



AGREED-UPON PROCEDURES GUIDE FOR VOLUNTEER FIRE RELIEF ASSOCIATIONS

Volunteer fire relief associations with assets and liabilities of less than \$500,000 are required to have their financial reporting form attested to by a certified public accountant or the state auditor.

Minnesota statute 424A.014 requires volunteer fire relief associations below the \$500,000 statutory threshold to annually have an Agreed-Upon Procedures engagement. The Office of the State Auditor (OSA) is required to develop the minimum procedures and a reporting format for the Agreed-Upon Procedures engagement.

Additionally, the certified public accountant or the state auditor performing the engagement must sign the relief association's annual financial reporting form that is filed with the OSA.

The following are the minimum procedures that should be performed during the Agreed-Upon Procedures engagement:

1. Obtain and read the minutes of the meetings of the board of trustees (Board) for the year ended December 31, 2021, and through the date of this report to determine if the minutes are adequately prepared and signed by the preparer and approved and signed by the (Name) Fire Relief Association (Association) Board by the subsequent monthly meeting. Also identify any board actions that could impact the other procedures.

The Board minutes of the relief association 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 president.

The primary purpose of the procedure is to determine if the Board is properly documenting its official actions. Although an inspection 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 read of the relief association's minutes. The audit practitioner should document actions that have an impact on the Agreed-Upon Procedures.

2. Obtain and read the current bylaws and any additional pertinent information of the Association to gain an understanding of how the Association is intended to operate.

The purpose of this procedure is to determine whether the Association is operating in accordance with its bylaws, which serve as the Association's governing document. Any additional pertinent information should be reviewed that could have an impact on the Agreed-Upon Procedures.

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3. Inquire of the Association's management about whether they have assessed whether the Association's internal controls are adequate to prevent or detect errors or fraud or that internal controls are in place to mitigate the risk. Inspect the provided documentation of that risk assessment.

An adequate system of internal controls is likely not possible for most small relief associations. 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 relief association has given consideration to maintaining internal controls.

4. Inquire about the Association'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.

5. Obtain the bank account reconciliations for the year to determine that they are being performed within 15 days after the bank statement end date and that all bank and investment statements for the fiscal year are complete and on-hand. Inspect a sample of 3 randomly selected monthly bank reconciliations for 2021 to determine whether they had been reviewed and signed off on by a Board member.

In a small environment, bank reconciliations provide one of the most significant internal control activities. Since most of the relief association's activity is recorded in financial institution accounts, a relatively simple procedure like the bank reconciliation is an essential control for detecting whether errors or fraud have occurred.

The inspection 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.

6. 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.

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7. 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:*

Small Population Sample Size Table	
Frequency and Population Size	Sample Size
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.*

8. 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.

9. Confirm all checking and savings accounts, certificates of deposits, and investment accounts as of December 31, 2021, with financial institutions to determine if recorded amounts can be traced to third-party provided information.

Confirmations can also be used to identify other accounts using the relief association's tax identification number (TIN).

10. Compare the Association's receipts and disbursements records to the financial reporting form for accuracy and to determine if any revisions or adjustments are required.

Compare receipts and disbursements to amounts presented on the relief association's financial reporting form. Amounts should be properly identified by source or activity.

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11. Obtain lists of accounts receivable and payable and compare the lists to receipts and disbursement records of the subsequent year for accuracy and completeness. Also compare the current lists to the prior year's lists looking for any significant variances.

Consider reviewing January-February transactions subsequent to the year to determine adequacy.

12. Agree that the amount of fire state aid, supplemental state aid, and supplemental benefit reimbursements distributed to the Association for the year ended December 31, 2021, matched amounts reported by the Office of the State Auditor or the Minnesota Department of Revenue.

Fire state aid and supplemental state aid are transmitted in two payments, occurring on the same date, from the State to the municipality affiliated with the Association. The municipal treasurer is required to transmit fire state aid and supplemental state aid to the treasurer of the affiliated relief association within 30 days after receipt, if there is a relief association organized and the association has filed a financial report with the municipality.

Supplemental benefit reimbursements are also transmitted from the State to the municipality affiliated with the Association, for prompt transfer to the Association.

Fire state aid, supplemental state aid, and supplemental benefit reimbursement amounts are provided in reports on the OSA or the Minnesota Department of Revenue's websites. See for example, <https://www.osa.state.mn.us/training-guidance/guidance/pension-documents/>.

