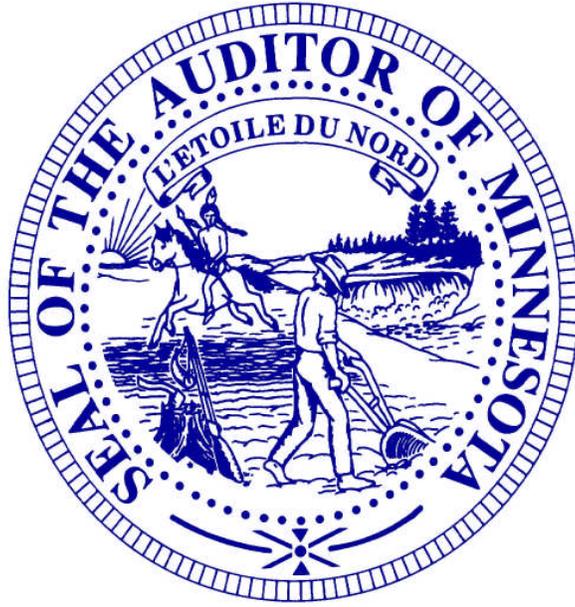


# **STATE OF MINNESOTA**

## **Office of the State Auditor**



**Rebecca Otto**  
**State Auditor**

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# **Summary Report of County Audit Survey**

**January 11, 2012**

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor 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 150 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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## **Summary Report of Audit Survey 2012**

The Office of the State Auditor (OSA) recently completed a comprehensive survey of counties audited by the OSA regarding their annual audit for the year ended December 31, 2010. The survey focused on the timeliness and cost of the annual audits performed by the OSA. Of the 59 counties audited by the OSA, 45 counties, or 76%, completed the survey, an excellent response rate.

### **Timeliness of Audit**

Counties were asked about the timeliness of their 2010 audit performed by the OSA. Of the 45 counties responding, 10 counties, or 22%, participate in the Government Finance Officers Association's (GFOA) Certificate of Excellence in Financial Reporting Program. GFOA audits have a deadline of June 30. All 10 participating counties, or 100%, reported that their audits were completed on time.

The remaining 35 county audits were not GFOA audits, but these audits were required to meet the federal reporting deadline of September 30. Of these 35 counties, 33 (94%) reported that their audits were completed on time, and 2 (6%) reported that their audits were issued after the September 30 deadline. These two counties were asked the reasons why their audits were late. Both counties identified a cause for the late audits as "Other personnel issue(s)" not among those listed in the survey choices. One of the counties also identified "new personnel completing audit preparation work" and "staff unfamiliar with government financial reporting requirements" as additional reasons for the audit being issued after the deadline.

Counties are asked to complete an Audit Preparation Checklist prior to the start of the audit. An Audit Preparation Checklist is used by a county to prepare for the audit. It allows counties to identify and commit to completion dates for the components of the audit preparation work. Once completed, the audit work can proceed. The checklist allows for efficient use of time by the county and OSA staff. Of the 45 counties responding to the survey, 93% reported completing an Audit Preparation Checklist. Of those respondents, 36 counties (86%) reported that county personnel adhered to their committed completion dates, allowing the OSA to proceed with the audit of the county's financial statements according to the schedule.

### **Cost of Audit**

The survey asked if the county's costs for the December 31, 2010, audit increased or decreased from the prior year. Fifty-six percent, or 25 counties, reported that their costs had decreased. Forty-four percent, or 20 counties, reported that their costs had increased.

Counties were then asked to identify reasons for the increase or decrease in their audit costs. The 25 counties who reported a decrease in costs identified the following reasons for the decrease (counties could indicate all of the reasons that applied):

<b>REASONS FOR DECREASE IN AUDIT COSTS</b>	<b>Responses</b>	<b>%</b>
The county completed and adhered to the audit preparation checklist	18	72.0%
The county had internal control policies and procedures documented for the 2010 audit	9	36.0%
The county provided additional training to assist county staff in preparing financial statements for the audit	7	28.0%
The number of internal control or compliance findings decreased from 2009 to 2010	7	28.0%
The county hired a consultant to help prepare for the audit	4	16.0%
The county received less federal funding in 2010	3	12.0%
The number of major federal programs decreased from 2009 to 2010	3	12.0%
The 2009 audit findings included material misstatements/audit adjustments, and the finding was resolved in 2010	3	12.0%
The county had major construction, a capital project or bond issue in 2009, but not in 2010	2	8.0%

The 20 counties who reported an increase in audit costs identified the following reasons for the increase (counties could indicate all of the reasons that applied):

<b>REASONS FOR INCREASE IN AUDIT COSTS</b>	<b>Responses</b>	<b>%</b>
The county received American Recovery and Reinvestment Act (ARRA) funds	10	50%
The county received new or additional federal funds	9	45%
The county had internal control or compliance finding(s) in the 2010 audit	9	45%
Implementation of new accounting standards has created more work for county staff in preparing for the annual audit	7	35%
The county did not conduct a risk assessment of its internal controls	4	20%
The county did not complete the financial statement preparation work	4	20%
The number of major federal programs audited increased	3	15%
The county had major construction, a capital project, or bond issue in 2010	3	15%
The county's internal control policies and procedures were not documented in writing	2	10%
The county had material misstatements identified by auditors during the 2010 audit	2	10%
There were delays in the county completing its financial statement preparation work	2	10%

The final question on the survey asked whether the county would like the Office of the State Auditor staff to follow up on how to improve the timeliness of its audit and/or how to reduce or control audit costs. Of the 45 counties responding to the survey, 56%, or 25 counties, answered yes. The remaining respondents answered no, indicating that they were not interested in learning how to improve the timeliness of their audit and/or how to reduce or control audit costs.

### **Quality of Audit**

Professional audit standards require that an audit organization have quality control procedures in place to ensure that services are competently delivered and adequately supervised. Both the American Institute of Certified Public Accountants' standards and the *Government Auditing Standards* require auditors to develop and maintain an effective system of quality control. To make sure those quality control procedures are working, auditors engaged in the practice of

public accounting in the United States are required to be enrolled in an approved practice-monitoring program. Also, the Minnesota State Board of Accountancy requires that accounting firms undergo a peer review once every three years as part of its licensing process.

The goal of practice-monitoring is to promote quality in the accounting and auditing services provided by the auditors. The Office of the State Auditor complies with these standards by obtaining an external peer review every three years. The OSA's most recent external peer review did not include any findings and indicated that the OSA's quality control policies and procedures were in place, operated effectively, and met the auditing standards. A complete copy of the OSA peer review can be found on the OSA website at [www.auditor.state.mn.us](http://www.auditor.state.mn.us).