Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of 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 approximately 650 public pension funds; and

Tax Increment Financing - 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 Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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TOWN OF DEAD LAKE, MINNESOTA

January 1, 2016, through December 31, 2016

Petition Engagement

Audit Practice Division
Office of the State Auditor
State of Minnesota
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INDEPENDENT ACCOUNTANT’S REPORT
ON APPLYING AGREED-UPON PROCEDURES

Town of Dead Lake
Dead Lake, Minnesota

We have performed the procedures enumerated below, which were agreed to by the Town of Dead Lake (Town). Specifically, the agreed-upon procedures used herein were designed to confirm the accuracy of the Town’s Small City and Town Accounting System (CTAS) and financial reporting to the Town Board for the year ended December 31, 2016. The Town of Dead Lake’s management is responsible for the accuracy of the Town’s CTAS and financial reporting. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Town of Dead Lake. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

1. Procedure

Determine whether the 2016 monthly Treasurer’s financial reports submitted to the Town Board are mathematically correct and confirm that they reconcile to the Town Clerk’s reports.

Findings

We recalculated the Treasurer’s cash balance as reported to the Town Board for each month in 2016. The following mathematical differences were identified. There were no mathematical differences identified in the other months.

<table>
<thead>
<tr>
<th></th>
<th>April</th>
<th>September</th>
<th>October</th>
<th>November</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Total</td>
<td>$ 198,104.12</td>
<td>$ 238,066.97</td>
<td>$ 229,211.86</td>
<td>$ 302,147.79</td>
</tr>
<tr>
<td>Reported Total</td>
<td>198,104.57</td>
<td>215,678.51</td>
<td>197,883.28</td>
<td>253,334.25</td>
</tr>
<tr>
<td>Difference</td>
<td>-0.45</td>
<td>22,388.46</td>
<td>31,328.58</td>
<td>48,813.54</td>
</tr>
</tbody>
</table>

| Explanation       | Calculation error | Calculation error | CD balance not included in the calculation | Calculation error |

Page 1
We compared the Treasurer’s cash balance reported to the Town Board, corrected for mathematical errors identified above, to the Clerk’s CTAS balance for each month in 2016. The following differences were identified:

<table>
<thead>
<tr>
<th></th>
<th>Treasurer’s Balance</th>
<th>Clerk’s Balance</th>
<th>Difference</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>October:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>October Actual Totals</td>
<td>$ 229,211.86</td>
<td>$ 179,211.61</td>
<td>$ 50,000.25</td>
<td>Treasurer’s balance did not include New Town Hall $50,000 negative cash balance and $0.25 CD balance</td>
</tr>
<tr>
<td><strong>November:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>$ 30,232.66</td>
<td>$ 31,185.76</td>
<td>$ -953.10</td>
<td>Timing difference - disbursements reported by Treasurer in November and by Clerk in December</td>
</tr>
<tr>
<td>Road and Bridge</td>
<td>216,608.60</td>
<td>221,808.84</td>
<td>-5,200.24</td>
<td>Timing difference - interest receipt of $8.63 and disbursements of $5,208.87 reported by Treasurer in November and by Clerk in December</td>
</tr>
<tr>
<td>CD</td>
<td>31,328.58</td>
<td>31,328.33</td>
<td>0.25</td>
<td></td>
</tr>
<tr>
<td>Fire</td>
<td>-14.85</td>
<td>-14.85</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>Verizon</td>
<td>23,992.80</td>
<td>23,992.80</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>New Town Hall</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 302,147.79</td>
<td>$ 308,300.88</td>
<td>$ -6,153.09</td>
<td></td>
</tr>
<tr>
<td><strong>December:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>$ 27,221.33</td>
<td>$ 30,232.66</td>
<td>$ -3,011.33</td>
<td>County receipt of $1,382.93, disbursements of $4,388.26, and $6.00 error reported by Treasurer but not by Clerk**</td>
</tr>
<tr>
<td>Road and Bridge</td>
<td>216,955.10</td>
<td>216,608.60</td>
<td>346.50</td>
<td>Receipts of $6,927.53 and disbursements of $6,581.03 reported by Treasurer but not by Clerk**</td>
</tr>
<tr>
<td>CD</td>
<td>31,328.58</td>
<td>31,328.33</td>
<td>0.25</td>
<td></td>
</tr>
<tr>
<td>Fire</td>
<td>654.01</td>
<td>-14.85</td>
<td>668.86</td>
<td>County receipt reported by Treasurer but not by Clerk**</td>
</tr>
<tr>
<td>Verizon</td>
<td>25,385.87</td>
<td>25,189.26</td>
<td>196.61</td>
<td>Receipts of $1,196.61 and disbursements of $1,000.00 reported by Treasurer but not by Clerk**</td>
</tr>
<tr>
<td>New Town Hall</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 301,544.89</td>
<td>$ 303,344.00</td>
<td>$ -1,799.11</td>
<td></td>
</tr>
</tbody>
</table>

