

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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**TOWN OF MUDGETT**  
**MILLE LACS COUNTY, MINNESOTA**

AGREED-UPON PROCEDURES

FEBRUARY 22, 2005

## **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.

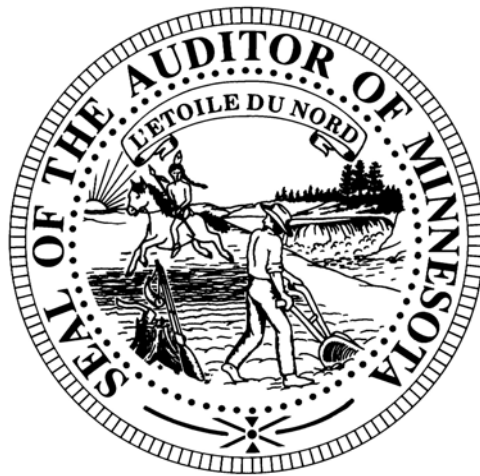
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**TOWN OF MUDGETT  
MILLE LACS COUNTY, MINNESOTA**

**February 22, 2005**



**Agreed-Upon Procedures**

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

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Supervisors  
Town of Mudgett

We have performed the procedures enumerated below, which were agreed to by the Town of Mudgett, 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 February 22, 2005. 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 the Town. Consequently, we make no representation regarding the sufficiency of the procedures enumerated 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

04-1 Minutes of Monthly Town Board Meetings

During the course of applying our agreed-upon procedures, we reviewed the minutes to the proceedings of the Town Board meetings for the year and noted the following:

- The minutes were not approved at the subsequent Town Board meeting.
- Hourly rates and mileage rates paid to Board members or other individuals for services provided, such as plowing and mowing ditches, were not approved in the minutes.
- The minutes did not include a detailed listing of bills approved at the meetings.
- The minutes were not signed.

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 resolutions or ordinances offered, including a brief description of their subject matter, and whether defeated or adopted.

At a minimum, the minutes must include the 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.”

If having satisfied minimum requirements, 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 judicial capacity, such as when it reviews requests for variances or special use permits. At such times, the minutes may include the Board’s reasons 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, and 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 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.

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

04-2 Internal Accounting Control

Due to the limited number of Town of Mudgett 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 Mudgett. 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.

04-3 Policy Manual

Presently, the Town of Mudgett does not have a policy manual that includes documentation of practices such as receipt and disbursement of funds, recording of financial transactions, maintenance of bank accounts, and interim annual financial reporting. Developing a Town policy manual would provide a guide for those involved with these activities and also help create accountability.

We recommend that the Town of Mudgett develop a policy manual, including a section that sets forth financial practices.

04-4 Annual Budgets

In accordance with Minn. Stat. §§ 365.10 and 365.431, the Town's electors vote to authorize the amount of money to be raised for a given year through tax levies for Town purposes. However, we did not note any discussion in the Board minutes regarding a



budget for annual disbursements on a fund basis. A disbursements budget would demonstrate the need for the amount of the tax levy. As a result of not approving an annual budget, insufficient documentation exists to provide accountability as to how tax levy funds were to be raised and spent by the Town for the following year. Budgets are essential in establishing the constraints within which the Town must operate. All sources of receipts, including funds on hand, must be evaluated against planned disbursements to arrive at a final budget.

We recommend that, prior to the electors taking action on the annual tax levy, a disbursements budget for each fund be discussed by the Board and presented to the electors. This will provide a more complete due process in arriving at the tax levy to be voted on by the electors.

#### 04-5 Pre-numbered Checks

Currently, the Town of Mudgett is not using pre-numbered checks or following adequate procedures for manually numbering their check stock. The Clerk/Treasurer manually assigns numbers to checks at the beginning of a fiscal year, beginning each year with the number one. However, if a check is voided, it is noted with “VOID” on the check stub and is not assigned a number. The ability to monitor blank check usage through pre-numbered checks is an essential control over cash disbursements.

We recommend that the Town’s check stock be pre-numbered so the Town can more adequately monitor check usage.

#### 3. Procedure

Review practices followed to deposit funds in the bank.

