



Audit & Reporting Group

Agenda: Oct. 8, 2024

I. **Call to Order**

Chair Auditor Blaha.

II. **Attendance**

Roll call.

III. **Review and Approval of Minutes**

Meeting Minutes September 24, 2024.

IV. **Continue Discussion of Examinations, focusing on Special Districts**

Special District Requirements

Discussion Matrix: If you have ideas to share before the meeting, visit <https://forms.office.com/g/cTAltj0U4T> or use the QR code to fill in our discussion matrix. We will share your ideas on the day of the meeting.



V. **Preview Next Meeting Topics**

VI. **Next Meeting**

Wednesday, October 30, 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
Representative Patti Anderson
Representative Bjorn Olson
Lisa Sova, League of Minnesota Cities
David Frame, Minnesota Association of Townships
Joel Stencel, Minnesota School Boards Association
Kelly Gutierrez, Minnesota Charter Schools Association
Cap O'Rourke, MN Association of Small Cities
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
Charles Selcer, Minnesota Board of Accountancy
Jake Sieg, Association of Minnesota Counties

Members Excused

State Senator Heather Gustafson
Sharon Provos, Association of Metropolitan Municipalities
Cristen Christensen, MN Inter-County Association
Andi Johnson, Minnesota Association of School Business Officials
Martha Burton, Department of Revenue
Cathy Erickson, Department of Education
Jake Rossow, Minnesota Board of Water and Soil Resources

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
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 September 12, 2024 meeting minutes that had been provided in advance. The meeting minutes were accepted with no changes.

IV. Exam Goals

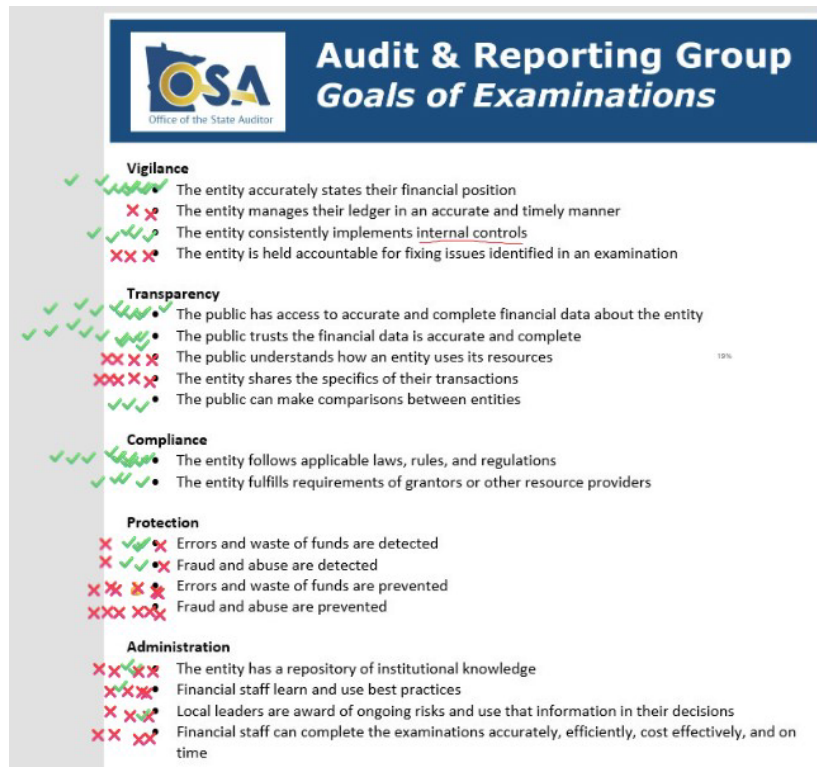
Auditor Blaha created a reference document titled: Goals of Examinations. She presented the document and used the live clicking feature on the Teams whiteboard to encourage participation from the AaRG members. She invited everyone to place a green check mark next to items they believed should be goals for examinations, and a red X next to those they felt were not relevant.

