

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TOWN OF SPRING GROVE
HOUSTON COUNTY, MINNESOTA

AGREED-UPON PROCEDURES

OCTOBER 4, 2006

Description of the Office of the State Auditor

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**TOWN OF SPRING GROVE
SPRING GROVE, MINNESOTA**

October 4, 2006



Agreed-Upon Procedures

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Supervisors
Town of Spring Grove

We have performed the procedures enumerated below, which were agreed to by the Town of Spring Grove, solely to assist you with respect to ensuring adequate accounting procedures and other practices are being followed to account for and report on the financial activities of the Town. These procedures were applied to the Town's records as of October 4, 2006. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. Procedure

Determine that minutes are prepared and approved for proceedings of the Town.

Findings

05-1 Minutes of Monthly Town Board Meetings

We reviewed the minutes to the proceedings of the Town Board meetings for the year and noted the following:

- minutes were not approved at the subsequent Town Board meeting,
- mileage rates paid to Board members were not approved in the minutes,.
- the meeting minutes were not signed,

- per meeting amounts were not approved in the minutes, and
- yearly compensation for the chair and clerk were not approved in the minutes.

Various statutes that refer to taking or publishing minutes use the term “proceedings” or “official proceedings.” The Minnesota Attorney General has used the definition of “proceedings” found at Minn. Stat. § 331A.01, subd. 6, in analyzing the clerk’s duties to take minutes. This statute states, in part:

“Proceedings” means the substance of all official actions taken by the governing body of a local political subdivision at any regular or special meeting, and at minimum includes the subject matter of a motion, the persons making and seconding a motion, the roll call vote on a motion, the character of the resolutions or ordinances offered, including a brief description of their subject matter, and whether defeated or adopted.

At a minimum, the minutes must include information required by Minn. Stat. ch. 13D (Minnesota Open Meeting Law). This provision requires that the individual votes of each member of the governing body on “an action taken in a meeting required by this section to be open to the public” be specifically recorded, except for votes on “payments of judgments, claims, and amounts fixed by statute.”

Once the minimum requirements are satisfied, the question of how elaborate and extensive the minutes should be is largely a policy matter for determination by the particular body in the exercise of reasonable judgment and discretion. The Attorney General has explained:

...there may be circumstances in which it would be advisable for the town board to provide for the minutes to include information over and above what is necessary to satisfy minimum statutory requirements for a record of its official actions. Op. Atty. Gen. 851-C (March 5, 1992).

Such circumstances may include meetings where the Board is acting in a quasi-judicial capacity, such as when it reviews requests for variances or special use permits. At such times, the minutes may include the Board’s reason for reaching a particular decision. Such minutes could be crucial in defending a court challenge to the decision.

While the following is not an exhaustive list, some specific items that should be included in the minutes to the proceedings of Town Board meetings are:

- type of meeting (regular, special, adjourned regular, adjourned special, recessed, or emergency);
- date and place the meeting was held;

- time the meeting was called to order;
- list of Town Board members present and absent;
- approval of minutes of the previous meeting, with any corrections noted;
- appointments of representatives to committees or outside organizations;
- reports of the officers;
- authorizations and directions to invest excess funds and information on investment redemptions and maturities;
- list of all sealed bids received or price quotations obtained;
- identity of parties to whom contracts were awarded;
- abstentions from voting due to a conflict and the Board member's name and reason for abstention;
- reasons the Town Board determines to award a particular contract to a bidder other than the lowest bidder;
- granting of variances or special use permits;
- approval of hourly rates paid for services provided, mileage rates, meal reimbursement amounts, and per diem or meeting amounts;
- listing of all bills (including per diems) allowed or approved for payment, noting the warrant number, claimant, purpose, and amount;
- transfers of funds; and
- reason the meeting was concluded and the time the meeting concluded.

In accordance with Minn. Stat. § 367.11, the minutes should be recorded by the Town Clerk. We recommend that they be signed by the Clerk once prepared, and then by a Board member, preferably the chair, at the time they are adopted by the Board, usually at the next meeting. We believe that by following the above guidance, the Town will provide a more adequate history of its meetings.

05-2 Board Chair and Vice Chair

The Town Board did not document the Board chair or vice chair appointment in the minutes of the Board. The Board chair's signature is one of the authorizing signatures on Town checks but we could not verify if this was the correct signature since the appointment was not in the minutes.

We recommend that the Town Board annually designate, by motion, a Board chair and vice chair and document this in the minutes.

2. Procedure

Review procedures and records used to account for the receipt and disbursement of funds, and determine if such procedures and records appear adequate for reporting on activities of the Town.

Findings

05-3 Segregation of Duties

Due to the limited number of Town of Spring Grove officials, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in smaller entities; however, the Town Board of Supervisors should constantly be aware of this condition and realize that the concentration of duties and responsibilities is not desirable from an accounting point of view.

Generally, segregation of duties can be attained with the hiring of additional personnel; however, this becomes a significant cost consideration to local governments such as the Town of Spring Grove. Under the above conditions, the most effective system of control lies in the knowledge of the Board and the Town's officers regarding the Town's operations and the periodic review of those operations.

