



## Agreed-Upon Procedures Guide for Small Entities

The following procedures should be performed during the Agreed-Upon Procedures engagement:

1. Obtain and read the meeting minutes of the governing body for the period covered by the Agreed-Upon Procedures engagement. For the minutes of four meetings, determine if the minutes include the results of actions taken, including the votes made, are signed by the preparer and the Board Chair/President as approved in the subsequent monthly meeting for the [Entity].
2. Inquire of [Entity]'s management about whether they have assessed whether internal controls are adequate enough to prevent or detect errors or fraud or that internal controls are in place to mitigate the risk. Determine if they have documented that risk assessment and, if so, read documentation of that risk assessment for adequacy.

*An adequate system of internal controls is likely not possible for most small entities. The small staff and lack of training in internal control pose significant challenges to maintaining adequate controls. However, the fact that an [Entity] has considered what controls could be maintained and how to attempt to mitigate significant deficiencies provides some reassurance about the control environment.*

*The purpose of this procedure is to determine whether the [Entity] has given consideration to maintaining internal controls.*

3. Inquire of [Entity]'s management about the [Entity]'s procedures and observe the records used to account for the receipts and disbursements of funds.

*Most transactions of a small [Entity] involve either the receipt or payment of money. Therefore, it is important good records are maintained for receipts and disbursements. The procedures for maintaining those records should be adequate enough to provide reliable information.*

*The records should include a reference number, date, source or payee, purpose or description, amount, and account code.*

4. For three monthly bank account reconciliations, determine that they are being performed in a timely manner and that all bank and investment statements for the fiscal year are complete and on-hand. View the monthly bank reconciliations for each month during 202X to determine whether they had been reviewed and signed by a Board/Council member.

*In a small environment, bank reconciliations provide one of the most significant internal control activities. Since the main asset of most of these entities is cash, and most of the [Entity]'s activity is recorded in financial institution accounts, a relatively simple procedure like the bank reconciliation is an essential control for determining whether errors or fraud have occurred.*

*The review for signoff by a Board member is done in situations where segregation of duties is not adequate and, thus, supervision of bank activity becomes a key mitigating internal control. Scanning the entire year's reconciliation is done to ensure that the control is in place throughout the year.*

5. Mathematically, recompute two bank reconciliations and compare the resultant cash balances per bank to the respective general ledger account balances.

*The purpose of this procedure is to determine if the reconciliations are being accurately completed. The reconciliations should be mathematically correct and traced between the [Entity]'s records and the bank statements.*

6. Select a sample of cash disbursements to determine that the amount recorded in the general ledger as disbursed agrees to supporting documentation by confirming that the amount, payee, date, and description agree to the vendor's invoice, purchase order, contract, and canceled check, as applicable, and the disbursement was approved for payment.

*The purpose of the procedure is to identify whether the sampled items are properly recorded and have a valid purpose. The goal is to trace the recorded transaction to supporting documentation and the imaged canceled check.*

**For selecting a sample, we recommend using the guidance within the AICPA's Audit and Accounting Guide: Government Auditing Standards and Single Audits, Chapter 11 – Audit Sampling Considerations of Uniform Guidance Compliance Audits.** While the guidance is directed towards compliance auditing, it provides a useful guide for small populations:

***Small Population Sample Size Table***

<b><i>Frequency and Population Size</i></b>	<b><i>Sample Size</i></b>
Quarterly (4)	2
Monthly (12)	2-4
Semimonthly (24)	3-8
Weekly (52)	5-9
Between 52 and 250	10 percent of the population*

*\*A rule of thumb some auditors follow, but the sample size is subject to professional judgment.*

For populations larger than 250, a sample size of 25 should be selected.

7. If the entity uses purchasing cards, select a sample of cash disbursements used to pay the purchasing card(s), based on the sample size guidance from procedure 6. 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.

*The purpose of the procedure is to identify whether the sample items are properly recorded and have a valid purpose. The goal is to trace the recorded transaction to supporting documentation.*

8. Inquire of how receipts are tracked to determine if receipts journals are complete. Determine total collections reflected in the receipts journal agrees to cash deposits shown on the bank statement for one month.

*The purpose of the procedure is to determine for the month selected that the amounts recorded in the receipts journal were deposited in the bank.*

9. Confirm checking and savings accounts and certificates of deposits and investment accounts on the general ledger as of December 31, 202X, with financial institutions.

