



Audit & Reporting Group

Agenda: Oct. 30, 2024

- I. Call to Order**
Chair Auditor Blaha.
- II. Attendance**
Roll call.
- III. Review and Approval of Minutes**
Meeting Minutes October 8, 2024.
- IV. Agreed Upon Procedures Discussion**
OSA AUP Guide for Small Entities
OSA AUP Guide for Volunteer Fire Relief Associations
GAO Government Auditing Standards for AUPs
- V. Entity Data – Size and Revenues of Cities**
City and Town Data Spreadsheet
Trends in City Population and Budget Data
- VI. Preview Next Meeting Topics**
- VII. Next Meeting**
Thursday, November 21, 2024
9:00 a.m. to 11:00 a.m.
In-Person/Virtual Hybrid Format
- VII. 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

9-24-24 Draft Minutes

Members Present

Julie Blaha, State Auditor
State Senator Heather Gustafson
Representative Patti Anderson
Lisa Sova, League of Minnesota Cities
David Frame, Minnesota Association of Townships
Kelly Gutierrez, Minnesota Charter Schools Association
Sharon Provos, Association of Metropolitan Municipalities
Wilfredo Roman-Catala, Minnesota Inter-County Association
E.J. Moberg, Minnesota Government Finance Officers Association
Chris Knopik, Minnesota Government Finance Officers Association
Jennifer Smith, Minnesota Association of School Business Officials
Andy Berg, Minnesota Society of CPAs
Miranda Wendlandt, Minnesota Society of CPAs
Jamie Fay, CPA, and Stakeholder
Paul Moore, Department of Management and Budget
Martha Burton, Department of Revenue
Jake Rossow, Minnesota Board of Water and Soil Resources
Jake Sieg, Association of Minnesota Counties

Members Excused

Representative Bjorn Olson
Joel Stencel, Minnesota School Boards Association
Cap O'Rourke, MN Association of Small Cities
Cristen Christensen, MN Inter-County Association
Andi Johnson, Minnesota Association of School Business Officials
Cathy Erickson, Department of Education
Charles Selcer, Minnesota Board of Accountancy

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
Megan Thrasher, Constitution Division Director

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 October 8, 2024 meeting minutes that had been provided in advance. The meeting minutes were accepted with no changes.

IV. Special District Requirements

Auditor Blaha created and presented a reference document titled: Special District Requirements.

Kathy Docter defined what a Special District is: local government units created or authorized by state law to perform specific duties or to provide specific services in a limited scope.

Minnesota law authorizes the creation of a variety of special districts. Some special districts are created through special legislation or other are generally authorized by law but require approval by local electors or local elected officials. Many special districts have boards that are appointed by local and/or state officials, while others have elected board members. Special districts in Minnesota have all various fiscal years, and so this is the only report really in our division that does not have the calendar year, the special district reports run from a date of July 1st to June 30th.

Auditor Blaha explained that annual financial audit is required if revenues are over \$274,000. An agreed upon procedures (AUP) is required every five years if revenues are under \$274,000. As of 20 in 2022, there were 137 that were below the 274,000 threshold, and about 246 that were above the threshold

Lisa Young provided an overview of Soil and Water Conservation Districts. Traditionally, each district underwent an annual audit, which included a review of the audit report by the state auditor's office before it was issued. Recently, there was a request to streamline this review process. A working group was formed, consisting of representatives from BWSR, various districts, and the state auditor's office, leading to an updated memorandum of understanding (MOU).

While the updated MOU did not eliminate the statutory requirement for audits, it did modify the review process. Specifically, the state auditor's office no longer reviews every report annually prior to its release. This change reduced some procedural steps for the districts, but the requirement for audits remains in place.

A special district is defined in section 6.465, subdivision 3, as a public entity created or authorized by law for a specific purpose. It is financed by property tax revenues or other public funds and is not included in a city, county, or town's financial report. Governance can involve one person directly elected to the board, two appointed by local officials, three local elected officials, or a combination of these methods.

V. Group Discussion:

What have AaRG members experienced in relation to audits and Special Districts?

The discussion highlighted the diversity among the different soil and water conservation districts, particularly regarding their structures and audit requirements. Many are small entities receiving intergovernmental revenue from the state, which has led to varied audit practices over time, shaped by different legislative decisions and statutes.

For instance, in Lyon County, the Soil and Water Conservation District was integrated into the county's general fund after its employees retired, leading to joint audits with the county while still

requiring a separate audit for the district itself. In contrast, Isanti County maintained a completely separate structure for its Soil and Water Conservation District.