**These amounts are currently in the CTAS for 2016.
2. **Procedure**

Confirm whether bank reconciliations for 2016 were being performed timely, that they are accurate and reconcile to the supporting records, and that they were reviewed.

**Findings**

The bank reconciliations for March, July, October, and December 2016 were haphazardly selected for inspection. Amounts on the reconciliations were traced to supporting records. The reconciliations are accurate.

Documentation supported that the bank reconciliations for January through July were completed timely. The bank reconciliations for August through December did not identify the preparer or the date the reconciliation was performed, so timely preparation could not be determined. There was no documentation that the reconciliations were being reviewed by someone other than the preparer on any of the monthly bank reconciliations for 2016.

3. **Procedure**

Determine whether receipts and disbursements for 2016 are posted to the correct fund and account in the CTAS, which is the Town’s general ledger.

**Findings**

A sample of 33 receipts representing 91 percent ($353,512.04) of the 2016 amounts received were haphazardly selected to confirm correct posting to the CTAS. Based on tracing amounts to support and inspecting account activity, the information posted in the CTAS is correct, except for one item. Of the tax settlement received in November, $21.09 related to assessments for the Fire Fund was posted to the Road and Bridge Fund.

A sample of 16 non-payroll disbursements representing 51 percent ($126,307.94) of the total amounts disbursed for 2016 were haphazardly selected to confirm correct posting to the CTAS. Based on tracing amounts to support and inspecting account activity, the information posted in the CTAS is correct, except for the following items identified:

- For an invoice paid in February, the object code for membership dues was correct, but the program code was not. Dues for $498.08 were posted to Otter Tail East County Association Township and dues for $90.00 were posted to Minnesota Association of Townships. The program codes for these amounts should have been interchanged.
For an invoice paid in June for gravel hauling, $835.20 was posted to the program code for 355th Avenue but should have been posted to the detail program code for 395th Street and $111.36 charged to the detail program code for 380th Avenue should have been posted to the detail program code for 385th Avenue.

The two invoices paid in October totaling $100,000 for the new Town Hall building project were posted to the object code for professional services - legal fees. While the program code did specify the Town Hall building, an object code that identified the building project rather than legal fees would better reflect the expenditure type.

4. Procedure

Determine whether payroll transactions for 2016 were posted to the correct fund and account and whether quarterly withholding reports were properly filed.

Findings

Payrolls for the months of March, July, October, and December 2016 were haphazardly selected to confirm correct posting to the CTAS. Hours paid were traced to documentation. Rates of pay multiplied by hours worked were recalculated. Pay distribution was traced to the CTAS. Based on these procedures, the information posted in the CTAS is correct, except for the following items identified:

- In the March 2016 payroll, there were 2 hours ($30) posted to the General Fund that should have been posted to the Road and Bridge Fund.
- In the December 2016 payroll, there were 6 hours ($90) posted to the General Fund that would be more appropriate to classify as time for Road and Bridge Fund work.
- In the December 2016 payroll, there were 15 hours ($225) for another person posted to the General Fund that would be more appropriate to classify as time for Road and Bridge work.
- In the December 2016 payroll, a person was paid for 44 hours, but the time sheet only supported 35.75 hours, for a difference of $198.

All quarterly withholding reports for federal and state payroll taxes were inspected. The reports were properly filed, except that the 941 federal quarter 3 and quarter 4 reporting forms were not filed by the deadline. Although the taxes were remitted on time, the forms were not submitted until September 2017.
We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accuracy of the Town’s CTAS and financial reporting. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Town of Dead Lake and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto          /s/Greg Hierlinger
REBECCA OTTO          GREG HIERLINGER, CPA
STATE AUDITOR          DEPUTY STATE AUDITOR

May 18, 2018