

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

LAC QUI PARLE-YELLOW BANK
WATERSHED DISTRICT
MADISON, MINNESOTA
(A COMPONENT UNIT OF
LAC QUI PARLE COUNTY)

FOR THE YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**LAC QUI PARLE-YELLOW BANK
WATERSHED DISTRICT
MADISON, MINNESOTA
(A COMPONENT UNIT OF
LAC QUI PARLE COUNTY)**

For the Year Ended December 31, 2012



Management and Compliance Report

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
MADISON, MINNESOTA**

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**LAC QUI PARLE-YELLOW BANK WATERSHED DISTRICT
MADISON, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012**

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

07-1 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: The Lac qui Parle-Yellow Bank Watershed District lacks proper segregation of duties. The District has one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the District, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Lac qui Parle-Yellow Bank Watershed District; however, the District's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The District indicated that they have a limited number of employees. Due to the limited number of employees, the District cannot adequately segregate accounting duties.

Recommendation: We recommend that the District's Board of Managers and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible.

Client's Response:

The Lac qui Parle-Yellow Bank Watershed Board is aware of the lack of segregation of duties for internal control and limitations due to small staff size. The Board is supportive of implementing any practical procedures to limit risk due to these deficiencies and will create or modify policies to ensure that duties are segregated wherever possible and reasonable.

11-1 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Condition: During our audit, we identified three adjustments that resulted in significant changes to the District's financial statements. These adjustments were not material individually or in the aggregate; however the number of adjustments required indicates an internal control weakness.

Context: The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: Multiple audit adjustments were necessary to correctly identify and report revenues and expenditures and to properly classify accounts in the General Fund and in the government-wide financial statements.

Cause: District staff did not have the time to prepare all of the information necessary to provide accurate financial statements.

Recommendation: We recommend that District staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made so that, in future audits, this information can be prepared by the District.

Client's Response:

The Lac qui Parle-Yellow Bank Watershed Board believes that increased management oversight of accounting transactions would significantly reduce the quantity and magnitude of necessary audit adjustments. Therefore, the Board will have staff review trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made and and/or will seek aid from the Lac qui Parle County Auditor-Treasurer or an outside source so that future audit information can be prepared by the District.

11-2 Timeliness of Preparation of Financial Statements

Criteria: Management is responsible for preparing the District's financial statements in accordance with generally accepted accounting principles (GAAP). The financial statement preparation in accordance with GAAP requires internal control over both (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Condition: Financial information for Lac qui Parle-Yellow Bank Watershed District, was provided to the Office of the State Auditor more than two weeks later than scheduled. In addition, the information that was to be included in the County financial statements required numerous revisions affecting both the financial statements and related notes. Office of the State Auditor staff were required to complete the financial statement process including converting the modified accrual to full accrual in order to complete the government-wide financial statements for the District.

Context: Preparation of information included in the District's financial statements is performed by District staff and the County Auditor-Treasurer's Office. That information is to be provided to the auditors in the time, form, and manner to finalize the audit in order to meet the September 30 single audit deadline.

Effect: Additional audit hours resulted from delays in completing the District's financial statements within a reasonable amount of time. Also, errors were discovered which resulted in adjustments to the financial statements.

Cause: Certain financial information necessary for the District's financial statements was not completed in the time, form, and manner indicated on the audit preparation checklist completed by Lac qui Parle County staff on behalf of the District. District and County staff are capable of preparing the financial statements but have historically had difficulties meeting the financial statement deadline required.

Recommendation: The District Board of Managers and management should take responsibility for the District's financial statements by reviewing internal controls currently in place over the preparation of its financial statements. Procedures should be implemented to ensure that the necessary financial information be prepared in a manner that allows staff from the Office of the State Auditor an adequate amount of time to complete the audit by the required deadline.

Client's Response:

The Lac qui Parle-Yellow Bank Watershed Board is supportive of implementing procedures to ensure that necessary financial information be prepared in a timely manner that allows staff from the Office of the State Auditor an adequate amount of time to complete the audit by the required deadline.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

12-1 Sale of Property

Criteria: Per Minn. Stat. § 15.054, no officer or employee shall sell or procure for sale or possess or control for sale to any other officer or employee any property or materials owned by the District, unless specified conditions are met. If the property or materials are not needed for public purposes, the items can be sold to employees only after reasonable public notice at a public auction or by sealed response. The employee purchasing the property or materials cannot be directly involved in the auction or process of the collection of sealed bids.

Condition: District property was sold to a District employee without complying with the statutory requirements.

Context: In 2011, the District approved the purchase of a new computer for the Coordinator. During 2012 the Coordinator's old computer was used by a temporary employee. In 2013, after the termination of the temporary employee, the Coordinator purchased the old computer for \$75.

Effect: By not giving reasonable public notice and then selling at a public auction or by sealed responses, the District is not in compliance with Minnesota statutes. By not complying with statutory requirements, the District may not have received the best competitive price for the property.

Cause: The District sold the old computer because they believed it was a better option than keeping the computer in storage.

Recommendation: We recommend the District comply with Minn. Stat. § 15.054 and only sell District property to employees after giving reasonable public notice and then selling the property at a public auction or by sealed responses.

Client's Response:

The Lac qui Parle-Yellow Bank Watershed Board of managers will implement procedures to ensure they comply with Minn. Stat. § 15.054 and only sell District property after giving proper notice and by public auction or sealed bids.

PREVIOUSLY REPORTED ITEM RESOLVED

Insufficient Collateral (11-3)

The District had deposits in the Dawson Co-op Credit Union that were not adequately covered by collateral.

Resolution

The District had adequate collateral to secure all deposits.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Board of Managers
Lac qui Parle-Yellow Bank Watershed District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lac qui Parle County, which include the governmental activities and each major fund of the Lac qui Parle-Yellow Bank Watershed District, a component unit of Lac qui Parle County, as supplementary information, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lac qui Parle-Yellow Bank Watershed District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the District's

financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as items 07-1, 11-1, and 11-2, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lac qui Parle-Yellow Bank Watershed District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Lac qui Parle-Yellow Bank Watershed District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Recommendations as item 12-1. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

Other Matters

The Lac qui Parle-Yellow Bank Watershed District's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Recommendations. The District's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2013