

6.48 EXAMINATION OF COUNTIES; COST, FEES.

~~All the powers and duties conferred and imposed upon the state auditor shall be exercised and performed by the state auditor in respect to the offices, institutions, public property, and improvements of several counties of the state. At least once in each year, if funds and personnel permit, the state auditor may visit, without previous notice, each county and make a thorough examination of all accounts and records relating to the receipt and disbursement of the public funds and the custody of the public funds and other property. Annually, the board of county commissioners of each county shall engage the state auditor or a firm of private certified public accountants to audit the books, accounts and financial statements of the county in accordance with generally accepted auditing standards, government auditing standards and the Single Audit Compliance Supplement, when applicable. ¹ If the county engages a firm of private certified public accountants, the engagement shall be for either one five-year engagement or no more than two consecutive three-year engagements. After that time, the county shall rotate their engagement with another firm of certified public accountants or the state auditor. ² If the audit is performed by a private certified public accountant, the private certified public accountant shall not compile the financial statements. ³ If the audit is performed by a private certified public accountant, the state auditor may require additional information from the private certified public accountant as the state auditor deems in the public interest. The state auditor may accept the audit or make additional examinations as the state auditor deems to be in the public interest. The state auditor shall prescribe and install systems of accounts and financial reports that shall be uniform, so far as practicable, for the same class of offices. A copy of the audit report and management letter(s) of such examination shall be filed and be subject to public inspection in, and posted on the website of, the office of the state auditor and another copy in the office, and posted on the website of, the auditor of the county thus examined, within six months of fiscal year-end. The state auditor may examine counties, with examinations not completed within six months of fiscal year-end, the following three audit~~

cycles. ⁵ The private certified public accountants or the state auditor may accept the records and audit, or any part thereof, of the Department of Human Services in lieu of examination of the county social welfare funds, if such audit has been made within any period covered by the ~~state auditor's audit~~ examination of the other records of the county. If any such examination shall disclose malfeasance, misfeasance, or nonfeasance in any office of such county, such report shall be filed with the county attorney of the county, and the county attorney shall institute such civil and criminal proceedings as the law and the protection of the public interests shall require.

The county receiving any examination by the office of the state auditor shall pay to the state ~~general~~ auditor's revolving⁶ fund, notwithstanding the provisions of section 16A.125, the total cost and expenses of such ~~examinations~~ examination, including the salaries paid to the examiners while actually engaged in making such examination. The state auditor on deeming it advisable may bill counties, having a population of 200,000 or over, monthly for services rendered and the officials responsible for approving and paying claims shall cause said bill to be promptly paid. The ~~general~~ revolving fund of the state auditor shall be credited with all collections made for any such examinations.

Superscripts

¹ This will give the county commissioners the option to engage a firm of certified public accountants or the state auditor. The purpose is to create timely audits at the lowest price by allowing the county to solicit an RFP in the free market.

² Because there is little risk of *going concern* with regards to governmental audits, there is a risk of *under auditing* by for-profit private CPA firms. Furthermore, there is a risk to the taxpayer that a “good ol’ boy” network will emerge; therefore, it is industry standards to rotate auditors. Hennepin County already rotates their auditors. For

audit years ending 2002 to 2004, KPMG audited Hennepin County. For audit years ending 2005 to 2011, McGladrey Pullen will be auditing Hennepin County. The reason for one five-year engagement or no more than two three-year engagements is the following:

During the first year of an audit engagement, there is a lot of set-up costs and documentation of internal controls. As a result, the auditors are unfamiliar with the auditee and usually incur a loss during the first year. During the second year, the auditors usually have become familiar with the auditee resulting in a thorough examination and the auditors will break even or make a small profit. During subsequent years, the auditors will make a reasonable profit determined by market forces. Two three-year engagements allow the county to seek a competing RFP from other auditors after three years, and the existing auditors have an advantage over other auditors in their RFP proposal for a second three-year audit.

³ Since the Enron scandal, auditing standards have been strengthened and now *do not* allow auditors to compile financial statements that they are examining. Often, governmental entities do not have personnel with the skills necessary to compile their own financial statements. This requirement codifies this auditing standard into state statute and creates an incentive for the county to hire or train their personnel, hire a separate firm of certified public accountants to compile the financial statements or hire the state auditors to compile and audit the financial statements. Even though according to audit standards, the state auditors are not supposed to compile and audit the financial statements, the problem is somewhat palatable because the state auditor is not a for-profit entity.

⁴ The purpose of requiring the county and the state auditor to post the audit report and management letter(s) on their websites is to increase transparency to the taxpayer and to have one central location that the taxpayer can go to review and/or download all county audits in the State of Minnesota. Furthermore, the six-month deadline adds

transparency. The Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program (CAFR Program) requires audit reports to meet a six-month deadline. This has become the industry standard. The OSA already requires school districts and small cities to report to the state auditor within six months. If it is good for everyone else, it should be good for counties, too. Finally, the purpose of lifting the state unfunded audit mandate is to increase timeliness. Even though the Single Audit deadline is September 30, the private CPA firms should not be allowed to use the county audits to flex their staff for three additional months at the expense of the taxpayers' transparency.

⁵ This six-month transparency requirement creates an incentive for counties and private CPA firms to meet the six-month deadline. If the county does not meet the deadline and does not provide the state auditor with an adequate explanation for missing the deadline, the state auditor will be granted the option to audit the county in subsequent years. The option is at the discretion of the state auditor. One example of an acceptable explanation is the implementation of a new accounting system. The purpose of extending the option for three audit cycles (i.e., one three year engagement) is explained in superscript ².

⁶ The purpose of the revolving fund is to create the appearance of independence from political influence. The function of the OSA is proprietary in nature and should be accounted for in a proprietary fund. The revolving fund is a proprietary fund. The general fund is not.