It was noted that entities like the Arrowhead Regional Computing Consortium and service cooperatives, such as the Northeast Service Cooperative, are classified as special districts but also operate under school district requirements, resulting in overlapping audit obligations regardless of their size.

What are things that could be done with special districts and what would be the impact of doing those things?

Auditor Blaha took notes on the matrix document as it relates to special districts.

In Minnesota, most of the soil and water district use one firm to conduct their audits. That firm provides audits at a deeply discounted rate, but it's still a stretch financially for many districts.

Kathy Docter talked about some of the barriers to audits in relation to soil and water districts: Many soil and water conservation districts feel financially constrained and prefer to allocate funds directly to water resource protection rather than audits. They express a desire to use their limited resources for their intended purposes. Additionally, some districts struggle to find auditors, especially new entities, or those not previously audited. Those with existing relationships may have an easier time, but many are surprised by the costs associated with audits and the time it takes to secure a firm to conduct them.

Small entities often find audits costly but as a CPA having to conduct that audit, they have to follow the same checklist and procedures as larger organizations. Even if their revenue is low, auditors still need a minimum number of hours to complete the work, which can lead to confusion about why costs are high. Many don't realize that the audit process is the same regardless of size, affecting their overall expenses.

Auditor Blaha asked any thoughts on benefits, drawbacks, cost or savings impact on shortage if we were to raise the threshold from \$274,000 to \$500,000?

Concerns about audit findings often revolve around whether issues arise from misconduct or from organizations not following regulations. New organizations may lack knowledge, while established ones might ignore repeated warnings. Additionally, when audits uncover problems, it can lead to negative public attention and media coverage, particularly concerning the use of public funds.

While collaboration among governments is valuable, it's important to consider the implications of increasing the threshold for special districts in Minnesota. Raising this threshold might incentivize the creation of more joint powers entities, which could add to the already numerous government entities in the state. This raises questions about the potential for further fragmentation in governance.

VI. Thoughts around Agreed Upon Procedures

Jamie Fay shared insights from her experience with agreed-upon procedures (AUPs). She noted that clients often seek AUPs when they lack the time or resources for monitoring federal funds or want to assess the performance of a management company. AUPs can be customized to fit specific needs, such as compliance checks or financial reconciliations.

Jamie emphasized the importance of clear and concise instructions in AUPs, noting that they should include specific benchmarks rather than vague criteria. This flexibility makes AUPs

distinct from audits, as they can be tailored to address various concerns and create checklists for the required procedures. Overall, AUPs can vary widely based on client needs and objectives.

Chris Knopik noted AUPs provide useful insights, like checking bank reconciliations, while many small entities find little value in full audits. The effectiveness of AUPs depends on the organization's goals, and there are concerns about their cost compared to traditional audits, which may be cheaper from other firms. AUPs could attract more service providers but might still be more expensive overall.

Auditor Blaha inquired if AUPs are less expensive?

Agreed-upon procedures (AUPs) are generally cheaper than full audits, especially when done by smaller firms. However, costs can vary based on the complexity of the AUP and the specific steps involved. Sometimes, low-cost providers might offer audits that are competitively priced, making AUPs potentially more expensive in those cases.

Standard AUPs are usually less costly than audits from the same firm, but more complex AUPs may have higher costs if they require specialized procedures. Overall, AUPs are typically seen as a cost-effective choice, but pricing depends on various factors.

Auditor Blaha speculated that AUPs are an interesting topic and could use a bigger discussion, and added it to the agenda for next meeting.

VII. Preview Next Meeting Topics

Auditor Blaha requested input from the group on the topic for the next meeting. The consensus was to explore the distribution of entity sizes, examining whether most entities are similar in size or if there are significant variations and natural breaks that extend beyond our current chart. The agenda will also include a review of the agreed-upon procedures (AUPs) used in Minnesota. Additionally, the group will brainstorm what elements of AUPs are helpful and which are not.

VIII. Adjournment

The meeting was adjourned at 2:51 p.m.



United States Government Accountability Office

By the Comptroller General of the
United States

February 2024

GOVERNMENT AUDITING STANDARDS

2024 Revision

AUP SECTION

audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the engagements. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority and to others authorized to receive such reports.

- b. A public accounting firm contracted to conduct a review engagement in accordance with GAGAS should clarify report distribution responsibilities with the engaging party. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the engagement about which officials or organizations will receive the report and the steps being taken to make the report available to the public.