*Use professional judgment in deciding whether to confirm some or all of the accounts. Confirmations can also be used to identify other accounts using the [Entity]’s employer identification number (EIN).*

10. Confirm with [Entity]’s county the amount of property tax receipts distributed to the [Entity] for the year ended December 31, 202X, and compare to amounts recorded in the general ledger.

*Procedure is not applicable if no property tax revenues. The audit practitioner also can confirm special assessments collected by the county.*

11. Determine that the [Entity] had non-routine journal entries, such as adjustments or reclassifications, posted to the general ledger. Inspect individually significant items for the following attributes: (a) journal entries are reasonable and have supporting documentation; and (b) the [Entity] has procedures that require journal entries to be reviewed, and there is evidence the reviews are being performed.

*Generally, most small entities will not record a large number of journal entries, if any. Therefore, this procedure will not be applicable in a number of cases. The same sample size guidance discussed in procedure 6 can be used as a guide.*

12. Determine whether there are records on hand to document the wages paid to employees. For a sample of two payroll checks for each of five employees, determine the employee’s hours worked, per the payroll register, agrees to the employee’s time sheet, and the pay rate agrees to the personnel file or approved wage schedule. Confirm payment date is subsequent to the pay period.

*Since payroll expenditures can be a large portion of a governmental [Entity]’s expenditures, records should be adequate to document who was paid, for what, and how much. For small entities with fewer than five employees or non-standard payroll periods, the auditor should adjust the sample size as necessary.*

13. Obtain quarterly reports on salary withholdings and determine if they are filed in a timely manner with the state and federal governments.

*The purpose of this procedure is to alert the [Entity] of issues that may exist should the [Entity] not be current or not properly filing withholding and, thus, being subject to potential penalties.*

14. Inquire of management, view, and determine if records are kept detailing land, buildings, and equipment owned by the [Entity].

*If the [Entity] has significant capital assets, the audit practitioner should determine if the [Entity] is maintaining records for those assets.*

15. Inquire of management and determine if the [Entity] has outstanding debt and, if appropriate, agree the scheduled payments to disbursements reflected in the monthly bank statement.

*The audit practitioner should determine if accurate debt records are maintained.*

16. Inquire of management whether the entity has network security, such as a firewall, VPN for remote access users, password policy, access controls, antivirus software, intrusion detection/prevention systems, or other items.

*The purpose of the procedure is to identify the network security protections and determine the entity has given consideration to maintaining network security.*

For the security question above, do not include specific information that could compromise an entity's security.

## Compliance

Our procedures regarding compliance matters are as follows:

1. Determine that the [Entity] is current with filing its annual reporting forms to the Office of the State Auditor and that the amounts reported reflect the amounts recorded in the [Entity]'s records.

*The audit practitioner may be asked to assist in filing the annual reporting form.*

2. Complete the following checklists of the *Minnesota Legal Compliance Audit Guide for Cities/Towns/ Other Political Subdivisions (adjust)* for the [Entity]:

*The Minnesota Legal Compliance Audit Guide for Cities/Towns/Other Political Subdivisions (adjust) checklists should be completed for each applicable section. If a section is not applicable to the [Entity], the reason should be identified.*

- (a) Depositories of Public Funds and Public Investments
- (b) Conflicts of Interest
- (c) Public Indebtedness
- (d) Contracting – Bid Laws
- (e) Claims and Disbursements
- (f) Local Government Miscellaneous Provisions
- (g) Tax Increment Financing

3. Inquire of the [Entity] management of any instances (regardless of materiality) indicating any fraud, illegal acts, or noncompliance, and whether they have reported the instances to the Office of the State Auditor.

*The purpose of the procedure is to determine if any instances of fraud, illegal acts, or noncompliance have occurred, and whether the [Entity] has fulfilled its reporting requirement under Minn. Stat. § 609.456.*

*The audit practitioner need not perform procedures beyond those agreed to by the parties involved (for example, the client and specified parties). If, in connection with the application of the agreed-upon procedures, matters come to the audit practitioner's attention by other means that significantly contradict the subject matter, the audit practitioner should include such matters in his or her report.*

*Deciding whether such matters are important enough to communicate is a matter of professional judgment. It is generally better to err on the side of conservatism and report any matters that are relevant to the subject matter and might be considered significant to the client or specified parties.*