Audit & Reporting Group
Agenda: Dec. 17, 2025

I. Call to Order
Chair Auditor Blaha.

II. Attendance
Roll call.

III. Review and Approval of Minutes
Meeting Minutes November 6, 2025.

IV. Summarize Recent Press Conversations
Would anyone from AaRG be willing to talk to the press when background interviews are needed pertaining to the public finance employee shortage?

V. Discuss Survey and AUP Principles
What are the 5 most essential parts to keep of an AUP? Which part would you drop?

VI. Audit Structure Analysis Documents
Audit Structure Analysis for Cities
Audit Structure Analysis for Towns

VII. Accounting Education Ideas

VIII. Next Meeting
February 10, 9:00am – 10:30am
Virtual 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).

Meeting Minutes
11-6-25 Draft Minutes

Office of the State Auditor

Members Present
Julie Blaha, State Auditor
State Senator Heather Gustafson
Representative Patti Anderson
Lisa Sova, League of Minnesota Cities
Joel Stencel, Minnesota School Boards Association
Sharon Provos, Association of Metropolitan Municipalities
E.J. Moberg, Minnesota Government Finance Officers Association
Andy Berg, Minnesota Society of CPAs
Jamie Fay, CPA, and Stakeholder
Paul Moore, Department of Management and Budget
Charles Selcer, Minnesota Board of Accountancy
Jake Sieg, Association of Minnesota Counties
Jake Rossow, Minnesota Board of Water and Soil Resources

Members Excused
Representative Bjorn Olson
Kelly Gutierrez, Minnesota Charter Schools Association
Chris Knopik, Minnesota Government Finance Officers Association
Jennifer Smith, Minnesota Association of School Business Officials
David Frame, Minnesota Association of Townships
Cap O'Rourke, MN Association of Small Cities
Wilfredo Roman-Catala, Minnesota Inter-County Association
Cristen Christensen, MN Inter-County Association
Andi Johnson, Minnesota Association of School Business Officials
Miranda Wendlandt, Minnesota Society of CPAs
Martha Burton, Department of Revenue
Cathy Erickson, Department of Education

Office of the State Auditor and Legislative Support Present
Chad Struss, Deputy State Auditor
Nadine Kottom-Dale, Communications Director, and Lead Staffer
Ramona Advani, Special Investigations Director/Data Practices Official
Lisa Young, Director of Standards and Procedures
John Jernberg, Government Information
Christy John, Government Information
Burke Spizale, Executive Aide

I. Call to Order

Auditor Blaha called the meeting to order at 10:06 a.m.

II. Attendance

Nadine Kottom-Dale called the role.

III. Review and Approval of Minutes

Members reviewed the May 28, 2025, meeting minutes that had been provided in advance. The meeting minutes were accepted with no changes.

IV. Update to Communication on Threshold Changes

The Office of the State Auditor's (OSA) Government Information Division outlined its outreach efforts related to Agreed-Upon Procedures engagements. During Minnesota's 2025 legislative session, lawmakers changed AUP reporting requirements for cities, towns and special districts. The changes take effect Aug. 1, 2025, for audits performed in 2026.

Under the new law, the audit threshold for certain entities is set at $1 million in 2025, with annual inflation adjustments thereafter. While the higher threshold may reduce audit requirements for some entities, debt, grant or other contractual agreements may still require audits under their terms.

To communicate the changes, the division created a webpage explaining the potential impacts and conducted a direct correspondence campaign with affected entities.

Members discussed their firm's outreach efforts to clients. Despite the AUP shift, clients said they'd still conduct annual audits. Members also discussed new reporting requirements and their contingency for aid.

V. Summary of Summer Tour

Auditor Blaha updated members on her summer tour, during which she and her staff met with several private audit firms and stakeholder groups to discuss the AUP transition and other topics. Nearly all firms and groups stressed the need for clear, early communication from the OSA about law changes, deadlines and requirements for audits and AUPs.

They recommended publishing articles and educational materials in the Minnesota Association of Townships magazine and League of Minnesota Cities publications, as well as posting online FAQs explaining AUPs, audit preparation and reporting processes.

