

# 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, 2004

## **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:

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

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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, 2004**



**Management and Compliance Report**

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

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**CITY OF GREENFIELD  
GREENFIELD, MINNESOTA**

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**CITY OF GREENFIELD  
GREENFIELD, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

Findings in this report include matters from the prior year's audit that were reported by another auditor. Those findings have been reviewed by the State Auditor's Office in the 2004 audit of the City of Greenfield, and the results of that review are included below along with current year findings.

**I. INTERNAL CONTROL**

ITEMS PREVIOUSLY REPORTED BY ANOTHER AUDITOR 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 given attention to addressing this issue. We encourage these efforts to continue.

Client's Response:

*Throughout 2005, City staff made many changes to insure internal control by segregation of duties. Receipts and expenditures were entered into the general ledger by the Deputy Clerk. All receipts were reviewed by the City Administrator for accuracy prior to deposit. Deposits were made by the City Administrator or the Deputy Clerk. All expenditures were reviewed by the City Administrator for accuracy prior to them being submitted to the City Council for approval. After City Council approval of accounts payables, all checks were printed by the City Administrator and reviewed for accuracy. All checks were signed by both the City Administrator and the Mayor. Checks were then processed for mailing by the Secretary/Receptionist under the supervision from the Deputy Clerk. Bank reconciliations were performed by the City Administrator, and they were also reviewed by the City consultant through August. The CPA consultant performed reconciliations in the last quarter of 2005 while performing City Council-authorized accounting duties.*

*In 2005, the City installed and implemented the use of a time clock for City staff. All City staff members punched in and out to document hours worked. The Deputy Clerk was responsible for calculating hours worked and generated a payroll authorization form which was reviewed for accuracy and then signed by both the City Administrator and the Mayor. In 2005, the City outsourced payroll to ADP Payroll Service. Upon receipt of the bi-weekly payroll reports, the Deputy Clerk would check the payroll register for accuracy. The City Administrator entered the payroll into the general ledger and again checked for accuracy. Checks were then distributed by the Deputy Clerk.*

*In November 2005, the City created a new City staff position and hired an Accounting Clerk. The Accounting Clerk is responsible for the daily entry of receipts and expenditures into the general ledger and maintains all subsidiary ledgers necessary to track specific items such as private development reimbursement, project costs, cash, etc. All receipts are submitted to the City Administrator in the form of receipt batch report for review and accuracy.*

*All expenditures are presented to the City Administrator in the form of bi-monthly account payable batches. The City Administrator presents the payables to the City Council for approval. Following City Council approval, the Accounting Clerk prints the accounts payable checks which the City Administrator reviews for accuracy. The checks are signed by both the City Administrator and the Mayor.*

*Invoices are distributed to the supervisor of the respective department for coding and approval. All invoices are marked with the proper general ledger code, signed, and dated by the supervisor. A new payment voucher has been implemented in which the supervisor must code the expense and sign off to verify that the City did in fact receive the goods and/or services. All invoices are submitted to the City Administrator who signs and dates to authorize payment of the invoice. Once authorized by the City Administrator, the Accounting Clerk enters the invoice into the general ledger.*

*The cash proof tracking is a subsidiary ledger that is updated daily by the Accounting Clerk to provide the City Administrator with the daily checking balance. The Accounting Clerk is responsible for tracking accounts receivables and monthly billings. The Accounting Clerk is responsible for calculating payroll hours worked and presents the total hours worked per City staff member on the payroll authorization form, which is reviewed and approved by both the City Administrator and the Mayor. The Accounting Clerk reviews the payroll report from ADP for accuracy and enters the information into the general ledger. A copy of the payroll register is provided to the City Administrator for review prior to the checks being distributed. Checks are then distributed by the Accounting Clerk.*

*Petty cash is kept in a locked cash register drawer. The Secretary/Receptionist and Deputy Clerk have daily access to the cash drawer. Petty cash is reconciled by the Accounting Clerk.*

### 03-2 Use of Agency Fund

The previous report noted that the City's Agency Fund used to account for developer deposits was not functioning as intended. Expenses were not matched with related deposits. It was recommended that the City implement procedures to ensure the proper matching of deposits and expenses. It was also recommended that the cash balance at the end of 2003 be analyzed and reconciled.

In 2005, the City retained a consultant to analyze financial transactions in the Agency Fund. As a result, the 2004 financial statements required a \$227,321 restatement to the 2003 year-end cash balance in the Agency Fund, decreasing the previously reported amount. Additionally, it was found that some developers owe the City for costs that exceeded the amounts deposited; however, no process was in place for identifying such amounts owing to the City or for sending bills to developers for the excess amounts.

We recommend the City maintain a subsidiary record to account for the individual transactions of each developer. This record should be reconciled to the Agency Fund monthly. We also recommend that the City establish a process for billing developers when deposits are not sufficient for the costs incurred. Funds owing back to developers should be refunded as soon as the related projects have been completed.

