

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto  
State Auditor**

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**CITY OF CLITHERALL**

**PETITION ENGAGEMENT**

**JANUARY 1, 2006, THROUGH MARCH 30, 2012**

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

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

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

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

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

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

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

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

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

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# **CITY OF CLITHERALL**

**January 1, 2006, through March 30, 2012**



## **Petition Engagement**

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

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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Petitioners  
Members of the City Council  
City of Clitherall  
Otter Tail County

### INTRODUCTION

Registered voters of the City of Clitherall petitioned the Office of the State Auditor (OSA) to examine the books, records, accounts, and affairs of the City in accordance with Minn. Stat. § 6.54 for the period January 1, 2006, through March 30, 2012. The statute allows the OSA, in the public interest, to confine the scope of the examination to less than that requested by the petition. Communications with petitioners assisted us in developing an understanding of the petitioners' areas of interest or concern. We established that some of the issues raised were not within the scope of this review.

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

### PETITIONERS CONCERNS AND OUR FINDINGS

#### **1. Accounting for the City's Investments**

The petitioners expressed concerns regarding the accounting for City investments since 2006. The petitioners noted that during a 2003 audit, the auditors indicated the City held investments in certificates of deposit (CDs) and bonds in several banks. The investments were recorded in the City records through 2005. More recently, the only investments presented in reports at the City Council meetings were investment balances for accounts at the First National Bank of Battle Lake. We were told the reports are prepared by the Treasurer, who does not attend the meetings to answer questions related to the reports. The petitioners also noted the City had been asked for an accounting of the investment activity which was never provided.

The OSA sent confirmation requests dating back to December 31, 2005, to several local banks based on a list provided by the petitioners. The banks were not able to provide the requested information due to the length of time that had passed. The OSA then used the City of Clitherall's Small City and Town Accounting System (CTAS), along with investment record spreadsheets and copies of CD certificates provided by current City staff, to obtain information about the investment activity of the City.

During our review of the investment activity, we noted that investment activity was not posted to the CTAS consistently. As a result, we did not have one specific source of investment activity that could be relied upon to provide a detailed and accurate schedule of investment activity for the period reviewed.

We reviewed the City's CTAS information, and noted that the City uses three funds: the General Fund, the Investments and CD's Fund, and the Capital Projects Fund. The Capital Projects Fund was closed to the Investments and CD's Fund in 2011. The Investments and CD's Fund shows the same investment balance of \$111,278 for all of the years reviewed along with a cash balance. The source of the investment balance in the Investments and CD's Fund is unknown and pre-dates our review period. Some investment activity is posted to the Investments and CD's Fund each year and is reflected in the changes in the cash balances of that fund; however, other investment activity is posted to the General Fund. Since the Investments and CD's Fund reflects only a portion of the investment activity, it does not adequately track all investment activity. For the investments purchased in 2010 and forward, the City has used spreadsheets and the Investments tab of the CTAS to improve its tracking of investments.

Using the various sources of information provided, we prepared a schedule of the purchases and sales of the City's investments from January 1, 2006, through December 31, 2011 (see Exhibit 1). The December 31, 2011, balance was confirmed with the First National Bank of Battle Lake.

As of January 1, 2006, the City held investments in five CDs in various banks totaling \$102,860. We were able to verify that one of the CDs was purchased through Bank of the West in Fergus Falls, one was purchased through First National Bank of Battle Lake, two were purchased through First National Bank of Henning, and one CD was purchased through a First National Bank; however, we could not verify if it was Henning, Battle Lake, or Otter Tail.

As shown in Exhibit 1, all of the original investments from January 1, 2006, were sold in the ensuing years, and new investments were purchased. At December 31, 2011, investments for the City of Clitherall consisted of three CDs and a savings account, all with the First National Bank of Battle Lake.

## **Recommendations**

We recommend the following changes be implemented to improve the accounting for investments:

- The City should close the Investments and CD's Fund into the General Fund.
- The City should ensure that the value, date, amount, and interest rate for each investment is current and accurate in the Investments tab of the CTAS.

