



MINNESOTA OFFICE OF THE STATE AUDITOR

**CITY OF CAMBRIDGE
CAMBRIDGE, MINNESOTA**

YEAR ENDED DECEMBER 31, 1996

**JUDITH H. DUTCHER
STATE AUDITOR**

**CITY OF CAMBRIDGE
CAMBRIDGE, MINNESOTA**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1996

CITY OF CAMBRIDGE
CAMBRIDGE, MINNESOTA

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**CITY OF CAMBRIDGE
CAMBRIDGE, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 1996

I. COMPLIANCE--1996 GENERAL AUDIT

Salaries

City Council members and the Mayor have been receiving salaries in excess of those set by ordinance. Ordinance No. 157, adopted on December 8, 1969, set the annual salary of each Council member and the Mayor at \$275 and \$325, respectively.

At the June 19, 1989, regular City Council meeting, it was noted that the City Attorney was going to be instructed to prepare an ordinance for adoption, setting the monthly salary of the Mayor at \$125 plus \$25 per meeting, and setting the salary for Council members at \$100 per month plus \$25 per meeting. However, this ordinance was never prepared. Minn. Stat. § 415.11, subd. 1, states that:

. . . the governing body of any statutory or home rule charter city . . . may by ordinance fix their own salaries as members of such governing body, . . ., in such amount as they deem reasonable.

Therefore, without an ordinance establishing a rate other than that approved in 1969, Council members and the Mayor have been receiving amounts in excess of those allowed per Minn. Stat. § 415.11, subd. 1, since 1989.

In 1996, \$10,700 in total was paid to the Council members, and \$2,500 was paid to the Mayor. Had the salaries been paid as allowed by Ordinance No. 157, only \$1,100 in total would have been paid to the Council members, and \$325 to the Mayor. This results in the City Council members and the Mayor receiving \$9,600 and \$2,175, respectively, in excess compensation for 1996 when compared to what is allowed by Ordinance No. 157.

We recommend that the salaries of the City Council and the Mayor be established through a City ordinance in order to comply with Minnesota statutes. For amounts paid in 1996 and 1997, in excess of those allowed by Minn. Stat. § 415.11, subd. 1, and Ordinance No. 157, we recommend City Council members

and the Mayor reimburse the City of Cambridge. We further recommend that the City consult with independent counsel for review of prior and current years' compensation paid to City Council members and the Mayor(s) in order to determine if further reimbursements should be made to the City.

Client's Response:

The June 19, 1989 minutes clearly indicate that the City Council discussed and decided to set the Mayor's salary at \$125 per month and Council members at \$100 per month with both parties receiving \$25 per meeting. In reviewing ordinance records and minutes, it appears that a specific salary amount was decided upon by the Council and that staff instituted the salary change, however, may not have carried out the administrative tasks associated with the salary change.

An ordinance is being prepared to include the existing rate being paid. The ordinance will be reviewed and considered by the Council for adoption at an appropriate time.

Independent counsel will review and provide an opinion on the issue of reimbursement of past compensation paid to Council members and the Mayor.

In 1997, the Council limited the number of meetings for which they are paid to not more than two meetings per month.

Per Diems - City Council and Mayor

City Council members and the Mayor have been receiving a per diem of \$25 per meeting attended. While we know of no explicit authority to pay a per diem, at a minimum, an ordinance must be passed specifically authorizing the payment of such. The City has not passed such an ordinance.

Also, the current process for requesting payment of per diems involves indicating, on a sheet of paper passed around at the regular City Council meetings, how many meetings were attended in the last month. We noted that in one month, a Council member claimed 14 meetings had been attended. Council members and the Mayor submitting the claims are not required to sign or initial for them; there is no itemization of the meetings attended; nobody reviews the minutes of the meetings to verify actual attendance; and there is no authorization of payment of the per diems. Without adequate controls over the City's per diem payment process, it is possible that per diems will be paid for meetings not attended or paid more than once.

We recommend that the City adopt an ordinance specifically authorizing any amounts to be paid to Council members or the Mayor in excess of their annual salaries. Whatever amounts the City Council determines to be reasonable, per diem payments should be made only for attending meetings that fall within the usual requirements and expectations of the Council members and the Mayor. If the Council determines that per diems are to be paid for additional meetings attended, controls should be established that would ensure payment for only those meetings for which a claim has been prepared by individual Council members and the Mayor. All claims should be properly presented, verified, and authorized.

