

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, 2013

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, 2013



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, 2013**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2007-001

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 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 it has 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 of Managers are 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.

Finding 2011-001

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. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified two material adjustments resulting in significant changes to the District's financial statements.

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

Effect: The following audit adjustments were necessary:

Governmental Activities

- Increased noncurrent liabilities for loans payable by \$130,331 for loans issued during the year, and
- Increased special assessment and tax revenue by \$60,071 for receivables that were unavailable at the modified accrual fund level and recorded as a deferred inflow of resources but considered earned on the full accrual basis.

The adjustments were reviewed and approved by the appropriate District staff and are reflected in the financial statements.

Cause: Procedures were not in place to consider the full extent of all entries needed for financial reporting.

Recommendation: We recommend District staff review the trial balances and journal entries in detail and establish internal controls necessary to determine that all adjusting entries are made to ensure the District's financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

The Lac qui Parle-Yellow Bank Watershed Board of Managers will work with staff to review trial balances and journal entries and establish internal controls necessary to determine that all adjusting entries are made to ensure the District's financial statements are reported in accordance with generally accepted accounting principles (GAAP).

PREVIOUSLY REPORTED ITEM RESOLVED

Timeliness of Preparation of Financial Statements (2011-002)

Financial information for the Lac qui Parle-Yellow Bank Watershed District was provided to the Office of the State Auditor more than two weeks later than scheduled for the prior audit.

Resolution

For the 2013 audit, financial information for the Lac qui Parle-Yellow Bank Watershed District was provided to the auditors in the time, form, and manner to finalize the audit in order to meet the September 30 single audit deadline.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2012-001

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 it 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 create or modify policies to ensure that the District complies with Minn. Stat. § 15.054 and will only sell District property to employees after giving reasonable public notice and then selling the property at a public auction or by sealed responses.

ITEM ARISING THIS YEAR

Finding 2013-001

Insufficient Collateral

Criteria: Governmental entities are required by Minn. Stat. § 118A.03, subs. 1 and 3, to obtain collateral to secure deposits to the extent that funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount on deposit.

Condition: At December 31, 2013, the District had deposits at United Prairie Bank that were not adequately covered by collateral.

Context: The amount of collateral required to secure deposits at United Prairie Bank was more than the actual amount of collateral pledged by more than \$40,000.

Effect: The District's deposits were at risk as the District may not have been able to recover, in the event of bank default, the portion of funds for which there was no collateral.

Cause: The District was not monitoring deposits to ensure they were properly collateralized.

Recommendation: We recommend the District monitor all District deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

Client's Response:

The Lac qui Parle-Yellow Bank Watershed Board of Managers will monitor the District's deposits to ensure there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

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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
Madison, 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 Lac qui Parle County, Minnesota, which include as supplementary information the financial statements of the Lac qui Parle-Yellow Bank Watershed District, a discretely presented component unit of Lac qui Parle County, as of and for the year ended December 31, 2013, 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 22, 2014.

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.

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 Lac qui Parle-Yellow Bank Watershed 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 2011-001 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 2007-001 to be a significant deficiency.

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 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 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 items 2012-001 and 2013-001. 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.

Lac qui Parle-Yellow Bank Watershed District's Response to Findings

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 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 22, 2014