



Date: 5/17/10

Item: 10.b

2009 Audit

PRINCIPALS

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INDEPENDENT AUDITOR'S REPORT

To the City Council and Residents
City of Roseville, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Roseville (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information presented has been derived from the City's financial statements for the year ended December 31, 2008, and in our report dated May 12, 2009, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund and the major special revenue funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial statements include partial prior year comparative information. Such information does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2008, from which such partial information was derived.

(continued)

In accordance with *Government Auditing Standards*, we have also issued a report dated May 12, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress, which follows the notes to the basic financial statements, are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.

May 12, 2010

Management Report
for
City of Roseville, Minnesota
December 31, 2009



PRINCIPALS

Kenneth W. Malloy, CPA
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To the City Council
City of Roseville, Minnesota

We have prepared this management report in conjunction with our audit of the City of Roseville's (the City) financial statements for the year ended December 31, 2009. The purpose of this report is to communicate information relevant to city finances in Minnesota and to provide comments resulting from our audit process. We have organized this report into the following sections:

- Audit Summary
- Funding Cities in Minnesota
- Governmental Funds Overview
- Financial Trends and Analysis
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

This report is intended solely for the information and use of management, those charged with governance of the City, and those who have responsibility for oversight of the financial reporting process and is not intended to be, and should not be, used by anyone other than these specified parties.

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.

May 12, 2010

AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the City Council, administration, or those charges with governance of the City.

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2009. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2009:

- We have issued an unqualified opinion on the City's annual financial statements.
- We reported one finding related to the City's internal control over financial reporting. The finding is due to the City not having adequate segregation of duties within the purchasing internal controls specifically the approval of purchasing card (P-Card) transactions.
- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We have reported three findings based on our testing of the City's compliance with Minnesota laws and regulations. These findings include:
 - The City did not pay each vendor obligation according to the terms of each contract within 35 days after the receipt of the goods or services.
 - The City is not receiving the appropriate signed declarations for payroll transactions.
 - The City is not obtaining the payment declaration on electronic fund transfer payments.

FOLLOW-UP ON PRIOR YEAR FINDINGS

- As part of our calendar 2008 audit, we noted the City did not have proper segregation of duties over the processing of the Skating Center's (the Center) transactions. There was a lack of segregation of duties between custody of the Center's cash receipts and recordkeeping. The City was encouraged to not have the superintendent of the Center count all cash drawers, prepare the deposits, and manually record all receipts in the system. As part of our audit of the year ended December 31, 2009, we did not report a finding in this area.
- As part of our calendar 2008 audit, we noted the City did not have procedures established to ensure that all reimbursable grant costs and contract costs were properly monitored. The City was encouraged to have a centralized accounts receivable system or establish procedures to ensure all grants and contract costs are properly accounted for and reimbursable items are billed appropriately. As part of our audit of the year ended December 31, 2009, we did not report a finding in this area.
- As part of our calendar 2008 audit, we noted the City recorded a prior period adjustment to more accurately reflect the investment earnings and outstanding loan programs administered by the Greater Metropolitan Housing Council for the Housing and Redevelopment Authority (HRA). As part of our audit of the year ended December 31, 2009, the City did not report any prior period adjustments.

- As part of our calendar 2008 audit, we noted as part of our audit procedures one material adjusting journal entry which was recorded to make the financial statements fairly stated. Auditing standards recently issued consider the identification by the auditor of a material misstatement that was not initially identified by the audit entity to be a material weakness in the related internal controls. As part of our audit of the year ended December 31, 2009, we did not report any audit adjustments.
- As part of our calendar 2008 audit, we noted one contract awarded that the City did not receive performance or payment bonds from the contractor. As part of our audit of the year ended December 31, 2009, we did not report a finding in this area.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements of the City include the following:

- Useful lives for the depreciation of capital assets.
- Actuarial determined calculation of fire relief net pension obligation.
- Actuarial determined calculation of the City's net OPEB obligation.
- Estimate for compensated absences payable based on current sick leave balances.
- Estimate for claims liability for claims that have been incurred but not reported.

Management expects any differences between estimates and actual amounts of these estimates to be insignificant. We evaluated the key factors and assumptions used by management in the areas discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

During our audit we noted one misstatement that was detected as a result of audit procedures and was corrected by management in the accounting for contracts payable which increased expense in the governmental funds by \$44,718. This misstatement detected as a result of our audit was not considered material, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

We also noted one misstatement that was detected as a result of audit procedures over capital assets and contacts payable totaling \$13,146. Management has determined that the effects of this adjustment are immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this report, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated May 12, 2010.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER COMMENTS AND RECOMMENDATIONS

Based on our audit, we offer the following additional comments for the improvement of the City's financial and accounting controls and procedures:

Information Technology Contingency Planning

Management is responsible for establishing and maintaining effective internal controls, including entity-level controls (control environment, risk assessment, information and communication, and monitoring) and for the fair presentation in the financial statements in accordance with accounting principles generally accepted in the United States of America.

New auditing and reporting standards specify that we report deficiencies in the design of the entity-level controls of the City's internal controls. As part of our audit, we noted the City has designed the general controls over the information technology (IT) system in the City, including having a contingency plan developed for alternative processing in the event of loss or interruption of IT function.

These controls are intended to prevent the possibility of the IT system of the City from not being able to provide complete and accurate information consistent with the financial reporting objectives and current needs of the City.

We recommend, however, the City improve these internal controls over the IT functions of the City by having these contingency plans formally documented and written to include in the design of the general controls over the IT system in the City. This formal documentation would include distribution of the contingency plan developed for alternative processing in the event of loss or interruption of IT function to all city employees.

FUNDING CITIES IN MINNESOTA

LEGISLATION

The following is a summary of significant legislative activity passed in calendar 2009 affecting the finances of Minnesota cities:

Unallotment – The 2009 legislative session ended without an agreement on how to erase the state budget deficit. The Legislature approved and sent a final package of budget-balancing tax items to the governor, but the governor vetoed the bill.

Rather than call a special session, the Governor decided to balance the budget on his own using his power of unallotment. Under unallotment, the governor can reduce, defer, or suspend appropriations to address a state revenue shortfall. The unallotment plan of the Governor included delays in the payment of state revenues to school districts, and a reduction in appropriations to other state programs, including local government aid (LGA) and market value homestead credit (MVHC).

The unallotments included \$193 million in reductions in calendar 2009 and 2010 to LGA and MVHC. Roughly two-thirds of the total cut will occur in calendar 2010. Cities with populations below 1,000 and below the state-wide average tax base per capita were exempted from these cuts.

The calendar 2009 and 2010 cuts to LGA and MVHC are calculated at 3.31 percent and 7.64 percent, respectively, of the total calendar 2009 aggregated levy and LGA of the city. Cuts are first taken from LGA and then from MVHC, as necessary. A city's total reduction could not exceed \$22 and \$55 per capita, respectively.

Levy Limitations – The 2008 Legislature passed a law that limits general operating property tax levy increases for cities with populations over 2,500 to 3.9 percent annually for the next three calendar years. The 2009 legislative session ended with levy limits intact. Levy limits will remain in place for at least the 2010 budget year, with a couple of minor modifications that were contained in laws passed in 2009. For the calendar 2010 tax year, cities will be able to declare "special levies" for the calendar 2008 and 2009 unallotment losses described earlier. The calendar 2010 unallotment losses can be declared for the 2011 tax year.

Emergency Certificates of Indebtedness – The law authorizes a city to issue emergency debt certificates if the city's current year revenues are reasonably expected to be reduced below the amount provided in the city's budget approved when the property tax levy of the city was certified. This law only allows for the issuance of this debt if the revenues of the city will be insufficient to meet the expenses incurred or to be incurred during the current fiscal year. For example, emergency debt certificates could be issued as a result of mid-year reductions in state aid payments for LGA or MVHC, or when a city is experiencing a high level of property tax delinquencies. This law also requires the city to levy property taxes for the payment of principal and interest on the certificates issued.