Client's Response:

The authority and practice of paying per diems are being researched by legal counsel. The opinion of counsel will be reflected in the content of the previously described ordinance.

The process for recording Council member attendance at meetings has been changed effective January 1, 1997. Council members itemize meetings on an official city voucher form and sign the form attesting to its accuracy. The information on these forms is verified by the staff reviewing meeting minutes.

Per Diems - Cambridge Housing and Redevelopment Authority (HRA) Commissioners

Since mid-1996, the City has been paying Commissioners of the Cambridge HRA, a separate legal entity from the City, a per diem of \$25 per meeting. We know of no explicit authority allowing the payment of an entity's per diem by a separate legal entity. No ordinance has been approved allowing such a payment.

We recommend that the City discontinue the payment of per diems for Commissioners of the Cambridge HRA.

Client's Response:

The paying of per diems of HRA members has been a practice in recent years that was continued during 1996. Legal counsel will provide an opinion on the authority to pay a separate entity's per diem. Payments have been discontinued until such time that authority is clearly identified and an ordinance is adopted by the Council to authorize such payments.

Council Proceedings

During our review of City Council minutes, we noted several instances where the approved minutes were not signed. Minn. Stat. § 412.151, subd. 1, requires the City Clerk to sign all of its official papers. Since minutes are official papers of the City, they should be signed upon Council approval.

We recommend the Clerk-Administrator sign all City Council approved minutes.

Client's Response:

The 1996 Council minutes of March 18, April 8, April 11, and May 20, and the Board of Review minutes of April 1997 were not signed by the Clerk-Administrator in the position during that time.

All approved minutes since that time are signed.

Contract Management

Group Insurance

The City contracted for group insurance without seeking bids through requests for proposals. Minn. Stat. § 471.6161, subd. 2, requires governmental subdivisions that provide group insurance to 25 or more employees to ". . . request proposals from and enter into contracts with carriers that in the judgment of the political subdivision are best qualified to provide coverage. . . ." These requests for proposals are to be in writing, contain elements as defined in the statute, and be made available through the publication in a newspaper or trade journal at least 21 days before the final date for submitting proposals.

We recommend that the City comply with Minn. Stat. § 471.6161, subd. 2, by soliciting bids through requests for proposals for all future group insurance contracts.

Client's Response:

The City Council authorized the Clerk-Administrator to advertise for bids for the 1998 group insurance plan at its meeting of September 29, 1997.

Final Contract Payments

We noted three contracts where final payments were made in 1996 and the City was not able to provide Form IC-134, Withholding Affidavit for Contractors, regarding employee withholdings. This form is required to be received from the contractors prior to final payment. These contracts all involved the employment of employees for wages by the contractors.

Minn. Stat. § 290.97 states that "[n]o . . . political or governmental subdivision of the state shall make final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors until satisfactory showing is made that said contractor or subcontractor has complied with the provisions of section 290.92." This refers to the withholding of income taxes by the contractor or subcontractor.

We recommend that the City comply with Minn. Stat. § 290.97 by requiring contractors to provide Form IC-134 prior to final payment. This form should then be retained in the contract file.

Client's Response:

For nearly all projects the city has a Form IC-134 for each contract. Copies of the forms held by the engineers have now been placed in the City's project files. All current project files are being updated to include the required information as indicated by the checklist supplied by OSA staff.

Quotations

A construction contract was awarded for less than \$10,000 based upon two quotes received. Neither of these quotes were available for review. Minn. Stat. § 471.345, subd. 5, requires that "[i]f the contract is made upon quotation it shall be based, so far as practicable, on at least two quotations which shall be kept on file for a period of at least one year after their receipt."

We recommend that the City comply with Minn. Stat. § 471.345, subd. 5, by retaining for review all quotes for contracts under \$10,000 for at least one year.

Client's Response:

The construction contract in question is not specified in the audit and therefore I am not responding other than to say that the entire filing and record retention system of the City is being redone and is under the management of the Administrative Assistant position. This change should alleviate any existing problems with the retention of records or accessibility of records.