#### Client's Response:

*In 2005, the City consultant reconciled Agency Fund transactions that occurred in 2004. The City consultant reconciled the Agency Fund through May 31, 2005, and established a subsidiary ledger called private development reimbursement proof which enables City staff to track funds owed to the City and funds that the City needed to reimburse private developers. However, the City consultant reconciled only corresponding invoices for legal, planning, and engineering expenditures incurred by the City for the private developers. City staff reviewed all invoices for 2004 and pulled invoices related to private development. All accounts have been reconciled, and copies of all invoices have been placed in the corresponding private development file. As of January 31, 2006, all private developers will receive a statement including supporting documentation of invoices paid by the City. Statements will be payable in thirty days. The City will refund unused private developer escrow balances for completed projects in 2006.*

*In 2005, City staff began tracking all new private development receipts and expenditures. A page to track these transactions is set up within the private development proof, and a file is established in which copies of all invoices are kept which are then included with billing statements. Commencing January 31, 2006, all private developments will receive monthly statements.*

*Also, in January 2006, City staff reviewed all planning and zoning fees, including application fees and escrow requirements. City staff felt that it would be beneficial for the City to raise fees to correspond with neighboring cities and in so doing collect more funds up front from private developers designed to cover more of the typical private development expenditures. City staff found that the City's fees were too low and that private development expenditures exceeded the amount of the escrow. In most cases, private developers owed the City for expenses incurred by the City relating to the private development. By raising fees, City staff felt that the City would end up having to bill less often. The City has found that collecting from private developers is time-consuming and often difficult especially after the developer has completed the project. The revised fee schedule was presented to the City Council who approved the fee schedule increase in January 2006.*

### 03-3 Investment Reconciliations

The previous report indicated that a variety of investment accounts were not reconciled to the general ledger each month. It was noted in 2005 that potential interest earnings may have been lost, or at least unavailable at the time the investment matured. It was recommended that an investment schedule be maintained and reconciled to the general ledger monthly.

This condition persisted in 2004. 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.

We recommend the City establish procedures to perform monthly reconciliations of its investments with the general ledger, utilizing investment schedules initiated by the consultant.

#### Client's Response:

*In 2005, investment accounts were reconciled to the general ledger each month. Also in 2005, the City Administrator established a subsidiary ledger to track the City investment portfolio. This tracking enables the City Administrator to look at the City's investment portfolio in detail, including the name of the account, description of the investment, investment amount, maturity date, call date, and interest earnings. The City Administrator also established a subsidiary ledger to track cash flow. This ledger tracks the bank balances, accounts payable, payroll, accounts receivable, total investments, and project funds, including draws on bond funds and scheduled debt service payments. The City Administrator is better able to manage the City's cash and investments and prepare for the City's cash flow needs including scheduled debt service payments by tracking information in this way.*

*In 2005, the City consultant discovered that a \$30,000 investment at US Bank called the Ramsey Bond had matured in 2003 and the City did not surrender the original certificate to receive the full amount of the investment. Therefore, the City did not receive interest earnings on the \$30,000 for the remainder of 2003 and 2004. The City did not collect the \$30,000; therefore, the money sat in a US Bank account for uncollected funds. The City consultant discovered that the City had been receiving interest on the Ramsey Bond up to a certain point in 2003 but noted that after the interest earnings discontinued, the City did not record a \$30,000 receipt for the matured investment. After becoming aware of the situation, the City Administrator contacted US Bank in 2005 to begin making arrangements to claim the funds. The City Administrator filed a lost bond claim, and the City Council approved a lost bond claim fee of \$600.00 to collect the funds. The City did receive the \$30,000, which was deposited into the City depository in 2005.*

#### ITEMS ARISING THIS YEAR

##### 04-1 Accounting Policies and Procedures

The City does not have any formalized accounting policies and procedures. Written policies and procedures should exist to set forth requirements to account for such matters as the:

- 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.

Without written policies and procedures to follow, there can be no assurance that accounting records and files will be maintained as intended and consistent from year to year.

We recommend that the City develop written policies and procedures for its financial activities and that they be adopted by the City Council.

Client's Response:

*Policies and procedures in all of the following areas have been or are in the process of being formalized:*

- *Receipt and deposit of funds,*
- *Purchase of goods and services,*
- *Approval and payment of bills,*
- *Petty cash policy and procedures,*
- *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,*
- *Interim financial reporting, and*
- *Investment policies and procedures.*

*It is the intent of the City Administrator to bring all formalized policies and procedures to the City Council for approval in 2006 and implement them immediately.*

04-2 Bank Reconciliations

For the year 2004, we found that bank reconciliations performed were not reconciled to the City's general ledger, but rather to some other cash balance. This condition, together with other findings noted below, caused the City's cash and investment balance in the general ledger to be misstated. Significant time was incurred by the City's consultant in 2005 to reconcile the general ledger balance. The absence of an accurate general ledger balance can affect the financial decisions made by the City Council and its management.

We recommend the City establish procedures calling for monthly reconciliations between bank accounts and the general ledger. The reconciliations should also include the City's outstanding investments. Significant variances should be investigated immediately, with any needed adjustments to the general ledger approved by the City Administrator. All reconciliations should be initialed and dated by the preparer. Adjustments to the general ledger should be initialed and dated by the Administrator.