FEDERAL RECOVERY ACT

The American Recovery and Reinvestment Act of 2009 is expected to provide approximately \$300 billion in federal funds to state and local governments, and to institutions of higher education. These funds are intended to supplement existing federal programs, create new programs, or provide more broad fiscal relief. Many cities are hoping to receive some of these temporary funds for programs and projects. The American Recovery and Reinvestment Act of 2009 mandates that there be an unprecedented amount of oversight and transparency around the spending of these funds, including specific audit requirements.

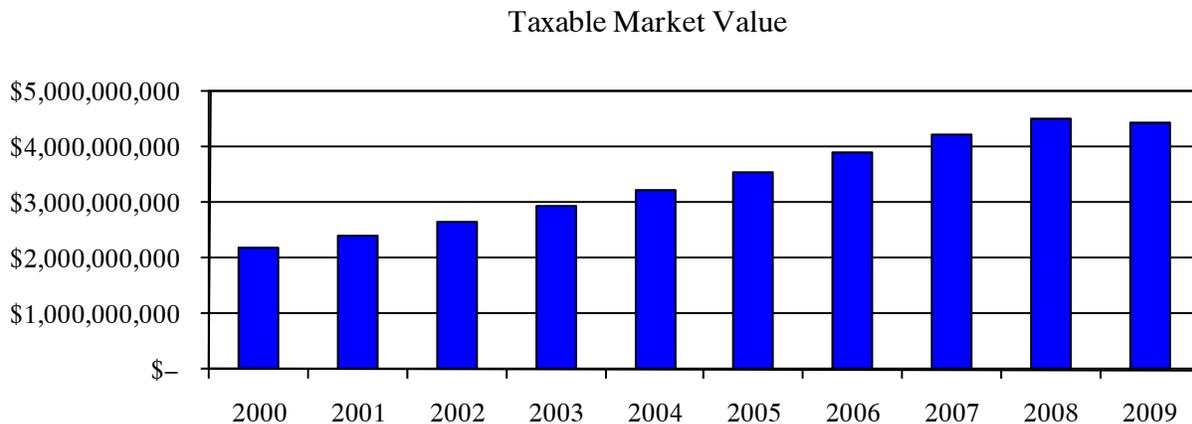
The additional internal control requirements include the need for controls over the acceptance of recovery funds, appropriate controls over the segregation of these funds from other sources of revenue, compliance with the additional laws and regulations specific to each grant award, and additional financial reporting requirements back to the appropriate federal agency.

These additional controls also include considerations into whether control procedures are in place over the federal grant expenditures to prevent unallowable expenditures, consideration into whether additional controls and systems will be needed to ensure funds are able to be separately tracked and identified, and consideration into if controls are sufficient for any funds that are passed along to subrecipients.

PROPERTY TAXES

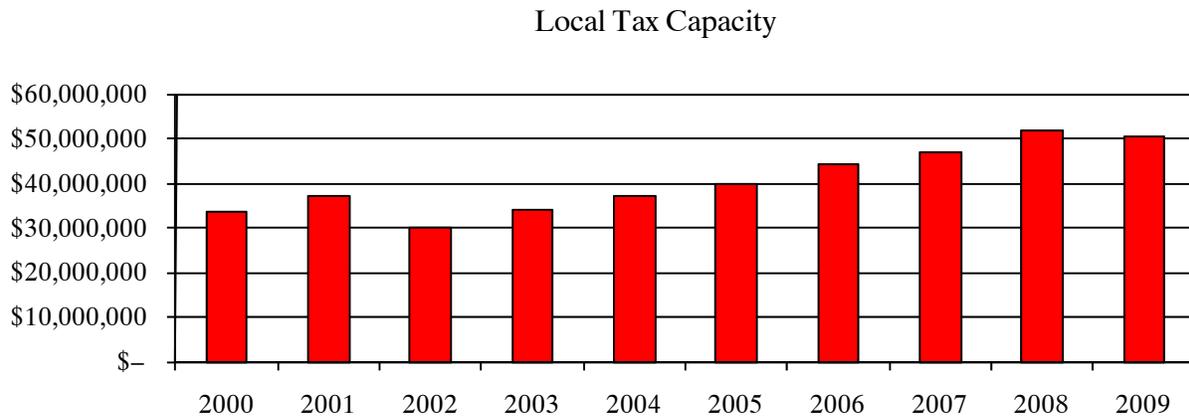
Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. In recent years this dependence has been heightened, as revenue from state aids and fees related to new development have dwindled due to the struggling economy. This has placed added pressure on local taxpayers already beset by higher unemployment, lower property values, and tighter credit markets. As a result, municipalities in general are experiencing increases in tax delinquencies, abatements, and foreclosures. This instability has led to significant fiscal challenges for many local governments, and increased the investing public's concerns about the security of the municipal debt market.

Property values within Minnesota cities experienced average increases of 7.0 percent for taxes payable in 2008 and 1.5 percent for those payable in 2009, reflecting the slowdown in growth in market values. It is important to remember that the 2009 market value is based on estimated values as of January 1, 2008, and the housing market is still experiencing difficult times. In comparison, the City's market value increased by 7.0 percent in 2008 and decreased 1.5 percent in 2009. The following graph shows the City's changes in taxable market value over the past 10 years:



Tax capacity is considered the actual base available for taxation. It is calculated by applying the state's property classification system to each property's market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, a city's total tax capacity will change at a different rate than its total market value, as tax capacity is affected by the proportion of the city's tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates. Your city's tax capacity increased 10.0 percent for 2008 and decreased 2.6 percent for 2009.

The following graph shows the City's change in tax capacities over the past 10 years:



Although it is impossible to consider every aspect and variable of local government spending, average tax rates are often used as a benchmark.

Rates expressed as a percentage of net tax capacity						
	All Cities State-Wide		Seven-County Metro Area		City of Roseville	
	2008	2009	2008	2009	2008	2009
Average tax rate						
City	36.3	36.9	33.6	33.7	23.4	24.5
County	38.0	39.3	34.9	34.7	44.0	46.6
School	21.1	22.0	21.3	22.1	11.8	12.6
Special taxing	<u>5.6</u>	<u>5.5</u>	<u>7.0</u>	<u>5.9</u>	<u>7.7</u>	<u>7.6</u>
Total	<u><u>101.0</u></u>	<u><u>103.7</u></u>	<u><u>96.8</u></u>	<u><u>96.4</u></u>	<u><u>86.9</u></u>	<u><u>91.3</u></u>

Both the City's portion and the total property tax capacity rates for city residents have historically been below the state-wide and metro area averages. This is due in part to the City's strong commercial and industrial tax base.

GOVERNMENTAL FUNDS OVERVIEW

This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds. Governmental funds include the General Fund, special revenue funds, debt service funds, and capital project funds. We have also included the most recent comparative state-wide averages available from the Office of the State Auditor. The reader needs to consider the effect of inflation and other known changes or differences when comparing this data. Also, certain data on these tables may be classified differently than how they appear on the City's financial statements in order to be more comparable to the state-wide information, particularly in separating capital expenditures from current expenditures.

We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of your city. We intend for this type of comparative and trend information to complement, rather than duplicate, information in the Management's Discussion and Analysis. An inherent difficulty in presenting per capita information is the accuracy of the population count, which for most years is based on estimates. Keep in mind that your city's per capita revenue and expenditures maybe higher or lower than average due to your city's level of commercial development and activity for a city in your population class.

GOVERNMENTAL FUNDS REVENUE

The amounts received from the typical major sources of revenue will naturally vary between cities based on their particular situation. This would include the City's stage of development; location, size, and density of its population, property values, services it provides, and other attributes. The following table presents the City's revenue per capita of its governmental funds for the past three years, together with state-wide averages:

Governmental Funds Revenue per Capita With State-Wide Averages by Population Class						
Year	State-Wide			City of Roseville		
	December 31, 2008			2007	2008	2009
Population	2,500-10,000	10,000-20,000	20,000-100,000	33,969	34,099	34,099
Property taxes	\$ 355	\$ 351	\$ 376	\$ 331	\$ 364	\$ 368
Tax increments	47	56	61	81	87	96
Franchise fees and other taxes	22	34	37	3	2	2
Special assessments	81	53	61	17	12	45
Licenses and permits	27	25	33	74	40	39
Intergovernmental revenues	247	242	147	56	43	83
Charges for services	82	78	79	100	130	170
Other	97	95	89	100	79	50
Total revenue	\$ 958	\$ 934	\$ 883	\$ 762	\$ 757	\$ 853

The City's governmental funds have typically generated less revenue per capita in total than other Minnesota cities in its population class. The City receives considerably less intergovernmental revenue than average, as it no longer receives any LGA.

