



OFFICE OF THE STATE AUDITOR

E-Update

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1. New Auditing Standard Impacts Local Government's 2006 Audits
 2. Revised Statements of Position
 3. Avoiding Pitfalls – Internal Control Environment
 4. Pension Reporting Deadline is March 31
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1. New Auditing Standard Impacts Local Government's 2006 Audits

Statement on Auditing Standards (SAS) 112, *Communicating Internal Control Related Matters Identified in an Audit*, became effective for audits of periods ending on or after December 15, 2006. SAS 112 has generated questions in both the audit and local government community. The standard establishes requirements and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. The following are some changes that have resulted from the issuance of SAS 112:

- The term *reportable condition* is no longer used. The terms *significant deficiency* and *material weakness* are used to describe control deficiencies that must be communicated to management and those charged with governance.
- Auditor communication to management and those charged with governance must be in writing.
- Even if an auditor communicated specific *significant deficiencies* and *material weaknesses* in previous years, as long as those deficiencies continue to exist, auditors must continue to communicate them.

To further explain how this new auditing standard could effect local governments, the Office of the State Auditor has prepared a document explaining SAS 112 and some of the potential impacts on local governments. This document is available on our web site under educational materials at

<http://www.auditor.state.mn.us/default.aspx?page=educationalmaterials>

2. Revised Statements of Position

Six additional revised Statements of Position have now been posted to the Office of the State Auditor's website at

<http://www.auditor.state.mn.us/default.aspx?page=statements>. Newly posted Statements of Position include:

- Deposits of Public Funds;
 - Legal Restrictions on Public Investing or Other Debt Instruments;
 - Forfeiture Proceeds and County Attorney Checking Accounts;
 - Car allowance and Mileage Reimbursement;
 - Education Foundations; and
 - Public Expenditures: Donations and Dues.
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3. Avoiding Pitfalls – Internal Control Environment

To help safeguard public funds, public entities need to develop a favorable control environment. Internal control policies and procedures should be provided to all employees. Equally important, however, is the tone set by management. To create a positive control environment, management should:

- Communicate to all employees the importance of internal controls;
- Take appropriate action against those who are not complying with approved internal control policies and procedures;
- Encourage employees to report exceptions not addressed by the policies; and
- Make employees feel comfortable when reporting potential wrongdoing or violations of policies and procedures.

For more information on internal controls, see our Statement of Position 2007-1010 found at

http://www.osa.state.mn.us/other/Statements/importanceic_0703_statement.pdf.

4. Pension Reporting Deadline is March 31

The 2006 reporting year forms are due by March 31, 2007 for volunteer fire relief associations with assets and liabilities of less than \$200,000. Copies of the reporting forms are available in the Forms section of the State Auditor's website at www.auditor.state.mn.us. Relief association trustees can choose the online automated Excel forms or manually complete PDF copies of the forms. If you have questions regarding your reporting requirements or have not received a username and password to access the online forms, please contact Gail Richie with the Pension Division at (651) 282-6110 or Gail.Richie@state.mn.us.
