**OFFICE OF THE**

**STATE AUDITOR**

**Minnesota Legal Compliance**

**Audit Guide for**

**Other Political Subdivisions**

**For the following entities, use the specified Legal Compliance Audit Guide:**

**Cities -- Minnesota Legal Compliance Audit Guide for Cities**

**Counties -- Minnesota Legal Compliance Audit Guide for Counties**

**Towns (Townships) -- Minnesota Legal Compliance Audit Guide for Towns**

**School Districts -- Minnesota Legal Compliance Audit Guide for School Districts**

**Charter Schools -- Minnesota Legal Compliance Audit Guide for Charter Schools**

**Relief Associations -- Minnesota Legal Compliance Audit Guide for Relief Associations**

For a joint powers entity whose members are a single type of political subdivision (all cities, all counties, all towns, etc.), the auditor should use the Legal Compliance Guide suitable for the participating members.

ORDER

Pursuant to Minn. Stat. § 6.65, I hereby prescribe the form and scope of the Minnesota Legal Compliance Audit Guide for Other Political Subdivisions. The attached audit guide is hereby incorporated in its entirety. The audit guide consists of the following sections:

|  |  |
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| Page 1-1 | Depositories of Public Funds and Public Investments, |
|  |  |
| Page 2-1 | Conflicts of Interest, |
|  |  |
| Page 3-1 | Contracting - Bid Laws, |
|  |  |
| Page 4-1 | Claims and Disbursements, |
|  |  |
| Page 5-1 | Examples of Independent Auditor’s Reports, |
| Page 6-1 | Uniform Financial Accounting and Reporting Standards (UFARS), |
| Page 7-1 | Political Subdivision Miscellaneous Provisions, and |
|  |  |
| Page 8-1 | Tax Increment Financing. |
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These sections will comprise the minimum procedures and audit scope for legal compliance for other political subdivisions in Minnesota.

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| /s/ |
| Julie Blaha |
| State Auditor |

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## INTRODUCTION

This Legal Compliance Audit Guide was prepared by the Office of the State Auditor pursuant to Minn. Stat. § 6.65, in consultation with representatives from the Attorney General’s Office, towns, cities, counties, school districts, and private sector public accountants. The purpose of this Legal Compliance Audit Guide is to establish minimum compliance guidelines for verification by auditors engaged in the process of auditing other political subdivisions of the state.

This Legal Compliance Audit Guide is intended for use in the audit of Minnesota political subdivisions other than counties, cities, towns, and school districts, and a separate Legal Compliance Audit Guide has been created for each of these local governments. In addition, separate Legal Compliance Audit Guides have been created for audits of charter schools and relief associations.

This guide is divided into specific sections and presented in checklist form to assist the auditor of government units in the verification of statutory compliance. The guide is not meant to be a complete compilation of all laws affecting municipalities or a complete analysis of the laws cited throughout. The checklist is meant to act as a reference guide regarding minimum legal compliance, and municipal auditors must examine, in addition to applicable laws cited in the guide, those laws creating, granting power to, and restricting the municipal entities they are auditing.

Under each section, except for the initial question establishing the transaction covered by the topic heading and except where the explanation of a given question indicates otherwise, all questions should be answered in the affirmative. A negative answer indicates a compliance problem, and the user of the checklist is directed to the statutory section indicated on the left-hand side of the page. If after examination of the appropriate statute, the auditor using this audit guide is still unsure as to whether there has been legal compliance, he or she should check with legal counsel before rendering the opinion on compliance contained at the end of each section.

Other Political Subdivisions

Political subdivisions other than counties, cities, towns and school districts may be authorized by various statutes or special laws, and specific audit requirements may be provided by law.

