



# Audit & Reporting Group *Agenda: April 30, 2025*

- I. Call to Order**  
Chair Auditor Blaha.
- II. Attendance**  
Roll call.
- III. Review and Approval of Minutes**  
Meeting Minutes March 7, 2024.
- IV. Legislative Update**  
Current status of threshold related bills
- V. Legislative Best Practices**  
Best Practices Draft
- V. Surveys**  
Early Results
- VI. Preview Next Meeting Topics**
- VII. Next Meeting**  
May 28, 9:00am – 11:00am  
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

## 3-7-25 Draft Minutes

### **Members Present**

Julie Blaha, State Auditor  
Representative Patti Anderson  
David Frame, Minnesota Association of Townships  
Sharon Provos, Association of Metropolitan Municipalities  
E.J. Moberg, 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  
Paul Moore, Department of Management and Budget  
Martha Burton, Department of Revenue  
Charles Selcer, Minnesota Board of Accountancy  
Jake Rossow, Minnesota Board of Water and Soil Resources  
Wilfredo Roman-Catala, Minnesota Inter-County Association  
Cathy Erickson, Department of Education

### **Members Excused**

State Senator Heather Gustafson  
Representative Bjorn Olson  
Lisa Sova, League of Minnesota Cities  
Joel Stencel, Minnesota School Boards Association  
Kelly Gutierrez, Minnesota Charter Schools Association  
Cap O'Rourke, MN Association of Small Cities  
Cristen Christensen, MN Inter-County Association  
Chris Knopik, Minnesota Government Finance Officers Association  
Andi Johnson, Minnesota Association of School Business Officials  
Jamie Fay, CPA, and Stakeholder  
Jake Sieg, Association of Minnesota Counties

### **Office of the State Auditor and Legislative Support Present**

Chad Struss, Deputy State Auditor  
Nadine Kottom-Dale, Communications Director, and Lead Staffer  
Mark Kerr, Special Investigations Director/Data Practices Official  
Lisa Young, Director of Standards and Procedures  
Kathy Docter, Government Information  
John Jernberg, Government Information  
Christy John, Government Information  
Burke Spizale, Executive Aide

#### **I. Call to Order**

Auditor Blaha called the meeting to order at 9:06 a.m.

#### **II. Attendance**

Nadine Kottom-Dale called the role.

### III. **Review and Approval of Minutes**

Members reviewed the December 11, 2024, meeting minutes that had been provided in advance. The meeting minutes were accepted with no changes at 9:10 a.m.

### IV. **Local Officials Survey**

Auditor Blaha presented a summary of the Local Officials Survey. The survey had 368 responses in 27 days, with nearly one entity from each county submitting a response. Out of the 368 responses, 143 were representing cities, 99 were representing towns, 49 were representing other, 45 were representing special districts, 27 were representing counties and 4 were representing a school district or charter school. Out of the respondents, 171 use a GAAP audit, 163 use a cash audit and 45 use agreed-upon procedures (AUP).

Respondents who have a GAAP audit were asked to check all the categories to specify the reason for using it: For increased transparency and to provide relevant information to stakeholders and the public (74), is required by law (132), easier to find an auditor (5), auditor recommendation (22), required by grantors, oversight agencies or debt requirement (73), later reporting due to the State Auditor (15), entity/board preference (32) and other (14). Respondents who have a cash audit were asked to check all the categories to specify the reason for using it: Minimum requirement by law (103), easier to find an auditor (15), less costly (42), flexibility on how revenues are recognized (21), entity/board preference (61), auditor recommendation (25) and other (16).

The survey asked if respondents who use a cash audit or AUP have requested an extension from the State Auditor in the last two years. 268 respondents said no and 56 said yes. Respondents were asked to check all the categories to specify their reason for requesting an extension: Delay from audit firm (33), contract issues (0), auditor dropping the entity (5), difficulty finding an auditor (10), not aware of the reporting requirement (8), looking for a lower cost audit (3), information requested by auditors not ready (19) and other (18).