### **2. Insurance Coverage for Fire Department Equipment**

The petitioners were concerned that the City of Clitherall was paying insurance premiums for fire department equipment when the City has not had a fire department since 2002. Petitioners stated that the City of Clitherall contracts with the Battle Lake Area Fire and Rescue Association to provide fire protection services.

The OSA reviewed the City's insurance policy including a Schedule of Covered Property for the periods of November 1, 2010, through October 31, 2011, and November 1, 2011, through October 31, 2012. The only fire department item listed on the Schedule of Covered Property for the two years reviewed was an item described as "Fire Station." Mayor Murphy stated that the City of Clitherall no longer has a fire department, and the former fire station was remodeled and now is being used as the City Hall. First Lakes Insurance Agency also verified that the item described in the insurance policy as "Fire Station" is actually now the City Hall. This is the only property listed on the policy.

The OSA reviewed the contract between the City of Clitherall and the Battle Lake Area Fire and Rescue Association for fire protection services effective May 2, 2011, through May 1, 2012. The contract states that the Fire and Rescue Association will respond to fire calls with the appropriate equipment. There is nothing in the contract that states the City of Clitherall will provide any equipment. The OSA tied payments to the Battle Lake Area Fire and Rescue Association into the CTAS for the contract for fire protection services noted above.

### **Recommendation**

We recommend the City have information on the insurance policy updated to accurately describe the covered property as "City Hall" rather than "Fire Station."

### **3. Conflicts of Interest and Contracting**

The petitioners were concerned that the Mayor hires people, including himself, to do work for the City. There is concern that the City may be in violation of Minnesota statutes and that the Mayor may be paying himself for road maintenance that has not been performed.

The OSA reviewed disbursements posted to the CTAS for the period January 1, 2011, through March 31, 2012, for payments made to the Mayor and the City Council members. Other than normal payroll and travel reimbursements, we noted the Mayor was reimbursed \$260 for office and other supplies, and there was one payment on January 23, 2012, in the amount of \$10 for sanding the streets. The \$10 check was never cashed and was later voided. The former Mayor was contacted about this payment and stated that the payment was for salt purchased to spread at the end of a citizen's driveway after the City received complaints from the individual that the road at the end of her driveway was slippery. No payments made to the Mayor or City Council members related to road maintenance were noted.

For the period of November 2009 through May 2011, the City contracted with R&E Custom Construction & Snow Removal at a rate of \$60 per hour for the City's snow removal. Total payments of \$5,190 were made to R&E Custom Construction & Snow Removal for the two-year period. For the winter of 2011-2012, the City contracted with Don Schmidt Excavating at a rate of \$100 per hour for the City's snow removal. Total payments of \$350 were made to Don Schmidt Excavating for snow removal. This vendor was also paid for a portion of the City's street/road maintenance in 2009 and 2011.

In general, Minn. Stat. § 471.87 restricts a public officer who is authorized to take part in making any sale, lease, or contract in official capacity from having a personal financial interest in that transaction. Minn. Stat. § 471.88, however, provides a list of exceptions by unanimous vote of the governing body which includes contracts for which competitive bids are not required by law. We noted no transactions that would appear to be in violation of these statutes.

Minn. Stat. § 471.345 provides the requirements to be followed for contracting for goods and services. Subdivision 5 allows a local government, for contracts estimated to be \$25,000 or less, the option to use formal quotations or the open market when contracting. We noted no transactions that would appear to be in violation of this statute.

#### **4. Check Signers and Clerk-Treasurer Position(s)**

The petitioners expressed concern that the Mayor and Clerk are the only individuals actually signing checks and on record as check signers with the bank, even though the City has identified an individual as Treasurer. The petitioners noted that the City had combined the Clerk and Treasurer into one position in 2006 and had been notified by the OSA that they should adopt an ordinance reflecting the City Council's decision to combine the offices. The petitioners were not sure if the City ever adopted the ordinance.

Based on a review of the League of Minnesota Cities Directory of City Officials, the Clerk and Treasurer were listed as a combined position in 2006 and 2007 and as separate positions in 2008 through 2012. Currently the City has a Treasurer, who works part-time.

