



Audit & Reporting Group

Agenda: March 7, 2025

- I. Call to Order**
Chair Auditor Blaha.
- II. Attendance**
Roll call.
- III. Review and Approval of Minutes**
Meeting Minutes December 11, 2024.
- IV. Local Officials Survey**
Summary of Local Officials Survey
Link to full results: [Access the Survey](#)
Future survey topics?
- V. Legislative Update**
Review of Senate File 564 that would change some audit thresholds
- VI. Threshold Scenarios**
Threshold Scenarios: Impact of Options
- VII. Preview Next Meeting Topics**
Compiling the Annual Report
- VIII. Next Meeting**
April 16, 9:00am – 11:00am
In-Person/Virtual Hybrid Format
- IX. Adjournment**

The OSA appreciates your participation in the Audit and Reporting Group. Your participation is optional, but without it we would lack your expertise. The Audit and Reporting Group meeting will be recorded, and by participating you consent to being included. The recording will be accessible to the public upon request for a limited time.

Individuals with disabilities who need reasonable accommodation to participate in this event, please contact Nadine Kottom-Dale at (612) 391-7000 or (800) 627-3529 (TTY) by July 30, 2024.



Meeting Minutes

12-11-24 Draft Minutes

Members Present

Julie Blaha, State Auditor
State Senator Heather Gustafson
Representative Bjorn Olson
Lisa Sova, League of Minnesota Cities
David Frame, Minnesota Association of Townships
Kelly Gutierrez, Minnesota Charter Schools Association
E.J. Moberg, Minnesota Government Finance Officers Association
Chris Knopik, Minnesota Government Finance Officers Association
Andy Berg, Minnesota Society of CPAs
Joel Stencel, Minnesota School Boards Association
Cap O'Rourke, MN Association of Small Cities
Andi Johnson, Minnesota Association of School Business Officials
Miranda Wendlandt, Minnesota Society of CPAs
Charles Selcer, Minnesota Board of Accountancy
Paul Moore, Department of Management and Budget
Jake Rossow, Minnesota Board of Water and Soil Resources
Jamie Fay, CPA, and Stakeholder
Jake Sieg, Association of Minnesota Counties

Members Excused

Representative Patti Anderson
Wilfredo Roman-Catala, Minnesota Inter-County Association
Sharon Provos, Association of Metropolitan Municipalities
Cristen Christensen, MN Inter-County Association
Jennifer Smith, Minnesota Association of School Business Officials
Martha Burton, Department of Revenue
Cathy Erickson, Department of Education

Office of the State Auditor and Legislative Support Present

Chad Struss, Deputy State Auditor
Ramona Advani, Deputy State Auditor
Nadine Kottom-Dale, Communications Director, and Lead Staffer
Lisa Young, Director of Standards and Procedures
Kathy Docter, Government Information
John Jernberg, Government Information
Christy John, Government Information

I. Call to Order

Auditor Blaha called the meeting to order.

II. Introductions

Nadine Kottom-Dale called the roll.

III. Review and Approval of Working Group Meeting Minutes

Members reviewed the November 21, 2024, meeting minutes that had been provided in advance. The meeting minutes were accepted with no changes.

IV. Example of Cash Basis - City of Martin, South Dakota

Jamie Fay presented a document with an example of cash basis from City of Martin. Cash basis means there is an asset for cash and then fund balance. There are concerns around adopting full accrual accounting because it could be too burdensome for smaller entities, both due to the complexity of tracking long-term liabilities and it's difficult to retain auditors.

If cash basis wasn't used, it was speculated that a modified accrual approach could be better because it could focus on short-term assets and liabilities, rather than having to see long-term liabilities like pensions, since pensions would still get their own audit. Some suggested expanding the current regulatory framework used for small governments to include debt footnotes and specific schedules, like accounts receivable and payable, without the need for full accrual. This would help alleviate the burden on small municipalities while maintaining transparency for the public. It can be summed up with – can we find a balance between accountability and practicality?

Auditor Blaha brought up that legislative language can sometimes use a term like GAAP which is in statute. To make some of the changes that this group is proposing, there would need to be some untangling with language attached to statute. Overall, many people don't fully understand the meaning of an audit, what an audit does and the importance. This adds to the hardship placed on small entities - because auditing can be such a complex idea it's hard for small city employees to learn what is needed for an audit, especially since a city clerk is usually hired for a different set of talents than their financial and auditing knowledge.