Trends from the question “Please share any potential issues your entity might face in completing your audit or AUP on time” included: Auditor shortage and availability issues, time constraints make it difficult to complete audits effectively, staffing and training challenges contribute to compliance difficulties and resource limitations may hinder local governments from fulfilling reporting requirements effectively. Trends from the question “Is there anything else you’d like to tell us about local audits and AUP’s included: Financial strain is the dominant concern – particularly for smaller municipalities, reporting and compliance issues are a secondary concern – though less frequently mentioned than cost, limited positive feedback on the audit process suggests that most officials view audits as necessary but challenging requirement and lack of discussion on available state tools may

indicate either a lack of adoption or a perception that they do not significantly ease the reporting burden.

David Frame asked how many of the 99 respondents representing towns, how many use the Small City and Town Accounting System (CTAS). Auditor Blaha said her team would look into it.

For potential future survey topics, Auditor Blaha suggested a survey for legislators. Another suggestion was a survey for auditors. Members discussed the benefits or constraints of asking a question about the lowest fee audit firms would ask for to complete certain audits. An additional survey that was requested was one specifically for school districts or charter schools.

#### **V. Legislative Update**

Auditor Blaha presented information about Senate File 564. The bill was authored by Senator Grant Hauschild and would modify revenue thresholds. Auditor Blaha informed members that she was a testifier at the February 27, 2025 testimony in the Senate State and Local Government Committee for the bill and that the Office of the State Auditor (OSA) could support the bill; however, they requested to add an annual reporting requirement, which would withhold Township Aid for those who don't complete the reporting. Auditor Blaha said this is a necessary backstop. The Auditor also mentioned that AaRG Member Rep. Bjorn Olson has the green jackets and will be introducing the bill in the House of Representatives.

#### **VI. Threshold Scenarios**

The OSA's Government Information Division presented the "Threshold Scenarios: Impact of Options" document. Based on the information, the idea of removing Clerk/Treasurer combined position was discontinued because it'd result in too large of a shift. Members discussed the idea of shifting to a revenue or population threshold rather than the structure of the position.

#### **VII. Preview Next Meeting Topics**

Members discussed potential topics for the April meeting, which would be topics they'd use in future legislative meetings. Potential topics include: Best practices for effective local government oversight, types of engagement, thresholds (whether total revenue, population, staffing structure, or some other metric gets at key risks bests), basis of accounting (whether an entity uses a cash basis or modified accrual basis of accounting like GAAP impacts how an entity keeps its books, the cost of audits and day-to-day accounting), deadlines and guidance.

#### **VIII. Next Meeting**

The next meeting will be held on April 16 from 9 – 11 a.m. as an in-person/virtual hybrid format. The meeting will cover topics to include in a future meetings with legislators.



**IX. Adjournment**

The meeting was adjourned at 10:26 a.m.



# Audit & Reporting Group

## Audit Firm Survey

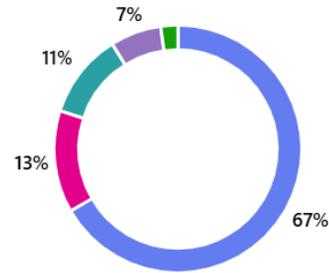
### Responses Overview Active

<p>Responses</p> <p><b>45</b></p>	<p>Average Time</p> <p><b>26:58</b></p>	<p>Duration</p> <p><b>20</b> Days</p>
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#### 1. Your role at your firm:

[More details](#)

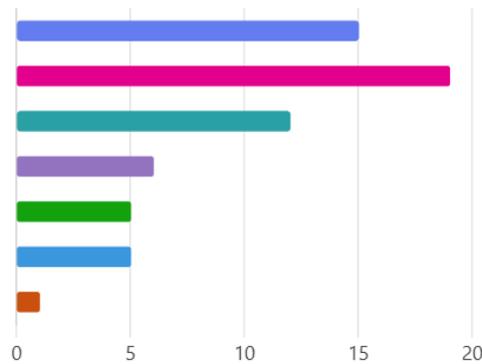
● Owner/Partner	30
● Auditor/Accountant with 1-10 years of experience	6
● Auditor/Accountant with 11-20 years of experience	5
● Auditor/Accountant with 20+ years of experience	3
● Other	1



#### 2. Where are the bulk of your clients located?

[More details](#)