The City's per capita governmental funds revenue for 2009 increased by \$96. Special assessments increased by \$33 per capita as the City received significant prepaid assessments on assessed projects in calendar 2009. Intergovernmental revenue increased \$40 per capita in 2009 as the City received more state aid on street construction projects in calendar 2009 as compared to past years. Charges for services increased \$40 per capita as a result of a significant reimbursement received for the Metro Transit infrastructure improvements from the Metropolitan Council.

GOVERNMENTAL FUNDS EXPENDITURES

Similar to our discussion of revenues, the expenditures of governmental funds will vary from state-wide averages and from year-to-year, based on the City's circumstances. Expenditures are classified into three types as follows:

- **Current** – These are typically the general operating-type expenditures occurring on an annual basis, and are primarily funded by general sources such as taxes and intergovernmental revenues.
- **Capital Outlay and Construction** – These expenditures do not occur on a consistent basis, more typically fluctuating significantly from year-to-year. Many of these expenditures are project-oriented, which are often funded by specific sources that have benefited from the expenditure, such as special assessment improvement projects.
- **Debt Service** – Although the expenditures for the debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources such as special assessments or redevelopment funding, while other debt may be repaid with general property taxes.

The City's expenditures per capita of its governmental funds for the past three years, together with state-wide averages, are presented in the following table:

Governmental Funds Expenditures per Capita With State-Wide Averages by Population Class							
Year	State-Wide			City of Roseville			
	December 31, 2008			2007	2008	2009	
Population	2,500–10,000	10,000–20,000	20,000–100,000	33,969	34,099	34,099	
Current							
General government	\$ 130	\$ 115	\$ 86	\$ 118	\$ 124	\$ 123	
Public safety	217	234	237	214	223	217	
Street maintenance and lighting	114	113	88	61	66	61	
Recreation	65	86	86	103	106	103	
All other	81	94	100	74	68	51	
	<u>\$ 607</u>	<u>\$ 642</u>	<u>\$ 597</u>	<u>\$ 570</u>	<u>\$ 587</u>	<u>\$ 555</u>	
Capital outlay and construction	<u>\$ 379</u>	<u>\$ 338</u>	<u>\$ 327</u>	<u>\$ 59</u>	<u>\$ 146</u>	<u>\$ 349</u>	
Debt service							
Principal	\$ 171	\$ 135	\$ 112	\$ 27	\$ 27	\$ 29	
Interest and fiscal	71	48	41	12	12	14	
	<u>\$ 242</u>	<u>\$ 183</u>	<u>\$ 153</u>	<u>\$ 39</u>	<u>\$ 39</u>	<u>\$ 43</u>	

The City's per capita governmental fund current expenditures for 2009 decreased \$32 per capita. All categories within current expenditures declined, with the largest decline being in all other totaling \$17. Most of this decrease relates to decreased spending within the tax increment funds of the City.

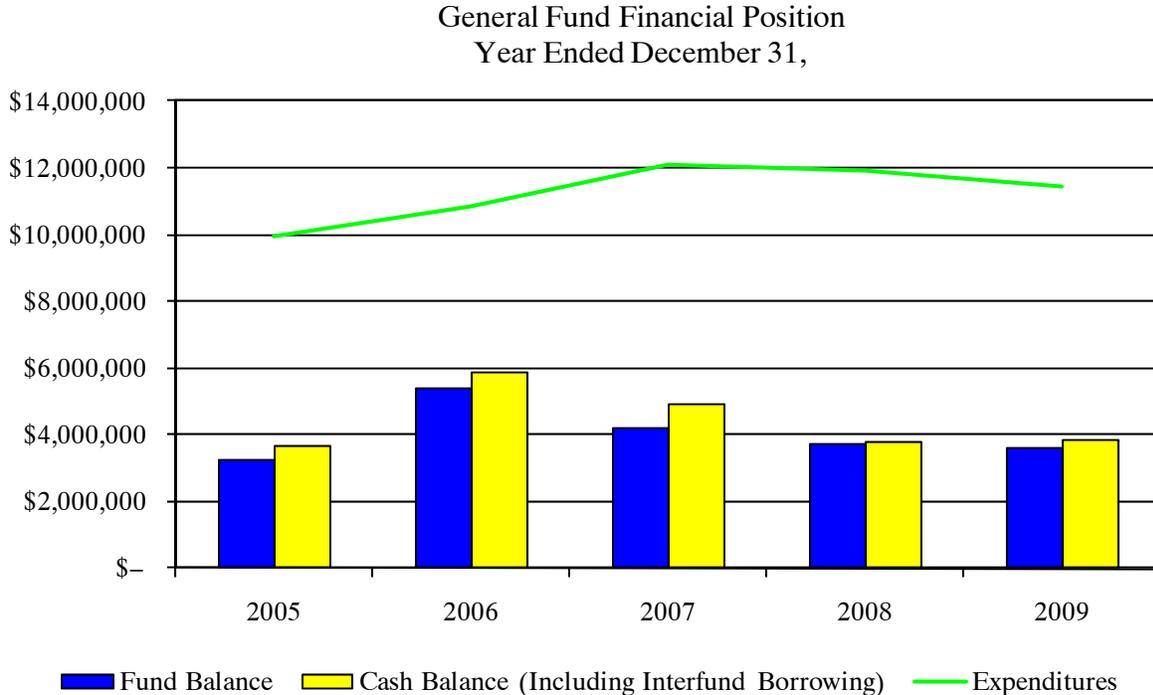
The City's debt service costs have been below average in recent years as the City's infrastructure is almost fully developed and the need for additional debt service for new development is limited.

FINANCIAL TRENDS AND ANALYSIS

GENERAL FUND

The City's General Fund accounts for the financial activity of the basic services provided to the community. The primary services included within this fund are the administration of the municipal operation, police and fire protection, and street and highway maintenance.

The following graph displays the City's General Fund trends of financial position and changes in the volume of financial activity. Fund balance and cash balance are typically used as indicators of financial health or equity, while annual expenditures are often used to measure the size of the operation.

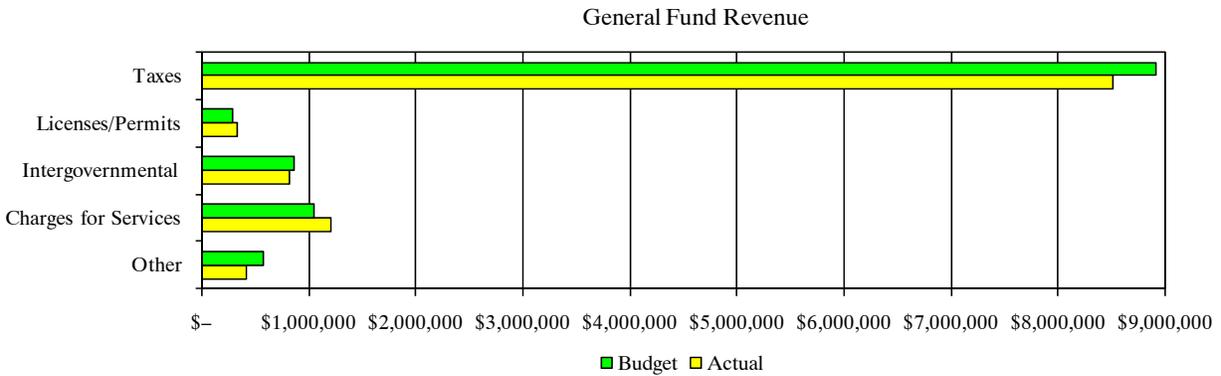


The City's General Fund cash and investments balance (including interfund borrowing) at December 31, 2009 was \$3,868,466, an increase of \$109,921 from the previous year. Total fund balance in the General Fund at December 31, 2009 was \$3,574,513, a decrease of \$135,583 from the prior year.