Many private audit firms also said they prefer annual AUP cycles rather than a once-every-five-years schedule. They further recommended compilations or limited reviews in off years to maintain oversight and readiness.

Other topics of discussion included: Staffing and training challenges, GASB and reporting concerns and accounting curriculum for college students. Members also discussed these topics and potential solutions.

VI. Open Dialogue of AUP Changes

Auditor Blaha and staff members presented a list of potential AUP changes to members for discussion. Topics included:

- If the entity uses purchasing cards, select an additional sample of cash disbursements used to pay the purchasing card(s), based on the sample size guidance from procedure number 6. Test the sample to determine that itemized receipts are present for each purchase made with the card, that there was a business purpose for each transaction, and that the transaction was approved.
- Verify that the entity, upon adoption of the entity budget, reported the annual summary budget to the Office of the State Auditor by January 31 of each budget year. (6.745)
- Determine whether the Reporting Form is complete (whether it includes all information from the general ledger or subsidiary ledgers (including all discretely presented component units) and has been submitted to the Office of the State Auditor by the due date (June 15).

Members discussed potential topics, the benefits of ranking the list and new ideas. Additionally, members also discussed the structure of a combined clerk/treasurer role and its oversight duties.

Members also discussed the need for all entities to have a review of their finances by an outside group to prevent waste, fraud and abuse.

VII. Adjournment

The meeting was adjourned at 11:34 a.m.

Audit Structure Analysis for Cities

Office of the State Auditor

Current Model (with Combined C/T Factor) (based on 2023 reported revenues)

- Total Cities: 855
- Total Revenues: $13,180,350,932
- Total Revenues Audited: $13,129,121,350 (see below for the breakdown based on the type of audit)
- % of Revenues Audited: 99.6%

Audit Type	# of Audits	Revenues Audited
GAAP (Audit Required (Pop > 2500)	236	$11,963,315,149
Cash (Audit Required, Pop < 2500, Combined C/T, Rev > $274K)	318	$783,573,966
AUP (Required), Pop < 2500, Combined C/T, Rev < $274K)	23	$4,339,812
Cash (Not Required, Pop < 2500, Separate C/T)	100	$377,892,423
Total entities/revenues audited	677	$13,129,121,350

Proposed Model (Population + Revenue Only) (based on 2023 reported revenues)

- Total Cities: 855
- Total Revenues: $13,180,350,932
- Total Revenues Audited: $13,180,350,932
- % of Revenues Audited: 100% (Note: AUP is done once every five years)

Audit Type	# of Audits	Revenues Audited
GAAP (Pop > 2500)	236	$11,963,315,149
Cash (Pop < 2500, Rev ≥ $1M)	288	$1,095,800,239
AUP (Pop < 2500, Rev < $1M)	331	$121,235,544

Current Model (with Combined C/T Factor)

Pros:

- **Higher revenue coverage:** 99.6% of total revenues are audited.
- **More audits conducted:** 677 audits total, including voluntary ones.
- **Flexibility for small cities:** Cities under 2,500 population with combined C/T and under the threshold can choose AUP (Agreed-Upon Procedures) every five years.

Cons:

- **Some audits are not statutorily required:** 100 audits (99 GAAP + 10 cash) are done voluntarily.
- **Difficulty in tracking voluntary audits and AUPs.**

Proposed Model (Population + Revenue Only)

Pros:

- **Streamlined requirements:** Audits are more targeted based on financial significance and population.
- **Potential Cost Savings: Reduced cash audits may lead to lower expenses.**
- **Accountability: Every City will have some type of audit/ review in the 5-**year period
- **Audit Coverage**: 100% audit coverage over the 5-year period.

Cons:

- **Lower audit coverage**
- **Less frequent oversight for small cities:** AUPs only once every five years may miss emerging issues.

So, Which Is Better?

It depends on the priorities:

Priority	Better Approach
Maximizing financial oversight	Current model
Reducing audit burden/costs	Proposed model
Ensuring small cities aren't overburdened	Proposed model
Capturing more revenue under audit	Current model

Since the current model already audits nearly all revenues for cities, the benefit of switching to the alternative is marginal.