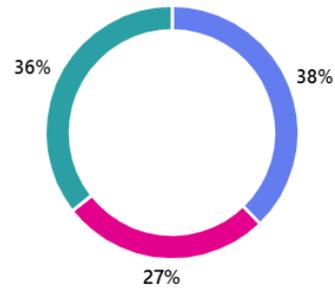
● Metro Area	15
● Central Minnesota	19
● Northwest Minnesota	12
● Northeast Minnesota	6
● Southwest Minnesota	5
● Southeast Minnesota	5
● Other	1



3. What is the size of your firm?

[More details](#)

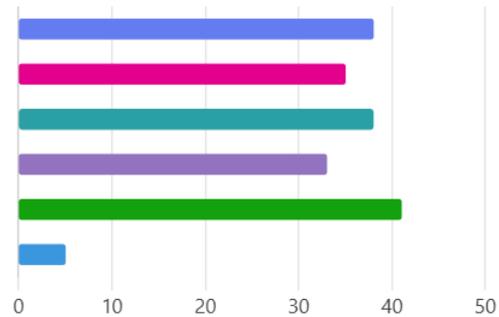
● 1-50 Staff	17
● 51-100 Staff	12
● Over 100 staff	16



4. What services does your firm provide in Minnesota? Select all that apply.

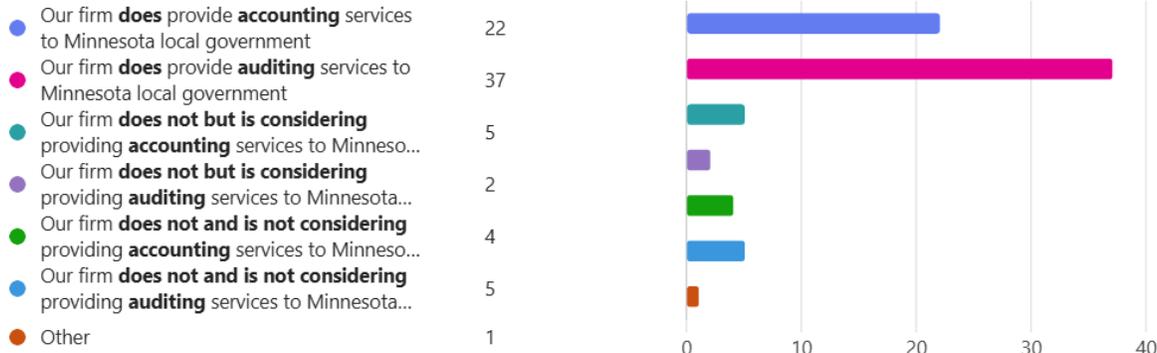
[More details](#)

● Tax	38
● Consulting	35
● Accounting Services	38
● Payroll Services	33
● Audits	41
● Other	5



5. Does your firm provide services to Minnesota local government (ex: school districts, cities, counties, townships, joint powers, port authorities, local housing development authorities, park boards, etc.)? Select all that apply.

[More details](#)



**Question 6.** What are some reasons why your firm does, does not, or is considering providing services to Minnesota local government? Another way to think of it: What makes Minnesota local government work attractive or unattractive to your firm? **(summary AI generated)**

**Top Reasons Why It’s Attractive:**

- **Strong Client Relationships:** Many firms cited long-term relationships and positive, trusting partnerships with local governments.
- **Steady Demand and Stability:** Government audits are seen as reliable, consistent work — audits are required even in downturns.
- **Personal Interest and Specialization:** Some individuals have a passion for public service or politics, and firms have chosen to specialize exclusively in government audits.
- **Geographic Fit:** For firms located in Minnesota, local governments are conveniently within their footprint.
- **Less Compressed Deadlines:** Compared to private business audits (like 4/15 tax deadlines), local government audits spread out work over the year.
- **Mission and Civic Pride:** A few responses expressed civic duty, transparency goals, and helping governments navigate complex standards.

