

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TOWN OF RICE LAKE
ST. LOUIS COUNTY, MINNESOTA

FOR THE 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:

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, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**TOWN OF RICE LAKE
ST. LOUIS COUNTY, MINNESOTA**

For the Year Ended December 31, 2004



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

This page was left blank intentionally.

**TOWN OF RICE LAKE
ST. LOUIS COUNTY, MINNESOTA**

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Recommendations	1
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance	4

This page was left blank intentionally.

**TOWN OF RICE LAKE
ST. LOUIS COUNTY, MINNESOTA**

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

I. INTERNAL CONTROLS

04-1 Segregation of Duties

Due to the limited number of Town of Rice Lake officials, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in smaller entities; however, the Town Board of Supervisors 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.

Generally, segregation of duties can be attained with the hiring of additional personnel; however, this becomes a significant cost consideration to local governments such as the Town of Rice Lake.

We recommend that the Town Board be aware of the lack of segregation of duties, to periodically review the Town's operations, and implement control procedures where considered necessary.

II. MINNESOTA LEGAL COMPLIANCE

04-2 Collateral Requirements

The Town had several accounts with Wells Fargo Investments as of December 31, 2004. Three of the accounts held portions of the same jumbo certificate of deposit (CD) issued by Franklin Bank S.S.B., of Austin, Texas. When added together, the three jumbo CDs were in excess of the \$100,000 available FDIC coverage. Pursuant to Minn. Stat. § 118A.04, subd. 5, funds may be invested in time deposits, including brokered CDs, only if they are fully insured by the FDIC.

We recommend that the Town Treasurer review the requirements of Minn. Stat. ch. 118A, Deposit and Investment of Local Public Funds, and inform the Town's investment brokers of the collateral implications of jumbo CDs. The Town Treasurer should develop procedures to monitor jumbo CD holdings to avoid duplicates, that when added together, exceed FDIC coverage.

III. MANAGEMENT PRACTICES

04-3 Credit Card Fees

Two instances were noted where the Town was charged a \$35 over-the-limit fee on its credit card. One instance was noted where the Town was charged a \$35 late fee for a credit card.

We recommend that the Town Board review its credit card usage. This review should include an examination of cards issued and the charge limits on cards. The Town Board should develop procedures to ensure that unnecessary finance charges are not incurred.

04-4 Documentation for Meals

An instance was noted of a meal receipt lacking adequate documentation. The meal receipt did not list who was at the meal or the business purpose of the meal. A few issues could arise depending on who attended the meal. First, the Minnesota Attorney General has issued an opinion that no public purpose exists for staff on staff meals. In other words, public employees who work together cannot go to lunch and charge their employer, even if they do business while eating. Second, if the lunch included only board members, there is the potential violation of the open meeting law. Minn. Stat. § 13D.01 requires that before closing a meeting, a public body shall state on the record the specific grounds permitting the meeting to be closed and describe the subject to be discussed.

We recommend that the Town Clerk document who was in attendance at meals and the business purpose of the meals. The Town should not pay for meals where only staff attend. The Town Board should, if necessary, review its compliance with the open meeting law.

04-5 Aluminum Can Fund Expenditures

The Town used the proceeds from its aluminum can fund to pay for miscellaneous purposes including “Rice Lake Days”, a Halloween carnival, a lunch for administrative assistants’ day, and flowers for deaths. All Town expenditures must be for a public purpose and authorized by law.

While there is no general authority to have an annual town celebration or party, Minn. Stat. § 365.10, subd. 12, gives towns authority, when authorized by the electors, to put money aside to “commemorate an event of historical significance to the town.”

In addition, Minn. Stat. § 365.10, subd. 14, authorizes the electors to let the Town contract with a nonprofit organization for not more than \$10,000 per year of health, social, and recreational services that the Town Board determines to be in the public

interest and good for the Town. Halloween carnival activities may qualify as social or recreational services under this statute. However, to comply with this statute, the electors must authorize the contract, and the Town Board must determine that it is for social or recreational services in the public interest and good for the Town. The contract must be entered into with a non-profit corporation to provide those services as permitted by law. If aspects of a carnival are not authorized public purposes, they should not be funded by the Town's money.

The other expenditures noted from the aluminum can fund are not for authorized public purposes.

We recommend that the Town Board follow state law with regard to public expenditures. The Town should use the proceeds from aluminum can sales only for authorized Town expenditures that meet a public purpose.

This page was left blank intentionally.



STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Supervisors
Town of Rice Lake

We have audited the financial statements of the Town of Rice Lake as of and for the year ended December 31, 2004, and have issued our report thereon dated June 29, 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 Town of Rice Lake 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 Town of Rice Lake'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 a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Town's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 04-1.

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 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 believe the reportable condition indicated above is not a material weakness.

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 five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Town of Rice Lake complied with the material terms and conditions of applicable legal provisions except as described in the Schedule of Findings and Recommendations as item 04-2.

This report is intended solely for the information and use of the Board of Supervisors 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: June 29, 2005