**CITY**

**CLAIMS AND DISBURSEMENTS**

**LEGAL COMPLIANCE AUDIT GUIDE**

**CLAIMS AND DISBURSEMENTS**

Introduction

Municipal transactions involving an account, claim, or demand made for any property or service which can be itemized in the ordinary course of business and disbursements of municipal funds are covered in this section.

“Municipality” for the purposes of this section includes statutory cities and home rule charter cities of the second, third, or fourth class.

In addition, Minn. Stat. § 471.425 (Prompt Payment of Local Government Bills), applies to any home rule charter or statutory city.

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| Part I. General Provisions |
| § 471.38 | For 2nd, 3rd, and 4th class home rule charter cities paying claims with electronic fund transfer: |  |  |  |
|  |  | Has every person, or the person’s agent, claiming payment provided an itemized list in writing or electronic transaction record? |  |  |  |
| § 412.271 | For statutory cities paying claims (that are not for wages): |  |  |  |
|  | A. | Did the person claiming payment, or their agent, prepare a claim in written items? |  |  |  |
|  | B. | Did the person claiming payment, or their agent, sign a declaration that the claim was true and correct and that no part of it had been paid? |  |  |  |
| § 471.391,subd. 2 |  | The check or order-check by which the claim is paid may have printed on its reverse side, above the space for endorsement thereof, the following statement: “The undersigned payee, in endorsing this check (or order-check) declares that the same is received in payment of a just and correct claim against the city, and that no part of it has heretofore been paid.” When endorsed by the payee named in the check or order-check, such statement shall operate and shall be deemed sufficient as the required declaration of the claim. |  |  |  |
| § 471.392 | C. | Any person who willfully and falsely makes the declaration provided for is guilty of a felony. |  |  |  |
| § 471.425,subd. 2 | D. | Prompt Payment of Local Government Bills |  |  |  |
|  |  | - | Standard payment period is: |  |  |  |
|  |  |  | - | 35 days from receipt for city councils that meet at least once a month; |  |  |  |
|  |  |  | - | 45 days from receipt of goods or services or invoice, whichever is later, for city councils that do not meet at least once per month; and |  |  |  |
|  |  |  | - | 45 days from receipt for joint powers entities. |  |  |  |
|  |  |  |  |  |  |  |  |
| § 471.425,subd. 2 |  | 1. | Were all bills paid within the time period set by the terms of the contract or within the standard payment period? |  |  |  |
| § 471.425,subd. 4 |  |  | - | The city must pay interest on bills not paid in a timely manner. The interest rate is 1½ percent per month or part of a month. The minimum monthly interest on a bill of $100 or more is $10. |  |  |  |
| § 471.425,subd. 4 |  | 2. | For bills paid after the time period set by the contract or the standard payment period, did the city calculate and pay interest as required by law? |  |  |  |
|  |  |  | Note: The interest penalties in these questions do not apply to good faith disputes. |  |  |  |

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| § 471.381 |  | Part II. Electronic Funds Transfer |  |  |  |
| §§ 471.38,subds. 3and 3a | A. | Home rule charter cities of the 2nd, 3rd, and 4th class may make electronic funds transfers under certain conditions. |  |  |  |
|  |  | 1. | The city may make electronic funds transfers for: |  |  |  |
|  |  |  | a. | a claim for payment from an imprest payroll bank account or investment of excess money; |  |  |  |
|  |  |  | b. | payment of tax or aid anticipation certificates; |  |  |  |
|  |  |  | c. | payment of contributions to a pension or retirement fund; |  |  |  |
|  |  |  | d. | vendor payments; and |  |  |  |
|  |  |  | e. | payment of bond principal, bond interest, and a fiscal agent service charge from the debt redemption fund. |  |  |  |
|  | B. | Did the city use electronic funds transfers only for the above enumerated transactions? |  |  |  |
|  | C. | Did the city enact a plan containing the following policy controls requiring: |  |  |  |
|  |  | 1. | annual delegation of authority to make electronic funds transfers to a chief financial officer or the officer’s designee? |  |  |  |
|  |  | 2. | the disbursing bank to keep a certified copy of delegation of authority? |  |  |  |
|  |  | 3. | identification of the initiator of each electronic transfer? |  |  |  |
|  |  | 4. | the initiator to document the request and obtain approval for each transfer from the chief financial officer or the officer’s designee, before initiating the transfer, as required by the internal control policies? |  |  |  |
|  |  | 5. | written confirmation of each transaction within one business day? |  |  |  |
|  |  | 6. | a list of transactions to be submitted to the council at the next regular meeting after the transaction? |  |  |  |
|  | D. | If the city used electronic identifiers for electronic or wire transfers: |  |  |  |
|  |  | 1. | Were the electronic identifiers used to authenticate or validate this government action approved by the governing board? |  |  |  |
|  |  | 2. | Had the city established policies and procedures to ensure the validity of the electronic approvals? |  |  |  |

