



# MAYOR & COUNCIL COMMUNICATION

**DATE:** 9/15/15  
**REGULAR**  
**ITEM** #22

**AGENDA ITEM:** Financial Internal Controls

**SUBMITTED BY:** Julie Fliflet, Finance Committee Chair and Council Member

**THROUGH:** Julie Fliflet, Finance Committee Chair and Council Member

**REVIEWED BY:** Cathy Bendel and Clark Shroeder

**SUGGESTED ORDER OF BUSINESS:**

- Introduction of Item ..... City Administrator
- Report/Presentation.....City Administrator
- Questions from Council to Staff ..... Mayor Facilitates
- Call for Motion ..... Mayor & City Council
- Discussion..... Mayor & City Council
- Action on Motion..... Mayor Facilitates

**POLICY RECOMMENDER:** Finance Committee Chair, Finance Director and City Administrator

**FISCAL IMPACT:** TBD

**BACKGROUND INFORMATION:**

A Councilmember has requested a copy of the Water and Sewer Fund pro-forma model from the city staff. The Finance Director provided him with all the data requested, which was over 50 pages of financial information.

The Councilmember then insisted that the information be shared with him in an electronic file that he would be able to change and manipulate. In response to that request, he was told by the city staff that as part of the city’s internal controls, there was an internal control policy stating that general ledger reports, financial statements, financial forecasts and financial proformas, and other such proprietary financial information was only to be released in a static form.

The Councilmember still insisted on receiving the information in a format that could be changed and manipulated. Councilmember Fliflet was contacted as Finance Committee Chair to inquire if she would support this Councilmember’s directive to violate the city’s internal control policy

surrounding the release of proprietary financial information. She strongly supported the staff's position on this, and felt strongly that the internal control policy should be followed, and stated that she would place the item on the next council meeting agenda for the council to discuss.

Since that time, the city staff has acquired independent concurrence from Tammy Omdal from Northland Securities who are retained as the City's bonding council that it would be bad practice for the city to release such proprietary information in a format that could be changed and manipulated. She also stated that she had firsthand experience of a situation in which this was done that was very problematic. Councilmember Fliflet and Finance Director Bendel both spoke with her to get her opinion and to listen to her experience with similar circumstances. City staff also obtained independent concurrence from Jason Miller, the audit partner from Smith Schafer & Associates in charge of the City's audit. As Jason states in his email, his recommendation, consistent with the auditors own internal policy is to send documents out in static format to provide a level of protection from unauthorized modifications being presented as your information. (A copy of their opinion surrounding this is attached).

The City of Lake Elmo has been awarded a Certified Annual Financial Report (CAFR) for the last two years which is the highest award a City can receive related to financial reporting. As part of receiving this report, an opinion has been issued that states that the city has very strong and effective internal control policies. The Moody's bonding rating report also cites the city's strong internal controls as a reason supporting the Aa2 bond rating. This is something the city can and should take great pride in.

**RECOMMENDATION:** The City Council is being asked to support the staff's position of following the City's internal control policy. Councilmember Fliflet as the Finance Committee Chair, the Finance Director, Cathy Bendel, and the City Administrator, Clark Schroeder, the City Bonding agent and the City Audit Partner, all feel this is an important internal control policy that should be followed, and all of the financial data requested has been provided to the Councilmember. As a result, it is being recommended that the council pass a motion supporting staff and upholding the City's internal control policy surrounding the release of proprietary financial information.

**ATTACHMENTS:**

- Email from Jason Miller; Partner with Smith Shafer & Associates (City Audit Firm)

## Cathy Bendel

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**From:** Jason Miller [j.miller@smithschafer.com]  
**Sent:** Wednesday, September 09, 2015 3:32 PM  
**To:** Cathy Bendel  
**Subject:** Best Practices for Releasing Documents

Cathy –

Per our phone conversation, this is a follow-up regarding best practices for releasing documents. As we discussed, it depends upon the nature of the document, but we typically recommend (and our general internal policy) is to send documents in static format (e.g. published documents, documents in pdf form, etc.) rather than sending out the documents in their source format (e.g. Word, Excel, etc.).

We do this especially when our name or report is associated with the document. This is important because documents in their source format are easily modified and can then be disseminated as though the modified information came directly from us, even though we probably did not approve of or review the modifications.


This policy will not ensure information you issue will not be modified, but it does provide a level of protection from unauthorized modifications being presented as your information.

I hope this helps. Please let me know if you have any questions or if you would like to discuss further.

Best regards,

**Jason Miller | Principal | CPA**

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