

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

ROCK COUNTY RURAL WATER DISTRICT
LUVERNE, MINNESOTA
(A COMPONENT UNIT OF ROCK COUNTY)

YEAR ENDED DECEMBER 31, 2014

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 150 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 700 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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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA
(A COMPONENT UNIT OF ROCK COUNTY)**

Year Ended December 31, 2014



Management and Compliance Report

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

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2010-001

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 District has one employee who is responsible for updating customer billings, collecting, recording transactions, and remitting funds to the Auditor/Treasurer's Office.

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 Rock County Rural Water District; however, the District's Board and 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 it does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties.

Recommendation: We recommend the District's Board and management be aware of the lack of segregation of duties 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 Rock County Rural Water District (RCRWD) strives to alleviate any issues with segregation of duties. We are limited in our resources at RCRWD with only 3 full-time employees and 2 part-time employees; we only have so many eyes that can look at a bill or statement. To that end, the RCRWD tries its best to have both staff and the System Manager look at all checks and bills before they are sent to the Rock County Auditor/Treasurer's office for some additional scrutiny in that office. Our understanding is the segregation of duties finding is common in rural areas where there are not the resources to have that many extra people on payroll to be able to not have this finding come up on the yearly audit. The Board of Directors is aware of this deficiency as it has occurred, and still occurs on every audit of the RCRWD.

ITEM ARISING THIS YEAR

Finding 2014-001

Prior Period Adjustment

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. Auditing standards identify one indication of a material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: During our audit, we identified the need to restate the beginning net position of the District's statement of net position. An investment owned by the Rock County Water District and in the possession of the Lewis and Clark Regional Water System was not previously recorded in the District's general ledger. The restatement resulted in significant changes to the District's financial statements. The prior adjustment to restate the District's financial statements was reviewed and approved by the appropriate District staff and is reflected in the financial statements.

Context: The need for prior period adjustments can raise doubts as to the reliability of the District's financial information being presented.

Effect: The January 1, 2014, investments and net position were increased and restated by \$145,106.

Cause: Misinformation in regards to investments held with the Lewis and Clark Regional Water System.

Recommendation: We recommend District staff review their financial statement closing procedures to ensure that they have accurate and all information considered necessary to fairly state the District's financial statements in accordance with generally accepted accounting principles.

Client's Response:

With regards to the item arising this year the RCRWD feels that this is a one-time issue. An event that occurred long before any of the current staff or Directors were with the RCRWD that caused us to have this finding. Our understanding of what happened was a long time ago, when the RCRWD was informed by the Rock County Board of Commissioners that the RCRWD would have to join the Lewis and Clark Regional Water System, the RCRWD put forth money from its reserves/checking account until a Minnesota PFA loan came through. When that loan money came through and was available, rather than get the money that the RCRWD had put into the Lewis and Clark Regional Water System, the then Manager of the RCRWD chose to leave that money with the Lewis and Clark Regional Water System and instead invested said money into long-term certificates of deposit (CD) with the Lewis and Clark Regional Water System. That CD came due in 2014, and the Lewis and Clark Regional Water System decided that it would be in the best interests of the RCRWD to manage the investment itself and returned the proceeds to the RCRWD which were then deposited.

II. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the District's statement of net position. The District's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that, if material, will be reported in the Rock County Rural Water District's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



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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 Directors
Rock County Rural Water District
Luverne, Minnesota

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 Rock County, Minnesota, which include as supplementary information, the financial statements of the Rock County Rural Water District, a discretely presented component unit, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rock County Rural Water District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and an item that we consider to be a significant deficiency.

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. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2014-001 to be a material weakness.

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 attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2010-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rock County Rural Water 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 in connection with the audit of the District's financial statements: 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 conjunction with our audit of the financial statements of Rock County.

In connection with our audit, nothing came to our attention that caused us to believe that the Rock County Rural Water District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the District, and it is reported for that purpose.

Rock County Rural Water District's Response to Findings

The Rock County Rural Water District's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. The District's responses were not subjected 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 23, 2015