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| **Part III. Claims and Disbursements - Statutory Cities** |
| § 412.271,subd. 1 | A. | For all disbursements made on orders, were the orders drawn by the mayor and clerk upon the treasurer? |  |  |  |
|  | B. | Have all claims been audited and allowed by the city council, except when issued for payment of judgments, salaries, and wages previously fixed by the council or by statute, principal and interest on obligations, rent and other fixed charges, the exact amount of which has been previously determined by contract authorized by the council or as provided in E and F below, or if the city has delegated authority to approve claims under Minn. Stat. § 412.271, subd. 8? |  |  |  |
| § 412.271, subd. 2 | C. | Claims and Payment |  |  |  |
|  |  | 1. | Payroll |  |  |  |
|  |  |  | a. | If the city used an electronic time recording system, did the city council adopt policies to ensure that the timekeeping and payroll methods used are accurate and reliable? |  |  |  |
|  |  |  | b. | If the city did not use an electronic time recording system: |  |  |  |
|  |  |  |  | (1) | Has the clerk maintained a payroll record giving the name of each employee and the number of hours or days worked by each? |  |  |  |
|  |  |  |  | (2) | Has the timekeeper, supervisor, or other officers or employees having knowledge of the facts, signed a declaration indicating the facts recited on the payroll are correct to the best of the declarant’s information and belief? |  |  |  |
|  |  |  |  | (3) | Have the claims for payroll been signed in proper form or declaration under Minn. Stat. § 412.271, subd. 2? |  |  |  |
|  |  |  | c. | For the city manager, clerk, treasurer, or clerk/treasurer: |  |  |  |
| 26 C.F.R.Section 1.1402(c)-2(b)IRS Publication 963 |  |  |  | (1) | Did the city treat the city manager, clerk, and treasurer, or clerk/treasurer as employees for the purposes of payroll? |  |  |  |
| § 353.01,subd. 2a |  |  |  | (2) | If the city manager (who has not opted out of PERA under Minn. Stat. § 353,028, subd. 2), clerk, treasurer, or clerk/treasurer received more than $5,100.00 in annual compensation, were they enrolled in the Public Employees Retirement Association (PERA)? |  |  |  |
|  |  | 2. | Other claims for payment for goods or services. |  |  |  |
|  |  |  | a. | Was the claim prepared in written items (where possible in the ordinary course of business)? |  |  |  |
|  |  |  | b. | Has a declaration for payment been signed that the claim is just and correct and no part of it has been paid, or was the declaration made by endorsement as provided in Minn. Stat. § 412.271, subd. 3? |  |  |  |
| § 412.271, subd. 3 | D. | Endorsement of Claims |  |  |  |
|  |  | 1. | Has the clerk endorsed each claim with either “disallowed” or “allowed in the sum of $ ,” if approved in whole or in part and specifying the items rejected, if any? |  |  |  |
|  |  | 2. | Has each order been drawn so that when signed by the treasurer it became a check? |  |  |  |
|  |  | 3. | Has each order presented to the treasurer and not paid for want of funds been so marked and paid in order of its presentation with interest from the date of presentation? |  |  |  |
| § 412.271,subd. 4 | E. | Immediate Payment of Claims |  |  |  |
|  |  | 1. | Have all claims based on contract paid prior to a council meeting been signed by a majority of the council and formally approved at the next council meeting? |  |  |  |
| § 412.271,subd. 5 | F. | Imprest Funds |  |  |  |
|  |  | 1. | Has a custodian been appointed for each imprest fund? |  |  |  |
|  |  | 2. | Has money for the imprest fund been transferred from the general fund? |  |  |  |
|  |  | 3. | Have all claims been itemized and presented to the council at the next council meeting after payment has been made? |  |  |  |
|  |  | 4. | Has the council issued orders covering imprest fund claims? |  |  |  |
|  |  | 5. | Have all claims been approved in full and/or has the custodian replaced the difference for which he or she is personally responsible? |  |  |  |

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| **Part IV. Independent Board Powers--Statutory Cities** |
| **(Utility and Park Boards)** |
| § 412.271,subd. 6 | A. | Has any independent board, which is authorized to disburse funds without the approval of the council, met the requirements of Minn. Stat. § 412.271, subds. 4 and 5 (found as Part III.E. and III.F., above)? |  |  |  |
|  | Note: In reviewing the above subdivisions with regard to independent boards, the term “council” shall be considered to be the “board or commission” and the money for the fund may be obtained from any undedicated fund under its jurisdiction. |  |  |  |

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| **Part V. Delegation of Authority to Pay Claims - Statutory Cities** |
| §§ 412.271,subd. 8 | A. | Did the city council delegate its authority to pay certain claims made against the city by adopting a resolution authorizing a specified city administrative official to pay the claims that meet the standards and procedures established by the council? |  |  |  |
|  | B. | Does the city council have adequate internal accounting and administrative control procedures to ensure the proper disbursement of public funds, including regular and frequent review of the city administrative officials’ actions by the council? |  |  |  |
|  | C. | Was a list of all claims paid under the procedures established by the city council presented to the council at the next regularly scheduled meeting after payment of the claim? and |  |  |  |
|  |  | Is the city one which prepares annual audited financial statements which have been attested to by an independent certified public accountant, public accountant, or the state auditor? |  |  |  |

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| **Part VI. Payments With Credit Cards - For Cities** |
| § 471.382 | A. | If a city officer or employee made a purchase on behalf of the city by credit card: |  |  |  |
|  |  | 1. | Had the city council authorized the use of the credit card by the officer or employee; |  |  |  |
|  |  | 2. | Was the officer or employee otherwise authorized to make a purchase on behalf of the city; and |  |  |  |
|  |  | 3. | Did the purchase otherwise comply with all statutes, rules, and city policies applicable to city purchases? |  |  |  |
|  | B. | If a city officer or employee made a purchase by credit card that was not approved by the city council, was the officer or employee held personally liable for the amount of the purchase? |  |  |  |

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| Part XII. 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 claims and disbursements. |
| Conclusion: |
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