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Vending Machines in County Buildings

By Rebecca Otto, State Auditor

Vending machines in county buildings present unique legal compliance challenges. In the past, some public officials have viewed the expenditures of vending machine proceeds as not being subject to the requirements of “public purpose,” including statutory authority. This view may be based in part on the idea that funds generated by vending machines were from non-tax revenues and therefore not subject to the same legal requirements as tax revenues. However, the Minnesota Attorney General has been clear that the “public purpose” requirements apply to all public expenditures, even if the money was received from non-tax sources.

For the purpose of compliance auditing, the Office of the State Auditor divides vending machines into two groups: those accessible to the public, and those entirely within an employee work space.

Vending Machines Accessible by the Public

For vending machines located in the public areas of county buildings, formal contracting procedures are applicable. If the county does not own the vending machine, there should be a contract between the county and the owner/operator of the vending machine. Such a contract would grant the owner/operator the license to operate the vending machine on county property. All the terms of a licensing agreement should be addressed in the written contract, including the time period, distribution of proceeds of vending machine sales, liability for injury caused by the vending machine, and who will carry insurance for personal injury or property damage.

Some entities have entered into contracts with employee organizations that in turn operate the vending machines. As long as the terms of these contracts are reasonable, further audit inquiry is not warranted. Revenues received by the county from the proceeds of vending machine sales or from granting the license under the written contract are public funds, and should be deposited in the general fund like any other operating revenue.

Vending Machines Accessible by Employees Only

Vending machines accessible only by county employees, such as in an employee lunch room, can be handled informally. For instance, the county could allow its employees to handle all aspects of the vending machine operations, including setting the price of items, stocking, and collecting money. The county could allow its employees, through a formal or informal employee group, to enter into an agreement with a vending machine company where the employees receive cash. If the employees handle the pricing and stocking and receive profits from the vending machines, then those funds generated do not become public funds and are not subject to an audit. We consider this to be similar to a situation in which an employer provides a refrigerator for the use of their employees.

Internal Controls

Regardless of their location, vending machines generally produce a constant flow of revenue, with weekly or monthly amounts being modest but revenue produced over a longer period of time potentially being large. Therefore, internal controls appropriate to any cash-handling function should be in place.

For small operations, vending machine companies may divide the cash received by the machine at the time it is restocked. An employee of the county should be present for this process, and a written receipt of the money received by the county should be prepared and signed by the vending machine employee. As with all cash transactions, regularly changing the person responsible for receiving cash can provide a level of internal control. A sudden change in the amount of revenue received from the vending machine is a red flag which indicates that the internal control procedures should be reviewed.

The potential for loss, even in a small vending machine operation, can be large. It is therefore important to periodically review the internal controls associated with the handling of cash from vending machines.