Having an appropriate fund balance is an important factor because a government, like any organization, requires a certain amount of equity to operate. Generally, the amount of equity required typically increases as the size of the operation increases. A healthy financial position also allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and can be a factor in determining the City's bond rating and resulting interest costs.

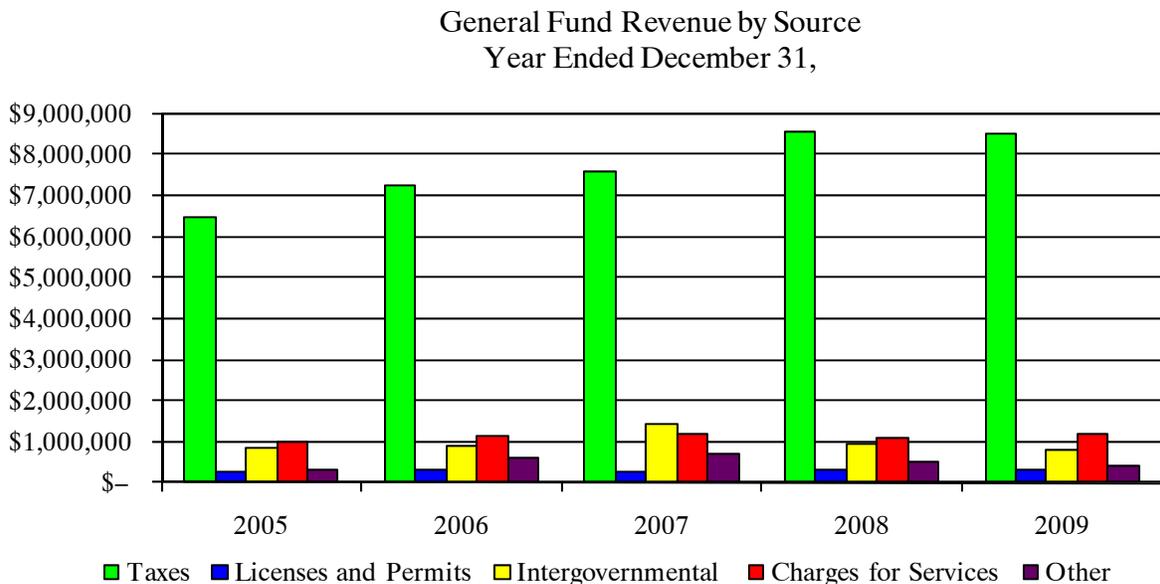
The City currently has an operating fund reserve policy that states that the General Fund will maintain a reserve of 50 percent of budgeted expenditures. At December 31, 2009, the City's General Fund had a fund balance of 31.1 percent of 2009 budgeted expenditures.

The following graph reflects the City's General Fund reliance on its revenue sources for 2009:



Total General Fund revenues for 2009 were \$11,275,462, which was \$399,658 (3.4 percent) less than the final budget. This was mainly caused by state-wide cuts in tax credits to local governments which caused the General Fund of the City to have about \$285,000 less revenue than was originally anticipated in the budget. Investment income was also less than budgeted levels by around \$186,000 due to the decline in the overall cash balance in the General Fund and a decline in interest rates. These two areas that are under budgeted levels are offset by charges for services and miscellaneous revenue being over budgeted amounts. Charges for services are higher than budget by about \$150,000 due to engineering services to other cities being higher than anticipated. Miscellaneous revenue is higher than budget by about \$103,000 mainly due to forfeiture money and right-of-way permits being higher than budgeted.

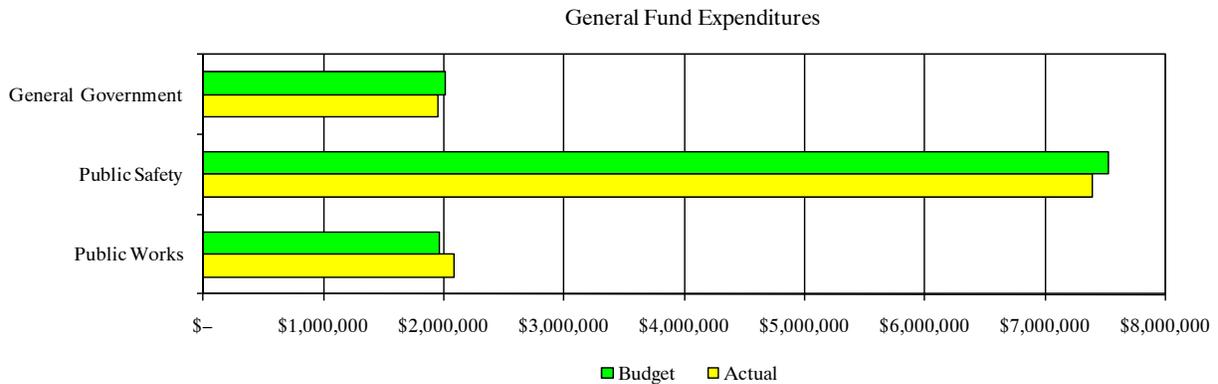
The following graph presents the City's General Fund revenue sources for the last five years:



Overall, General Fund revenues decreased \$139,982 (1.2 percent) from the previous year. Most of this change was in intergovernmental revenues which decreased about \$145,000, mostly due to the cuts in state aid described earlier.

The above graph shows the trend common to most cities with the increased reliance on property taxes to finance the operations of local governments.

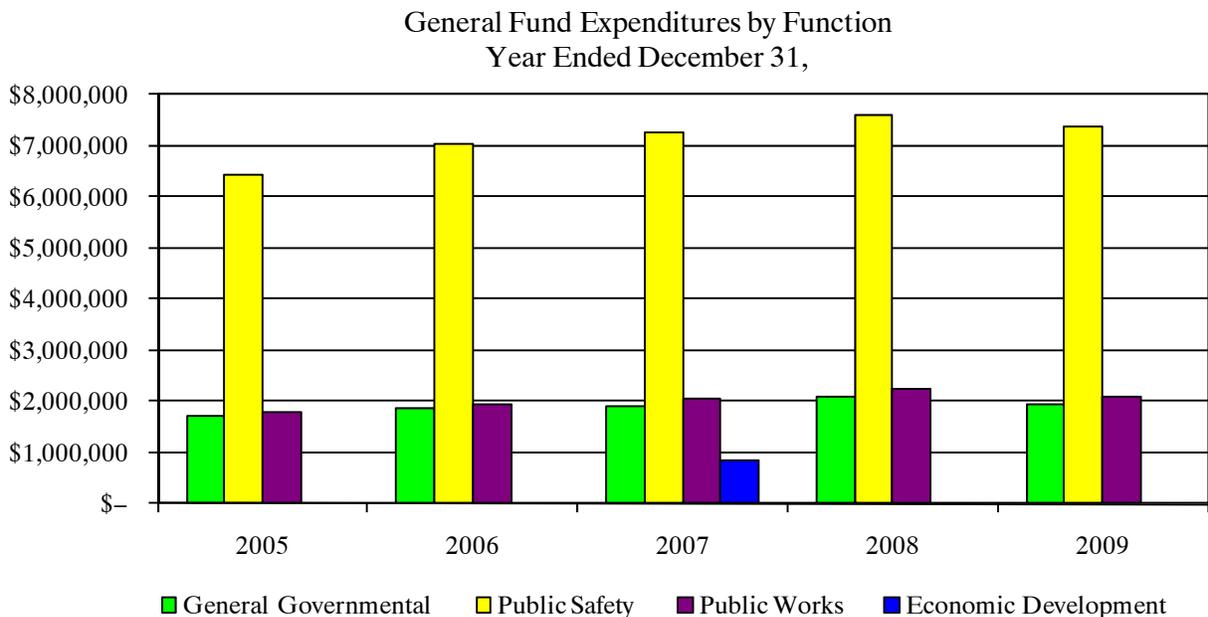
The following illustration provides the components of the City's General Fund spending for 2009:



Total General Fund expenditures for 2009 were \$11,429,326, which was \$502,128 (4.2 percent) less than the prior year and \$72,695 under the final budget. The decrease in General Fund expenditures was mainly due to the cuts made by the City in all departments due to the loss of state aid from the unallotment process described earlier in this report.