13. Determine that the Association 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 7 can be used as a guide.

Compliance

Procedures regarding compliance matters are as follows:

1. Confirm that the Association has filed current year annual reporting forms to the Office of the State Auditor and that the amounts reported reflect the amounts recorded in the Association's records.

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

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2. Inspect and recalculate the bond of the Association's treasurer to assess compliance with Minn. Stat. § 424A.014.

A relief association's treasurer must be bonded for at least ten percent of the association's assets. The amount of the bond need not exceed \$500,000.

Officers of relief associations affiliated with a city fire department where the city is bonded through the League of Minnesota Cities Insurance Trust (LMCIT) are automatically defined as covered employees on the city's bond. In these cases, the relief association does not need to purchase a separate bond, but should be sure that the amount of the LMCIT bond is at least ten percent of the association assets.

3. Trace the amount contributed by the municipality or independent nonprofit firefighting corporation, as applicable, to ensure it was of an amount at least equal to the required minimum municipal obligation.

For defined-benefit lump-sum plans, review the final prior-year Schedule Form to determine the required current-year contribution amount. For defined-benefit monthly and monthly/lump-sum combination plans, review the final prior-year certification made by the relief association officers of the association's financial requirements and minimum obligation. For defined-contribution plans, no municipal or independent nonprofit firefighting corporation contribution is required.

4. Inquire of management whether the Association amended its bylaws during the year and determine whether municipal or independent nonprofit firefighting corporation ratification of the amendment was received if so required because the bylaw amendment would affect the amount of, the manner of payment of, or the conditions for qualification for service pensions or ancillary benefits or disbursements other than allowable administrative expenses.

Municipal or independent nonprofit firefighting corporation ratification is generally required for defined-benefit plans if the bylaw amendment would affect the amount of, the manner of payment of, or the conditions for qualification for service pensions or ancillary benefits or disbursements other than allowable administrative expenses. A relief association may amend its bylaws without ratification under certain limited conditions that are based on the effect of the change on the association's liabilities.

5. Obtain a list of the Association's special fund assets and inspect that list to determine whether they were invested in compliance with investments allowed by Minn. Stat. § 424A.095.

Either the limited or the expanded list of authorized investments is to be used, depending on the market value of the pension plan's assets and whether the plan invests using the services of an investment advisor or the State Board of Investment. A summary of the limited and expanded lists and their respective portfolio limitations can be found on the OSA website at:

https://www.osa.state.mn.us/media/ijehqtwp/firereliefinvestmentauthority_202003_statement.pdf.

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6. Select a sample of the Association's special fund administrative expenses to determine whether they are the type of administrative expenses allowed by Minn. Stat. § 424A.05, subd. 3.

Authorized disbursements from the special fund include service pensions and temporary or permanent disability benefits and survivor benefits, if authorized by and paid pursuant to law and specified in amount in the bylaws. Relief associations may also pay from the special fund: fees, dues and assessments to the Minnesota State Fire Department Association and to the Minnesota State Fire Chiefs Association, and insurance premiums to the state Volunteer Firefighters Benefit Association or an insurance company licensed by the State of Minnesota offering casualty insurance.

Relief associations may pay from the special fund necessary, reasonable and direct expenses of maintaining, protecting and administering the special fund, if authorized by the bylaws and approved by the board of trustees. Reasonable and direct expenses are limited to those listed in Minn. Stat. § 424A.05 subd. 3b.

7. Inquire of the Association of any instances (regardless of materiality) indicating any fraud, illegal acts, or noncompliance, and whether they have been reported to the OSA.

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.

Responsibilities of Engagement Practitioner

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.

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The practitioner should have adequate knowledge of the subject matter. This includes understanding both the nature of the subject matter as well as the transactions or events that give rise to its measurement.

The practitioner should obtain an adequate understanding of the requested procedures to determine whether outside resources will be necessary to complete the engagement.

Documentation

Workpapers are an engagement practitioner's written record of the procedures applied and findings arrived at in an agreed-upon procedures engagement.

AT-C 105.37, requires the engagement practitioner to prepare documentation on a timely basis.

The following items are required to be documented in the engagement practitioner's workpapers:

- *The engaging parties' agreement on the procedures.*
- *The nature, timing, and extent of the procedures applied, including:*
 - *The identifying characteristics of the matters or items tested.*
 - *Who performed the work and the date it was completed.*
 - *Who reviewed the work and the extent and the date of the review.*
- *The results of the procedures performed and the evidence the practitioner obtained.*
- *Resolution, or appropriate action of any issues regarding the refusal to provide written assertions and unreliability of representations received, if applicable.*