Client's Response:

*In 2005, all accounts were reconciled and reconciled to the end month and not to the date the reconciliation was performed which appeared to be the City's practice prior to 2004. Also in 2005, the City Administrator established a subsidiary ledger to track bank reconciliations. All statements were signed and dated by the City Administrator upon completion of the reconciliation. All bank reconciliations were reviewed by the City*

*consultant in 2005 who then reconciled cash and investments for all months. The Accounting Clerk will now be responsible for bank reconciliations and will be trained by the City consultant in 2006 as to the most efficient way to reconcile cash and investments utilizing subsidiary ledgers. Reconciliations are to be completed upon receipt of the bank and investment broker statements. The Accounting Clerk will sign and date the reconciliations. The Accounting Clerk has established a book to keep track of all journal entries necessary to correct any variance, and all journal entry adjustments will be approved by the City Administrator who will initial and date the journal entry adjustment form.*

#### 04-3 City's Receipting Process

Our review of the City's receipting process found the following conditions:

- Wire transfers to the City's bank accounts were not receipted or recorded in the 2004 general ledger.
- A receipt dated December 28, 2004, in the amount of \$73,570 was not posted to the 2004 general ledger.
- Several receipts contained no coding information for posting to the general ledger.
- Individual receipt numbers were used more than once in 2004.

These conditions severely weaken the reliability placed on financial information and can lead to material misstatements in the records and financial statements.

We recommend written procedures be established to address proper receipting for the City's funds, including those items received through wire transfers.

#### Client's Response:

*Currently, City staff are developing policies and procedures for the City's receipting process which will include a written procedure for wire transfers. Aspects of this policy will define receipts that come via the mail and those receipts that are collected in person, as well as electronic receipts. In 2005, City staff prepared receipt vouchers for each receipt. Receipt vouchers are created by the Accounting Clerk for each receipt in the receipt batch which includes the appropriate accounting code. Steps have been taken to insure that all receipts are entered into the general ledger in the form of a receipt batch. A receipt batch report is then prepared and printed by the Accounting Clerk. This receipt batch report is reviewed by the City Administrator, who initials and dates the receipt batch report verifying accuracy. A signed copy of the receipt batch report is kept with the*

*receipt vouchers. Receipts are deposited within the week they are collected by the City. The bank receipt is attached to a copy of the deposit slip by the Accounting Clerk who again checks for accuracy.*

*The City receives electronic receipts such as court fines and tax settlements. Once these electronic funds have been deposited into the City account, the Accounting Clerk prepares a voucher and attaches any back up. He then records the information into the general ledger.*

*The City is currently developing a policy to account for wire transfers whether it is a draw against project funds or investment dollars received. A wire transfer of this kind will involve a decision-making process on the part of the City Administrator and/or the City Council, which is based upon monthly expenditure or project fund needs. When making a decision to draw against a project fund or when making an investment decision resulting in the City receiving funds, the City Administrator documents the process and therefore anticipates the funds to be wired on a particular date and time. The City Administrator receives notification from the bank by phone that the wire transfer has been received, and the bank mails a wire transfer receipt to the City Administrator. The Accounting Clerk then codes and records the wire transfer into the general ledger.*

#### 04-4 Cash Disbursement Process

Our review of the City's cash disbursement process found several weaknesses. The City does not utilize a voucher form to document disbursements to vendors who do not have an invoicing process. As a result, payments to these vendors are made with no documentation to support them. In addition, when invoices were processed, the following documentation was missing:

- 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 postings to the general ledger.

We recommend:

- the City develop a voucher form to be used for vendors that do not utilize an invoicing process;
- all vendor invoices be initialed and dated, as approved for payment by an authorized individual;
- all invoices be canceled; and
- all invoices be marked with the full coding string for the general ledger, including the fund to be charged.

Client's Response:

*In 2005, City staff created a new disbursement voucher designed specifically to account for the general ledger codes used in the Banyon chart of accounts. The Banyon chart of accounts was designed by the City consultant in 2005 prior to the July 1, 2005, conversion from previously used QuickBooks accounting software to Banyon Fund Accounting.*

*Also, in 2005, City staff implemented a new cash disbursement process. All invoices presented to the City for payment are distributed to the respective department supervisors to verify that the goods and/or services were received and verify that the amount of the invoice is correct. The department supervisor codes the invoice, completes a voucher form, and then signs and dates the voucher form and invoice. All invoices are presented to the City Administrator who initials and dates the invoice authorizing payment of the invoice. The Accounting Clerk enters all invoices into the appropriate accounts payable batch in the general ledger which is presented to the City Council for approval on the first and third Tuesdays of the month. Beginning in 2006, all invoices will be marked paid following issue of payment.*

*In 2005, City staff created a voucher form for vendors who do not typically invoice the City for services rendered, such as the cleaning service who is a sole proprietor. Staff provides this voucher form to the vendor to write in their billing information including date and time worked and total amount due. This voucher form is then signed and dated by the vendor verifying the amount due as accurate.*

#### 04-5 Time Sheet Records

We found time sheets are not signed by the employee or supervisor. A payroll summary is approved and signed by the City Administrator prior to being submitted to the payroll service. Since time sheets serve as the source record for reporting time worked, they should be signed by the employee claiming wages for time worked and by the supervisor approving of the time being claimed.

We recommend time sheets be signed by the employee and supervisor prior to payments being made.