The group agreed these items could be realistic goals for an audit:

- The entity accurately states their financial position.
- The entity consistently implements internal controls.
- The public has access to accurate and complete financial data about the entity.
- The public trusts the financial data is accurate and complete.
- The public can make comparisons between entities.
- The entity follows applicable laws, rules, and regulations.
- The entity fulfills requirements of grantors or other resource providers.

The group agreed these items were not what an audit is for:

- The entity manages their ledger in an accurate and timely manner.
- The entity is held accountable for fixing issues identified in an examination.
- The public understands how an entity uses its resources.
- The entity shares the specifics of their transactions.
- Errors and waste of funds are prevented.
- Fraud and abuse are prevented.
- Financial staff can complete the examinations accurately, efficiently, cost effectively, and on time.



**Audit & Reporting Group
Goals of Examinations**

Vigilance

- ✓✓✓ The entity accurately states their financial position
- ✗✗✗ The entity manages their ledger in an accurate and timely manner
- ✓✓✓ The entity consistently implements internal controls
- ✗✗✗ The entity is held accountable for fixing issues identified in an examination

Transparency

- ✓✓✓ The public has access to accurate and complete financial data about the entity
- ✓✓✓ The public trusts the financial data is accurate and complete
- ✗✗✗ The public understands how an entity uses its resources
- ✗✗✗ The entity shares the specifics of their transactions
- ✓✓✓ The public can make comparisons between entities

Compliance

- ✓✓✓ The entity follows applicable laws, rules, and regulations
- ✓✓✓ The entity fulfills requirements of grantors or other resource providers

Protection

- ✗✗✗ Errors and waste of funds are detected
- ✗✗✗ Fraud and abuse are detected
- ✗✗✗ Errors and waste of funds are prevented
- ✗✗✗ Fraud and abuse are prevented

Administration

- ✗✗✗ The entity has a repository of institutional knowledge
- ✗✗✗ Financial staff learn and use best practices
- ✗✗✗ Local leaders are aware of ongoing risks and use that information in their decisions
- ✗✗✗ Financial staff can complete the examinations accurately, efficiently, cost effectively, and on time

Group Discussion:**Why can't an audit hold an entity accountable for fixing issues identified in an examination?**

We can identify the issues, but ultimately, the organization and its leadership must implement the necessary fixes. Accountability is a key component. The type of issue matters; for instance, a legal compliance issue might arise if an organization does not publish claims over \$2,000 in its minutes. If the board decides this practice is financially unfeasible, that is a choice they make.

Why didn't more people agree that an audit can be used to help an entity manage its ledger accurately and in a timely manner?

Timeliness varies significantly between organizations; what one considers timely may differ from another. It is important to recognize that an audit alone may not effectively keep organizations on track. For example, organizations that only close their books every two years are unlikely to increase their frequency of audits to once a year, even if required. Therefore, regardless of whether audits occur annually or biennially, the issues of timeliness and accuracy remain unchanged.

The protection category shows some differences in opinions. Why are opinions mixed?

The issue largely revolves around public perception of auditors' roles. While the public often believes that auditors should continuously look for fraud, their primary responsibility is to report any fraud they discover, not to actively seek it out. This disconnect highlights the difference between public expectations and professional standards.

Additionally, concerns about wasteful spending often stem from inadequate financial records. For example, if an organization is unaware of its available funds, it may miss opportunities, such as purchasing property at a better price. Accurate records are essential for efficiency; without them, organizations risk being wasteful by failing to effectively track their financial resources.

The administration category also shows differences in opinions. Why are opinions mixed?

Institutional knowledge is often limited in financial statements due to their lack of detail. We can identify overall spending in areas like public safety, but we will not gain insights into the specifics behind those expenditures.

Audits can help understand the city's history and decision-making processes. However, many issues identified in audits may not reflect the ultimate goals of a full GAAP financial statement audit. Alternative methods for conveying this information could be applied consistently across local governments.

V. Report Matrix Draft

Auditor Blaha created and presented a draft document titled "Report Matrix Draft." This document aims to guide and report our discussion, and we may use a matrix of options compared to risks and benefits.

