# RELIEF ASSOCIATIONS

# DEPOSITORIES OF PUBLIC FUNDS

**AND**

**PUBLIC INVESTMENTS**

**LEGAL COMPLIANCE AUDIT GUIDE**

**DEPOSITORIES OF PUBLIC FUNDS**

**AND**

**PUBLIC INVESTMENTS**

Introduction

The depository and collateral requirements of Minn. Stat. §§ 356A.06, subd. 8a, and 118A.03 apply to fire relief associations.

For relief association audits, complete this section to determine if the relief association has properly deposited its funds in a properly designated depository with appropriate collateral or bond.

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| **Part I. Designation of Depository** |
| § 356A.06,subd. 8a |  | In the case of a relief association: |  |  |  |
|  |  | A. | Has each depository for assets, not held by the relief association’s custodian bank, been designated by the relief association’s governing board? |  |  |  |
|  |  | B. | Is each depository one of the following: |  |  |  |
|  |  |  | 1. | a national bank; |  |  |  |
|  |  |  | 2. | an insured state bank; |  |  |  |
|  |  |  | 3. | an insured credit union; or |  |  |  |
|  |  |  | 4. | an insured thrift institution? |  |  |  |
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|  |  |  |  | **Part II. Insuring or Securing Deposits** |  |  |  |
| § 118A.03 | A. | If a relief association entity desires to deposit an amount in excess of deposit insurance, it must obtain a bond or collateral which, when computed at its market value, shall be at least ten percent more than the amount of the excess deposit at the close of the banking day. For the purpose of this section, “banking day” has the meaning given in Federal Reserve Board Regulation CC, 12 C.F.R. § 229.2(f), and incorporates a financial institution’s cutoff hour established under Minn. Stat. § 336.4-108. If irrevocable standby letters of credit from Federal Home Loan Banks are used as collateral, the amount must be equal to the amount of the excess deposit at the close of the banking day. |  |  |  |
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|  | B. | Complete the spread sheet in this section to determine the amount of the government entity’s funds that is not insured and thus need to be either bonded or collateralized. Deposits held by credit unions are covered by separate deposit insurance rules promulgated by the National Credit Union Administration (NCUA). |  |  |  |
|  | C. | Was collateral coverage sufficient? (Answer after completing the spreadsheet on page 2-5.) |  |  |  |
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|  |  |  |  | **Part III. The Bond and Collateral** |  |  |  |
| § 118A.03, subd. 1 | A. | If a bond was furnished by the depository to the government entity, answer the following question: |  |  |  |
|  |  | 1. | Was the bond executed by a corporate surety company authorized to do business in the state? |  |  |  |
| § 118A.03, subd. 2 | B. | If the depository assigned collateral to the government entity, answer the following questions: |  |  |  |
|  |  | 1. | Was the collateral one of the following: |  |  |  |
|  |  |  | a. | U.S. government treasury bills, notes, or bonds; |  |  |  |
|  |  |  | b. | issues of a U.S. government agency or instrumentality that are quoted by a recognized industry quotation service available to the government entity; |  |  |  |
|  |  |  | c. | a general obligation of a state or local government, with taxing powers, rated “A” or better; |  |  |  |
|  |  |  | d. | a revenue obligation of a state or local government, with taxing powers, rated “AA” or better; |  |  |  |
|  |  |  | e. | unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity; |  |  |  |
|  |  |  | f. | an irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or |  |  |  |
|  |  |  | g. | time deposits insured by any federal agency? |  |  |  |
| § 118A.03,subd. 7 |  | 2. | Was the collateral placed for safekeeping: |  |  |  |
|  |  |  | a. | In a restricted account at the Federal Reserve Bank; or |  |  |  |
|  |  |  | b. | in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository? |  |  |  |
|  |  | 3. | Did the government entity approve of the selection of the safekeeping entity? |  |  |  |
| § 118A.03,subd. 4 |  | 4. | Was the collateral assignment in writing? |  |  |  |
|  |  | 5. | Did the assignment provide that, upon default, the depository shall release the collateral pledged to the government entity on demand, free of exchange or other charges? |  |  |  |
| § 118A.03,subd. 3 | C. | Collateral pledged must equal at least ten percent more than the uninsured and unbonded amount on deposit at the close of the banking day. If irrevocable standby letters of credit from Federal Home Loan Banks are used, the amount must be equal to the amount of the excess deposit at the close of the banking day. The depository may, at its discretion, furnish both a bond and collateral aggregating the required amount.For the purpose of this section, “banking day” has the meaning given in Federal Reserve Board Regulation CC, 12 C.F.R. § 229.2(f), and incorporates a financial institution’s cutoff hour established under Minn. Stat. § 336.4-108. |  |  |  |
|  |  | 1. | If a bond was obtained or standby letters of credit from Federal Home Loan Banks were pledged, was the amount of excess deposit at the close of the banking day (as defined above) equal to or less than the amount of the bond or standby letters of credit? |  |  |  |
|  |  | 2. | If other collateral was pledged, was the amount of collateral at least ten percent more than the uninsured amount on deposit at the close of the banking day? |  |  |  |
|  | D. | Assignment [Federal Statutory Requirements] |  |  |  |
| [12 U.S.C.§ 1823(e)] |  | 1. | Was the written assignment approved by the depository’s board of directors or loan committee? |  |  |  |
|  |  | 2. | Was the assignment an official record of the depository? |  |  |  |
| § 118A.03 | E. | If the government entity used a sweep account, did the timing of the sweep take place so that all amounts on deposit at the end of the banking day were protected by deposit insurance, bond, or pledged collateral? |  |  |  |

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|  |  |  |  | **Part IV. Audit Conclusion** |  |  |  |
| The auditor must state a conclusion--based on this questionnaire and any other audit procedures performed--whether the client has complied with the legal provisions reviewed relating to depositories of public funds and investments. |
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| Conclusion: |  |  |  |  |  |  |  |
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| SPREADSHEET |

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|  |  |  | a | b | c | a - (b + c) = d | d x 1.1 = e | f | f - e |
| Name of Depository | \* | \*\* | Amount on Deposit | Amount of Insurance Coverage | Amount of Bond | Deposits Requiring Collateral | Amount of Collateral Needed (110% of Deposits Requiring Collateral) | Market Value of Collateral Provided | Sufficient (Insufficient) Collateral Coverage |
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|  \* Put a check in this column if depository is a member of FDIC or NCUA. |
| \*\*Put a check in this column if depository is not a branch of any of the other depositories here. |
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