Agreed-Upon Procedures Engagements

Compliance with Standards

Requirement: Compliance with Standards

7.78 GAGAS establishes requirements for agreed-upon procedures engagements in addition to the requirements for agreed-upon procedures engagements contained in the AICPA's SSAEs. Auditors should comply with the additional GAGAS requirements, along with the applicable AICPA requirements, when citing GAGAS in their agreed-upon procedures engagement reports.

Licensing and Certification

Requirements: Licensing and Certification

7.79 Auditors engaged to conduct agreed-upon procedures engagements in the United States who do not work for a government audit organization should be licensed CPAs, persons working for licensed certified public accounting firms, or licensed accountants in

states that have multiclass licensing systems that recognize licensed accountants other than CPAs.

7.80 Auditors engaged to conduct agreed-upon procedures engagements of entities operating outside of the United States who do not work for a government audit organization should meet the qualifications indicated in paragraph 7.79, have certifications that meet all applicable national and international standards and serve in their respective countries as the functional equivalent of CPAs in the United States, or work for nongovernment audit organizations that are the functional equivalent of licensed certified public accounting firms in the United States.

Noncompliance with
Provisions of Laws,
Regulations, Contracts,
and Grant Agreements

**Requirement: Noncompliance with Provisions of Laws,
Regulations, Contracts, and Grant Agreements**

7.81 Auditors should extend the AICPA requirements concerning consideration of noncompliance with laws and regulations to include consideration of noncompliance with provisions of contracts and grant agreements.⁶³

Reporting Auditors'
Compliance with GAGAS

Requirement: Reporting Auditors' Compliance with GAGAS

7.82 When auditors comply with all applicable GAGAS requirements for agreed-upon procedures engagements, they should include a statement in the agreed-upon procedures engagement report that they conducted the engagement in accordance with GAGAS.⁶⁴

⁶³See para. .41 of AT-C section 215, *Agreed-Up Procedures Engagements* (AICPA, *Professional Standards*).

⁶⁴See paras. 2.16 through 2.19 for information on the GAGAS compliance statement.

Application Guidance: Reporting Auditors' Compliance with GAGAS

7.83 Because GAGAS incorporates by reference the AICPA's attestation standards, GAGAS does not require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS. GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of the AICPA or other standards.

7.84 Because agreed-upon procedures engagements are substantially less in scope than audits and examination engagements, it is important not to deviate from the required reporting elements contained in the attestation standards incorporated by reference in GAGAS, other than including the reference to GAGAS. For example, a required element of the report on agreed-upon procedures is a statement that the auditors were not engaged to and did not conduct an examination or a review of the subject matter, the objective of which would be the expression of an opinion or a conclusion, respectively, and that had the auditors performed additional procedures, other matters may have come to their attention that would have been reported.⁶⁵ Including only those elements that the AICPA reporting standards for agreed-upon procedures engagements require or permit helps ensure that auditors comply with the AICPA standards and that users of GAGAS reports understand the nature of the work performed and the results of the agreed-upon procedures engagement.

Distributing Reports

Requirement: Distributing Reports

7.85 Distribution of reports completed in accordance with GAGAS depends on the auditors' relationship with the audited organization and the nature of the information contained in the reports. If the subject matter or the assertion involves material that is classified or contains confidential or sensitive information, auditors should limit the report distribution. Auditors should document any limitation on report distribution.

- a. An audit organization in a government entity should distribute reports to those charged with governance, to the appropriate

⁶⁵See para. .34(o) and .34(q) of AT-C section 215, *Agreed-Up Procedures Engagements* (AICPA, *Professional Standards*).

audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the engagements. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority and to others authorized to receive such reports.

- b. A public accounting firm contracted to conduct an agreed-upon procedures engagement in accordance with GAGAS should clarify report distribution responsibilities with the engaging party. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the engagement about which officials or organizations will receive the report and the steps being taken to make the report available to the public.

Reviews of Financial Statements

Compliance with Standards

Requirement: Compliance with Standards

7.86 GAGAS establishes requirements for reviews of financial statements in addition to the requirements for reviews of financial statements contained in the AICPA's AR-C section 90, *Review of Financial Statements*.⁶⁶ Auditors should comply with the additional GAGAS requirements, along with the applicable AICPA requirements, when citing GAGAS in their review engagement reports.

Licensing and Certification

Requirements: Licensing and Certification

7.87 Auditors engaged to conduct reviews of financial statements in the United States who do not work for a government audit organization should be licensed CPAs, persons working for licensed certified public

⁶⁶AICPA, *Professional Standards*.