Cash Management

Security for Deposits

During our audit, we noted that one of the City's official depositories was deficient by \$531,923 of the necessary collateral to secure City deposits at December 31, 1996. Minn. Stat. § 118.01, subd. 2, states that:

. . . the total in amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit at the close of the business day, in excess of any insured portion. . . .

It is the City's responsibility, not the depository's, to ensure that sufficient collateral has been pledged by the depository to adequately secure City deposits pursuant to statute.

We recommend that the City comply with Minn. Stat. § 118.01, subd. 2 (recodified in 1997 to Minn. Stat. § 118A.03, subd. 3), to ensure that the necessary collateral is pledged to secure City deposits.

Client's Response:

Meetings are being scheduled between the City and its depositories to discuss this issue. A system will be established to ensure that necessary collateral is pledged for deposits.

Collateral Assignment

The City did not have documentation demonstrating that it had a perfected security interest in pledged collateral. In a 1992 U.S. Court of Appeals decision, the Court ruled that if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable.

We recommend that new assignments of collateral be obtained from all depositories. In order to perfect a security interest in the pledged collateral under federal law, we recommend the City review assignments to determine that:

- (1) The assignment is in writing (required also by Minn. Stat. § 118.03, subd. 4).
- (2) The assignment is approved by the depository's board of directors or loan committee.
- (3) The assignment of collateral is continuously, from the time of its execution, an official record of the depository.

Client's Response:

Documentation of collateral assignment will be obtained from the above described meetings with depositories.

Insufficient Levy

The City levied \$38,700 less than what was required by the Bond Record to meet current principal and interest due on the 1993 Refunding Bonds. The amounts stipulated in the Bond Record are based upon the requirements of Minn. Stat. §475.61, subd. 1. This statute requires taxes to be levied that, if collected in full, together with estimated collections of special assessments and other revenues pledged for payment of said obligations, will produce at least five percent in excess of the amount needed to meet when due the principal and interest payments on the obligations. Failure to levy sufficient amounts to meet current debt payments results in noncompliance with Minn. Stat. § 475.61, subd. 1.

We recommend that the City Council levy taxes that will be sufficient in amount to comply with Minn. Stat. § 475.61, subd. 1.

Client's Response:

This has been a recurring problem in the past as identified by the Council and financial consultants in September 1996. The 1997 tax levy contained all levies required by bond records.

Financial Reports

The 1995 financial reports of the City's operations were not published in 1996. Minn. Stat. § 471.697, subd. 1(a), requires cities to publish a financial report or a summary of the report in the city's qualified newspaper. The purpose of this requirement is to make public the current financial status of the city.

We recommend that the City publish in its qualified newspaper a financial report or a summary of this report, in order to comply with Minn. Stat. § 471.697, subd. 1(a).

Client's Response:

It has historically been the practice to not publish the financial statements of the City. I am under the impression that it was the understanding of the former Administration that this practice was not a requirement.

The City will publish financial reports in accordance with state statutes in the future.

Cambridge Economic Development Authority (EDA)

During our audit, we noted the EDA paid for the cost of meals provided to Board members who attended luncheon gatherings. Inquiry disclosed that it is routine business to gather Board members at local restaurants to discuss issues relevant to the EDA and, as compensation to Board members, pay the cost of meals provided.

While Minn. Stat. § 469.095, subd. 4, allows commissioners to be reimbursed for expenditures incurred while conducting official business, Minn. Stat. § 471.705 requires all of the Board's meetings to be held in public. It is unusual to hold meetings that are to be open to the public in a setting such as a restaurant. Such settings are not conducive to public participation because the restaurants are privately-run places of business and meeting over the lunch hour may pose a difficult time to attend for those employed during normal business hours. Section 1.2 of the EDA's bylaws describes the principal office of the EDA as the Cambridge City Hall. We know of no reason that this facility cannot be utilized for meetings of the EDA.