**Top Reasons Why It’s Unattractive:**

- **Staffing Shortages:** Difficulty hiring qualified staff — both internally and within the client governments — is a major concern.
- **Complex and Growing Regulatory Burden:** Constant changes in standards (e.g., GAAP, GASB 68) have made audits more complicated and burdensome, with little perceived benefit for small governments.
- **Low Profitability:** Fee pressure is intense; governments choose low bids, making it less profitable compared to commercial work.

- **Travel Challenges:** Serving rural Minnesota areas can be tough due to travel time and costs, especially without strong technology.
- **Frustration with Government Operations:** Some view small government entities as poorly managed, with too much regulation and internal inefficiencies.

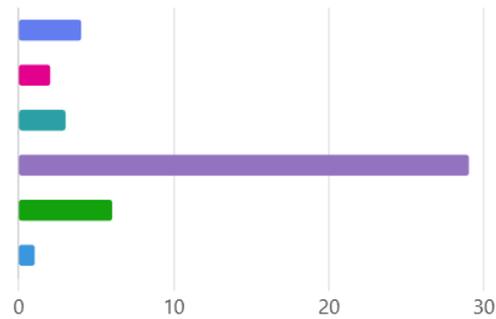
**Other Interesting Points:**

- **Niche Dominance:** Some firms do only government audits to become true specialists.
- **Future Risk:** A few small firms mentioned they may exit the market within 3–5 years due to regulatory costs and retirements.
- **Desire for Simpler Standards:** Calls for audits on a regulatory basis instead of full GAAP — especially for small governments.

7. What portion of your firm's business involves Minnesota local government?

[More details](#)

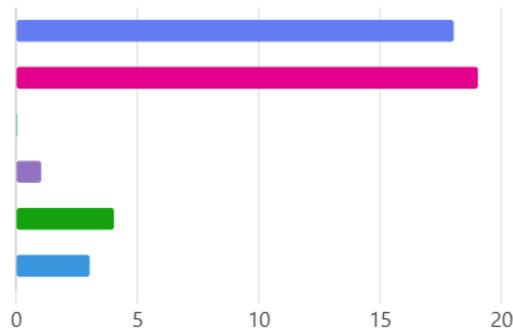
- All of our business 4
- Most of our business 2
- About half of our business 3
- Some of our business 29
- None of our business 6
- Other 1



8. If your firm provides services to Minnesota local government, do you plan to change the volume of that work?

[More details](#)

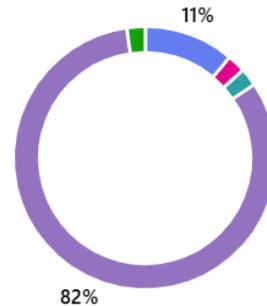
- Our firm plans to do **more** work with Minnesota local government in the next few years 18
- Our firm plans to do about the **same amount** of work with Minnesota local government in the next few years 19
- Our firm plans to do **less** work with Minnesota local government in the next few years 0
- Our firm plans to **stop** doing work with Minnesota local government in the next few years 1
- Our firm **does not currently or does not plan to** work with Minnesota local government 4
- Other 3



9. About how long has your firm been providing, or did provide in the past, services to Minnesota local Government?

[More details](#)

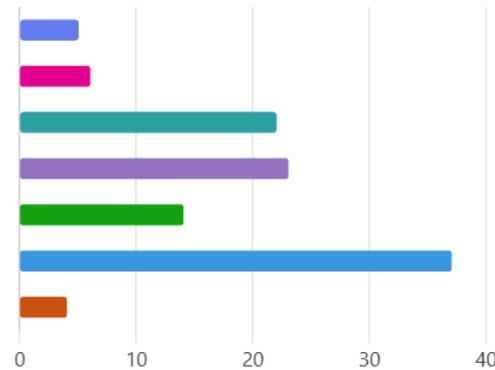
● 0 years	5
● 0-5 years	1
● 5-10 years	1
● Over 10 years	37
● Other	1



10. Which specific services does your firm provide to Minnesota local government? Select all that apply.

[More details](#)

● None	5
● Tax	6
● Consulting	22
● Accounting Services	23
● Payroll Services	14
● Audits and Similar Engagements	37
● Other	4



**Question 11.** Are there specific services provided to local governments, your firm hopes to increase providing or plans to discontinue providing? Please add a reason for the change if known.