Audit Structure Analysis for Towns

Current Model (with Combined C/T) (based on 2023 reported revenues)

- **Total Towns**: 1,776
- **Total Revenues**: $403,976,514
- **Total Revenues Audited**: $81,702,013 (see below for the breakdown based on the type of audit)
- **% of Revenues Audited**: **20.2%**

Audit Type	# of Audits	Revenues Audited
GAAP (Required, Pop > 2500, Rev > $1.223M)	21	$54,093,263
Cash (Required, Pop > 2500, Rev $274K–$1.223M)	4	$4,053,652
Cash (Required, Pop < 2500, Combined C/T, Rev > $274K)	24	$20,821,664
AUP (Required, Pop < 2500, Combined C/T, Rev < $274K)	12	$1,678,590
Cash (Not Required, Pop < 2500, Separate C/T)	2	$1,054,844
Total entities/revenues audited	**63***	**$81,702,013**

**1715 towns are without any review or audit*

Proposed Model (No Combined C/T Factor) (based on 2023 reported revenues)

- **Total Towns**: 1,777
- **Total Revenues**: $403,976,514
- **Total Revenues Audited**: **$403,976,514**
- **% of Revenues Audited**: **100%** **(Note: AUP is done once every five years)**

Audit Type	# of Audits	Revenues Audited
GAAP (Pop > 2500)	39	$69,436,155
Cash (Pop < 2500, Rev ≥ $1M)	19	$29,545,804
AUP (Pop < 2500, Rev < $1M)	1,718	$304,994,555

Current Model (with Combined C/T Factor)
Pros:

- **Targeted oversight**: Focuses audits on towns with higher dollar value risk (combined C/T and higher revenues).
- **Lower audit burden**: Only 20% of total revenues are audited, reducing costs and administrative load.
- **Resource-efficient**: Fewer audits mean less strain on auditing staff and town budgets.

Cons:

- **Lower transparency**: 80% of revenues go unaudited annually, which could raise concerns about accountability.
- **Potential inequity**: Similar towns may be treated differently based on internal structure (combined vs. separate C/T).

Proposed Model (Population + Revenue Only)
Pros:

- **Full transparency**: 100% of revenues are subject to audit or AUP.
- **Simplified rules**: Easier to administer and explain — no need to track C/T structure.
- **Equitable treatment**: All towns are evaluated on the same objective criteria.
- **Entities not switching from combined C/T structure to separate C/T structure to avoid audits/ AUP's**

Cons:

- **High AUP volume**: 1,718 AUPs could overwhelm audit firms and increase difficulty finding firms to perform AUP's
- **Cost implications**: Even AUPs have a cost and requiring them for all small towns may not be efficient.

So, Which Is Better?
It depends on the priorities:

Priority	**Better Approach**
Audit Coverage	The proposed model audits **100%** of revenues, compared to only **20.2%** under the current model.
Simplicity	The proposed model removes the combined C/T factor simplifying the audit criteria, making it easier to apply uniformly.
Audit Volume	Under the proposed model the number of AUPs increases dramatically (from 12 to 1,718), which could have **resource and cost implications**.
Equity	The proposed model treats all towns under 2,500 population the same, based solely on revenue, which may be seen as more equitable.

Suggestion:
Consider lowering the threshold for Towns to $200,000 or implementing tiered thresholds. This change would increase the number of cash audits while decreasing the number of Agreed-Upon Procedures (AUPs). See next page

Audit Tiers for Populations Under 25,000

Tier	Revenue Range	Audit Type	Entity Count	Revenues Audited
Tier 1	Less than $200,000	Town Board of Audit Review	1,219	$124,753,994
Tier 2	$200,000 – $500,000	Agreed-Upon Procedures (AUP)	406	$118,504,524
Tier 3	$500,001 – $1,000,000	Cash Audit	93	$61,736,037
Tier 4	Greater than $1,000,000	GAAP Audit	19	$29,545,804
		Total count/revenues audited	1,737	334,540,359

Population above 2500

Audit Type	# of Audits	Revenues Audited
GAAP (Required, Pop > 2500, Rev > $1M)	39	$69,436,155