Audit & Reporting Group

Trends in City Population and Budget Data

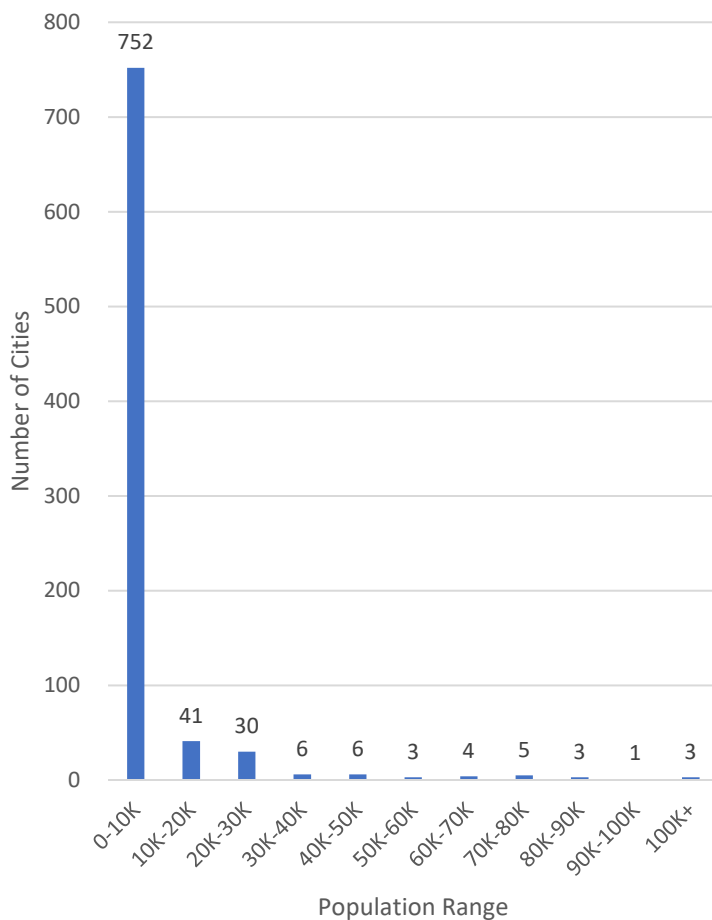
The following graphs and tables are from the "City and Town Data 2022" spreadsheet.

Average Audit Cost	\$18,504
Average Financial Statement Cost	\$6,169

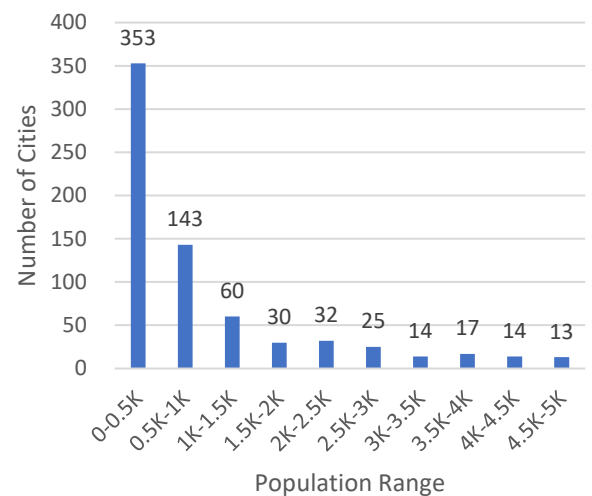
Cash Basis Cities	348
GAAP Basis Cities	506
Cities with a Separate Clerk Treasurer	424
Cities with a Combined Clerk Treasurer	430

GAAP and Separate Clerk and Treasurer	288
GAAP and Combined Clerk Treasurer	218
Cash and Separate Clerk and Treasurer	136
Cash and Combined Clerk Treasurer	212