For example, certain special districts are subject to the audit and/or reporting requirements of Minn. Stat. § 6.756. “Special district” in this context is defined as “a public entity with a special or limited purpose, financed by property tax revenues or other public funds, that is not included in a city, county, or town financial report as a component of that local government, that is created or authorized by law, and that is governed by (1) persons directly elected to the governing board of the district, (2) persons appointed to the governing board of the district by local elected officials, (3) local elected officials who serve on the board by virtue of their elected office, or (4) a combination of these methods of selection. Special district includes special taxing districts listed in section [275.066](https://www.revisor.leg.state.mn.us/statutes/?id=275.066).”

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The referenced Statute, Minn. Stat. § 275.066 (Special Taxing Districts; Definition) lists many types of other political subdivisions, along with the statutes that authorize them. These include, among others:

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| --- | --- |
| (1) | watershed districts under Chapter 103D; |
| (2) | sanitary districts under Sections 442A.01 to 442A.29; |
| (3) | regional sanitary sewer districts under Sections 115.61 to 115.67; |
| (4) | regional public library districts under Section 134.201; |
| (5) | park districts under Chapter 398; |
| (6) | regional railroad authorities under Chapter 398A; |
| (7) | hospital districts under Sections 447.31 to 447.38; |
| (8) | St. Cloud Metropolitan Transit Commission under Sections 458A.01 to 458A.15; |
| (9) | Duluth Transit Authority under Sections 458A.21 to 458A.37; |
| (10) | regional development commissions under Sections 462.381 to 462.398; |
| (11) | housing and redevelopment authorities under Sections 469.001 to 469.047; |
| (12) | port authorities under Sections 469.048 to 469.068; and |
| (13) | economic development authorities under Sections 469.090 to 469.1081. |

It is important that auditors review the statutes or laws that authorize the audited other political subdivision.

AUDITOR’S REPORTS ON COMPLIANCE

Chapter 5 contains model reports, one of which is to be completed by the auditor following his or her completion of the appropriate compliance sections.

These reports or the language from these reports must be issued as part of the audits of the governmental entities or relief associations.

PREPARATION OF MINUTES

Auditing for legal compliance will require a review of the minutes of the governing body. In many instances, the minutes will be inadequate histories of the meetings involved. We have, therefore, deemed it appropriate to include below a discussion of minutes, so that in those instances where the minutes are substandard, auditors can provide a standard to assist clients in the future recording of meeting minutes.

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Minutes may be defined as a record of the “proceedings” of a deliberative body. Various statutes that refer to taking or publishing minutes use the term “proceedings” or “official proceedings.” *See* Minn. Stat. §§ 384.09 (counties); 412.151, subd. 1 (statutory cities); 367.11(1) (towns); and 123B.09, subd. 10, (school districts). The Minnesota Attorney General has used the definition of “proceedings” found at Minn. Stat. § 331A.01, subd. 6, in analyzing the clerk’s duties to take minutes. This statute states:

“Proceedings” means the substance of all official actions taken by the governing body of a political subdivision at any regular or special meeting, and at minimum includes the subject matter of a motion, the persons making and seconding a motion, the roll call vote on a motion, the character of resolutions or ordinances offered, including a brief description of their subject matter, and whether defeated or adopted.

While minutes must specifically identify the actions taken by the body, they need not record the discussions of the members and others. At a minimum, the minutes must include the information required by Minn. Stat. ch. 13D [Minnesota Open Meeting Law], unless such information is recorded elsewhere. Minn. Stat. § 13D.01, subd. 4, provides:

The votes of the members of the state agency, board, commission, or department; or of the governing body, committee, subcommittee, board, department, or commission on an action taken in a meeting required by this section to be open to the public must be recorded in a journal kept for that purpose. . . The vote of each member must be recorded on each appropriation of money, except for payments of judgments, claims, and amounts fixed by statute.

In addition, subd. 5 states, “[t]he journal must be open to the public during all normal business hours where records of the public body are kept.”

The above provision requires that the individual votes of each member of the governing body on “an action” be specifically recorded except for votes on “payments of judgments, claims, and amounts fixed by statute.”

