



Audit & Reporting Group *Agenda: Sept. 24, 2024*

- I. Call to Order**
Chair Auditor Blaha.
- II. Attendance**
Roll call.
- III. Review and Approval of Minutes**
Meeting Minutes September 12, 2024.
- IV. Criterion**
Examination Goals
- V. Report Structure**
Report Matrix Draft
- VI. Examinations**
Updated Reporting Overview
- VII. Discuss Next Meeting Topics**
- VIII. Next Meeting**
Tuesday, October 8, 2024
1:00 p.m. to 3:00 p.m.
In-Person/Virtual Hybrid Format
- IX. 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

9-12-24 Draft Minutes

Members Present

Julie Blaha, State Auditor
State Senator Heather Gustafson
Lisa Sova, League of Minnesota Cities
David Frame, Minnesota Association of Townships
Joel Stencel, Minnesota School Boards Association
Cap O'Rourke, MN Association of Small Cities
E.J. Moberg, Minnesota Government Finance Officers Association
Chris Knopik, 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
Jamie Fay, CPA, and Stakeholder
Paul Moore, Department of Management and Budget
Martha Burton, Department of Revenue
Cathy Erickson, Department of Education
Charles Selcer, Minnesota Board of Accountancy
Jake Rossow, Minnesota Board of Water and Soil Resources
Jake Sieg, Association of Minnesota Counties

Members Excused

Representative Patti Anderson
State Representative Bjorn Olson
Kelly Gutierrez, Minnesota Charter Schools Association
Sharon Provos, Association of Metropolitan Municipalities
Wilfredo Roman-Catala, Minnesota Inter-County Association
Cristen Christensen, MN Inter-County Association
Andi Johnson, Minnesota Association of School Business Officials

Office of the State Auditor and Legislative Support Present

Chad Struss, Deputy State Auditor
Ramona Advani, Deputy State Auditor
Nadine Kottom-Dale, Interim Constitution Division Director, and Lead Staffer
Lisa Young, Director of Standards and Procedures
John Jernberg, Government Information
Christy John, Government Information

I. Call to Order

Auditor Blaha called the meeting to order. She shared that she put a Requirement Sample Summary reference document in the chat, and it was sent out to the group 15 minutes prior to the meeting.

II. Introductions

Nadine Kottom-Dale ran roll call. Members who were absent during that last meeting introduced themselves to the group.

III. Review and Approval of Working Group Meeting Minutes

Members reviewed the August 15, 2024 meeting minutes that had been provided in advance. The meeting minutes were accepted, with one minor change from E.J. Moberg that under part five there is an additional zero that needs to be added to 340,000.

IV. Review and Discuss: What Are Other States Doing?

Auditor Blaha created a reference document titled: State Audit Requirements Sample Summary. In 2023, Auditor Blaha asked the National Association of State Auditors, Comptrollers and Treasurers (NASACT) to put a message out to their membership:

- How do you handle audits in your state?
- Do you have a tiered system? What is the structure of that?
- Do you have exceptions?
- Have you made changes recently?

Auditor Blaha explained the document that she created to the group. This is not a legal document. She went through the different examinations and thresholds requirements for each state listed on the document. The most common change that states have made in response to the shortage is to change thresholds.

Auditor Blaha asked the group if anyone in the group has experience conducting audits in different states. Jamie Fay has experience auditing in states in the western territory of the country, she stated that it's not harder or easier, it's just different. The thing that fluctuates that most is the state compliance piece.

Discussion Topics and Questions for Future Meetings:

1. **Population Thresholds and City Budgets:** Discussion included how population thresholds relate to city budget figures when estimating risk. Smaller cities face unique challenges, particularly the high costs of conducting audits. Regardless of size, the threshold for audits remains constant, posing a significant issue for smaller municipalities.
2. **Impact of Recent Changes:** It's noted that we should explore whether we can measure the tangible effects of changes in audit criteria in states that have recently updated their regulations.
3. **Ideal Thresholds:** Given the wide variation in thresholds across states, questions arose about what the ideal threshold should be. Is there evidence that higher or lower thresholds affect the risk of negative outcomes?
4. **Effectiveness of Penalties:** Not all states impose penalties for failing to meet thresholds. Do these penalties effectively drive compliance?
5. **Defining Risk for Smaller Entities:** How do we define risk for smaller entities, particularly concerning audit costs? Since audits can be expensive, what are the primary concerns if we adjust thresholds or costs?
6. **Modified Cash Basis:** Discussion included whether allowing a modified cash basis instead of a strict cash basis for smaller entities could alleviate some of the financial burden.
7. **Understanding Statutory Requirements:** It's important to investigate why there are statutory limits and thresholds in place. How do we determine what constitutes a significant number?

