

Chapter 15

Prudent and Effective Oversight— Under the Hood

What Makes Jeff Run

My candidacy is driven by the real possibility that, in the near future, trends already in play will result in the people of Minnesota losing financial oversight of first class cities and counties. School districts and small cities are already beyond the reach of taxpayer oversight through the Office of the State Auditor (OSA). The accountability that the OSA provides to counties and first class cities is at imminent risk of being lost. The pretext for this loss of public accountability will be the failure of the OAS to provide timely audits.

**Single Audit
Deadline
Fiscal Year 2009**

**September
30**

All governmental entities that receive over \$500,000 in federal funds are subject to a mandatory federal compliance audit. It is called a Single Audit (*See Chapter 8, The Single Audit Act— The Audit Evolves*). The Single Audit Act requires that all Single Audits must be completed within 9 months of fiscal year-end. That is September 30 for counties and first class cities because they have fiscal year-end December 31. Of the 59 counties that are still held captive by the unfunded OSA mandate, 40 counties (68%) did not meet the Single Audit deadline.

**Single Audit
Deadline
Fiscal Year 2010
Fiscal Year 2011**

**July
31**

Now the federal government is moving the Single Audit deadline from 9 months to 6 months after fiscal year-end, which is June 30 for counties and first class cities, by fiscal year-end 2012. There will be a two-year transition period of 7 months for fiscal years-ending 2010 and 2011 (*See Chapter 8, The Single Audit— The Audit Evolves*).

**Single Audit
Deadline
Fiscal Year 2012**

**June
30**

Because the Office of the State Auditor (OSA) cannot meet the current September 30 deadline, it is inevitable that it will not meet the June 30 deadline [(*See Chapter 6, It's All About Staffing*) and (*See Chapter 7, Government Finance Officers Association (GFOA) Certificate Deadline*)]. Even more ominous, the federal government is moving toward placing sanctions on government entities that do not meet the Single Audit deadline.

In a stunning departure from past protocol, the Minnesota Department of Human Services, the Single Audit cognitive agent (responsible party) for federal money, issued letters dated November 23, 2009, outlining possible sanctions to counties that were in noncompliance of the Single Audit deadline ([Click here for Letters to Counties from DHS](#)).

When the OSA releases counties from the unfunded OSA mandate, the OSA includes the following statement in the release letters:

“Pursuant to Minn. Stat. 6.48, we will be exercising the authority to review audits performed by CPA firms. Any additional information from the CPA firm that the State Auditor deem in the public interest may be included in the review, such as the work papers supporting the audits. The County will be billed for any such review.”

The most informed view of this statute is that it includes a desk review (see *Ask Jeff a Question* below). There has never been a peer review of the work papers of a CPA firm on any audits released from the unfunded OSA mandate.

For all intents and purposes, the statement included with a release letter is a *de facto* idle threat with no empirical consequences. What this means is that we have an example of government on autopilot with no hands-on peer reviewed audits of the counties that are not being audited by the OSA.

Take-home message

The only answer to solving this impending problem of encroaching deadlines and attendant sanctions is to privatize the Audit Practice Division and replace it with a Peer Review Division. A well-regulated peer review process administered by the OSA will provide prudent and effective oversight to protect the taxpayer. This can be done for counties and first class cities without changing any state statute. An enhanced and expanded peer review program, which would include school districts and small cities, will require legislative cooperation. It would be in the best interest of all taxpayers if the peer review program were expanded to include school districts and small cities.

Perhaps most important is that the expanded peer review program would bring proper conservative governance and a measure of consistent accounting oversight to all levels of government; not just counties and first class cities.

I have spent the last 26 years protecting the taxpayer from within the Office of the State Auditor. From my informed perspective, the moving audit deadline crunch is an ominous train wreck that is both foreseeable and avoidable. As an industry professional, and particularly as a CPA, I would be committing nonfeasance if I ignored this problem.

I committed to campaigning for the Office of State Auditor and to seeking the GOP endorsement to implement my Plan to fix the endemic auditing problems of the OSA.

Ask Jeff A Question

This chapter's selected question is from Tom in St. Paul.

Tom asks, "What about the 'desk review' performed by the OSA. Why is that not adequate government oversight?"

Jeff's Answer: Hi Tom, I have been holding your question for just this appropriate time.

A *desk review* is not a *peer review* of the work papers of a CPA firm.

A *desk review* is a glance at the final product (financial statements). A desk review is performed on all county audits released from the unfunded OSA mandate and examined by CPA firms. It is equivalent to a teacher marking up a term paper and not giving the term paper a grade. The comments go back to the government entity. There is neither follow-up nor consequences. Desk reviews are valueless unless they are used to advance a peer review.