#### Findings

#### 04-6 Deposit Documentation

The Town does not keep the deposit receipts issued by the bank when deposits are made. It is important to keep the deposit receipts because, in the event of a bank error, it is the only proof the Town has that a deposit was made.

The General Records Retention Schedule for Townships requires that deposit slips be retained for six years. If the Town has not adopted this schedule, then it has no authority to destroy or get rid of these records at all, Minn. Stat. § 15.17.

We recommend that the Town maintain all deposit records, including deposit receipts issued by the bank, for the time period required by law.

4. Procedure

Determine if bank statements are reconciled in a timely manner.

Findings

04-7 Bank Reconciliations

From the information provided, it appears the Town did not formally reconcile the cash 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

04-8 Approval Process for Disbursements

We found that 13 of the 52 checks issued by the Town of Mudgett during the year ended December 31, 2004, had no indication of approval by the Town Board prior to payment. Each claim or invoice should be fully reviewed for appropriateness and accuracy prior to being paid. Satisfactory evidence of approval may include the phrase "OK to pay" on the claim or invoice, accompanied by the initials of the reviewer and the date reviewed.

We recommend that all disbursements have proper documentation of approval prior to payments being made.

6. Procedure

Determine if vendor invoices are on hand to support disbursements.

Findings

04-9 Documentation for Disbursements

Documentation in the files was inadequate to support the payments made for 28 of the 52 checks issued by the Town of Mudgett during the year ended December 31, 2004.

Minn. Stat. § 471.38, subd. 1, provides that, “. . . the board or officer authorized by law to audit and allow claims shall not audit or allow the claim until the person claiming payment, or the person’s agent, reduces it to writing or an electronic transaction record, in items and signs a declaration to the effect that such account, claim, or demand is just and correct and that no part of it has been paid.” All claims paid should, therefore, be in writing or in the form of an electronic transaction record, and should be properly itemized. This enables the Town Board to more easily determine that the claim is valid, reasonable, and necessary.

We recommend that procedures be established to ensure that all payments are properly supported and documented.

7. Procedure

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

Findings

04-10 1099 Forms

The Town of Mudgett does not have employees specifically earning wages. However, during the year ended December 31, 2004, three individuals received over \$600 from the Town. Since it was unclear from the supporting documentation whether these payments were for reimbursement of expenditures or were for services rendered, those individuals should have been issued 1099 forms.

We recommend that 1099 forms be completed annually for those individuals meeting the \$600 threshold.

8. Procedure

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

Findings

None.

9. Procedure

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

Findings

None.

10. Procedure

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

Findings

04-11 Payment 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 required by Minn. Stat. § 471.38, subd. 1. The Town’s checks do not contain this statement.

To ensure 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.

04-12 Documentation of Transaction With Officer

Minn. Stat. § 471.87 prohibits public officers who are authorized to take part in any manner in making any sale, lease, or contract, from having a personal financial benefit or interest in the sale, lease, or contract. Several exceptions to this statute are listed in Minn. Stat. § 471.88; however, the vote by the governing body to approve any contract for goods or services with an interested officer under this section must be unanimous.

According to Minn. Stat. § 471.89, subd. 2, the governing body, prior to performance of any contract or contracts with an interested officer, must adopt a resolution setting forth the essential facts and determining that the contract price was as low or lower than the price at which the commodity or service could be obtained elsewhere. Furthermore, Minn. Stat. § 471.89, subd. 3, requires that, before payments on a contract involving an interested officer can be paid, the involved officer must file with the clerk of the governing body an affidavit stating:

- the name of the officer and office held;
- an itemization of the commodity or services furnished;
- the contract price;
- the reasonable value;
- the interest of the officer in the contract; and
- that to the best of his or her knowledge and belief, the contract price was as low or lower than the price at which the commodities or services could have been obtained from other sources.

During 2004, we noted one instance where an interested officer performed approximately \$2,400 in road work for the Town of Mudgett without following the procedures required by Minn. Stat. §§ 471.88 and 471.89.

We recommend the Town Board and interested officers follow the requirements of Minn. Stat. §§ 471.88 and 471.89 for all transactions between the Town and its officers.

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.

Findings

None.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: February 22, 2005