#### Client's Response:

*In 2005, the City implemented the use of a time clock which is utilized by all non-exempt City staff members. Exempt positions keep track of their time by recording hours worked on a time sheet which is signed by the City Administrator. Also in 2005, the City implemented time sheets that are filled out by the Street Maintenance Supervisor, the Water/Wastewater Supervisor, and the Heavy Equipment Operator. The time sheets track time spent performing specific daily tasks. These reports are submitted to the City Administrator weekly and are presented to the City Council at each meeting.*

*The Accounting Clerk calculates all hours worked and prepares the payroll authorization form which he presents to the City Administrator for approval. The payroll authorization is reviewed for accuracy and is signed by the City Administrator and the Mayor. A copy of this form is kept by the City Administrator, and the original is returned to the Accounting Clerk who attaches it to the time cards and time sheets for permanent record. In 2005, the City outsourced payroll to ADP Payroll Service. The Accounting Clerk reports the bi-weekly payroll to ADP who produces the payroll reports and prepares the payroll checks. Upon receipt of the payroll reports, the Accounting Clerk reviews them for accuracy and provides a copy of the payroll reports for the City Administrator to review for accuracy prior to disbursement of the checks. Payroll checks are distributed by the Accounting Clerk.*

#### 04-6 Leave Time Records

For 2004, there appeared to be some uncertainty as to the accuracy of the centralized record being kept for vacation, sick, and comp time earned and taken. Current staff are not certain how it originated. Also, the City has no formal policies for maintaining this information.

We recommend written procedures be established to account for all leave time earned, taken, and outstanding. Though similar information may appear on the employees' pay stubs, the centralized record would be considered the official record for the City.

Client's Response:

*In 2005, the City purchased software to track areas pertaining to human resources including personnel information, emergency contact information, salary history, hours worked, vacation time used, sick time used, compensatory time used, benefits, etc. Also, at the end of 2005, the City Council authorized the payment of accrued vacation and sick leave balances to all City staff members in order to wipe out all accruals. The City is in the process of finalizing a new personnel policy which converts vacation and sick time to annual leave with the duration of annual leave based on years of service. This personnel policy also establishes a maximum of forty hours of compensatory time that can be carried by a staff member at any one time. This personnel policy has been reviewed by the League of Minnesota Cities and is in the process of being reviewed by the City Attorney.*

*Also in 2005, the City Administrator implemented a "Request for Time Off" form which must be filled out by City staff members when requesting time off. The City staff member must note if the time off requested is compensatory time or vacation time, or, beginning in 2006, annual leave. The specific date and time requested must be noted on the form. This request for time off form is presented to the City Administrator, and if it is approved, the City Administrator signs the form. All requests for time off forms are included with the payroll time sheets and time cards for that particular payroll period.*

04-7 1099 Forms

For the year ended December 31, 2004, the City had no evidence that 1099 forms had been sent to eligible parties. IRS regulations require that the City send forms to businesses or individuals not treated as employees, indicating amounts paid by the City for services provided.

We recommend the City establish procedures to assure that 1099 forms will be sent for the 2005 fiscal year.

Client's Response:

*In January 2006, City staff are reviewing all 2005 vendors to determine those vendors who require a 1099. A list of 1099 vendor recipients is being prepared including name, mailing address, and the amount they were paid by the City in 2005. All 1099s will be prepared and mailed to the respective vendors prior to January 31, 2006. As new vendors are entered into Banyon, the Accounting Clerk will mark them as 1099 recipients, which will eliminate the time-consuming review process annually.*

#### 04-8 Petty Cash Policy

The City has no formal policies that control the use of petty cash. Procedures should be established to ensure petty cash funds are used as intended and to provide accountability for the total amount of the fund.

We recommend written procedures be established that:

- identify the amount of the petty cash fund,
- identify the custodian of the fund,
- determine the types of expenditures allowed, including any dollar limits on the expenditures incurred, and
- provide the process to be followed for reimbursing the fund.

These procedures should be adopted by the City Council.

#### Client's Response:

*In January 2005, City staff found that petty cash was kept in an envelope in a file cabinet in the City Administrator's office, and it appeared that it had not been reconciled in many years. In 2005, the City purchased a cash register to house the petty cash which is locked at all times. The petty cash is accessed by the Secretary/Receptionist and Deputy Clerk in providing change to customers and for petty cash expenditures such as certified mailings.*

*In 2006, the City Administrator will draft a petty cash policy that will identify the amount of petty cash and name who the custodian will be according to the League of Minnesota Cities guidelines. The policy will also identify the allowable petty cash expenditures and a process for reimbursing the petty cash fund. This policy will be presented to the City Council for approval in 2006. The City staff also plans on getting the cash register operational which would allow for departmentalizing petty cash receipts.*

#### 04-9 Accounting for Building Permit Records

We found funds received for building permits were not tracked until a final disposition of inspections had occurred. This condition could result in lost revenue to the City if it cannot be determined that building permit collections are sufficient to cover the inspection costs.

We recommend the City maintain records sufficient to account for revenues from building permits and the related costs for inspections.