The group held a brainstorming session to generate suggestions for changes to the document. Auditor Blaha and OSA team members will revise and update this matrix. Ideas included:

- Allow smaller Soil and Water Districts to have biennial financial audits.



- Allow smaller Soil and Water Districts to have an annual agreed upon procedures.
- Group smaller entities into coops to share financial staff and duties.
- Allow cities with small budgets to have biennial budgets.
- Allow cities with small budgets to have annual agreed upon procedures.
- Allow Townships perform annual agreed upon procedures on another township (kind of like peer reviewed).
- Create accounting statewide system for small government based on distributed ledger technology.
- Keep counties at annual financial audit.
- Allow counties to use a modified cash basis annual financial audit.



Audit & Reporting Group Examinations

Idea	Current Situation / Who's Affected	Benefits	Drawbacks	Costs and/or Savings	Impact on the Shortage of Public Finance Staff
Keep counties at annual full GAAP financial audits	87 minnesota counties, matches current structure	No conflict with single audit requirements, comparability between counties, no conflict with obtaining GFOA award	No improvement in cost or complexity	No change in cost	No change in impact on shortages
Allow counties to use a modified cash basis annual financial audit	87 minnesota counties, no current counties do this	Will drop complicated GASB requirements from recent years, will simplify the complexity, increase timeliness of reporting, increase clarity of financial statements for local leaders	Potential conflicts with single audit requirements, cost to the body that sets the parameters	Cheaper to audit, cheaper to audit, eliminates actuarial costs	Decrease workload on auditors and counties

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Notes:	Check on how many have single audits	Is GAAP required to keep low risk auditee status?	Are there any low risk entities that would even fall into this category?	Can we quantify these ideas?	Does our annual reporting solve comparability issues?
	Does the threshold change the analysis?	Who determines the parameters of the modification	Making a change optional changes the dynamics	Thresholds that don't cause a lot of fluctuations in requirements are less costly	
Allow smaller Soil and Water Districts to have biennial financial audits					
Allow smaller Soil and Water Districts to have an annual AUP					
Group smaller entities into a coops to share financial staff and duties					
Allow cities with small budgets to have biennial budgets					
Allow cities with small budgets to have annual AUP					
Allow Townships perform AUPs on					

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another township (kind of like peer review)					
Create statewide accounting system for small government based on distributed ledger technology					

VI. Preview Next Meeting Topics

Auditor Blaha asked the group for their input on the next meeting's topic, and they decided to focus on special districts. She encouraged members to think of any ideas in advance and mentioned that they would provide an option to submit this information ahead of time, allowing for prepopulation of the discussion points.

VII. Adjournment

The meeting was adjourned at 3:53.



Audit & Reporting Group

Special District Requirements

Annual financial audit required regardless of revenues.

<i>Special District Type</i>	<i>Number of Districts</i>	<i>MN Statute</i>
Soil and Water Conservation District	97	§ 103C.325, MOU between OSA & BWSR
Watershed District	45	§ 103D.355, § 6.756, R.8410.0150
Watershed Management Organization	25	§ 103B.227, § 6.756, R.8410.0150

Annual financial audit required if revenues are over \$274,000. An agreed upon procedures (AUP) is required every five years if revenues are under \$274,000.

Each falls under MN Statute § 6.756.

<i>Special District Type</i>	<i>Number of Districts</i>	<i>Special District Type</i>	<i>Number of Districts</i>
Housing and Redevelopment Authority	86	Transit Commission	8
Mental Health/Family Services Collaborative	76	Solid Waste Commissions/Boards	7
Public Safety Authority	49	Recreation Authority	6
Sanitation District	42	Rural Water System	6
Education District	23	Computing Consortium	5
Health/Human Service	21	Joint Powers Authority	5
Lake Improvement District	17	Regional Railroad Authority	5
Library District	14	Power Agency	4
Hospital District	13	Economic Development Authority	3
Service Cooperative	12	Lake Conservation District	3
Law Enforcement - Special Districts	10	Planning Agency/Board	2
Regional Development Commission	10	Training Center/Council	2
Airport Commission	9	Port Authority	1
Cable Commission	9		