8. **Readability of Reports:** Current reporting requirements often render reports unintelligible to the average reader. While accountants may find value, it's essential to present information that is accessible and meaningful to everyone.
9. **Prioritizing Review Items:** Consideration should be given to researching which items are important to review regularly versus those that are less material. This could help balance the workload effectively.

V. **Criteria List Drafting**

Auditor Blaha explained a document that she created called Criteria List Drafting. In the meeting and within that document, Auditor Blaha asked what is the top criteria that we want to be judging any of our ideas on?

Questions Raised for Future Discussion:

- **Impact on Accounting Quality:** How does changing the frequency of audits affect the quality of accounting? Could a decrease in frequency lead to a drop in quality?
- **Utilizing CPA Resources:** We are exploring how to best utilize the limited supply of CPA work available. Do any of the established criteria specifically relate to this?
- **Frequency of Audits:** What tasks, such as audits or Agreed-Upon Procedures (AUP), do not need to occur every year?
- **Risk of Backsliding:** Is there a risk of backsliding if audits are not conducted annually?

Auditor Blaha asked members to think about the importance of the criteria topics and share their opinions at the next meeting. Specifically, she asked everyone to consider what the top criteria should be for evaluating ideas that come out of AaRG.

VI. **Preview Next Meeting Topics**

The proposed meeting topics for the September 24 meeting: What are the types and goals for the examinations? What can these examinations accomplish? Ex: preserving institutional knowledge, needed trainings, catch any fraud, etc.

VII. **Adjournment**

The meeting was adjourned at 3:52.



Audit & Reporting Group

Goals of Examinations

A common theme as AaRG discusses the parameters of our reporting requirements is “What are the goals?” Below are a list of goals the OSA has heard from a variety of sources for different types of examinations.

Vigilance

- The entity accurately states their financial position
- The entity manages their ledger in an accurate and timely manner
- The entity consistently implements internal controls
- The entity is held accountable for fixing issues identified in an examination

Transparency

- The public has access to accurate and complete financial data about the entity
- The public trusts the financial data is accurate and complete
- The public understands how an entity uses its resources
- The entity shares the specifics of their transactions
- The public can make comparisons between entities

Compliance

- The entity follows applicable laws, rules, and regulations
- The entity fulfills requirements of grantors or other resource providers

Protection

- Errors and waste of funds are detected
- Fraud and abuse are detected
- Errors and waste of funds are prevented
- Fraud and abuse are prevented

Administration

- The entity has a repository of institutional knowledge
- Financial staff learn and use best practices
- Local leaders are aware of ongoing risks and use that information in their decisions
- Financial staff can complete the examinations accurately, efficiently, cost effectively, and on time

Discussion:

- *Are there other goals out there to add to this list?*
- *Which goals do we believe are appropriate?*



Audit & Reporting Group Report Matrix Draft

To guide and report our discussion, we may use a matrix of options compared to risks and benefits. Below is a draft of such a matrix for discussion.

Idea	Benefits	Drawbacks	Costs and/or Savings	Impact on Accuracy, Efficient Use, and Appropriate Use of Funds	Impact on the Shortage of Public Finance Staff
Change County engagement to an agreed upon procedure (AUP)					
Change Town engagement to annual financial audit					
Change mid-sized cities engagement to biennial financial audit					

Discussion:

- Are these the right column headings?
- Are there other ways to organize our ideas?