V. Changing Requirements

Auditor Blaha shared a document titled Running City County Town Data. She proposed to the group for discussion – what would happen if there was a change in audit requirements by adjusting thresholds for revenue rather than population. For example, setting a \$1 million revenue threshold for a full GAAP audit, and a \$750,000 threshold for cash basis audits, and a lower threshold for entities under \$750,000 to undergo an AUP. For cities, this proposed change would cover approximately 99% of the revenue with around 60% of entities being impacted, whereas for townships, it would cover around 20% of revenues with 94% of entities subject to AUP every five years. Auditor Blaha also proposed sending out a survey to find out how likely people would be to change their approach to auditing, if given the option.

Discussion pivoted to setting a cap for audit costs relative to revenue, such as requiring audits only if they exceed a certain percentage of revenue. Charles Selcer shared an example from audits surrounding charities many years ago, where an audit cost became 5% to the revenue. This led to a change through the legislature raising the audit requirement to \$750,000. Others expressed that it could be difficult to track or implement different auditing firms and that could mean low-quality audits. It was suggested that it might be more effective to focus on revenue thresholds rather than percentage-based audits, to avoid the complexity of tracking individual audit costs.



VI. Preview Next Meeting Topics

The next meeting will explore recommendations for legislative best practices around audits and discuss potential reforms, particularly the combined clerk-treasurer requirement. Additionally, further discussion around developing a regulatory basis audit and evaluating what changes are necessary to improve audits for all entities involved.

VII. Adjournment

The meeting was adjourned at 10:57 a.m.



Audit & Reporting Group

Local Officials Survey Summary

Responses

368



Average Time

17:08



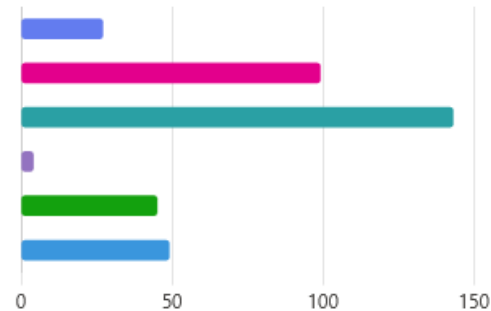
Duration

27 Days



1. Which type of entity are you representing in this survey?

County	27
Town	99
City	143
School District or Charter School	4
Special District	45
Other	49

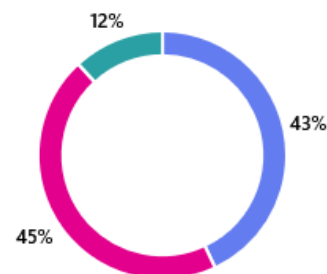


2. Please enter the name of your entity: Various answers

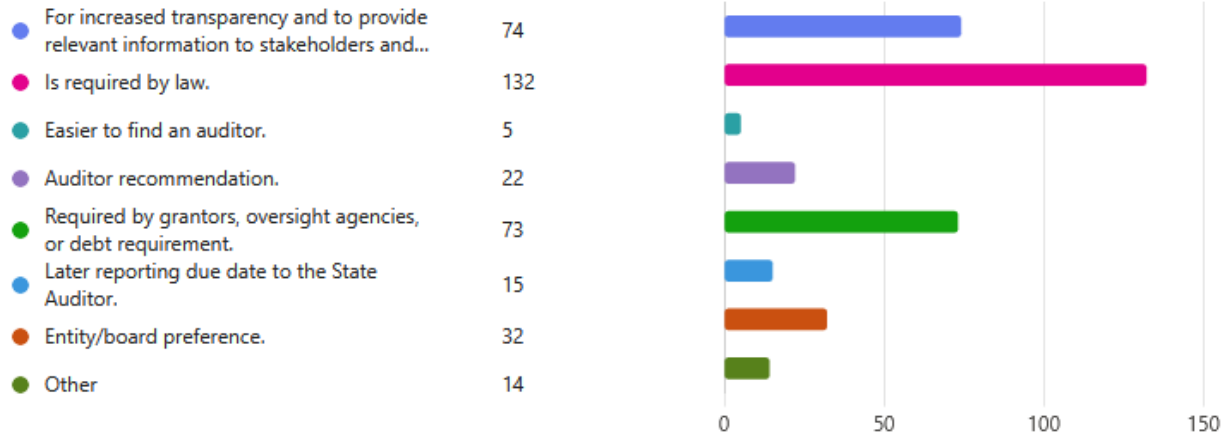
3. Please enter the county or counties where your entity is located: At least one entity from each county