Also, we were not provided with minutes of the proceedings of the EDA meetings until almost four months after our initial request. Once they were provided, we noted that they were not signed or approved. Any governing body that is subject to the Open Meeting Law must maintain a minute book so as to keep a complete

and accurate record of actions taken (Minn. Stat. §§ 412.151, subd. 1, and 471.705, subd. 1). Section 2.7 of the EDA's bylaws state that the "Secretary shall keep minutes of the Board and shall maintain all records of the Authority." Signed and approved minutes should be readily available, upon request, for review.

We recommend that the Board conduct meetings at a time and place conducive to public participation. If meals are necessary, they could be brought into the place of meeting rather than eaten at a restaurant. We also recommend that the Secretary of the EDA maintain signed and properly approved minutes of the EDA that are readily available for public inspection.

Client's Response:

When the EDA was first formed, meetings were held in the evening at City Hall. Due to members having scheduling problems, it was decided by the group in 1992 to change to lunch meetings for convenience. These meetings were public meetings held in meeting rooms at local restaurants, often with the media and others present. Since business meetings were held during the normal lunch periods when members could leave their businesses for a short period of time and EDA business was conducted throughout the entire time spent at these meetings, meals were considered to be an "expense" and were therefore provided.

Since 1996, EDA meetings have been held at City Hall without lunches being provided.

Delays experienced by the audit staff in accessing minutes were attributable to availability of staff, changes in staffing, and to the minutes being retained in separate files. They are now kept in a book and are being properly signed. The unapproved minutes of 1996 were reviewed and approved by the EDA at a subsequent 1997 meeting.

II. GENERAL INTERNAL CONTROLS

General Fixed Assets

The City does not maintain general fixed asset records that include the historical cost or location of the assets. Fixed assets should be identified and records maintained of their location to provide adequate safeguarding of the assets.

We recommend that in order to prevent qualified opinions in subsequent audits and improve the safeguarding of its assets, the City should maintain records of its assets, including their location and cost.

Client's Response:

Discussions have been held regarding the staff assignment of the task of establishing and maintaining a general fund asset record. It is expected that such a record will be established at the beginning of calendar year 1998.

Segregation of Duties

Due to the limited number of office personnel within the City of Cambridge and the EDA, segregation of the accounting functions that is necessary to ensure adequate internal accounting control is not possible. We noted the following instances where duties were not adequately segregated:

- One employee is responsible for opening mail, recording disbursements, and paying selected invoices.
- Department heads can both initiate and approve purchases.
- One employee is responsible for preparation and processing of payroll, printing the payroll checks, signing the checks, distributing the checks on occasion, performing the bank reconciliation, recording the transactions on the payroll system, and maintaining the payroll system. Department heads who are responsible for both hiring and terminating employees also distribute payroll checks.
- One employee is responsible for opening the mail, receipting collections, preparing deposits, recording the transactions in the accounting system, and reconciling the checkbook to the bank statement and the accounting system.
- One employee in the Police Department receives collections, issues receipts, records amounts collected in the log book, prepares the deposit, and takes the deposit to the bank.

These situations are not unusual in operations the size of the City of Cambridge; however, the City's management should constantly be aware of these conditions and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that the City of Cambridge's management be aware of the absence of segregation of the accounting functions and, if possible, implement oversight procedures.

Client's Response:

There is more than one person opening mail. Utility payments are opened by the utility clerk and bills are opened by the Finance Officer and department heads.

Measures have been taken to segregate duties to the extent reasonable for a small staff. It is now the practice that funds collected by the Police Department and receipts are turned over to the Finance Officer for review and deposit. To the extent possible and reasonable, more than one person is ordering, receiving and approving invoices for payment.

Cash Management

Liquor Store - Receipts and Deposits

Daily cash receipts have not been equaling the amount deposited. Of the 314 working days in 1996, 150 of had deposits in excess of what was recorded as sales, and the remaining 164 had deposits less than the amounts recorded as sales. Variances ranged from \$384.97 over to \$392.65 short. The net amount for 1996 was \$1,259.30 short. While we recognize that variances do exist in retail environments, the consistency of the variances and the amounts involved appear to be excessive in this type of retail operation. With few exceptions, sales should equal amounts deposited, and any significant differences should be reconcilable or investigated by management. There was no indication that shortages were reconcilable or adequately investigated by management.