### Client's Response:

*The City has maintained a subsidiary ledger in which building permit information has been recorded. In 2005, City staff became aware that the building inspection company, with whom the City contracts, did not bill in a timely fashion; and at the end of each year, there were inspection fees outstanding for inspections completed but not yet billed. Inspection fees are established by the building inspection company, and the corresponding invoices for the cost of inspections identify the permit number and the cost of the inspections performed. Currently, the Accounting Clerk reviews each building inspection company monthly statement for accuracy by identifying the permit number, the cost of the inspections, and the amount of the permit fee initially charged. Through this process, he is able to determine if the City collected enough funds to cover the cost of the inspections. The subsidiary ledger has been revised and is more inclusive, detailing all possible permit fees charged and also calculating the surcharge amount. Also, the Accounting Clerk has added a field to document when a project has been completed, and City staff are working with the building inspector to develop a policy whereby the City is notified of final inspection and/or issuance of Certificates of Occupancy. This will enable the City to be informed as to which projects are complete and can calculate building inspection costs outstanding with more accuracy.*

*In 2006, City staff will be making recommendations as to possible changes in the fee structure used by the building inspection company. There are several options that offer different percentages paid to the building inspection company for services rendered. At first glance it appears that the higher the fees collected, the less the percentage the City pays to the building inspection company. City staff will review 2005 building permits and make recommendations to the City Council regarding fee structure in 2006 and then negotiate a change in the contractual arrangement with the building inspection company.*

### 04-10 Accounting for Septic System Deposits

The City receives deposits from contractors who are installing septic systems. The deposits are to be used for any City-related costs that may arise from the installations. Unspent deposits are returned to the contractor when installation is complete.

We found the City had been writing receipts through September 2004 for the deposits collected, but the funds were not posted to the general ledger nor deposited in the bank. In the course of our fieldwork, we found \$48,000 in checks in a locked desk drawer. One of the checks was dated in 1998. It appears City staff intended to return the checks to contractors when the projects were completed. However, no records were maintained to account for the funds received from individual contractors and the City-related costs that may have been incurred.

We recommend deposits received for septic systems be recorded in the general ledger and deposited in the City's bank account. A subsidiary ledger should be maintained to account for individual deposits, together with any City-related costs that should be deducted from the amount returned to the contractors. If deposits are not sufficient for the costs incurred by the City, then the contractor should be billed for the amount owing. Finally, we recommend the City Council determine the disposition of checks totaling \$48,000 found in the desk drawer.

Client's Response:

*In 2005, the City became aware that prior City staff did not deposit septic system escrow receipts collected and that the City did not have a subsidiary ledger to track City expenditures such as inspection cost and engineering relating to this type of project. As a result of this finding, the City consultant developed and implemented a subsidiary ledger in 2005 called the private development reimbursement proof to track projects including septic systems. All checks received for septic systems are deposited into the City account and recorded into the general ledger escrow fund. A tracking is established for the project within the private development reimbursement proof, and all activity including receipts and expenditures are recorded. A copy of all receipts received and a copy of all expenditures incurred by the City related to the project are kept in the project file. When the project has been completed and the City has determined that all expenditures against this project have been received, the contractor or private developer is billed by the City for any amounts owed to the City. The invoice produced by the City will include copies of all expenditures incurred by the City for the project. Conversely, any unused portion of the original escrow amount will be refunded to the contractor or private developer once it has been determined that there are no further expenditures outstanding on this project.*

*Regarding the checks totaling \$48,000 that were discovered in a drawer which were received by the City prior to 2005 but never deposited, the City Administrator directed the Accounting Clerk to design a subsidiary ledger listing the checks. This ledger lists the name on the check, the escrow amount of the check, the check number, the date of the check, the receipt number issued for the escrow check, and a description of what the escrow amount was for. The City Administrator has discussed these projects with the building inspector who believes that in all cases the project was finalized. He stated that it was the practice of the previous City Administrator to receive the escrow checks from private developers who due to weather constraints, i.e., winter condition and therefore frozen ground or unusually wet conditions, were unable to complete the construction of the septic system drain field prior to closing. The building inspection company required the responsible party to escrow funds with the City to provide the City leverage in the event that the project was not completed in a timely and approved manner. However, the City would only have leverage if the funds had been actually deposited into the City's depositories. At first glance, the building inspection company stated that all charges*

*relating to these projects were paid by the contractor at the time the permit was applied for. The City Administrator has scheduled a time for the building inspector to review the City property files relating to the above mentioned checks to determine if there were any fees incurred by the City that should have been deducted from the required escrow. The City Administrator will present the findings to the City Council in 2006 to determine the disposition of the checks totaling \$48,000, following the Office of the State Auditor's opinion of the 2004 audit.*

#### ITEMS PREVIOUSLY REPORTED BY ANOTHER AUDITOR RESOLVED

##### **Lack of Fixed Asset Records (03-4)**

The previous report noted that the City did not maintain historical cost information on its fixed assets, causing a qualified opinion to be issued on the City's financial statements.

##### **Resolution**

For our 2004 audit, the City provided us with a listing of its capital assets that included historical cost information.

##### **Update Authorized Signature Requirements (03-5)**

The previous report recommended that the City Administrator have signature requirements at the bank revised to require two signatures, which may prevent potential problems with unauthorized disbursements.

##### **Resolution**

Signature requirements were changed in January 2005.

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

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

#### ITEMS ARISING THIS YEAR

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

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). A 1992 U. S. Court of Appeals decision stated that if a municipality fails to perfect a security interest

under federal law, its right to such collateral in the event of default is not enforceable. To obtain an enforceable security interest in the collateral, the following is required:

- the assignment of collateral be in writing (required by Minn. Stat. §§ 118A.03, subd.4);
- the assignment be approved by the depository's Board of Directors or loan committee, and a copy of the depository's action should be retained by the City; and
- the assignment of collateral be continuous from the time of execution.

We recommend the City require its depositories to comply with the FIRREA and to provide proof of their 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.