3. Procedure

Review practices followed to deposit funds in the bank.

Findings

None.

4. Procedure

Determine if bank statements are reconciled in a timely manner.

Findings

05-4 Bank Reconcilements

The Town did not provide proof of monthly reconciliations from the balance on the monthly bank statements to the book balance for our audit period. Bank reconciliations are essential in maintaining an accurate cash position of the Town.

We recommend that bank reconciliations be completed and documented on a monthly basis.

5. Procedure

Determine if the process for approving disbursements is adequate.

Findings

05-5 Cancellation of Disbursements

We found that none of the disbursements were cancelled to prevent duplicate payment of disbursements.

We recommend that all disbursements have proper cancellation to prevent duplicate payments.

6. Procedure

Determine if vendor invoices are on hand to support disbursements.

Findings

05-6 Donations

During the review of disbursements, we noted that the Town contributed \$250 to the local library. A town board may contract with a library board under Minn. Stat. § 134.12 for library services for town residents. In addition, Minn. Stat. § 134.41 states that the electors may authorize the town board to enter into an agreement to expend funds or levy a tax to discharge the costs incurred in the construction of a library. The amount the client donated was not for the construction of a library.

We recommend that the Town enter into a contract with the library board specifying that its residents will receive library privileges similar to that of city residents.

7. Procedure

Determine if sufficient records are on hand to document the wages paid to employees.

Findings

None.

8. Procedure

Determine if quarterly reports on salary withholdings have been filed in a timely manner with the state and federal governments.

Findings

05-7 Timely Reporting

The client did not provide quarterly reports, therefore, we cannot determine if they were filed in a timely manner or properly calculated.

We recommend that the quarterly reports on salary withholdings be kept and filed in a timely manner to ensure accurate reporting.

9. Procedure

Determine if records are kept on land, buildings, and equipment of the Town.

Findings

05-8 Capital Asset Records

We recommend that the Town maintain a listing of all capital assets, even if there is only one, so that a record exists for future Town personnel.

10. Procedure

Determine if the Town is in compliance with the *Minnesota Legal Compliance Audit Guide for Local Government*.

Findings

05-9 Designation of Depository

According to Minn. Stat. § 118A.02, subd.1, the governing body of each governmental entity shall designate, as a depository of its funds, one or more financial institutions. The governing body may authorize the treasurer or chief financial officer to: designate depositories of funds; make investments of funds under sections §§ 118A.01 to 118A.06 or other applicable law; or both designate depositories and make investments provided in this subdivision.

We recommend that the Town formally designate its depositories.

05-10 Declaration Form

Minn. Stat. § 471.38, subd. 1, requires each person claiming payment to reduce the claim to writing or an electronic transaction record and to sign a declaration stating that the account, claim, or demand is just and correct and that no part of it has been paid. The Town does not use claim forms containing this statement.

Minn. Stat. § 471.391, subd. 2, allows the Town to print the following statement on the back of its checks:

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 town, and that no part of it has heretofore been paid.

When endorsed by the payee named on the check, this statement operates as and sufficiently satisfies the declaration requirement. The Town's checks do not contain this statement.

To ensure compliance with Minn. Stat. §§ 471.38-.391, we recommend the declaration provided for in Minn. Stat. § 471.391, subd. 2, be placed on the back of the Town's blank checks.

05-11 Collateralization Requirement

Minn. Stat. § 118A.03, subd.1, requires security for deposits beyond insurance. To the extent that funds on deposit at the close of the financial institution's banking day exceed available federal deposit insurance, the governmental entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state.

Minn. Stat. § 118A.03, subd. 3, requires the total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest (in excess of available federal deposit insurance) at the close of the financial institution's banking day, except that where the collateral is irrevocable standby letters of credit issued by Federal Home Loan Banks, the amount of collateral shall be at least equal to the amount on deposit plus accrued interest (in excess of available federal deposit insurance) at the close of the financial institution's banking day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

For the period under review, we noticed that the Town had amounts on deposit over the federal deposit insurance limit and did not have collateral or bonds to cover the amount in excess of FDIC limits.

We recommend that the Town follow Minnesota statutes in regards to obtaining required collateral.

11. Procedure

Determine if the Town is current with filing its annual reporting forms with the Office of the State Auditor and that the amounts reported reflect the amounts recorded in the Town's records.

Findings

None.

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The Town has been unresponsive to our request to provide a management representation letter. The issuance of the report was delayed for three months waiting for the letter. While not required by attestation standards, such representation letter provides additional assurance regarding the information and assertions provided to our auditors by the Town during the engagement. In a representation letter, management takes responsibility for books, records, and other documentation supplied to the auditor. In addition, the letter also would identify underlying assertions regarding the procedures agreed upon. The letter would identify information that could have an impact on the results of procedures that were performed. It is our

position that the evidence gathered by the procedures we performed was sufficient to support the findings contained in our report. However, when evaluating our findings any reader of this report should consider the impact of the town's failure to provide the management representation letter.

We were not engaged to and did not perform an audit of the Town of Spring Grove's financial statements, the objective of which would be the expression of an opinion on those financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Town of Spring Grove and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 4, 2006