4. Please specify which type of engagement your entity completes:

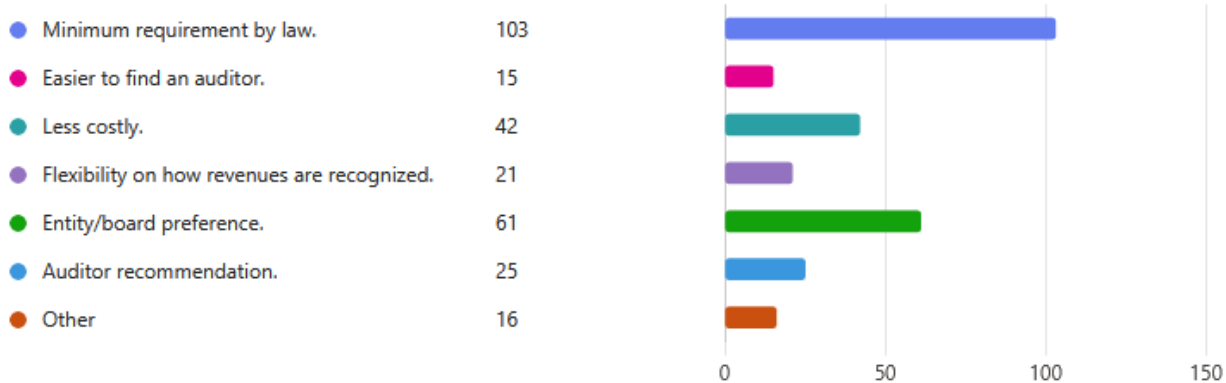
Cash Audit	163
GAAP Audit	171
Agreed Upon Procedures (AUP)	45



5. If you have a GAAP audit, please specify the reason (check all that apply):

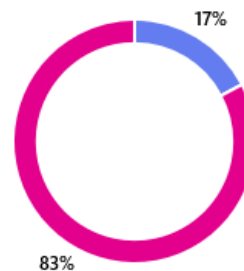


6. If you have a cash audit, please specify the reason (check all that apply):

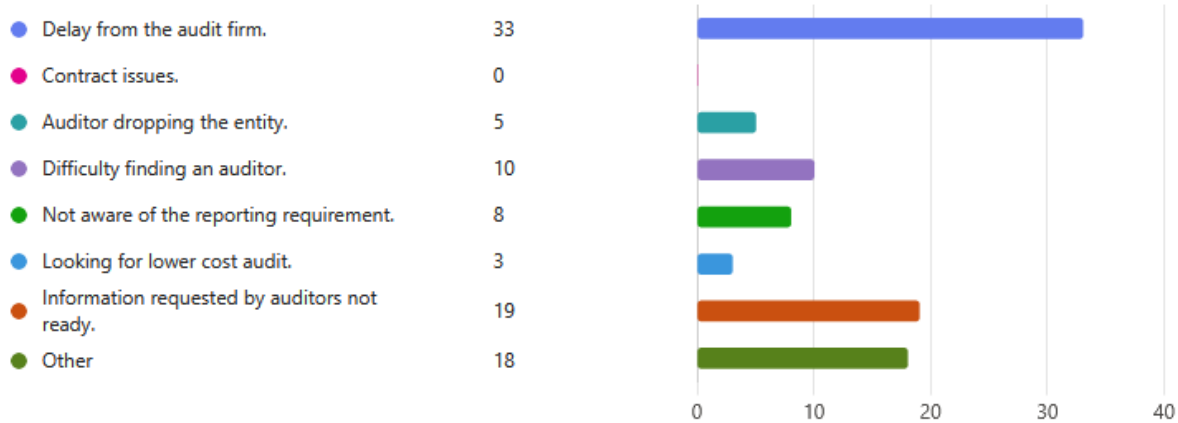


7. Have you requested an extension for cash audit or AUP submission to the State Auditor in the last two years?

- Yes 56
- No 268



8. If yes, please select the reason for requesting an extension for your cash audit or AUP (check all that apply).



Question 9. Please share any potential issues your entity might face in completing your audit or AUP on time: (summary AI generated)

Key Themes:

Auditor Availability & Timeliness – The most frequent concerns involve the availability of auditors and the time constraints they face. Keywords such as "auditor" (52 mentions), "time" (55 mentions), and "audit" (73 mentions) suggest that finding auditors and completing audits in a timely manner is a challenge.