Client's Response:

*In 2005, the City Administrator became aware that the City did not have documentation to support pledged collateral from the City's depositories in compliance with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). The City Administrator contacted the City's depositories for pledged collateral documentation which is now on file in the City Administrator's office. The City Administrator also requested copies of the depository's board minutes authorizing the pledged collateral. This process will be repeated annually.*

04-12

Broker Acknowledgment Forms

The City did not have documentation related to broker acknowledgment forms. These forms provide evidence that the City has presented its investment restrictions to brokers. The forms also provide acknowledgment by brokers of the restrictions. The forms are to be returned to the City signed by the brokers prior to the broker completing any transaction for the City, according to Minn. Stat. § 118A.04, subd. 9. These forms must be completed annually.

We recommend the City provide broker acknowledgment forms to those parties handling City investments. The forms must be returned to the City from brokers prior to allowing any investment business to occur, in accordance with Minnesota statutes.

Client's Response:

*In 2005, acknowledgement forms were updated with all investment brokers. This is an annual task, and the City is in the process of updating broker acknowledgement forms for 2006. The City Administrator is also in the process of developing an investment manual that will include a directory of all active and inactive investment accounts, account numbers, investment broker name and contact information and a copy of the broker acknowledgement form. Also included in this manual will be the current year broker statements. The City Administrator is in the process of drafting an investment policy which will be presented to the City Council for approval in 2006.*

04-13

Documentation for Bid Solicitation

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.

The City adopted the *General Records Retention Schedule for Cities* in 1994. This schedule provides that bid specifications and successful bids must be kept for ten years. Unsuccessful bids need only be kept for six years.

We recommend the City establish procedures to ensure that City records are retained for the period required by law.

Client's Response:

*In 2005, the City of Greenfield recognized that the City records retention and filing system was in dramatic need of overhaul. The City staff has reviewed all loose documents that were not filed at the start of 2005 and also reviewed all documents contained in boxes that were stacked throughout the City offices. City staff followed the General Records Retention Schedule for Cities adopted by the City of Greenfield in 1994 throughout this process. The City of Greenfield purchased a New City Hall building in 2005, and City staff moved into the facility in April. The New City Hall facility provided additional office space which City staff utilized for an organized and efficient filing system which includes:*

- *a filing system for City financial records,*
- *a new open file for residential and commercial properties,*
- *an organized filing system for City projects,*

- *an alphabetical filing system for private development files,*
- *complete filing of historical information involving the City Council and Planning Commission proceedings,*
- *employment records, and*
- *a flat filing system for maps that include residential and commercial developments, city maps, land use maps, and aerial maps.*

*The New City Hall facility also provided available space to archive permanent records or records that must be maintained over a long period of time. The City maintains such records in a locked archive room within the New City Hall facility. City staff developed an alphabetical and numerical index of all records stored in the archive room. The City Administrator plans on further organization of both current and archived information. Records will be reviewed annually to determine the need for retention.*

*In 2005, the City did follow the statutorily required procedures to be followed in soliciting bids based on estimated project costs. Original copies of all bids received are on file in the City project files. The City intends on following the records retention schedule which states that all accepted bids will be retained for a ten-year period and unaccepted bids will be retained for a period of six years.*

04-14

#### Credit Card Payments

During 2004, the City disbursed five payments to a Discover credit card account totaling \$2,889. The City could not provide any evidence that it had approved a Discover account in the City's name; it appears the payments were made to an employee's Discover account. For the payments made, no Discover statements were available to support the amounts paid by the City. Also, the City had store receipts for the Discover charges totaling only \$1,417, leaving \$1,472 in payments not supported. Some of the items paid by the City appeared to be personal in nature, such as flowers for \$97. The City Attorney believes \$290 was for employee recognition expenses and \$1,335 was for medical insurance, based on recordings from the general ledger. The Attorney has requested documentation for these payments from the former City Administrator, but there has been no reply.

A city does not have authority to pay for personal gifts or to make employee recognition expenditures. In a 1998 letter, the Minnesota Attorney General's Office concluded: "while an agreed upon monetary bonus might be provided as part of a salary plan to employees who meet performance or longevity standards, we are at a loss to locate authority for expenditures of funds for in kind awards or social occasions...". The Attorney General's Office also questioned a city's authority to expend any public funds for award recognition gifts for employees based on years of service.

Further, the City Council cannot approve for payment claims that are not itemized in writing. Minn. Stat. §§ 471.38 and 412.271.

We recommend 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. When employee expenditures are reimbursed, payments should be made to the employee based on appropriate documentation and in compliance with the city claims statute, Minn. Stat. § 412.271. Payments for personal items and employee recognition expenditures should be discontinued.

Client's Response:

*It is the intent of City staff to follow Minnesota Statutes and to determine if the expenditure qualifies as a public purpose and whether the City has authority for such an expenditure prior to presenting the expenditure to the City Council for approval.*

*In 2005, the City did not make any payments to credit cards. The City Administrator implemented an expense reimbursement procedure which includes the following:*

- *prior approval for expenditures,*
- *completed expense report,*
- *receipts or credit card statements verifying expenditures,*
- *approval obtained from the City Council through the standard accounts payable process, and*
- *expense check is made out to the staff member directly.*

*In 2006, the City Administrator intends to draft a City Open Store Accounts policy. This policy will be presented to the City Council for approval in 2006. The City will review this policy annually including names of authorized signers and the maximum expenditure amount authorized.*

B. MANAGEMENT PRACTICES

ITEMS ARISING THIS YEAR

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>

With a total deficit fund balance of \$722,417, the City's capital projects funds are experiencing a serious financial condition. Even if a major portion of the deficit is reduced through transfers from other City funds, the overall fund equity of the City is significantly impacted by this condition.