The actual expenditures were under budgeted amounts mainly in the public safety area as the fire department was significantly under budgeted amounts due to changes in scheduling and the overtime policy within the department.

The following graph illustrates trends in the General Fund's major expenditures by function over the past five years:



The following tables summarize the operating results for the City's Recreation Fund, Community Development Fund, and other operational funds:

RECREATION FUND

	Year Ended December 31,				
	2005	2006	2007	2008	2009
Revenues	\$ 3,018,245	\$ 3,325,525	\$ 3,528,583	\$ 3,506,474	\$ 3,627,898
Expenditures	(3,015,485)	(3,358,817)	(3,510,091)	(3,610,862)	(3,505,680)
Net transfers in (out)	—	96,100	428,729	—	—
Net change in fund balances	\$ 2,760	\$ 62,808	\$ 447,221	\$ (104,388)	\$ 122,218

The City's Recreation Fund recognized an increase in ending fund balance in 2009 of \$122,218. The increase in fund balance noted in the table above was slightly more than the budgeted increase of \$111,000.

The City currently has an operating fund reserve policy that states that the Recreation Fund will maintain a reserve equal to 25 percent of budgeted expenditures. At December 31, 2009, the City's Recreation Fund had a fund balance of \$520,765, which represents 14.3 percent of 2009 budgeted expenditures. We recommend the City address this fund balance policy requirement by approving a financial plan for meeting this policy in the future.

COMMUNITY DEVELOPMENT FUND

	Year Ended December 31,				
	2005	2006	2007	2008	2009
Revenues	\$ 1,086,642	\$ 1,201,372	\$ 1,021,367	\$ 1,169,335	\$ 1,164,110
Expenditures	(982,960)	(994,850)	(1,103,384)	(1,230,407)	(1,225,516)
Net transfers in (out)	—	(600)	—	—	—
Sale of assets	—	—	—	—	2,440
Net change in fund balances	\$ 103,682	\$ 205,922	\$ (82,017)	\$ (61,072)	\$ (58,966)

The City's Community Development Fund recognized a decrease in ending fund balance in 2009 of \$58,966. The decrease in fund balance noted in the table above was less than the budgeted decrease of \$127,055. Much of this resulted from lower than budgeted expenditures mostly related to budgeted projects and studies that were budgeted for but did not occur.

The City currently has an operating fund reserve policy that states the Community Development Fund should maintain a fund balance reserve equal to 25 percent of budgeted expenditures. At December 31, 2009, the City's Community Development Fund had a fund balance of \$140,974, which represents 10.7 percent of 2009 budgeted expenditures.

OTHER OPERATIONAL FUNDS

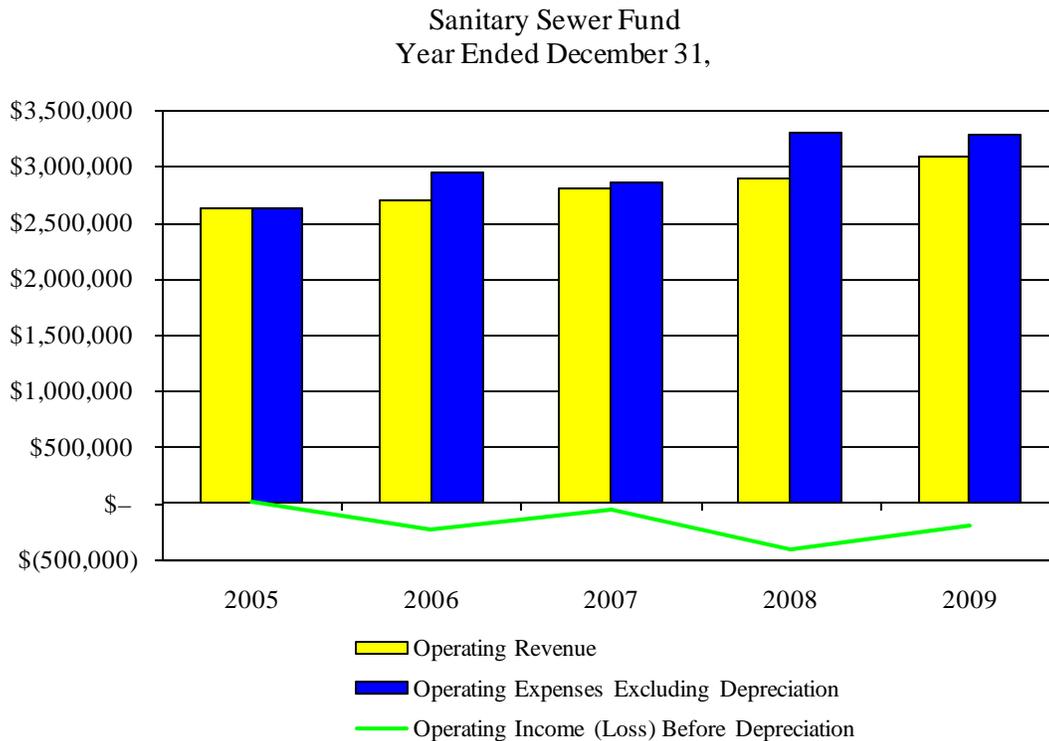
The City currently has an operating fund reserve policy that states that other operating funds, including the Telecommunication Fund, License Center Fund, Charitable Gambling Fund, and Information Technology Fund, should maintain a fund balance reserve equal to 25 percent of budgeted expenditures. At December 31, 2009, the Telecommunication Fund and the License Center Fund met this requirement. The other two funds have a deficit fund balance at December 31, 2009 which total \$247,299. We recommend that the City address this fund balance requirement by approving a financial plan for meeting this policy in the future and, more importantly, determine a funding plan for the elimination of the fund balance deficits in these funds.

BUSINESS-TYPE ACTIVITIES AND ENTERPRISE FUNDS

The enterprise funds comprise a considerable portion of the City's activities. These funds help to defray overhead and administrative costs and provide additional support to general government operations by way of annual transfers. We understand the City is proactive in reviewing these activities on an ongoing basis and we want to reiterate the importance of continually monitoring these operations. Over the years we have emphasized to our city clients the importance of these utility operations being self-sustaining, preventing additional burdens on general governmental funds. This would include the accumulation of net assets for future capital improvements and to provide a cushion in the event of a negative trend in operations.

Sanitary Sewer Fund

The following graph presents five years of operating results for the Sanitary Sewer Fund:



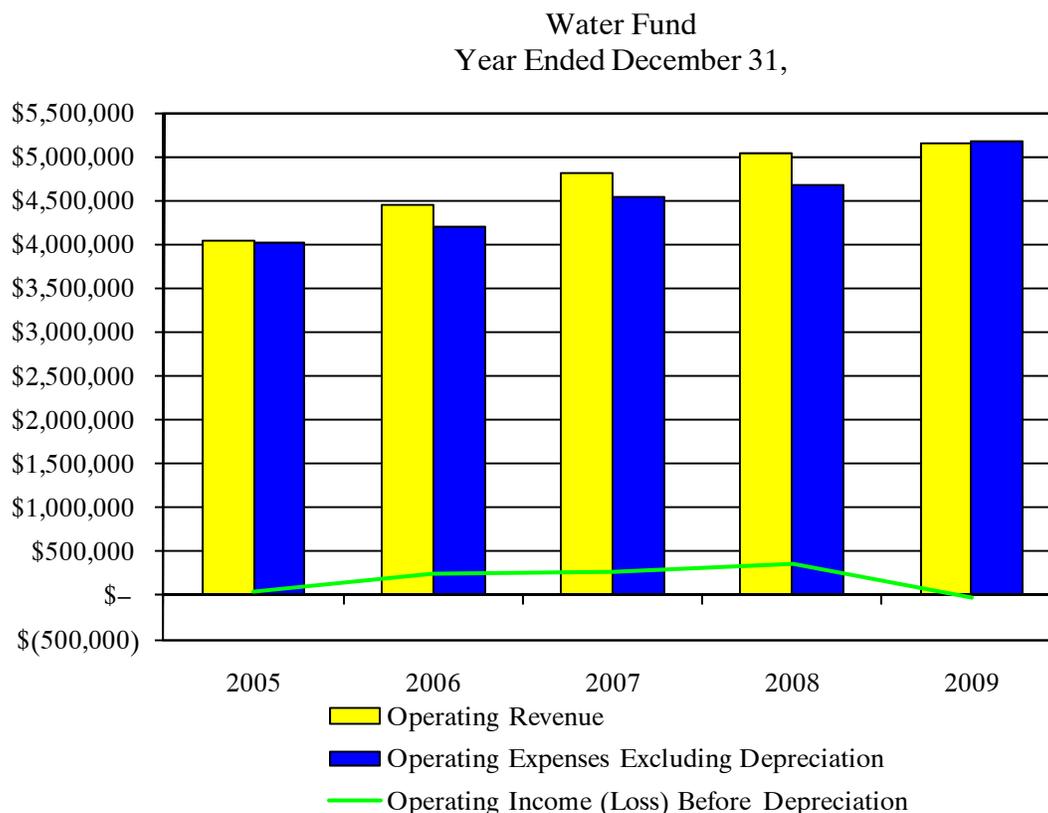
The Sanitary Sewer Fund ended 2009 with net assets of \$8,500,619, a decrease of \$374,243 from the prior year. Of this, \$5,525,988 represents the investment in sanitary sewer capital assets, leaving \$2,774,631 of unrestricted net assets.

Sanitary Sewer Fund operating revenues for 2009 were \$3,090,778, an increase of about \$197,000 over 2008. Part of this increase is the result of the change in rate structure in 2009 increased rates. Operating expenses for 2009 (including depreciation of \$237,944) were \$3,520,566, an increase of \$15,989 from the prior year.

The operating fund reserve policy of the City requires the enterprise funds of the City to have operating cash reserves to provide for monthly cash flow. In general, this can be achieved by keeping the operating income (loss) before depreciation at positive levels in these funds. The Sanitary Sewer Fund has shown operating losses in four of the last five years. Although this fund has adequate cash reserve, the City should continue to closely monitor the financial results of this fund.

Water Fund

The following graph presents five years of operating results for the Water Fund:



The Water Fund ended 2009 with net assets of \$5,585,516, a decrease \$267,635 from the prior year. Of this, \$6,067,971 represents the investment in Water Fund capital assets, leaving a deficit of (\$482,455) of unrestricted net assets.

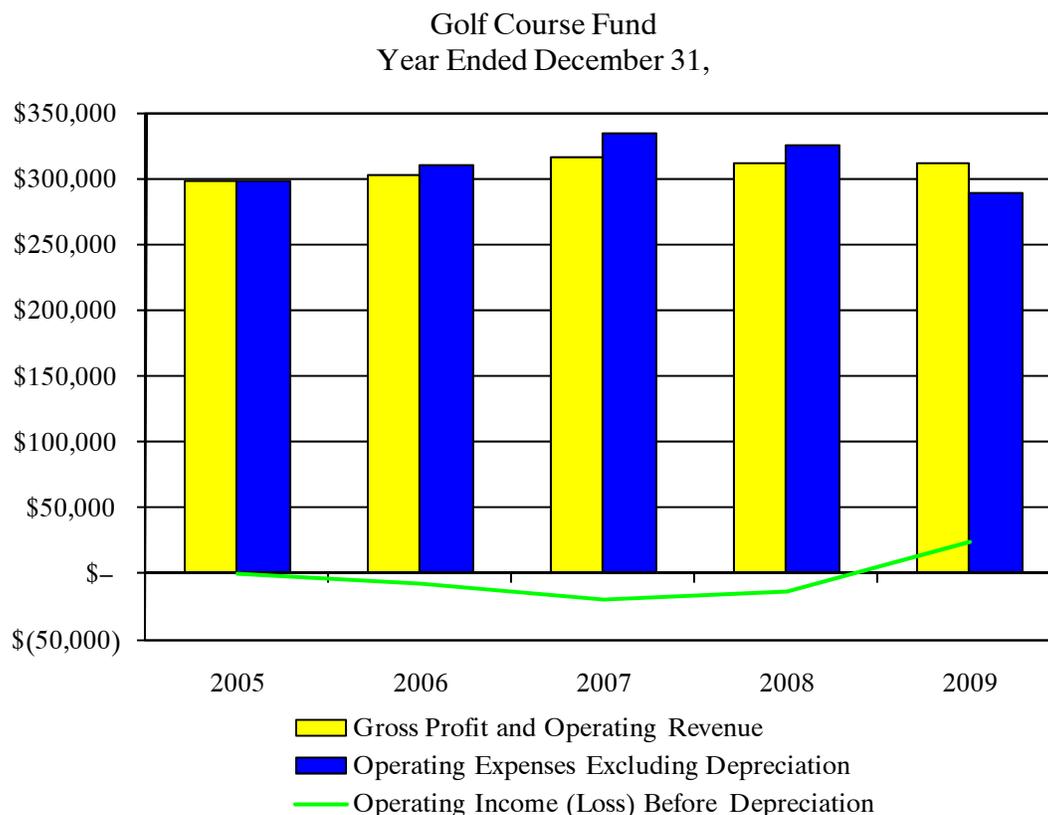
Water Fund operating revenues for 2009 were \$5,144,355, an increase of about \$119,000 from the prior year. Most of this increase is the result of the change in the rate structure in 2009. Operating expenses for 2009 (including depreciation of \$228,985) were \$5,399,949, up about \$518,000 from the prior year. Most of this increase relates to an increase in the cost of water purchased from the City of St. Paul. This expense increased \$425,854 or 11.4 percent.

The operating fund reserve policy of the City requires the enterprise funds of the City to have operating cash reserves to provide for monthly cash flow. In general, this can be achieved by keeping the operating income (loss) before depreciation at positive levels in this fund which the City had been achieved from fiscal 2005 to fiscal 2008.

As a result of the increased expenses in fiscal 2009, the operating income (loss) before depreciation was not at a positive levels in this fund for the first time in many years. In fact, this fund reflected a significant negative cash balance at the end of fiscal 2009 totaling (\$764,774). We highly recommend that the City closely review the financial results of this fund to determine future funding plans as well as plans to eliminate this negative cash balance.

Golf Course Fund

The following graph presents five years of operating results for the Golf Course Fund:



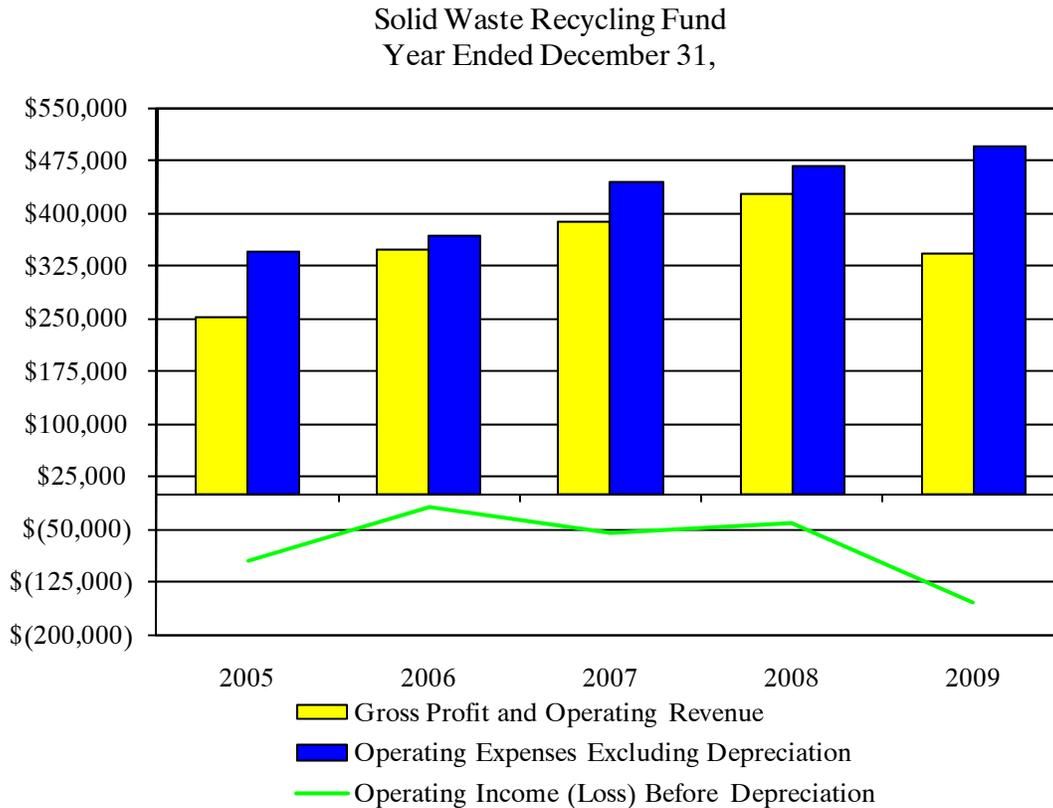
The Golf Course Fund ended 2009 with net assets of \$896,551, an increase of \$2,333 from the prior year. Of this, \$528,600 represents the investment in golf course capital assets, leaving \$369,951 of unrestricted net assets.