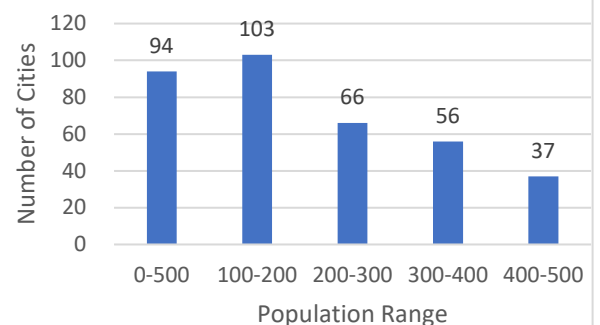
City Populations

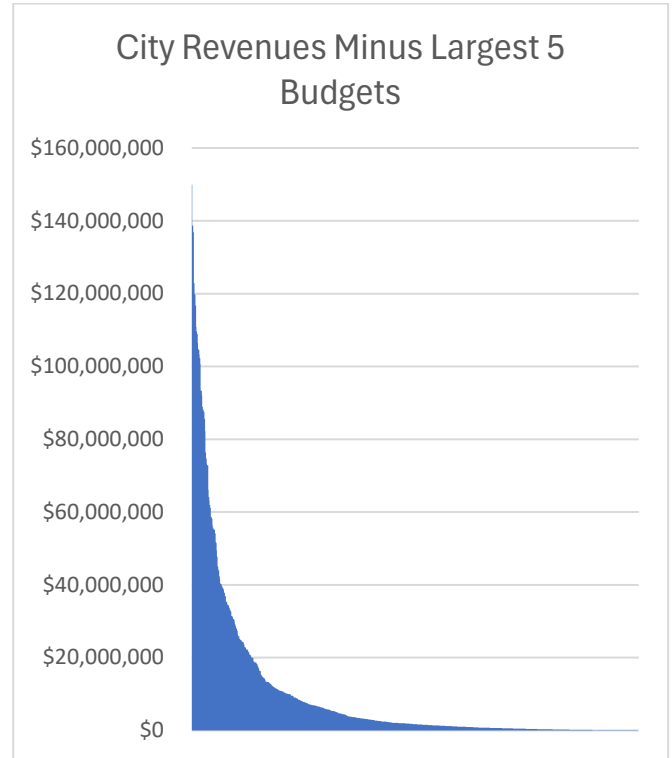
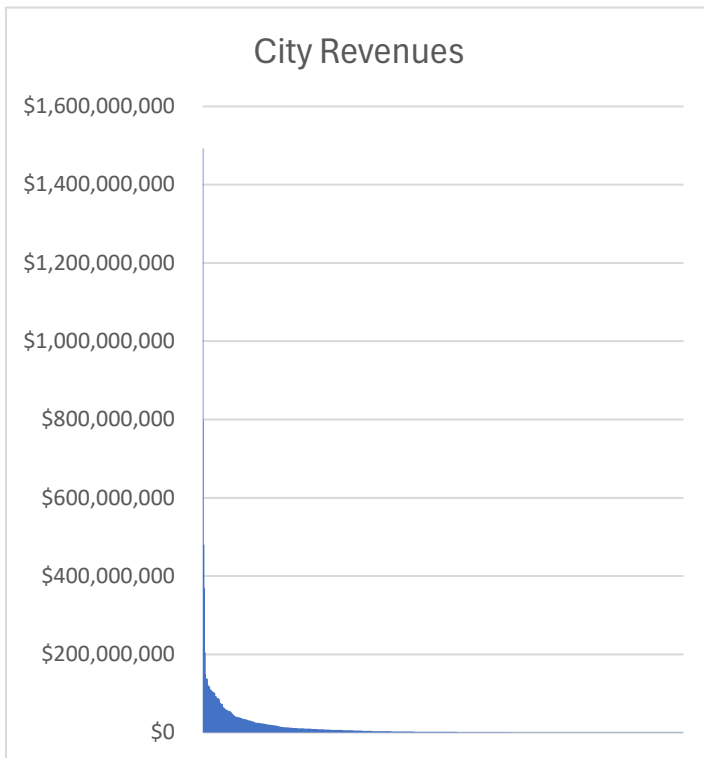