(summary AI generated)

**Firms Hoping to Increase Services:**

- **Audit Services:** Most common — firms want to expand the number of audits they perform (cities, counties, school districts), if they can find enough staff.
- **Consulting and Advisory Services:** Many firms hope to grow consulting services — like finance director roles, process improvements, audit preparation, and accounting support — especially for small governments struggling with internal expertise.
- **Accounting Services:** Some want to offer more accounting help directly, including fractional finance director services.
- **Municipal Advisor Services:** One firm specifically mentioned entering or expanding into municipal advising.

**Firms Planning to Discontinue or Exit:**

- **Retirement and Staffing Challenges:**

A few firms (especially small ones) plan to exit the government market in the next 3–5 years due to:

- Retirement of partners.
- Inability to recruit and retain qualified staff.
- Difficulty offering competitive salaries/benefits.
- Younger staff are less interested in government work due to long hours, political challenges, and heavy regulation.

**Major Barriers and Limitations:**

- **Staffing Shortages:** Firms across the board said they would grow if they could find and keep good people.
- **Independence Rules:** Providing accounting services is tricky for audit firms because of independence conflicts.
- **Client Fit:** Some firms emphasized they only want to expand with good-fit clients — firms are willing to move on from difficult or uncooperative ones.

**Overall Tone:**

- Firms **want to grow** their local government services, particularly in auditing, consulting, and accounting.
- **Staffing is the single biggest constraint.**
- A few firms are **preparing to wind down** their services due to demographic and economic realities.

12. The Minnesota State Legislature is considering changing audit thresholds for cash/regulatory basis audits, potentially leading to a higher demand for agreed-upon procedures engagements (AUPs) that are conducted every five years. Would your firm be interested in performing more AUPs? [More details](#)



**Question 13.** What would make conducting AUP's more attractive to your firm? For instance, are there resources or support that could make you more likely to take on this work? Are there scheduling or deadline structures that would make it easier to take on AUPs? **(summary AI generated)**

**Scheduling and Deadlines:**

- Firms strongly prefer later deadlines (like August 15 or September 30) rather than spring deadlines (March–May) that clash with tax season.
- Flexibility and longer windows would help firms fit AUPs into their schedules.

**Frequency and Recurrence:**

- Annual AUPs would be far more attractive than once every five years.
  - 5-year gaps cause huge inefficiencies: harder to build client relationships, price services, and manage risk.
  - Firms lose familiarity with the client's operations over five years.

**Simplification and Resources:**

- Firms want:
  - Clear checklists and templates for procedures.
  - Training (initial and ongoing) on how to perform Minnesota AUPs properly.
  - Online tools to complete AUPs easily, maybe even online reporting forms.
  - Clarified risk and independence expectations.

**Client Challenges:**

- Many small government clients have poor accounting records and untrained staff, making AUPs harder and riskier.
- If the local staff were stronger in accounting, AUPs would be much more manageable.

**Profitability:**

- Fees are lower for AUPs, but the work can still be complex and risky.
- Unless AUPs become more frequent or easier to perform, many firms will avoid them for business reasons (low margin, scheduling conflicts).

**Other Ideas or Suggestions:**

- Increase AUP thresholds so more small governments can qualify and justify the service.
- Electronic access to client information to save time.
- Reduce or adjust YellowBook or peer review implications if applicable.
- Encourage small governments to train their staff better in basic accounting.

**Overall Tone:**

- AUPs could be attractive, but only if deadlines are realistic, procedures are simple, training is available, and firms can perform them more consistently (not just every five years).

**Question 14.** What would make providing auditing services (GAAP and cash/regulatory audits) to the Minnesota local government more attractive to your firm? **(summary AI generated)**

**Deadline Flexibility:**

- Many firms strongly support later deadlines (August 15, September 30, or even end of 3rd quarter) especially for smaller entities and cash/regulatory audits.
- Moving deadlines away from busy tax season (Feb–April) made audits more manageable.

**Client Preparedness and Staffing:**

- A huge issue is poor recordkeeping and untrained local government staff.
- **Firms suggested:**
  - More bookkeeping help (like “Regions” for schools).
  - Standardized accounting systems (e.g., a uniform chart of accounts).
  - Assistance programs to help governments recruit qualified staff.