We recommend that liquor store management take the necessary actions to reduce both the frequency and amounts of these consistent differences.

Client's Response:

The large variances identified in the audit can easily be misinterpreted. The two large variances were caused by one refund transaction which required reconciliation of funds in a two-day period. There was an actual shortage of \$7.68 for these two days. The total sales were approximately \$1.8 million with a \$1,259 total shortage, equating to approximately four dollars per day.

The Liquor Store manager is consistently striving to eliminate variances between receipts and deposits. To minimize distractions of cashiers, cash registers have been relocated. A pull tab dispensing machine has also been installed which will require less time of cashiers and also allows for receipts and payouts to be balanced daily. The manager discusses variances with the cashiers who were working when the variance occurred.

Liquor Store - Check Cashing

The liquor store is cashing personal checks for employees and customers. This practice causes the City to be susceptible to losses incurred from checks returned due to insufficient funds, and increases the related costs of collection and loss of available funds.

We recommend that the liquor store discontinue the practice of cashing personal checks for employees and customers.

Client's Response:

Approximately 36 percent of the business is personal checks. Our competitors in the Twin Cities, Braham, Isanti, and North Branch all take personal checks. To stay in business in a competitive retail environment, personal checks must be accepted.

Tighter check cashing policies have been implemented. Local checks are allowed for ten dollars over purchase. If the check bounces the first time, the bank does not deposit it a second time and sends it directly to the collection agency. The collection agency charges \$20 per check and Northbound Liquor gets \$3 of this fee. There is no labor in this process and we can make \$3 a check if it is collected. The collection agency sends a list and a check to us monthly. We have also installed a check verification system through the collection agency at a cost of three cents per check. This is tied into the National Check Network which has a very large data base.

With these two systems in place, bad checks have been drastically reduced in 1997.

Signature Cards

Three City checking accounts have signature cards with signers that are no longer employees of the City. Failure to update changes to the signature cards results in poor controls over the safeguarding of City assets.

We recommend that the City immediately update any changes to the checking account signature cards that may be required due to changes in staff.

Client's Response:

Signature cards are being updated in conjunction with the previously described meeting to be held with the City depositories.

Police Department - Cash Collections

During our review of cash collected by the Police Department, we noted that prior to deposit employees are using these funds to make personal purchases for which the fund is later reimbursed. Adequate controls over the safeguarding of assets require that funds collected remain intact until they are deposited.

We recommend that employees of the Police Department discontinue borrowing funds from the Department's cash collections.

Client's Response:

The situation described in the audit can no longer occur as all cash and receipts are immediately turned over to the Finance Officer for recording and deposit.

Financial Accounting System

The City's current computerized financial accounting system is not adequate for the size and complexity of its operations. Without an adequate financial accounting system that allows the City to meet its current financial reporting needs, inefficiencies and increased staff and audit costs will continue to occur. A sophisticated computerized financial accounting system is necessary in order to efficiently record and summarize the City's financial data.

We recommend that the City purchase and utilize a more compatible financial accounting system that will meet its current operating needs.

Client's Response:

The City of Cambridge has included in its proposed 1998 budget \$30,000 for a new financial accounting system funding for a newly created position of Finance Director, currently being advertised.

III. MANAGEMENT PRACTICES

Cash Management

Negative Cash Balances

On December 31, 1996, the following funds had negative cash balances:

Debt Service Funds	
Improvement Bonds of 1987	\$ (101,360)
Improvement Bonds of 1995	(7,056)
1994 Emergency Certificates of Indebtedness	(66,655)
Series 1990 Economic Development District #6.1	(56,008)
1991 Capital Appreciation Bonds	(110,000)
1993 Equipment Lease	(87,048)
Capital Project Funds	
Water Tower	(353)
Joe's Lake	(8,800)
Revolving Capital Project	(267,486)
Woodhaven Acres	(30,117)
Parking District	(23,000)
South Frontage East Highway 95	(50,715)
North Frontage East Highway 95	(114,215)
South Garfield	(117,679)
Economic Development District #6.6	(2,112)
Economic Development District #6.7	(4,424)
Central City Improvements	(43,107)
Paul's Lake	(9,818)
Disposal Utilities Enterprise Fund	(37,254)

This cash deficit situation would have been even greater had the City not secured \$1,370,000 in short-term financing through the issuance of warrants. The City's cash balance at December 31, 1996, of \$1,871,395 would have been \$501,395 if these warrants had not been issued. This overall cash position of the City is a situation in which current debt obligations and operating expenditures are increasingly difficult to meet.

