **Broker Acknowledgment Forms (04-12)**

Our previous report noted that the City did not have documentation related to broker acknowledgment forms, as required by Minn. Stat. § 118A.04, subd. 9. These forms provide evidence that the City has presented its investment restrictions to brokers. We recommended that the City provide broker acknowledgment forms to those parties handling City investments.

### **Resolution**

We found that broker acknowledgment forms have been obtained by the City.

### **Documentation for Bid Solicitation (04-13)**

In reviewing the City's contracting records, no documentation could be found to show evidence that bids were solicited in accordance with state statutes. Minn. Stat. §§ 429.041, 469.015, and 471.345 set forth statutorily required procedures to be followed in soliciting bids based on estimated project costs. Minn. Stat. § 15.17 requires all public officers to make and preserve all records necessary to a full understanding of their official activities including statutory compliance. We recommended that the City establish procedures to ensure City records are retained for the period required by law.

### **Resolution**

In reviewing City contract records for 2005, all required information was on hand.

### **Credit Card Payments (04-14)**

In 2004, the City disbursed five payments to a Discover credit card account totaling \$2,889, which appeared to be an employee's account. Also, the City had store receipts for the Discover charges totaling only \$1,417, leaving \$1,472 in payments not supported. The City Attorney believed some of the expenses may have been for employee recognition. We recommended that if the City decides to authorize the use of credit cards in the name of the City, the City Council should first adopt a comprehensive credit card policy. All payments for a credit card account must be supported by the credit card statement and the detailed receipts. Payments made directly to an employee's credit card company should be discontinued. Payments for personal items and employee recognition expenditures should be discontinued.

### **Resolution**

We were informed that the City does not have any credit cards in the name of the City and that no payments were made to a credit card company. In our review, we did not find any payments to credit card companies. Also, we did not find any payments related to employee recognition.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

04-15 Monitoring Capital Projects

At December 31, 2004, the City's capital projects funds had the following deficit fund balances:

Major fund	\$	(673,530)
Nonmajor funds		<u>(48,887)</u>
Total	\$	<u><u>(722,417)</u></u>

Given the significant deficit in the City's capital projects activities, we stated that City management and the City Council may need to develop a long-term strategy to eliminate the deficit.

For the year ended December 31, 2005, we found fund balances in the capital projects funds to be:

Major funds	\$	(76,846)
Nonmajor funds		<u>501,135</u>
Total	\$	<u><u>424,289</u></u>

Total fund balance for the City's capital projects improved by \$1,146,706. The improvement is attributed to amounts received from developers for their share of infrastructure and utility costs. Also, the City issued \$3,020,000 in general obligation bonds in 2005, of which \$2,953,917 was allocated to the City's various capital projects.

Though overall fund balance for capital project funds at December 31, 2005, is a positive \$424,289, individual projects with negative unreserved, undesignated fund balances total (\$1,076,253). Note 9 of the Notes to the Financial Statements states that at December 31, 2005, outstanding construction commitments are approximately \$1,135,329, which could cause future deficits in the City's capital projects.

It appears that a long-term strategy for eliminating these deficits will be necessary. Managing project budgets will also be a crucial factor in preventing future deficits.

Client's Response:

*The City of Greenfield is making efforts to better track capital projects in the area of budgets and expenditures. The City currently receives weekly progress reports from the engineering firm to assist in tracking project progress and change orders. The use of the fund accounting software also assists in properly coding expenditure items to each specific project and produce budget to actual reports for each project. The City will continue to work on the process of managing project budgets.*

*In reference to the deficit fund balance in the project funds; the City Council is in the process of reviewing that deficit and implementing a long term plan to eliminate the deficit. This may include considering a special tax levy in 2007.*

04-18

Vacation and Sick Pay Disbursements

The former City Administrator and another City employee left City employment on December 31, 2004. Before leaving, the former City Administrator wrote checks to herself and the other employee for vacation and sick pay amounts. Based on the City's personnel policy we were provided, the City Administrator and employee were overpaid by \$2,107 and \$777, respectively.

At the City Council's March 15, 2005, meeting, the Council decided not to approve payment on the claims represented by these checks. The claims have not yet been approved by the Council. There appears to be some uncertainty as to whether the payments were appropriate. Current City staff have on file handwritten amendments to the personnel policy from 1999 but do not know whether the Council ever approved them. The City has contacted the former administrator in an effort to clarify the terms of the personnel policy, but to date, there has been no reply.

In our previous report, we recommended that the City Council determine whether the payments were authorized by the City's personnel policy. Based on that determination, the City Council should decide whether to approve the claims in whole or in part. If all or parts of the claims are not approved, the City Council should consider taking action to recover the unapproved amounts. The City Council should adopt, review, and follow policies on employee benefits. Our review of this condition for the 2005 audit found no change in the condition.

We again recommend that the City Council take action to resolve the appropriateness of the vacation and sick pay disbursements.

Client's Response:

*The City of Greenfield approved a new personnel policy in the beginning of 2006. The City employees no longer accrue vacation and sick time but rather are awarded annual leave time which is not paid out at the end of employment.*

*In regard to the previous issue with vacation and sick pay disbursements to former employees; the issue has been addressed but no action has been taken. The City Council plans to address the issue and take some type of action at the October 17, 2006 City Council meeting.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Special Assessment Levies (04-16)**

Our previous report noted that the City included itself in special assessment levy records sent to the county for assessing, though the City-wide tax levy approved by the Council included amounts sufficient to pay its share of special assessment debt. We found that the City was late in making its October 2004 special assessment payment to the county, incurring penalties and interest in excess of \$8,000. We also noted that the City did not have procedures in place to adequately account for prepayments of special assessments it collected. We recommended that the City review its process for including itself on assessment roles and that procedures be established to ensure that prepayments are remitted to the county at the appropriate time.

**Resolution**

We found the City had removed itself from the special assessment roles maintained by the county. We also found that the City implemented procedures to account for the handling of prepayments. The procedures appear appropriate, and we recommend they be included in the City's policies and procedures adopted by the Council (see resolved comment 04-1 above).



### **Council Proceedings (04-17)**

Our review of 2004 Council proceedings resulted in the following recommendations:

- document approvals of minutes from previous proceedings,
- provide sufficient detail when approving bills that will identify exactly which bills are being approved, and
- list all bidders on contracts together with the amount being bid.

### **Resolution**

We found that our recommendations had been implemented.

### **C. OTHER MATTERS**

Prior to completion of fieldwork, the City Administrator left employment at the City, and two other employees also left. The City's accounting clerk was the only remaining employee from the administration covered by our fieldwork. We understand that the City Council has appointed an interim City Administrator.

Though our current audit has resolved many of the audit findings from our 2004 report, the Mayor and City Council need to be aware that the recent reductions in staff can cause previously reported conditions of internal control deficiencies to occur again. We recommend that the Mayor and City Council members maintain an active involvement in overseeing the financial operations of the City until staff positions are filled at a level acceptable to City officials.

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PATRICIA ANDERSON  
STATE AUDITOR

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Mayor and Council Members  
City of Greenfield

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Greenfield as of and for the year ended December 31, 2005, and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### Internal Control Over Financial Reporting

The management of the City of Greenfield is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the City of Greenfield's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal

control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 03-1, 03-2, 04-4, and 04-10.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 03-1, 04-4, and 04-10 to be material weaknesses.

#### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the City of Greenfield complied with the material terms and conditions of applicable legal provisions.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: September 21, 2006