OFFICE OF THE STATE AUDITOR

E-Update

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1. <u>Avoiding Pitfalls – Prompt Payment of Local Government Bills</u>

Cities, counties, towns, school districts, and local government political subdivisions or agencies must pay vendor bills according to the terms of the contract with the vendor. If no contract term applies, the bill must be paid within a "standard payment period" unless there is a good faith dispute over the bill. See Minn. Stat. § 471.425. If the bill is not paid within the standard payment period, the public entity must pay interest charges.

Under the statute, the standard payment period from the date of receipt of the goods or services, or the invoice for the goods or services, whichever is later, is:

- 35 days for governing boards with regularly scheduled meetings at least once a month;
- 45 days for governing boards that do not regularly meet at least once a month; and
- 45 days for joint powers organizations.

If an invoice is incorrect, defective or otherwise improper, the statute requires the entity to notify the vendor within ten days of the date of receipt.

This statute applies to all goods, leases and rents, and contracts for services, construction, repair and remodeling. It provides a specific exception for certain contracts with a public utility or telephone company.

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2. TIF Update – Reporting Deadline & "TIF Basics" Classes

Important TIF Reporting Deadline: The 2006 Tax Increment Financing reports (District, Non-District, Pooled Debt, and Signature forms) were due to the Office of the State Auditor on Wednesday, August 1. If you were unable to meet this deadline, please contact Marsha Pattison at (651) 296-4716 or Marsha.Pattison@state.mn.us as soon as possible.

Classes This Fall: The locations for the five "TIF Basics" classes for this fall include: Eveleth (Sept. 19-20), Little Falls (Oct. 3-4), Wabasso (Oct. 24-25) Chanhassen (Nov. 1-2) and Stewartville (Nov. 8-9). Attendance at one or both of the classes will be offered. Further information including the registration form will be forthcoming.

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3. Pension Update – Fidelity Bonds

As mentioned in the July 6th E-Update, state law requires that the treasurer of a volunteer fire relief association be bonded for at least ten percent of the association assets; however, the amount of the bond need not exceed $500,000. Because the statutory requirement specifies that the bond must be in an amount equal to at least ten percent of the assets of the relief association, the bond should not be subject to a deductible.

To resolve this concern, the League of Minnesota Cities Insurance Trust (LMCIT) is changing its practice regarding bond deductibles. In the event of a covered loss to a city relief association, the LMCIT will reimburse the association in full, subject to the bond coverage limit. The city will reimburse the LMCIT for any deductible which applies to the loss. This arrangement will be added to the LMCIT bond coverage in an endorsement. The Office of the State Auditor believes this treatment of the deductible complies with the statutory bond coverage requirement.

Relief association treasurers that are bonded through an organization other than the LMCIT should review their fidelity bond and make changes as necessary to ensure that it is not subject to a deductible.