We recommend that the City monitor the cash balances in funds so that cash is available to pay expenditures of those funds. The City Council should be kept aware of the current financial situation so as to be able to continue to meet current operating needs.

Client's Response:

The debt services funds are being corrected through debt service levies beginning in 1997. The Revolving Capital Project Fund deficit is being funded from the general fund and will be paid off in 1999.

The City Council is periodically provided updated financial reports during 1997.

Non-Sufficient Fund (NSF) Checks

During our review of the checking account reconciliation process, we noted that numerous NSF checks are used as reconciling items. The Treasurer's cash balance included \$2,788.64 in NSF checks. Unless all of these checks are able to be collected, cash is overstated.

We recommend that the NSF checks not be included in the Treasurer's cash balance.

Client's Response:

NSF checks have in the past been removed at the end of the year. NSF checks are turned over either to a collection agency or to the Police Department for collection or prosecution. In the future the City will periodically remove NSF checks from the treasurer's cash balance as soon as it appears that the check is unlikely to be collected.

Contract Management

Contract Files

Contract files and related documents are not maintained in an organized manner; they are scattered among numerous files and in the custody of a consultant-engineering firm. It took up to two weeks to gather the information we requested on ten contracts, and some items could be located only at the engineering firm. Without proper maintenance of the contract files, it is difficult to ensure statutory compliance, monitor the progress of the projects, or anticipate possible cost over-runs.

While we recognize the efforts of the Planning and Zoning Administrator to organize contract files that were begun prior to his employment, we recommend that all currently open contracts and all new contracts be filed in one location. We also recommend that one person be responsible to ensure that the City is maintaining all of the necessary documents related to each contract.

Client's Response:

The former record system consisted of each staff person retaining their own files relating to their involvement in the project. The City is presently in a state of transition in establishing a new record retention system. As previously indicated, a new position of Administrative Assistant is charged with the responsibility of record retention.

Company Contracting on Behalf of the City

A payment of \$16,000 was made to a local real estate company for work performed by an excavator hired by the real estate company. Land fill was moved from a City-owned storm sewer run-off pond to adjacent property owned by the real estate company. The practice of entering into what appears to be an oral agreement, and the lack of discussion noted in the Council minutes regarding the necessity for the transaction, is not a good management practice. While the City would not have been obligated to make this payment without a written contract with the real estate company, the public perception of oral agreements of this nature may not be favorable. Also, it is not evident if this transaction was in the best interest of the City.

We recommend that the City disclose, through documentation in the minutes, the rationale and justification for all transactions of this type. Further, oral agreements should be avoided to prevent possible disagreement and potential litigation.

Client's Response:

The City had been in the practice of providing fill material for site improvement work associated with the expansion of existing manufacturers within the industrial park. When Cambridge Metals and Plastics Inc. (referred to as a local real estate company in the audit) proposed a major expansion, the site needed fill at the approximate cost of \$25,000. At the same time the City of Cambridge was contemplating the excavation of the storm water pond. As indicated in the attached information (See Appendix A, pages 125 - 129) from SEH, the City's engineer, there was a need for the pond excavation and the arrangement with CMP saved the City a considerable amount of money, while at the same time facilitated a major industrial expansion. The issue was discussed at a Council meeting in late 1995. The minutes appear to be deficient regarding this.

Inadequate Insurance Coverage

During our review of the City's insurance coverage, we discovered that the policy it holds for coverage of property is inadequate. The coverage for property provided by the current insurance policy is \$12,606,758. The general fixed assets as classified in the financial statements as buildings, equipment, distribution/collection system, and construction in progress total \$24,291,758. Also, the amounts reported in the financial statements are at cost, which are generally less than the replacement value necessary under an insurance policy.

We recommend that the City review its current insurance coverage to determine where deficiencies in coverage exist. The policy should be updated to ensure adequate coverage in case of loss, theft, or damage.