Golf Course Fund gross profit and operating revenues for 2009 were \$312,200, an increase of \$1,279 from last year. Operating expenses for 2009 (including depreciation of \$30,325) were \$318,890, down about \$26,000 from the prior year.

The operating fund reserve policy of the City requires the enterprise funds of the City to have operating cash reserves to provide for monthly cash flow. In general, this can be achieved by keeping the operating income (loss) before depreciation at positive levels in these funds. The Golf Course Fund had shown operating losses in each of the last four years but did improve its operating results due to cutbacks in operating expenses.

Solid Waste Recycling Fund

The following graph presents five years of operating results for the Solid Waste Recycling Fund:



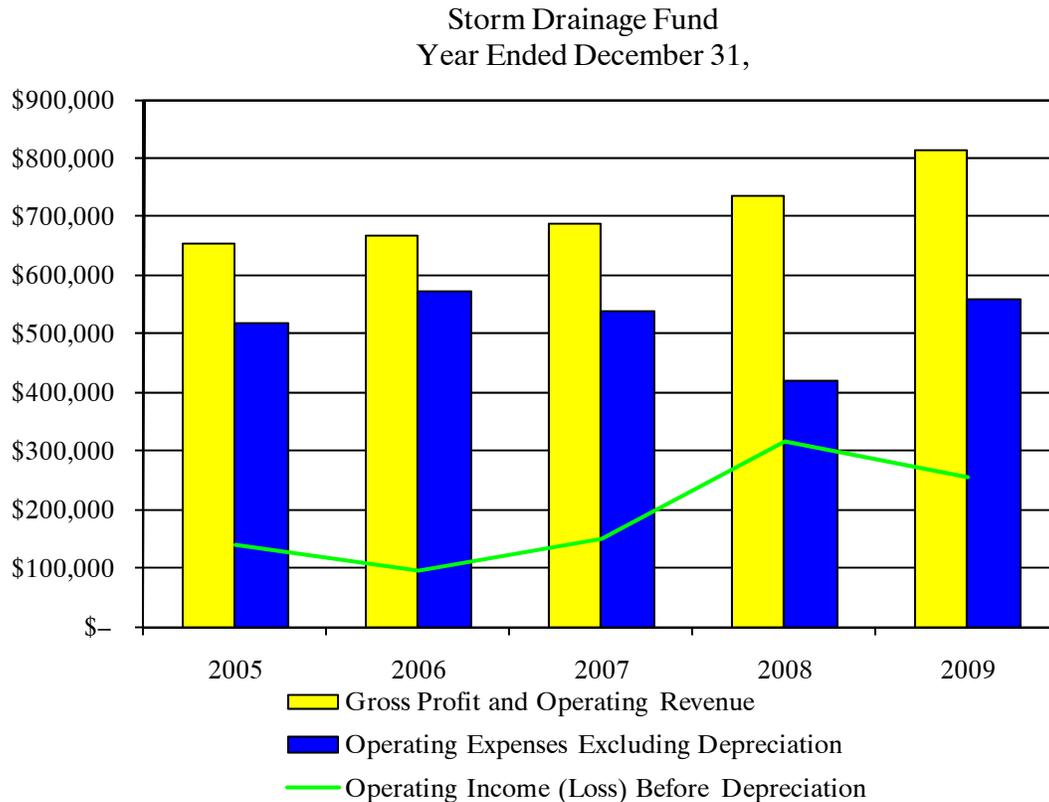
The Solid Waste Recycling Fund ended 2009 with unrestricted net assets of \$67,381, a decrease of \$83,819 from the prior year. The decrease is due to a decrease in the overall revenue described in the next paragraph.

Solid Waste Recycling Fund operating revenues for 2009 were \$345,218, a decrease of about \$84,000 from last year. The decrease in the amount received is from a decrease in the amount received from the recycling contract in which the City receives a quarterly revenue sharing amount. Operating expenses for 2009 were \$495,717, up about \$28,000 from the prior year.

The operating fund reserve policy of the City requires the enterprise funds of the City to have operating cash reserves to provide for monthly cash flow. This fund has shown significant operating losses before depreciation in each of last five years, which are partially offset by significant nonoperating grants received. We recommend that the City closely review the financial results of this fund in an effort to eliminate the significant operating losses that are occurring.

Storm Drainage Fund

The following graph presents five years of operating results for the Storm Drainage Fund:



The Storm Drainage Fund ended 2009 with net assets of \$9,147,888, an increase of \$25,278 from the prior year. Of this, \$6,697,040 represents the investment in storm drainage capital assets, leaving \$2,450,848 of unrestricted net assets.

Storm Drainage Fund operating revenues for 2009 were \$811,749, an increase of \$75,061 from the prior year. Operating expenses for 2009 (including depreciation of \$291,597) were \$849,493, up about \$141,000 from the prior year. As displayed in the graph above, the 2009 results of operations declined slightly as compared to prior years.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the City's current assets to finance its current liabilities. The Governmental Accounting Standards Board (GASB) Statement No. 34 reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the City as a single, unified entity. These government-wide statements provide information on the total cost of delivering services, including capital assets and long-term liabilities.

Statement of Net Assets

The Statement of Net Assets essentially tells you what your city owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net assets represent the resources the City has leftover to use for providing services after its debts are settled. However, those resources are not always in spendable form, or there may be restrictions on how some of those resources can be used. Therefore, the Statement of Net Assets divides the net assets into three components:

- **Invested in Capital Assets, Net of Related Debt** – The portion of net assets reflecting equity in capital assets (i.e. capital assets minus related debt).
- **Restricted Net Assets** – The portion of net assets equal to resources whose use is legally restricted minus any non-capital-related liabilities payable from those same resources.
- **Unrestricted Net Assets** – The residual balance of net assets after the elimination of *invested in capital assets, net of related debt* and *restricted net assets*.

The following table presents the City's net assets as of December 31, 2009 for governmental activities and business-type activities:

	Governmental Activities	Business-Type Activities	Total
Calculation of net assets			
Current and other assets	\$ 39,466,138	\$ 8,210,670	\$ 47,676,808
Capital assets, less depreciation	115,597,033	19,019,599	134,616,632
Current liabilities	(2,178,766)	(3,030,314)	(5,209,080)
Long-term liabilities	(14,265,616)	–	(14,265,616)
Total net assets	<u>\$ 138,618,789</u>	<u>\$ 24,199,955</u>	<u>\$ 162,818,744</u>
Categories of net assets			
Invested in capital assets, net of related debt	\$ 102,832,033	\$ 19,019,599	\$ 121,851,632
Restricted	10,789,610	–	10,789,610
Unrestricted	24,997,146	5,180,356	30,177,502
Total net assets	<u>\$ 138,618,789</u>	<u>\$ 24,199,955</u>	<u>\$ 162,818,744</u>

The City's total net assets at December 31, 2009 were \$3,582,117 higher than at the beginning of the year.

