

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MANAGEMENT AND
COMPLIANCE REPORT OF THE

CITY OF FARIBAULT
FARIBAULT, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

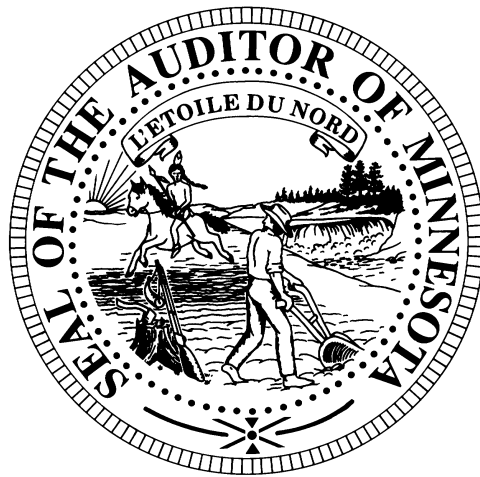
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CITY OF FARIBAULT
FARIBAULT, MINNESOTA**

Year Ended December 31, 2005



Management and Compliance Report

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

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**CITY OF FARIBAULT
FARIBAULT, MINNESOTA**

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**CITY OF FARIBAULT
FARIBAULT, MINNESOTA**

Schedule 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of the City of Faribault.
- B. No matters involving internal control over financial reporting were reported in the "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*."
- C. No instances of noncompliance material to the financial statements of the City of Faribault were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for the City of Faribault expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Airport Improvement Program CFDA #20.106
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The City of Faribault was determined to be a low-risk auditee.

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

05-1 Cash and Investments

Our review of cash and investments disclosed the following instances of noncompliance:

- Minn. Stat. § 118A.03, subd. 4, states, in part, that the collateral assignment shall recite that, upon default, the financial institution shall release the collateral to the government entity on demand. The City has signed pledge agreements with Wells Fargo Bank Minnesota, NA, and Premier Bank Minnesota, both of which require that the City give written notice in the event of default and allow at least three business days after such notice to cure the default. This language does not meet the requirement of the statute.
- Minn. Stat. § 118A.04, subd. 5, states, in part, that funds may be invested in time deposits that are fully insured by the Federal Deposit Insurance Corporation. The City purchased two negotiable certificates of deposit with GMAC Commercial Mortgage Bank from two different brokers. The combined total of the certificates exceeded the \$100,000 insured by the FDIC.

We recommend the City review all the written assignments for collateral for legal compliance with Minnesota statutes and request new agreements that meet legal requirements as needed. We also recommend that the City monitor all purchases of negotiable certificates of deposit to ensure that amounts deposited with a single financial institution do not exceed the \$100,000 coverage provided by the FDIC.

Client's Response:

The depository pledge agreements for Wells Fargo Bank MN South and Premier Bank Minnesota have been in place for years. Investments are audited every year with no comment on depository pledge agreements received. The City will contact both institutions to request the revised language to meet Minn. Stat. § 118A.03, subd. 4.

A certificate of deposit was held at GMAC Commercial Mortgage Bank - Delaware in the amount of \$95,000 and certificate at GMAC Commercial Mortgage Bank - Utah in the amount of \$96,000. The City was not aware that the investments as titled were the same financial institution. Both certificates of deposit were redeemed at their maturities of May 26, 2006 and June 9, 2006, respectively. The Office of the State Auditor has provided a website for staff's future reference.

05-2

City Charter

Our review of claims disclosed a Council resolution granting authority to the City Administrator is in conflict with the City Charter.

Section 6.05 of the Charter states that, "All City purchases and contracts shall be made or let by the city administrator when the amount involved does not exceed \$1,000.00. All other purchases shall be made and all other contracts let by the council after the recommendation of the city administrator has first been obtained."

The Council resolution states, "[t]he City Administrator or his designee is authorized to approve purchases that are part of the approved budget with a value less than \$20,000, and for approved contracts, utilities, personnel costs, debt obligations and other fixed charges. Purchases above \$20,000 for capital items will be approved by the City Council."

We recommend that the City either update its Charter to match the Council resolution or conform its purchasing and contracting procedures to agree with the Charter.

