

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TOWN OF CROKE
TRAVERSE COUNTY, MINNESOTA

AGREED-UPON PROCEDURES

FEBRUARY 23, 2006

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**TOWN OF CROKE
TRAVERSE COUNTY, MINNESOTA**

February 23, 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 Croke

We have performed the procedures enumerated below, which were agreed to by the Town of Croke, solely to assist you with respect to assuring 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 February 23, 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 the procedures is solely the responsibility of the Town of Croke. 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.

Finding

05-1 Monthly Town Board Meetings

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

- The January 25, 2005, meeting was conducted without a quorum.
- The minutes are not signed by the chairman of the Board.

The Town of Croke has complied with Minn. Stat. § 367.03, which states that three supervisors shall be elected in each town at the time of the town's general election. Minn. Stat. § 366.01 provides that the supervisors of each town constitute a board, and

that two supervisors shall be a quorum. A meeting held on January 25, 2005, was conducted with one supervisor and the Town Clerk/Treasurer. Even though one supervisor position was vacant at the time of this meeting, the two remaining supervisors must be present to be a quorum.

In accordance with Minn. Stat. § 367.11, the minutes should be recorded by the Town Clerk. We recommend that the Clerk sign the minutes once they are prepared. They should then be signed by a Board member, preferably the chair, at the time the minutes are adopted by the Board, usually at the next meeting.

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.

Finding

05-2 Segregation of Duties

Due to the limited number of Town of Croke officials, segregation of the accounting functions necessary to ensure adequate internal accounting 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 in a limited number of individuals 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 Croke. 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.

Finding

None.

4. Procedure

Determine if bank statements are reconciled in a timely manner.

Finding

None.

5. Procedure

Determine if the process for approving disbursements is adequate.

Finding

None.

6. Procedure

Determine if vendor invoices are on hand to support disbursements.

Finding

None.

7. Procedure

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

Finding

None.

8. Procedure

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

Finding

05-3 Payroll Reports Not Prepared

From information provided, the Town does not prepare the 941 quarterly payroll report, or issue W-2s to its employees. These reports are essential to comply with IRS regulations.

We recommend that the Town start preparing the 941 quarterly report, as well as issuing W-2s at year-end.

9. Procedure

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

Finding

None.

10. Procedure

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

Finding

05-4 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 always 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 required by Minn. Stat. § 471.38, subd. 1. The Town’s checks do not contain this statement.

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

11. Procedure

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

Finding

None.

* * * * *

We were not engaged to and did not perform an audit of the Town of Croke'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 Croke and is not intended to be, and should not be, used by anyone other than the specified party.

/s/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 23, 2006