



STATE OF MINNESOTA  
OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

**AGREED-UPON PROCEDURES (AUP) GUIDE  
FOR SMALL ENTITIES**

The following procedures should be performed for a standard agreed-upon procedures engagement:

1. Obtain and read the meeting minutes of the governing body for the period covered by the AUP engagement. For the minutes of four meetings determine if the minutes are adequately prepared and approved for the [entity].

*The Board minutes of the entity should be completed in a timely manner. Generally, a timely manner would mean the minutes of a monthly meeting should be completed and ready for approval at the next monthly Board meeting. The minutes should include the results of actions taken, including the votes made, and signed by the preparer and the Board chair/president.*

*The primary purpose of the procedure is to determine if the Board is properly documenting its official actions. Although a review of the entire year's minutes may not be necessary to make that determination, the audit practitioner may obtain information that could have an impact on the other procedures performed from a complete review of the entity's minutes. The audit practitioner should document actions that have an impact on the agreed-upon procedures.*

2. Inquire of [entity]'s management about whether they have assessed whether internal controls are adequate enough to prevent or detect errors or fraud or that internal controls are in place to mitigate the risk. Determine if they have documented that risk assessment and, if so, read documentation of that risk assessment for adequacy.

*An adequate system of internal controls is likely not possible for most small entities. The small staff and lack of training in internal control pose significant challenges to maintaining adequate controls. However, the fact that an entity has considered what controls could be maintained and how to attempt to mitigate significant deficiencies provides some reassurance about the control environment.*

*The purpose of this procedure is to determine whether the entity has given consideration to maintaining internal controls.*

3. Inquire of management about the entity's procedures and observe the records used to account for the receipts and disbursements of funds. Determine such procedures and records are adequate for reporting the receipt and disbursement activities of the [entity].

*Most transactions of a small entity involve either the receipt or payment of money. Therefore, it is important good records are maintained for receipts and disbursements. The procedures for maintaining those records should be adequate enough to provide reliable information.*

*The records should include a reference number, date, source or payee, purpose or description, amount, and account code.*

4. For 3 monthly bank account reconciliations, determine that they are being performed in a timely manner and that all bank and investment statements for the fiscal year are complete and on-hand. View the monthly bank reconciliations for each month during 201X to determine whether they had been reviewed and signed off on by a Board/Council member.

*In a small environment, bank reconciliations provide one of the most significant internal control activities. Since the main asset of most of these entities is cash, and most of the entity's activity is recorded in financial institution accounts, a relatively simple procedure like the bank reconciliation is an essential control for determining whether errors or fraud have occurred.*

*The review for signoff by a Board member is done in situations where segregation of duties is not adequate and, thus, supervision of bank activity becomes a key mitigating internal control. Scanning the entire year's reconciliation is done to ensure that the control is in place throughout the year.*

5. Mathematically recompute two bank reconciliations and compare the resultant cash balances per bank to the respective general ledger account balances.

*The purpose of this procedure is to determine if the reconciliations are being accurately completed. The reconciliations should be mathematically correct and traced between the entity's records and the bank statements.*

6. Select a sample of cash disbursements and test at least X transactions to determine that the amount recorded in the general ledger as disbursed agrees to supporting documentation by verifying that the amount, payee, date, and description agrees to the vendor's invoice, purchase order, contract, and canceled check, as appropriate.

*The purpose of the procedure is to identify whether the sampled items are properly recorded and have a valid purpose. The goal is to trace the recorded transaction to supporting documentation and the imaged canceled check.*

*For selecting a sample, we recommend using the guidance within the AICPA's **Audit and Accounting Guide: Government Auditing Standards and Single Audits**, Chapter 11 - Audit Sampling Considerations of Uniform Guidance Compliance Audits. While the guidance is directed towards compliance auditing, it provides a useful guide for small populations:*

<b><i>Small Population Sample Size Table</i></b>	
<b><i>Frequency and Population Size</i></b>	<b><i>Sample Size</i></b>
Quarterly (4)	2
Monthly (12)	2 - 4
Semimonthly (24 )	3 - 8
Weekly (52)	5 - 9
between 52 and 250	10 percent of the population*

*\*A rule of thumb some auditors follow, but the sample size is subject to professional judgment.*

- Inquire of how receipts are tracked to determine if receipts journals are complete. Determine total collections reflected in the receipts journal agrees to cash deposits shown on the bank statement for one month.