Client's Response:

The resolution is in harmony with the City Charter. The City Administrator can only authorize contracts or purchases previously approved by the City Council in the budget. The City Council has a right by written policy to set purchasing procedures. The resolution was reviewed by the City Attorney and has been reviewed in four audits.

Auditor's Reply:

We do not agree that the resolution is in harmony with Section 6.05 of the City Charter. The city budget sets out anticipated revenues and expenditures and forms the basis for the city's levy. See Minn. Stat. §§ 471.6965 (summary budget statement); 275.065 (truth-in-taxation). A city council does not, by adopting a city budget, let a contract or make a purchase.

PREVIOUSLY REPORTED ITEMS RESOVED

Undercollateralized Deposits (04-1)

The City's deposits at one bank were undercollateralized by approximately \$145,000.

Resolution

Our review of collateral disclosed no instances of uncollateralized deposits.

Prompt Payment of Bills (04-2)

Two instances were identified where bills were not paid within 35 days and no interest was added, as required by Minn. Stat. § 471.425.

Resolution

Our review of claims and disbursements disclosed only insignificant instances where bills were not paid during the time frame established by statute.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, like what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the City Council will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the City Council will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the City Council determines that the establishment of a trust is desirable in order to fund the OPEB, the City Council will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and

Schedule 1
(Continued)

- in order to determine annual costs and liabilities that need to be recognized, the City Council will have to decide whether to hire an actuary.

If applicable for the City of Faribault, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.



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PATRICIA ANDERSON
STATE AUDITOR

**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***

Mayor and City Council
City of Faribault

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Faribault as of and for the year ended December 31, 2005, and have issued our report thereon dated August 11, 2006. 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 of Faribault'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Faribault'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 effect 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*.

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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous provisions. Our study included all of the listed categories

The results of our tests indicate that, for the items tested, the City of Faribault complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 05-1 and 05-2.

This report is intended solely for the information and use of the Mayor, members of the City Council, management, and federal awarding agencies and pass-through entities 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: August 11, 2006



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OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and City Council
City of Faribault

Compliance

We have audited the compliance of the City of Faribault with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The City of Faribault's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Faribault's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Faribault complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the City of Faribault is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Faribault as of and for the year ended December 31, 2005, and have issued our report thereon dated August 11, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Faribault's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, members of the City Council, management, and federal awarding agencies and pass-through entities 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: August 11, 2006

**CITY OF FARIBAULT
FARIBAULT, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grant	14.228	CDAP-03-0060-0-FY04	\$ 58,439
Passed Through Minnesota Housing Finance Agency Home Investment Partnerships	14.239	9-2003-28-MURL	85,000
Direct			
Public and Indian Housing	14.850	Not Applicable	127,979
Public Housing Capital Fund	14.872	Not Applicable	<u>54,563</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 325,981</u>
U.S. Department of Justice			
Direct			
Bulletproof Vest Partnership Program	16.607	Not Applicable	\$ 992
Passed Through Minnesota Department of Public Safety Enforcing Underage Drinking Laws Program	16.727	None Assigned	<u>2,040</u>
Total U.S. Department of Justice			<u>\$ 3,032</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Airport Improvement Program	20.106	Agreement #85586	\$ 437,093
Federal Transit Metro Planning Grant	20.505	Agreement #87278	534
Public Transportation for Non-Urbanized Areas	20.509	Agreement #87278	72,742
Passed Through Minnesota Department of Public Safety			
State and Community Highway Safety	20.600	05-04-03	25,000
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	05-03-13	<u>6,064</u>
Total U.S. Department of Transportation			<u>\$ 541,433</u>

**CITY OF FARIBAULT
FARIBAULT, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
U.S. Department of Health and Human Services			
Passed Through Southeast Minnesota Area Agency on Aging Special Program for Aging Title III Part B Grant	93.044	310-06-003B-016	\$ 10,200
Total Federal Awards			\$ 880,646

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the City of Faribault. The City's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. In some instances, expenditures shown are greater than reported revenues because the related receivables were not available.
3. During 2005, the City did not pass any federal money to subrecipients.