

Chapter Fourteen

Auditing & Oversight

Towns are potentially exposed to a number of different types of audits. All audits conducted of towns by outside auditors must comply with the audit standards established by the State Auditor's office. The audit standards include a legal compliance audit of the town's practices. A copy of the guide used to conduct that part of the audit is available on the web at: www.auditor.state.mn.us. By referring to the Audit Guides, the township learns what records are required to conduct an audit. This can be very helpful for the yearly Board of Audit.

§ 14-1. Yearly Board of Audit

At least once a year the town board must sit as the board of audit to audit and settle all charges against the town. Minn. Stat. § 366.20. What follows is the list of items township officers should undertake when performing their yearly Board of Audit.

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- The board of audit can be held any time between the close of the fiscal year (December 31) and a week before the annual town meeting, although for practical purposes it is virtually impossible to do it less than a week before the annual meeting. In fact, the board should normally attempt to hold the meeting as early as possible in order to allow sufficient time to develop the required report.
 - In preparation for the board of audit activities, the treasurer is required to prepare and file with the clerk at least five days before the annual town meeting a written statement of money received from any source and all money paid out as treasurer. Minn. Stat. § 367.16. The treasurer is also required to provide the board of audit the book of accounts along with the treasurer's vouchers.
 - In preparation for the board of audit activities, the clerk is required to furnish a statement from the county treasurer of money paid to the town treasurer, all information about the fiscal affairs of the town in the clerk's possession, and all accounts, claims, and demands against the town filed with the clerk. Minn. Stat. § 367.11.
 - Many of the duties that must be performed at the annual board of audit under Minn. Stat. § 366.21 are a culmination of the activities performed by the board at each regular meeting. When the board examines each account or claim presented for payment, it is performing a part of the duties of the board of audit. It is then not necessary for the board to reexamine each claim in detail at the annual board of audit. However, at the annual board of audit, the board should randomly select claims to audit in detail to make sure everything is in order.
 - The board of audit must develop a detailed report of the items of accounts audited and allowed or disallowed, the nature of each, and the person to whom allowed or disallowed.
 - The clerk is required to post a copy of the report developed by the board of audit at least ½ hour before the annual town meeting and to read the report publicly at the meeting. Minn. Stat. § 366.22.
 - Because a quorum or more of the supervisors is needed to hold the board of audit, the open meeting law must be followed in calling together and conducting the meeting. Therefore, if the meeting is held as part of a regular board meeting, separate notice is not required. On the other hand, if the meeting is held before, after, or on a different day than a regularly scheduled board meeting, the board of audit should be treated as a special board meeting under the Open Meeting Law. (See § 7.7 on Notices under Open Meeting Law.)
 - If the board chooses or is required to have a CPA perform an audit of the town's financial affairs, it must still perform the duties of the annual board of audit. Of course, if a CPA has already completed an audit before the annual meeting, the board will find it much easier to complete its own duties.
 - In addition to its role as a board of audit, the town board has a critical role to play throughout the year in maintaining the system of checks and balances and internal controls that are necessary to protect the integrity of public funds. A second set of eyes not only helps prevent fraud and embezzlement, it plays an equally important part in catching honest mistakes that can result in significant financial losses.
- The State Auditor's website has numerous materials to help prepare for the yearly Board of Audit, including a Chart of Accounts, <http://www.osa.state.mn.us/default.aspx?page=ctas>.*

14-2. Voluntary Audit by a Certified Public Accountant

Town boards always have the option of hiring an independent certified public accountant to perform either a focused or a broad audit of the town's books. There are any number of reasons why a board may choose to hire someone to audit their books. Keep in mind that any CPA hired to audit the town's books is required to comply with certain minimum auditing standards while auditing the books of public entities. Minn. Stat. § 6.65.

§ 14-3. Voluntary Audit by the State Auditor's Office

Under Minn. Stat. § 6.55, a town board may pass a resolution requesting the State Auditor's office to audit the town's accounts. The resolution must be signed by a majority of the supervisors and be presented to the town clerk for verification of the signatures and certification of resolution to the State Auditor's office. Townships requesting the audit must cover all its costs.

§ 14-4. Mandatory Audit of Towns with a Combined Clerk-Treasurer Position

When a town's electors approve the option D ballot question combining the clerk and treasurer positions, the board is required to have an audit performed of the town's financial affairs consistent with the standards of the State Auditor's Office. Minn. Stat. § 367.36, subd. 1. The audit is required because the combined clerk-treasurer position does not provide the checks and balances available when the positions are separate. Either the State Auditor's office or a CPA may perform the review.

The frequency of the required audit depends upon the town's annual revenues. Starting in 2005, an annual audit is required if the town's annual revenue exceeded \$150,000 "adjusted for inflation using the annual implicit price deflator for state and local expenditures as published by the United States Department of Commerce." By 2017, the amount grew to \$216,000. Towns should check with the State Auditor's office for the updated threshold amount. <http://www.osa.state.mn.us/default.aspx?page=20160130.000>

If the town's annual revenue is more than the yearly audit threshold, the town must perform an annual audit. If the annual revenues are un-

der the threshold amount an Agreed Upon Procedures Engagement as regulated by the State Auditor's Office must be performed at least once every five years. The auditor selects at random the one year out of the five he or she will audit. In either case, the auditor must forward a copy of the audit to the State Auditor's office. Minn. Stat. § 367.36, subd. 1(c).

§ 14-5. Mandatory Audit of Large Towns

Towns with a population of more than 2,500 residents, according to the last federal census, and annual revenues of more than \$670,500 (as adjusted for inflation since 2004) must have an annual audit performed by a CPA. Minn. Stat. § 471.697, subd. 1.

§ 14-6. Petitioned Investigative Audit

The town electors at an annual or a special town meeting may vote to call for an audit of the town's financial and legal affairs by the State Auditor's office. Minn. Stat. § 6.54. The issue can be raised at any annual town meeting without prior notice. If a majority of the electors voting at the meeting vote in favor of a state audit, the vote is considered a petition calling for the audit. The costs of such an audit will be the responsibility of the township.

§ 14-7. Discretionary Investigative Audit

The office of the State Auditor has the authority to audit both the financial and legal affairs of a town on its own initiative. Minn. Stat. § 6.51. In some cases, the investigation has resulted in a recommendation by the State Auditor to the county attorney to bring criminal charges against town officers because of their failure to follow proper statutory procedures.