It is not clear exactly how this deficit condition occurred, since the affected projects go back to the year 2000, and there has been a significant changeover of City staff since that time. However, based on our observations and inquiries of current staff, it is possible these conditions could have resulted from either or both of the following:

- There was a lack of a sufficient general ledger to adequately understand the financial condition of capital projects activities. The general ledger used at the time of these projects may not have isolated capital projects transactions from other City activities, which may have caused City management to think funds were available for new capital projects when none were.
- Either more projects were completed than anticipated or the City did not issue bonds sufficient to cover all its intended projects.

In 2005, the City retained a consultant to implement a new general ledger, utilizing fund accounting. This ledger should enable City management to monitor the financial condition of individual capital projects with greater accuracy.

Given the significant deficit that has occurred in the City's capital projects activities, City management and the City Council will have to develop a strategy to eliminate the deficit. Operating transfers from other City funds would help reduce the deficit; but, this action alone could cause financial stress to the funds providing the transfers. Elimination of the deficit may require a long-term solution.

Client's Response:

*In 2005, the City consultant developed a new general ledger within the Banyon Fund Accounting System designed specifically for the City of Greenfield. The City concluded a mid-year conversion into the newly designed general ledger from the previously used Quick Books Accounting System on July 1, 2005. The new general ledger allows City staff the ability to monitor the financial condition of individual capital projects with accuracy.*

*Also in 2005, the City consultant implemented a subsidiary ledger called the project proof to track project activity. All receipts including bond proceeds and developer contributions are entered into the project proof. All expenditures incurred by the City associated with the project are entered into the project proof. The project proof is an efficient tool to determine total project costs and available funds for project completion.*

*In regards to the City deficit fund balance, the City consultant reviewed City public improvement projects and concluded the following:*

- *The City bonded in 1999 for \$420,000 to purchase land for the wastewater treatment plant facility.*
- *The City bonded in 2000 for \$4.9 million. The City elected to avoid arbitrage by bonding under \$5 million, and it was the intent of the City to bond for additional funds later to cover project costs.*
- *The City transferred funds out of the 2000 bond to cover project overruns in the 1999 bond, and the City neglected to bond for additional funds later.*
- *The City also received large prepayments for special assessments certified for the 2000 bond.*

*All of the above factors contributed to a projected \$2.3 million dollar deficit position in the 2000 bond of which the City will enter into in 2007. The City consultant advised the City Council of the deficit situation in 2005 and suggested a strategy to eliminate the deficit that involved a long-term solution. The strategy called for the City certifying an additional levy in the amount of \$125,000 per year beginning in 2006 which, if levied for the remaining term of the bond, would eliminate the deficit. During the 2005 budgeting process for taxes collectible in 2006, the City Council elected not to certify an additional levy as described above. The City Council decided to continue efforts to sell City-owned property in 2006, and if successful, apply the proceeds from the sale of the land to the deficit. The City Council intends to reevaluate the deficit situation at that time to determine the need to certify an additional levy including the amount and term necessary to eliminate the deficit.*

Special Assessment Levies

To retire the 2000 Improvement Bonds, which were issued for various capital projects, the City levied special assessments against properties benefiting from the projects. From these levies, the following conditions were found:

- Since a portion of the benefited properties were owned by the City, the City included itself in the levy records sent to the county for assessing. The City included in its City-wide tax levy amounts sufficient to pay its annual assessments to the county. It appears this additional charge to taxpayers was not effectively communicated to them prior to issuing the bonds. Additionally, tax collections for retiring the City's share of the debt would have precluded the need for the City to also include itself on the assessment roles sent to the county. We also note 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.
- The City did not have a process in place to account for pre-payments of special assessments it collected. The collections were not isolated in the general ledger, but were commingled with other City funds. As of December 31, 2004, the City had collected in excess of \$151,000 of pre-payments that had not been remitted to the county. As a result, taxpayers who made the pre-payments were charged for the like amounts on their next year's property tax statements.

The City's new general ledger implemented by a consultant should enable the City to correctly account for pre-payments of special assessments. We recommend that procedures be established to assure that pre-payments are remitted to the county at the appropriate time. We also recommend the City review the current process for including itself on assessment roles to determine if a more efficient process might be used to pay for its share of debt.