The restricted net asset balance decreased about \$2.9 million. Most of this decrease occurred in the Economic Increments Construction Fund, which is restricted for use in the tax increment district. The City experienced a \$7.1 million increase in net assets invested in capital assets of the City, net of related debt. This increase is mostly related to capital projects in the City occurring in calendar 2009.

The City's total unrestricted net assets, which are available to finance the day-to-day operations of the City, decreased by about \$675,000 in 2009, which is mainly the result of the decline in the enterprise fund balances.

Statement of Activities

The Statement of Activities tracks the City's yearly revenues and expenses, as well as any other transactions that increase or reduce total net assets. These amounts represent the full cost of providing services. The Statement of Activities provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses.

The following table presents the change in net assets of the City for the year ended December 31, 2009:

	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net Difference</u>
Net (expense) revenue			
Governmental activities			
General government	\$ 5,150,773	\$ 2,869,646	\$ (2,281,127)
Public safety	8,161,100	2,068,343	(6,092,757)
Public works	4,470,830	3,486,263	(984,567)
Parks and recreation	4,770,793	1,917,605	(2,853,188)
Economic development	1,742,174	1,675,850	(66,324)
Interest on long-term debt	508,970	21,613	(487,357)
Business-type activities			
Sewer	3,520,566	3,092,731	(427,835)
Water	5,399,949	5,146,308	(253,641)
Golf	318,890	312,200	(6,690)
Recycling	499,501	414,708	(84,793)
Storm drainage	850,575	814,784	(35,791)
Total	<u>\$ 35,394,121</u>	<u>\$ 21,820,051</u>	(13,574,070)
General revenues			
Property and tax increments			15,841,749
Other taxes			456,825
Unrestricted grants and contributions			26,477
Investment earnings			831,136
Total general revenues			<u>17,156,187</u>
Change in net assets			<u>\$ 3,582,117</u>

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The City's governmental operations tend to rely more heavily on general revenues, such as property taxes and unrestricted grants. In contrast, the City's business-type activities tend to rely more heavily on program revenues like charges for services (sales) and program specific grants to cover expenses. This is critical given the current external downward pressures on general revenue sources such as taxes and state aids.

ACCOUNTING AND AUDITING UPDATES

GASB STATEMENT NO. 51 – ACCOUNTING AND FINANCIAL REPORTING FOR INTANGIBLE ASSETS

Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements in this statement improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. These inconsistencies will be reduced through the clarification that intangible assets subject to the provisions of this statement should be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009.

GASB STATEMENT NO. 53 – ACCOUNTING AND FINANCIAL REPORTING FOR DERIVATIVE INSTRUMENTS

The guidance in this statement improves financial reporting by requiring governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. These improvements should allow users of those financial statements to more fully understand a government's resources available to provide services. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009.

GASB STATEMENT NO. 54 – FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS

The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications (nonspendable, restricted, committed, assigned, and unassigned) that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The definitions of the General Fund, special revenue, capital projects, debt service, and permanent fund types are clarified by the provisions in this statement. Elimination of the reserved component of fund balance in favor of a restricted classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010.

**CITY OF ROSEVILLE
RAMSEY COUNTY, MINNESOTA**

**Special Purpose Audit Reports on
Internal Controls and
Compliance With Laws and Regulations**

**Year Ended
December 31, 2009**

CITY OF ROSEVILLE
RAMSEY COUNTY, MINNESOTA

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Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council and Residents
City of Roseville, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Roseville (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompany Schedule of Findings and Responses as item 2009-1, that we consider to be a significant deficiency of internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material affect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in our management report dated May 12, 2010.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

Malloy, Montague, Karnowski, Radoszewich, & Co., P.A.

May 12, 2010

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH MINNESOTA STATE LAWS AND REGULATIONS

City Council and Residents
City of Roseville, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Roseville (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 12, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Governments*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 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 Governments* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the City complied with the material terms and conditions of applicable legal provisions, except as noted in the Schedule of Findings and Responses.

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

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.

May 12, 2010

CITY OF ROSEVILLE

Schedule of Findings and Responses Year Ended December 31, 2009

This schedule summarizes findings and responses relating to compliance with Minnesota Statutes, internal controls, and compliance findings. The auditor, Malloy, Montague, Karnowski, Radosevich & Co., P.A. (MMKR), is responsible for providing the information under the headings "Criteria," "Condition," "Cause," "Effect," and "Recommendation." The City of Roseville (the City) is responsible for providing the information under the heading "Management's Response."

A. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING

2009-1 SEGREGATION OF DUTIES

Criteria – Generally, a system of internal control contemplates a segregation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition – The City does not have proper segregation of duties within purchasing internal controls, specifically the approval of purchasing card transactions.

Cause – Management has the ability to both make an electronic purchase and approve the claim for payment for the same purchase.

Effect – This lack of ideal segregation of duties subjects the City to a higher risk that fraudulent purchases could take place and would not be detected in a timely manner.

Recommendation – We recommend that the City segregate duties over the processing of purchasing card transactions. The City should consider having another employee review and approve the claims for payment for purchasing card transactions to verify that the purchases are for appropriate city uses and are following the purchasing card policies and procedures.

Management's Response – There is no disagreement with the audit finding. The City will further segregate the purchasing card transaction process to satisfy all internal control recommendations.

B. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2009-2 PAYMENT OF INVOICES

Criteria – Minnesota Statute § 471.425 requires cities to pay each vendor obligation according to the terms of each contract within 35 days after the receipt of the goods or services or the invoice for the goods or services.

Condition – During the audit procedures for the year ended December 31, 2009, we noted two items the City did not pay within the 35-day time period.

Recommendation – We recommend that the City pay each vendor obligation according to the terms of each contract within 35 days after the receipt of the goods or services or the invoice for the goods or services.

CITY OF ROSEVILLE

Schedule of Findings and Responses (continued)
Year Ended December 31, 2009

B. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT (CONTINUED)

2009-2 PAYMENT OF INVOICES (CONTINUED)

Management's Response – There is no disagreement with the audit finding. The City will review its internal payment authorization process and make any necessary changes to prevent future occurrences.

2009-3 CLAIMS DECLARATION - PAYROLL

Criteria – Minnesota Statute § 412.271, subdivision 2 paragraph (b) requires supervisors, or other officers or employees having knowledge of the facts, sign a declaration indicating the facts recited on the payroll are correct to the best of the declarant's information and belief. The statute also requires that claims for payroll be signed in proper forms or with a declaration to the effect that the employee has received the wages and done the work for which wages have been paid.

Condition – During the audit procedures for the year ended December 31, 2009, we noted that the claims for payroll did not have the required declarations.

Recommendation – We recommend that the City obtain a signed declaration to the effect that the facts recited on the payroll are correct to the best of the declarant's information and belief and that the employee has received the wages and done the work for which wages have been paid.

Management's Response – There is no disagreement with the audit finding. The City will review its internal payroll authorization process and make any necessary changes to prevent future occurrences.

2009-4 CLAIMS DECLARATION

Criteria – Minnesota Statutes § 471.38 and § 471.391 state that no claims shall be paid until the claimant presents an itemized statement in writing or electronic transaction record. The statutes also state that the claimant must sign a declaration to the effect that such account, claim, or demand is just and correct and that no part of it has been paid. The claim may be paid without this declaration as long as the check order has placed above the endorsement area a statement to the same effect.

Since vendors paid through electronic fund transfers do not endorse a city check, the City must obtain this declaration through other means; preferably through a one-time declaration on a city-prepared form.

Condition – We noted that during the current audit year, the City did not obtain this claims declaration for vendors paid through electronic fund transfers.

Recommendation – We recommend that the City obtain a signed declaration to the effect that such account, claim, or demand is just and correct and that no part of it has been paid on all payments of the City, including electronic fund transfers.

Management's Response – There is no disagreement with the audit finding. The City will obtain a form from all vendors who are paid by electronic means that includes this declaration.