While reviewing claims between January 1, 2011, and March 31, 2012, we noted that a claims list goes to the City Council prior to payment. When looking at the copies of checks returned with the bank statements, we noted that the signature lines printed on the checks were for those of the Mayor and the combined Clerk-Treasurer. The check stock was not updated for the subsequent separation of the Clerk and Treasurer positions. According to the current Mayor, she was aware of the need to get the authorized signers on the checking account changed. She has spoken with someone at the bank and is in the process of getting the signature cards and checks changed. Once this is done, there will be three signatures on all checks - those of the Mayor, the Clerk, and the Treasurer. Minn. Stat. § 412.271, subd. 1, states that no disbursement of city funds shall be made except by an order drawn by the mayor and clerk upon the treasurer.

Upon inquiry related to the combining and separating of the Clerk and Treasurer positions, the current Mayor was able to provide a copy of the ordinance that the City Council passed in March 2006 approving the combination of the two positions. A copy of the ordinance later separating the positions was not provided. Minn. Stat. § 412.591, subd. 2, states that cities may by ordinance both combine and re-establish the offices of clerk and treasurer.

#### **Recommendation**

We recommend the City Council pass an ordinance re-establishing the separate clerk and treasurer positions. In addition, these two positions should be authorized check signers on record with the bank and actually signing checks along with the mayor.

CONCLUSION

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Rebecca Otto*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 18, 2013

**CITY OF CLITHERALL  
INVESTMENT ACTIVITY**

**EXHIBIT 1**

			<u>1/1/2006</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>
<b>Investments - Beginning Balance</b>				102,859.55	147,409.47	123,053.01	96,059.52	97,885.04	83,967.58
First Nat'l Bank - Henning	CD	Purchased 3/4/2005	6,858.55						
	CD	Interest earned			169.28				
	CD	Sold 3/30/2007			(7,027.83)				
First Nat'l Bank - Henning	CD	Purchased 1/1/2004	8,000.00						
	CD	Sold 3/24/2006		(8,000.00)					
First Nat'l Bank - Battle Lake	CD	Purchased 3/30/2007			7,027.83				
	CD	Interest rolled into CD					642.36		
	CD	Sold						(7,670.19)	
First Nat'l Bank - Battle Lake	CD	Purchased 6/18/2004	27,261.39						
	CD	Interest earned			755.06				
	CD	Sold 6/22/2007			(28,016.45)				
First Nat'l Bank - Battle Lake	CD	Purchased 8/10/2006		52,549.92					
	CD	Sold part of CD				(29,176.36)			
	CD	Interest earned			2,885.58				
	CD	Interest earned			740.86				
	CD	Sold			(27,000.00)				
PMA Financial Network, Inc.	Investment	Opened			58,000.00				
	Investment	Interest earned			388.85	2,182.87	183.16		
	Investment	Closed					(60,739.61)	(15.27)	
First Nat'l Bank - Battle Lake	CD	Purchased 12/15/2009					36,739.61		
	CD	Interest earned						645.76	426.17
First Nat'l Bank - Battle Lake	CD	Purchased 10/28/2009					25,000.00		
	CD	Interest earned						439.37	293.40
Bank of the West	CD	Purchased 5/27/2003	28,459.97						
	CD	Interest earned						1,422.99	
	CD	Sold 5/27/2010						(29,882.96)	
First Nat'l Bank	CD	Purchased 3/28/2005	32,279.64						
	CD	Interest earned			(1,152.91)				
	CD	Sold 7/3/2007			(31,126.73)				
First Nat'l Bank - Battle Lake	CD	Purchased 7/26/2010						19,890.00	
	CD	Interest earned						229.39	100.87
First Nat'l Bank - Battle Lake	Savings	Deposit to savings - City Park						1,023.45	
		Interest						0.04	
<b>Investments - Year-End Balance</b>			<u>102,859.55</u>	<u>147,409.47</u>	<u>123,053.01</u>	<u>96,059.52</u>	<u>97,885.04</u>	<u>83,967.58</u>	<u>84,788.02</u>