*The purpose of the procedure is to determine, that for the month tested, that the amounts recorded in the receipts journal were deposited in the bank.*

- Confirm checking and savings accounts and certificates of deposits and investment accounts on the general ledger as of December 31, 201X, with financial institutions.

*Use professional judgment in deciding whether to confirm some or all of the accounts. Confirmations can also be used to identify other accounts using the entity's employer identification number (EIN).*

- Verify with \_\_\_\_\_ County the amount of property tax receipts distributed to the [entity] for the year ended December 31, 201X, and compare to amounts recorded in the general ledger.

*Procedure is not applicable if no property tax revenues. The audit practitioner also can confirm special assessments collected by the county.*

- Determine that the [entity] had non-routine journal entries, such as adjustments or reclassifications, posted to the general ledger. Inspect individually significant items for the following attributes: (a) journal entries are reasonable and have supporting documentation; and (b) the [entity] has procedures that require journal entries to be reviewed, and there is evidence the reviews are being performed.

*Generally, most small entities will not record a large number of journal entries, if any. Therefore, this procedure will not be applicable in a number of cases. The same sample size guidance discussed in step 6 can be used as a guide.*

11. Determine whether there are sufficient records on hand to document the wages paid to employees. For a sample of two payroll checks for each of five employees, determine the employee's hours worked per the payroll register agrees to the employee's time sheet, and the pay rate agrees to the personnel file or approved wage schedule. Verify payment date is subsequent to the pay period.

*Since payroll expenditures can be a large portion of a governmental entity's expenditures, records should be adequate to document who was paid, for what, and how much. For small entities with fewer than 5 employees or non-standard payroll periods, the auditor should adjust the sample size as necessary.*

12. Obtain quarterly reports on salary withholdings and determine if they are filed in a timely manner with the state and federal governments.

*The purpose of this procedure is to alert the entity of issues that may exist should the entity not be current or not properly filing withholding and, thus, being subject to potential penalties.*

13. Inquire of management, view, and determine if adequate records are kept for land, buildings, and equipment owned by the [entity].

*If the entity has significant capital assets, the audit practitioner should determine if the entity is maintaining acceptable records for those assets.*

14. Inquire of management and determine if the [entity] has outstanding debt and, if appropriate, agree the scheduled payments to disbursements reflected in the monthly bank statement.

*The audit practitioner should review records to determine if accurate debt records are maintained.*

## Compliance

Our procedures regarding compliance matters are as follows:

1. Determine that the [entity] 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 [entity]'s records.

*The audit practitioner may be asked to assist in filing the annual reporting form.*

2. Complete the following checklists of the *Minnesota Legal Compliance Audit Guide for Cities/Towns/Other Political Subdivisions* for the [entity]:

*The Minnesota Legal Compliance Audit Guide for Cities/Towns/Other Political Subdivisions checklists should be completed for each applicable section. If a section is not applicable to the entity, the reason should be identified.*

- (a) Depositories of Public Funds and Public Investments
  - (b) Conflicts of Interest
  - (c) Public Indebtedness
  - (d) Contracting - Bid Laws
  - (e) Claims and Disbursements
  - (f) Local Government Miscellaneous Provisions
3. Inquired of the [entity] management of any instances (regardless of materiality) indicating any fraud, illegal acts, or noncompliance, and whether they have reported the instances to the Office of the State Auditor.

*The purpose of the procedure is to determine if any instances of fraud, illegal acts, or noncompliance have occurred, and whether the entity has fulfilled its reporting requirement under Minn. Stat. § 609.456.*

*The audit practitioner need not perform procedures beyond those agreed to by the parties involved (for example, the client and specified parties). If, in connection with the application of the agreed-upon procedures, matters come to the audit practitioner's attention by other means that significantly contradict the subject matter, the audit practitioner should include such matters in his or her report.*

*Deciding whether such matters are important enough to communicate is a matter of professional judgment. It is generally better to err on the side of conservatism and report any matters that are relevant to the subject matter and might be considered significant to the client or specified parties.*