Minnesota Local Government

2023 Auditing and Reporting Requirements

Thresholds					Attributes						
Entity Type	Sub Type or Population Size	Sub Type or Revenue	Clerk -Treasurer Structure	Revenue	Accounting Basis	Reporting	Frequency	Deadline	Fiscal Year End	Minnesota Statute	
County (87)					GAAP	Financial Audit	Annual	November 1	Varies	§ 375.17, § 6.481, § 6.74	
Special District (615)	Stand Alone Unit (615*)	Not a watershed district, soil and water conservation district, or management org (448)	Revenues under \$274,000 (137)		Cash	Unaudited financial statements, AUP	Statements: annually AUP: every 5 years	180 days from fiscal year end	Varies	§ 6.756	
			Revenues over \$274,000 (246)		Cash	Financial Audit	Annual	180 days from fiscal year end	Varies	§ 6.756	
		Soil and Water Conservation District (97)		Cash	Financial Audit	Annual	October 31	Varies	§ 103C.325, MOU between OSA & BWSR		
		Watershed District (45)		Cash	Financial Audit	Annual	120 days from fiscal year end	Varies	§ 103D.355, § 6.756, R. 8410.0150		
	Watershed Management Org (25)		Cash	Financial Audit	Annual	120 days from fiscal year end	Varies	§ 103B.227, § 6.756, R. 8410.0150			
Component Unit (57)					Based on reporting unit	Based on reporting unit	Based on reporting unit	Based on reporting unit	Based on Reporting Unit	Based on reporting unit	
City (854)	Population under 2500 (617)	Separate Clerk and Treasurer (231)			Cash	Unaudited financial statements	Annual	March 31	Dec	§ 6.74, § 471.698	
		Combined Clerk and Treasurer (386)	Revenues under \$274,000 (70)		Cash	Unaudited financial statements, AUP	Statements: annually AUP: every 5 years	Statements: March 31 AUP: June 30th	Dec	§ 6.74, § 471.698, § 412.02, § 412.591	
	Revenues over \$274,000 (316)		Cash	Financial Audit	Annual	March 31	Dec	§ 6.74, § 412.02, § 412.591			
	Population over 2500 (236)					GAAP	Financial Audit	Annual	June 30	Dec	§ 471.697
Town (1779)	Population under 2500 (1736)	Separate Clerk and Treasurer (1595)			Cash	OSA Reporting Form	Annual	March 31	Dec	§ 6.74	
		Combined Clerk and Treasurer (141)	Revenues under \$274,000 (90)		Cash	Unaudited financial statements, Financial Audit	Statements: annually Audit: every 5 years	Statements: March 31 Audit: June 30th	Dec	§ 6.74, § 367.36	
	Revenues over \$274,000 (28)		Cash	Financial Audit	Annual	March 31	Dec	§ 6.74, § 367.36			
	Population over 2500 (43)	Revenues under \$1,223,000 (19)	Separate Clerk and Treasurer (18)			Cash	OSA Reporting Form	Annual	March 31	Dec	§ 6.74
			Combined Clerk and Treasurer (1)	Revenues under \$274,000		Cash	Unaudited financial statements, Financial Audit	Statements: annually Audit: every 5 years	Statements: March 31 Audit: June 30th	Dec	§ 6.74, § 367.36
		Revenues over \$274,000 (1)		Cash	Financial Audit	Annual	March 31	Dec	§ 6.74, § 367.36		
		Revenues over \$1,223,000 (24)			GAAP	Financial Audit	Annual	June 30	Dec	§ 471.697	
Schools (576)	School Districts and Charter Schools (510)				GAAP	Unaudited data Audited Data Financial Audit	Annual	Unaudited: Sept 15 Audited Data: Nov 30 Audit: December 31	June	§ 123B.77, § 124E.16	
	Other Districts (66)										

- Notes:**
- These are minimum reporting requirements. A local government might be required to do more based on other agreements.
 - Cities, counties, special districts, and towns required to have an audit are also required to report data to the OSA.
 - These may include, but are not limited to, single audit requirements, grant agreements, bond covenants, and joint powers agreements. Audited financial statements should be submitted when available.
 - Local governments that have a minimum reporting requirement of cash basis but choose to report on a GAAP basis must meet all the requirements of a GAAP entity.
 - Quantities in red are the number of entities in each category based on 2022 counts
 - * Items are estimates
- Updated:**
9/19/2024