Smaller Cities Populations

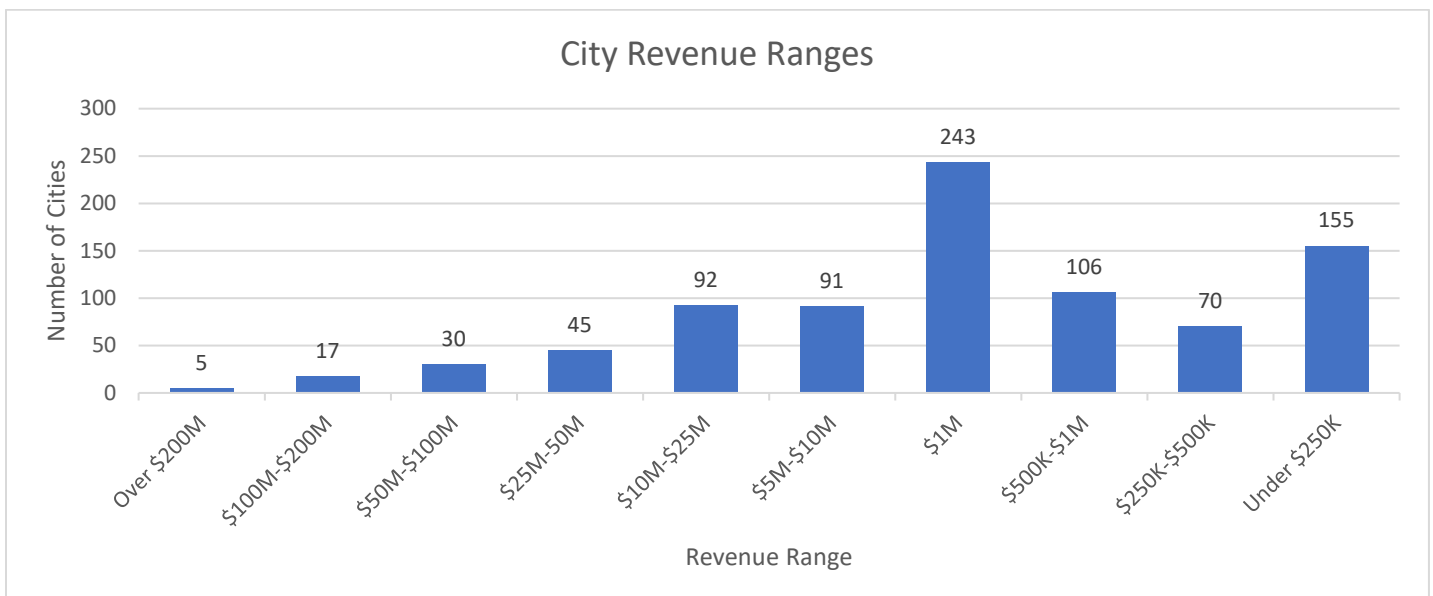


Smallest Cities Populations

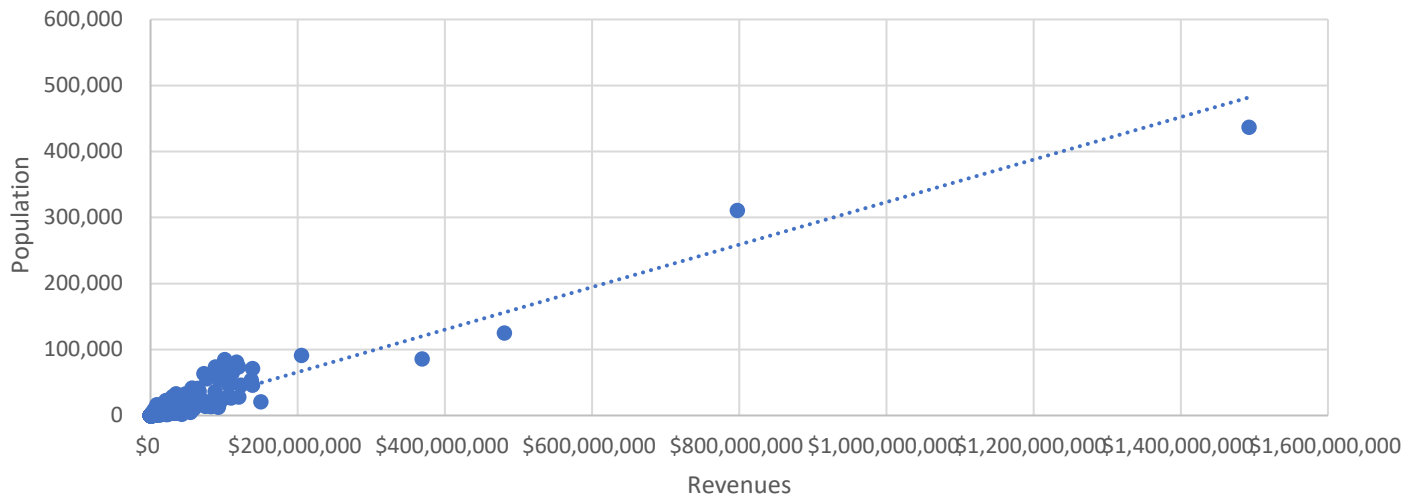




Note: Revenue ranges below are not in equal intervals.



Population v Revenues



Population v Revenues Minus Largest 5 Budgets