Client's Response:

Within the last three months, discussions have taken place with our insurance agent regarding the preparation of an updated list of current assets, followed by a review of coverage in order to determine the adequacy of coverage. It is expected that this review and any adjustments will occur before the end of the year.

Funding Sources

We noted several Capital Project Funds had incurred expenditures for which no financing sources were dedicated. One of these funds, the Revolving Capital Project Fund, had a deficit fund balance of \$267,102, at December 31, 1996. Because these funds do not have dedicated financing sources, deficits will either have to be paid out of the City's General Fund for projects that could likely be abandoned, or financed through future construction contracts and related bonding.

We recommend that the City establish a dedicated funding source prior to beginning projects. This could be done on an annual basis through the use of a budgeted appropriation to the General Fund based upon the pre-determined needs of the City for the upcoming year. A transfer could then be made to the respective Capital Project Funds to fund preliminary costs.

Client's Response:

The City realizes that in the past expenditures have been charged to Capital Project Funds without a funding source. The Council has budgeted \$100,000 to be transferred from the general fund in both the 1997 and 1998 budgets to eliminate this deficit in the near future.

Conflict of Interest Policy

The City does not have a conflict of interest policy for elected officials or employees. Without a formal policy prohibiting activities which voluntarily result in financial interest or personal benefit to any elected official or employee, it is possible that a potential conflict of interest could arise due to lack of awareness or written disclosure.

We recommend that the City adopt a conflict of interest policy. Included in this policy should be an annual requirement of all elected officials and department heads of the City, EDA, and HRA to complete a "Statement of Economic Interest" disclosing businesses and property with which these parties are associated. In addition, a confirmation should be signed stating that they have read the City's conflict of interest policy and are not aware of any violations of the policy. These confirmations should be filed with the City Clerk-Administrator.

Client's Response:

The City of Cambridge is in the process of developing a conflict of interest policy and will annually have elected officials and department heads of the City, EDA and HRA to complete a "Statement of Economic Interest" as was complete this year.

APPENDIX A



5535 VADNAIS CENTER DRIVE, 200 SEH CENTER, ST. PAUL, MN 55110 612 490-2000 800.325-2059
ARCHITECTURE • ENGINEERING • ENVIRONMENTAL • TRANSPORTATION

August 14, 1995

RE: Cambridge, Minnesota
Industrial Park Pond Grading
SEH No. A-CAMBR9601.00

Mr. Gordon Heltke
Director of Community Development
City of Cambridge
139 East First Avenue
Cambridge, MN 55008

Dear Gordon:

This letter is in regard to the Industrial Park drainage pond and surrounding development. We understand that CMP wishes to expand southerly and requires approximately 15,000 cubic yards of additional fill to bring the building site up to the proper elevation.

There are at least two options available to solve this problem: haul the fill in from off-site or expand the existing pond to obtain the fill.

In our Feasibility Report for South Garfield Street, dated February 23, 1995, we identified the ultimate need to expand the pond from the current volume of 17 acre-feet to approximately 41 acre-feet.

Since the pond ultimately needs to be larger, the best option for CMP to obtain fill is by expanding the existing pond. This method is the least costly, and it provides benefit to both CMP and the City of Cambridge. An expansion to create the 15,000 C.Y. of fill would increase the pond volume by approximately 10 acre-feet.

The estimated construction cost of this pond expansion is \$46,200. This includes excavation, fencing and restoration. The estimated construction cost of hauling fill to the site is \$61,500. Cost estimates are enclosed for your information. If you have any questions, please call me at 490-2017.

Sincerely,

Todd M. Blank, P.E.
Project Manager

tlo
Enclosure

SHORT ELLIOTT
HENDRICKSON INC.