Client's Response:

*In 2005, the City paid the October 2004 special assessment that was overlooked by previous City staff. This payment included penalties and interest for late payment only to have the funds returned to the City in the June 2005 City tax settlement. Since that time, the City Administrator removed the City-owned property from the Hennepin County tax roll. The City incorporated the amount of the special assessments into the budget for non-exempt property tax payment which was certified in the 2005 Property Tax Levy Collectible in 2006.*

*In 2004, the City received special assessment prepayments from property owners associated with the 2000 bond. The money was deposited into the City's account. However, City staff did not notify Hennepin County of the prepayment and, therefore, the property owners received tax statements in 2005 that included special assessments which they paid in 2004. In 2005, City staff removed the above properties from the respective assessment roll. The general ledger implemented in July 2005 is capable of isolating prepayments to specific projects.*

*In 2005, all special assessments levied against benefiting property owners in conjunction with public improvement projects followed required procedures:*

- *The Special Assessment Hearing was held on November 1, 2005. The City followed proper noticing procedures.*
- *The City Council certified the special assessments on November 1, 2005.*
- *The Notice of Adopted Special Assessments was mailed on November 7, 2005, and property owners were given thirty days to make the prepayments prior to the City certifying the assessment roll to Hennepin County.*
- *The assessment rolls were certified to Hennepin County by December 1, 2005.*
- *All prepaid special assessments were mailed to Hennepin County with a copy of the Notice of Adopted Special Assessments. Hennepin County has confirmed receipt of this information and will remove all prepaid special assessments from the assessment roll prior to interest being applied to the balance. Hennepin County will advise the City Administrator when this process has been completed.*
  - *A copy of the prepaid special assessment form, receipt, and a copy of the check were retained in the City project prepaid special assessment file.*
  - *A copy of the prepayment form and a receipt were mailed to the property owner as verification that the prepayment was received by the City and forwarded to Hennepin County.*
  - *A copy of the prepayment form and the original check were given to the Accounting Clerk who recorded the prepaid assessment into the general ledger, and it was deposited into the City's account.*

*In 2006, the City Council is reviewing the City special assessment policy to determine what if any changes need to be made. The City Council will continue to consider other, more efficient processes which may be used to pay for the City's share of the debt for future public projects.*

Council Proceedings

Our review of 2004 Council proceedings found the following conditions:

- approvals of previous meeting minutes were not documented in the current proceedings;
- minutes noting approval of bills did not include any references, such as check numbers, to indicate which bills were being approved; and
- minutes did not list all bidders being considered for City contracts. The City is not required to list all bidders, but it would be a good practice to follow.

Council proceedings serve as the source record for all actions of the City Council. As such, they should be prepared in sufficient detail to provide interested parties with the information needed to understand the actions of the Council.

We recommend that the Council proceedings:

- 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.

Client's Response:

*The City recognized that City Council minutes prior to 2005 were not consistently completed for the following City Council meeting's approval. As of January 2005, all City Council minutes have been completed prior to the following City Council meeting. Also in 2005, all City Council minutes have been posted on the City's web page prior to the following City Council meeting.*

*In 2005, the City Council minute format was changed by the City Administrator to include:*

- *The prior City Council minutes are stated in the Consent Agenda for Council approval.*
- *The revised minute format provides a complete record of the Council proceedings and action taken by the City Council.*
- *All City Council minutes are now available on the City's web page in PDF format to protect them from being altered.*

- *Accounts payables are presented in the Consent Agenda including the total amount in dollars. A detailed accounts payable report is provided to each City Council member in the council packet which includes a breakdown of all payables, general ledger codes and descriptions, and dollar amounts. This information is recorded in the City Council minutes.*
- *Corresponding check numbers for City Council approved accounts payables are presented in the Consent Agenda for the following City Council meeting. A copy of a paid check register is also presented to the City Council which shows the check number, the date of the check, vendor name, and the amount of the check. This information is recorded in the City Council minutes.*
- *In 2005, the City Council minutes recorded the low bidder including the dollar amount of the bid for all public projects. Beginning in 2006, the minutes will reflect all bidders and the dollar amount of the bids.*

*In 2006, the City Administrator has started designing a database to record and track all City Council and Planning Commission proceedings. This information will provide immediate up to date information regarding all issues presented to the City Council and Planning Commission to be utilized by City staff.*

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.

We recommend the City determine whether the payments were authorized by the City's personnel policy. Based on that determination, the City should decide whether to approve the claims in whole or in part. If all or parts of the claims are not approved, the City should consider taking action to recover the unapproved amounts. The City should adopt, review, and follow policies on employee benefits.

Client's Response:

*In 2005, the City Council took action to “not” approve checks written by the previous City Administrator in December of 2004 for accrued sick time and vacation time for herself and the previous Deputy Clerk. The City Council directed the City Attorney to contact the previous City Administrator in regards to this issue; however, she did not respond. At the present time, the City Council is awaiting the results of the 2004 audit to consider further action.*

*In 2005, the City Administrator drafted a new personnel policy which is currently being reviewed by the City Attorney. A draft of the personnel policy was also reviewed by the League of Minnesota Cities human resources department. The League's comments are being taken under advisement. It is the intent of the City Administrator to present the final draft of the personnel policy to the City Council for approval in February 2006. Following Council approval, the personnel policy will be strictly adhered to.*

ITEMS PREVIOUSLY REPORTED BY ANOTHER AUDITOR RESOLVED

**Review Stages to Implement GASB Statement 34 (03-6)**

The previous report recommended that the City take steps to prepare for the implementation of GASB Statement 34 for its 2004 financial statements.

**Resolution**

In 2005, the City's 2004 financial statements were prepared, incorporating the requirements of GASB Statement 34.



# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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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, 2004, and have issued our report thereon dated November 15, 2005. 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, 03-3, and 04-1 through 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, 03-2, 03-3, 04-2, 04-3, 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 except as described in the Schedule of Findings and Recommendations as items 04-11 through 04-14.

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: November 15, 2005