Having satisfied minimum requirements, the question of how elaborate and extensive the minutes should be is largely a policy matter for determination by the particular body in the exercise of reasonable judgment and discretion. The Attorney General has explained:

...there may be circumstances in which it would be advisable for the town board to provide for the minutes to include information over and above what is necessary to satisfy minimum statutory requirements for a record of its official actions.

Op. Atty. Gen. 851-C, March 5, 1992. For example, the board’s reasons for reaching a particular decision could be crucial in defending a challenge to the action taken. The inclusion of such information may be deemed appropriate under other circumstances, such as where the body determines that the public interest warrants the award of a particular contract to a bidder other than the lowest bidder.

iii

The amount of detail which is appropriate for inclusion in the minutes of a particular body is likely to vary, depending upon the nature of the proceedings and the subject matter involved.

While the minutes of a governing body should attempt to furnish relevant information over and above bare minimum requirements, they should not, at the same time, be cluttered with unnecessary detail which hampers efforts to review or otherwise utilize them at a later date. Perhaps the best standard to be applied to the preparation of minutes is the one applied by the courts to the publication of official proceedings, i.e., the minutes should be “sufficiently full to fairly set forth the proceedings.” *Ketterer v. Indep. Sch. Dist. No. 1*, 79 N.W.2d 428, 438 (Minn. 1956); *See* Op. Atty. Gen. 161-a-20, Dec. 17, 1970.

DESTRUCTION OF RECORDS

Minnesota Statutes, § 15.17, subd. 1, requires all officers and agencies of the state, counties, cities, towns, school districts, municipal subdivisions or corporations, and other public authorities or political entities within the state to make and preserve all records necessary for “a full and accurate knowledge of their official activities.” The chief administrative officer is responsible for the preservation and care of the agency’s government records, which include all “written or printed books, papers, letters, contracts, documents, maps, plans, computer-based data, and other records made or received pursuant to law or in connection with the transaction of public business.” Minn. Stat. § 15.17, subd. 2. This duty not only prohibits destruction, but requires the custodian to take such steps as are necessary to protect public records from deterioration, mutilation, loss, or destruction. This statute also requires that all records must be delivered to the legal custodian’s successor upon expiration of the term of office or authority. Minn. Stat. § 15.17, subd. 3. Additional provisions regarding data practices are found in the Minnesota Government Data Practices Act, Minn. Stat., ch. 13.

For political subdivisions having problems with the storage of obsolete records, Minn. Stat. §§ 138.163‑.25‑ provide relief. Any person who intentionally and unlawfully removes, mutilates, destroys, conceals, alters, defaces or obliterates a public record is guilty of a misdemeanor. Minn. Stat. § 138.225.

Unless a political subdivision adopts a records retention schedule (and notifies the Minnesota Historical Society), it may not destroy public records without the permission of the records disposition panel. Applications may be made to the State Archives Department for such permission. For instance, bids with supporting documents received must be kept forever, unless the political subdivision (1) adopts a general records retention schedule (if one exists for that type of political subdivision), (2) adopts its own properly approved records retention schedule, or (3) receives authority to dispose of the records from the records disposition panel.

A political subdivision that wishes to adopt the appropriate General Records Retention Schedule can find information on the [State Archives website](http://www.mnhs.org/preserve/records/retentionsched.html).

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For information and assistance in disposing of or transferring government records, contact:

Minnesota Historical Society

State Archives Department

345 Kellogg Boulevard West

St. Paul, Minnesota 55102-1906

(651) 259-3260

<http://www.mnhs.org/preserve/records/index.htm>

Questions about the Minnesota Government Data Practices Act should be directed to:

Minnesota Department of Administration

Information Policy Analysis Division

201 Administration Building

50 Sherburne Avenue

St. Paul, Minnesota 55155

(651) 296-6733

(800) 657-3721

<http://www.ipad.state.mn.us>

In future years, the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* will be updated and additional compliance sections may be added. If you have comments or suggestions with regard to future editions, please contact us at:

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