MINNEAPOLIS, MN

ST. CLOUD, MN

CHIPPEWA FALLS, WI

MADISON, WI

LAKE COUNTY, IN

EQUAL OPPORTUNITY EMPLOYER



3335 MADISON CENTER DRIVE, 2ND SEH CENTER, ST. PAUL, MN 55110 612 490-2000 800 325-2055
ARCHITECTURE - ENGINEERING - ENVIRONMENTAL - TRANSPORTATION

August 14, 1995

RE: Cambridge, Minnesota
Industrial Park Pond Grading
SEH No. A-CAMBR9601.00

Mr. Gordon Heitke
Director of Community Development
City of Cambridge
139 East First Avenue
Cambridge, MN 55008

Dear Gordon:

This letter is in regard to the Industrial Park drainage pond. We understand that the issue of relocating the pond has been raised. For estimating purposes, we have assumed that the pond could be relocated easterly across T.H. 65 adjacent to Joe's Lake. The existing pond would have to be piped to the new pond, and it could then be filled in with the material excavated from the new pond.

We have estimated the construction cost of this pond relocation to be \$303,000. A detailed cost estimate is enclosed for your information. If you plan to proceed any further with this relocation, a detailed feasibility study should be performed to determine a new site and provide more accurate costs. If you have any questions, please call me at 490-2017.

Sincerely,

Todd M. Blank, P.E.
Project Manager

EO
Enclosure

Feasibility Report



**South Garfield Street from 4th Avenue Southeast
to
8th Avenue Southeast
Street and Utilities**

SEH No: A-CAMBR9508.00

February 23, 1995

SCOTT EDGOTT HENDERSON, INC.



**Manufacturers
Service Supply**

While this large storm sewer will serve the area in general, catch basins are required to serve the new roadway. Two sets of catch basins are proposed for the roadway low points. These catch basins will be connected to the existing storm sewer with 15 to 18 inch diameter storm sewer pipe.

A 24 inch diameter storm sewer pipe is also proposed to extend south from the existing 48 inch diameter pipe. This 24 inch pipe would serve the future extension of South Garfield Street from 8th to 11th Avenues S.E. since service is not available from the south.

The proposed storm sewer is shown on Drawing No. 2.

Ponding

As part of the feasibility study, we have analyzed the capacity of the existing pond for both water quantity and quality purposes.

Minnesota Statute 103B.3365 states that any proposed development which creates one or more acres of impervious surface may not take place without water retention being required by the local unit of government. Water retention includes both a permanent pool of water and storage volume above a permanent pool. The pool of water is for quality purposes, and the storage is for quantity purposes. One reason for analyzing the existing pond is to determine if the pond is adequate for ultimate development of the industrial park or if ponding should be required on individual sites.

The existing pond was originally designed and constructed as a seepage pond with no outlet. In 1984, BRAA analyzed this pond and determined that it should be 52 acre feet (AF) in volume. The existing volume was 20 AF. Some minor improvements were made in 1985 and a 15 inch storm sewer emergency overflow pipe was installed on Cleveland Avenue in 1988.

Our current analysis was done using aerial contour information from 1990 and Mn/DOT drainage information from the T.H. 65 bypass construction. We have assumed that the entire drainage basin is fully developed and that the runoff all flows to the pond. The pond was analyzed using a 100-year storm which is the recognized standard for ponding purposes.

Using this information, the required volume for water quantity is 41 AF compared to approximately 17 AF of existing volume. Therefore, the pond is currently undersized for water quantity purposes. To expand the pond size for water quantity would require approximately four acres of land.

The water quality analysis indicated that the pond currently removes approximately 85 percent of Total Suspended Solids (TSS) from the storm water runoff entering the pond. This removal efficiency generally meets the Water Retention Law Guidelines.

In conclusion, as the industrial park continues to develop, additional water storage is required. This may be provided at the existing pond site or at other sites within the park. Temporary on-site water detention should also be required for all new development that creates more than one acre of impervious surface.

Implementation

Estimated Costs

The total estimated cost for these proposed improvements is \$404,108. This includes 10 percent for construction contingencies and 30 percent for engineering, administrative and fiscal costs. MSA eligible costs include the street, sidewalk and lighting costs and approximately 75 percent of the storm sewer costs. A detailed cost estimate is included in the Appendix.

Project Schedule

The project schedule has been primarily set by the need for street and utility service for the automobile dealership. The proposed schedule includes starting construction by mid-May 1995, and completing construction by mid-October 1995.

Permits and Approvals

The proposed improvements will require the following permits and approvals:

1. MSA plan approval
2. MPCA Sanitary Sewer Extension Permit
3. Mn/DOH plan review