**Simplification of Requirements:**

- Legal Compliance Guides are too detailed and feel like legal work rather than accounting.
- **Requests to:**
  - Simplify compliance testing steps.
  - Reduce the complexity of GASB requirements, especially for small governments.
  - Use regulatory basis rather than GAAP for smaller governments.
  - Limit length and complexity of footnote disclosures.

**Profitability and Fees:**

- Many firms said audit fees have not kept up with the rising complexity and effort needed.
- Government audits are often less profitable than private work.
- Firms want:
  - Higher fees.
  - Market recognition of increased time and costs (e.g., risk assessment requirements, GASB changes).

**General Sentiment:**

- A few firms say they already enjoy doing government audits and find the work meaningful.
- Others are frustrated that despite all the work and training, local governments and residents often don’t fully understand or value the final audit reports.
- There’s growing concern that without change, some firms may stop offering these services, especially small to mid-sized firms.

**Overall Tone:**

- Positive but cautious. Firms enjoy the work, especially if clients are strong and deadlines are manageable, but frustrations with fees, staffing, complexity, and timing are putting pressure on their ability and willingness to continue.

**Question 15. How are staffing shortages among your firm's clients or your firm itself affecting you? (summary AI generated)**

**Main Themes:**

- **Client staffing issues:**
  - Many local governments are losing experienced staff through retirement or turnover.
  - New hires often lack governmental accounting expertise.
  - Clients are less prepared for audits, causing delays and additional work for firms.
- **Firm staffing challenges:**
  - Firms are struggling to hire and retain experienced auditors, especially at supervisory and management levels.
  - Many firms can hire entry-level staff but face difficulties finding experienced professionals.
  - Staffing shortages limit the ability to expand services and accept new clients.
- **Workload and capacity:**
  - Existing staff (especially managers and partners) are overworked, leading to burnout.
  - Firms are forced to turn away potential new clients and proposals.
  - Lack of qualified staff reduces efficiency and increases stress during busy seasons.
- **Financial and business impacts:**
  - Additional training needs and audit delays sometimes result in fee pressure or write-downs.
  - Some firms are intentionally staying small or reducing their government audit work due to the difficulty and cost of staffing.
- **Industry-wide concerns:**
  - General concern over a "retirement cliff" — a large number of experienced government accountants nearing retirement.
  - Some fear that lowering CPA requirements would worsen quality instead of solving staffing shortages.
  - There's a perception that younger generations may not stay long in local government positions, leading to ongoing instability.

**Question 16.** What else do you think we need to know to understand the local government accounting and auditing landscape in Minnesota? **(summary AI generated)**

**Main Themes:**

- **Regulatory Burden:**
  - Many respondents feel that government accounting and auditing is becoming overly complex.
  - Constant GASB changes are overwhelming for both clients and auditors, especially smaller governments.
  - There's frustration with the amount of legal compliance work versus the value it brings.
- **Small Government Challenges:**
  - Smaller entities struggle with staffing, training, and maintaining strong financial controls.
  - Many local governments rely heavily on auditors for basic accounting help, creating independence concerns.
  - Lack of internal expertise at cities and towns delays audits and increases audit complexity.
- **Sustainability of Services:**
  - Some firms are considering exiting the government audit space due to high regulatory demands, staffing challenges, and lower profitability compared to other industries.
  - There is fear that in the next 5–10 years, fewer firms will offer these services, especially to smaller or rural governments.
- **Audit Firm Capacity:**
  - Even firms committed to local government work are stretched thin.
  - It's getting harder to maintain quality while meeting deadlines with reduced experienced staff.
- **Need for Structural Changes:**
  - Suggestions include:
    - Simplifying reporting and auditing standards for small governments.
    - Better training and onboarding for new city clerks and finance staff.
    - Reevaluating the necessity of some compliance requirements for smaller entities.
- **Commitment to Public Service:**
  - Despite challenges, many firms take pride in supporting transparency and accountability in government finance.
  - However, this civic commitment is being tested by financial and staffing pressures.