Workload & Staffing Issues – Responses mention "work" (23 mentions), "staff" (18 mentions), and "training" (2 mentions), indicating that staffing limitations and a lack of training for new employees create hurdles in fulfilling audit requirements.

Difficulty in Finding Auditors – "Finding" (15 mentions) and "willing" (2 mentions) suggest that securing auditors who can complete audits is an issue.

Resource Constraints – While not as explicitly stated, words such as "complete" (29 mentions) and "necessary" (1 mention) imply that local governments may struggle with resources needed to meet audit requirements effectively.

Trends:

- Auditor shortages and availability issues appear to be a recurring theme.
- Time constraints make it difficult to complete audits efficiently.
- Staffing and training challenges contribute to compliance difficulties.
- Resource limitations may hinder local governments from fulfilling reporting requirements effectively.

Question 10. Is there anything else you'd like to tell us about local audits and AUPs? (summary AI generated)

Key Themes:

Concerns about Cost (58 mentions)

A significant number of responses indicate that audit costs are a concern. Many officials mention that audits are becoming increasingly expensive and that this financial burden is difficult to manage, especially for smaller townships and cities.

Burden of Reporting Requirements (13 mentions)

Some officials express frustration with reporting requirements, describing them as overly burdensome. The complexity and frequency of audits seem to be a common issue.

Compliance Challenges (17 mentions)

There are notable concerns regarding compliance with state regulations. Some respondents mention difficulty in keeping up with audit and reporting requirements.

Satisfaction with Audits (2 mentions)

A very small number of respondents explicitly state that they are satisfied with the current audit process.

Use of State Tools (0 mentions)

No significant mentions were found regarding the use of state-provided tools like CTAS for audit submissions, which may indicate a lack of awareness or reliance on such tools.

Key Trends:

- Financial strain is the dominant concern, particularly for smaller municipalities.
- Reporting and compliance issues are a secondary concern, though less frequently mentioned than cost.
- Limited positive feedback on the audit process suggests that most officials view audits as a necessary but challenging requirement.
- Lack of discussion on available state tools may indicate either a lack of adoption or a perception that they do not significantly ease the reporting burden.



Audit & Reporting Group

Threshold Legislation

Senate File 564

A bill for an act relating to local government; raising the revenue threshold requiring cities to perform annual audits; amending Minnesota Statutes 2024, section 412.591, subdivision 3.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:
Section 1.

Minnesota Statutes 2024, section 412.591, subdivision 3, is amended to read:
Subd. 3. Audit standards if combined.

(a) If the offices of clerk and treasurer are combined as provided by this section, and the city's annual revenue for all governmental and enterprise funds combined is more than the amount in paragraph (b), the council shall provide for an annual audit of the city's financial affairs by the state auditor or a certified public accountant in accordance with minimum procedures prescribed by the state auditor. If the offices of clerk and treasurer are combined and the city's annual revenue for all governmental and enterprise funds combined is the amount in paragraph (b), or less, the council shall provide for an audit of the city's financial affairs by the state auditor or a certified public accountant in accordance with minimum audit procedures prescribed by the state auditor at least once every five years, which audit shall be for a one-year period to be determined at random by the person conducting the audit.

(b) For the purposes of paragraph (a), the amount in 2004 2025 is \$150,000 \$500,000, and in 2005 and after, \$150,000 is adjusted annually thereafter for inflation using the annual implicit price deflator for state and local expenditures as published by the United States Department of Commerce.

EFFECTIVE DATE. This section is effective August 1, 2025, and applies to audits performed for 2026 and thereafter.

Amendments

Page 1, line 18, delete "\$500,000" and insert "\$1,000,000"

Sec. 2. Minnesota Statutes 2024, section 477A.017, subdivision 3, is amended to read:

Subd. 3. Conformity. Other law to the contrary notwithstanding, in order to receive distributions under sections 477A.011 to 477A.03, counties and, cities, and towns must conform to the standards set in subdivision 2 in making all financial reports required to be made to the state auditor.