A *peer review* is a detailed analysis of the work papers supporting the audit. A peer review is not performed on all audits; it is done on a random selection of audits performed by CPA firms. Some governmental entities may never get peer reviewed because they are too small. Some may be chosen for peer review every other year because they are too big—a form of a weighted average approach. One goal of a peer review program is to peer review each CPA firm auditing governmental entities at least once every three years.

The desk review can help create the sample of audits that are peer reviewed. If a government entity is too small and never appears to get picked from the population but there are problems uncovered with the entity's financial statements during the desk review, that entity should be placed within the peer review sample.

Under a peer review program administered by the OSA, a CPA firm failing the peer review would not be able to bid on future governmental audits.

Address all your questions directly to me at Contact Jeff. Please include name and town, name and town, if you wish to opine.

Current Event, Propitious Trend

The American Institute of Certified Public Accountants (AICPA) recently announced its support of legislation (H.R. 4410) introduced in the U.S. House of Representatives by Reps. Collin Peterson, D-Minn., and Mike Conaway, R-Texas. The purpose of this bill is to require the U.S. Comptroller General to be a CPA.

"Taxpayers are rightly demanding ever-increasing accountability and transparency from the U.S. government," said AICPA President and CEO Barry Melancon, CPA. "It is essential that the comptroller general have the education, skills, background, training, and discipline of a CPA." SmartBrief WebCPA(12/28)

Taxpayers are rightly demanding ever-increasing accountability and transparency from the U.S. government. It is essential that the comptroller general have the education, skills, background, training, and discipline of a CPA. ---Barry Melancon

Blog Spot Links related story on my campaign by

[Speed Gibson](#)

Family Vacation

When Sandy asked me what I thought about a European family vacation, I told her that I would not go to Europe without stopping at Berlin. I had little interest in Europe except for Brandenburg Gate, the Berlin Wall, and Checkpoint Charlie, and yes I know that the original Checkpoint Charlie is in a Berlin suburb museum. But, even a replica is a significant icon of freedom to me. Those of the Cold War generation will fully understand.



Brandenburg Gate



East Side



West Side

I was completely wrong about the European family vacation and Sandy's instincts were right. It was the best family vacation yet. The trip provided a stark awakening to American exceptionalism.



Berlin Wall

The family took a train from the Baltic Sea to Berlin. Sandy had our day well planned. There was so much more to see than just *my* interests. I forgot about the Burning of the Books, Humboldt University of Berlin (where Albert Einstein taught), and Charlottenburrger Chaussee (17th June Street) where Hitler paraded his troops. Again, I found myself facing very violent world history.

On the train to Berlin, I noticed that the countryside still had not recovered from the Soviet repression. I did not know what to expect in Berlin. When the wall came down on November 9, 1989, a large part of East Berlin was still in ruins. It had been 20 years, and I could only image what Berlin would look like.

I was pleasantly surprised. Berlin is a beautiful city. The restoration is simply remarkable; a unique blend of old and new architecture, which erased the scars of war and preserved history. You have to see it to believe it. I saw modern architectural designs and engineering that amplified the historical characteristics of the past; it was so uniquely German.

Our family first visited Berlin's highlights on foot. I stood in front of Brandenburg Gate and tried to think about what it was like when President Reagan gave his famous speech. I looked at the memorials to the individuals who lost their lives trying to escape to freedom and wondered what made them try to escape. I walked the wall and wondered what it was like living behind the wall. I saw Checkpoint Charlie and wondered what the solders were thinking when Soviet and American tanks were facing each other.



Checkpoint Charlie

Later, the family took a coach bus tour. The tour guide was a young native Berliner. She was so proud of her city. Was this a characteristic of tour guides or was there something more to Europeans? I still do not know the answer, but the Swedish, Estonian, Polish, and Berlin tour guides were remarkably knowledgeable and proud of their respective countries and heritage.

Berlin did not let me down and I would like to visit the city again.

Next time I would take more Euros because they didn't take Visa or American dollars. They were completely European.

Finally, I want to remind everyone that President Reagan gave all of us a future with his commitment to limited government and capitalism. I did not realize it at the time. I did not appreciate it at the time. I just lived in his dream for the past twenty years. And, I want to go “Back to the Future.”

Endorsement

Terry Stone, BPOU Chair of Koochiching County

The time for government accountability has come.

Sincerely,

Jeff Wiita, CPA

Prepared and paid for by Jeff Wiita, CPA for State Auditor
http://www.jeffforstateauditor.com/Home_Page.html

Contact Jeff