S.F. No. 564 – Adjusting annual audit requirements for certain towns, cities, and special districts (as proposed to be modified by the A-1 amendment)

Author: Senator Grant Hauschild

Prepared by: Tom Watson, Senate Counsel (tom.watson@mnsenate.gov)

Date: February 26, 2025

This bill raises the revenue threshold above which certain towns, cities, and special districts are required to perform audits annually, rather than at least once every five years. The bill sets the threshold to \$1,000,000, to be adjusted annually for inflation. The previous threshold was set at \$150,000 in 2005, and is annually adjusted for inflation.

Section 1 changes the revenue threshold for towns that combine the offices of clerk and treasurer.

Section 2 changes the revenue threshold for cities and towns that combine the offices of clerk and treasurer, and the special district audit requirements provided in Minnesota Statutes, section 6.756.

Status

Authored by Senator Grant Hauschild. House companion bill in process to be authored by Representative Bjorn Olson. Bill was heard in the Senate State and Local Government Committee on Thursday, February 27 and was laid over for possible inclusion into an omnibus bill. The bill can be tracked online [here](#).



Threshold Scenarios

Impact of Options

Metrics

To compare the impact of different threshold options, below are revenue, population, and number of entities estimates for each scenario. These are based on 2022 data, so it is an estimate of what could happen if recent trends continue. The scenarios below are based on population below 2500 and entities with a combined clerk/treasurer position.

Townships Threshold

Threshold	Revenue covered under the threshold	Portion of total 2022 Revenue	Population covered under the threshold	Portion of Total 2022 Population	Number of Entities covered under the threshold	Portion of Total Number of Entities
\$272,000 (current)	\$22,315,817	5%	35,623	4%	28	2%
\$500,000	\$18,933,112	4%	30,355	3%	18	1%
\$750,000	\$15,732,514	4%	23,215	3%	13	1%
\$1 Million	\$10,646,679	3%	12,228	1%	7	0.4%

Cities Threshold

Threshold	Revenue covered under the threshold	Portion of total 2022 Revenue	Population covered under the threshold	Portion of Total 2022 Population	Number of Entities covered under the threshold	Portion of Total Number of Entities
\$272,000 (current)	\$758,191,083	6%	223,616	5%	321	38%
\$500,000	\$742,704,055	6%	214,512	4%	282	33%
\$750,000	\$710,068,090	6%	196,220	4%	229	27%
\$1 Million	\$687,263,906	6%	185,031	4%	203	24%

Special Districts Threshold

Threshold	Revenue covered under the threshold	Portion of total 2022 Revenue	Number of Entities covered under the threshold	Portion of Total Number of Entities
\$272,000 (current)	\$4,581,777,225	95%	289	47%
\$500,000	\$4,560,870,105	95%	231	38%
\$750,000	\$4,542,704,810	94%	201	33%
\$1 Million	\$4,527,268,625	94%	183	30%



**Clerk/Treasurer
Cities Under
2,500
Population**

Threshold	Revenue covered under the threshold	Portion of total 2022 Revenue	Population covered under the threshold	Portion of Total 2022 Population	Number of Entities covered under the threshold	Portion of Total Number of Entities
Combined clerk treasurer adds audit requirements(current)	\$758,191,083	6%	223,616	5%	321	38%
No clerk / treasurer requirements(current)	\$1,137,378,606	10%	351,168	7%	454	53%
No clerk / treasurer requirements (1M threshold)	1,038,471,352	9%	295,839	6%	287	34%

**Clerk/Treasurer
Towns Under
2,500
Population**

Threshold	Revenue covered under the threshold	Portion of total 2022 Revenue	Population covered under the threshold	Portion of Total 2022 Population	Number of Entities covered under the threshold	Portion of Total Number of Entities
Combined clerk treasurer adds audit requirements (current)	\$22,315,817	5%	35,623	4%	28	2%
No clerk / treasurer structural requirements(current)	\$185,886,527	44%	374,346	40%	352	20%
No clerk / treasurer structural requirements (\$1M threshold)	\$28,997,488	7%	29,576	3%	18	1%

**GAAP Audit for
Towns Over
2500 Population**

Threshold	Revenue covered under the threshold	Portion of total 2022 Revenue	Population covered under the threshold	Portion of Total 2022 Population	Number of Entities covered under the threshold	Portion of Total Number of Entities
GAAP Audit if over 2500 pop AND over revenue threshold (current)	\$54,332,396	13%	103,043	11%	23	1%
GAAP Audit if over 2500 pop (like city requirements)	\$72,302,954	17%	159,971	17%	42	2%