

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

**FOR THE YEAR ENDED DECEMBER 31, 2011**

## **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**

**For the Year Ended December 31, 2011**



**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, 2011**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM 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 does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

**Recommendation:** We recommend that the District's Board of Supervisors 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.*

ITEMS ARISING THIS YEAR

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. Statement on Auditing Standards 115 defines 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 District's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

**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:** Audit adjustments were necessary to reclassify revenues, expenditures, and other financing sources to proper account classifications.

**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 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:** The information that was to be included in the District's financial statements submitted to the Office of the State Auditor required numerous revisions affecting both the financial statements and related notes. Certain financial information was not provided to the Office of the State Auditor until September 13, 2012. In addition, Office of the State Auditor staff were required to complete the financial statement process including converting the modified accrual information to full accrual in order to complete the government-wide financial statements and assisting with the preparation of the related notes to the financial statements.

**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 Supervisors 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

11-3 Insufficient Collateral

**Criteria:** Governmental entities are required by Minn. Stat. § 118A.03 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, 2011, the District had deposits at Dawson Co-op Credit Union that were not adequately covered by collateral.

**Context:** The District had deposits of \$252,549 at Dawson Co-op Credit Union at December 31, 2011. No collateral was pledged, so the District had \$2,549 in excess of what would have been covered by the National Credit Union Administration (NCUA).

**Effect:** The District's deposits were at risk as the District would not have been able to recover the portion of funds for which there was no collateral.

**Cause:** The District did not notice there were no pledged securities held at Dawson Co-op Credit Union to secure the deposits held.

**Recommendation:** We recommend the District monitor all 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 implement procedures to review deposits on a monthly basis to ensure there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.*



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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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***

Board of Supervisors  
Lac qui Parle-Yellow Bank Watershed District

We have audited 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 as supplementary information, as of and for the year ended December 31, 2011, and have issued our report thereon dated September 27, 2012. We conducted our audit 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.

#### Internal Control Over Financial Reporting

Management of the Lac qui Parle-Yellow Bank Watershed District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Lac qui Parle-Yellow Bank Watershed District's internal control over financial reporting as a basis for designing our auditing procedures 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been 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 other deficiencies that we consider to be significant deficiencies.

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 11-1 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 deficiencies described in the accompanying Schedule of Findings and Recommendations as items 07-1 and 11-2 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 of 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* 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 study included all of the listed categories.

The results of our tests indicate that for the items tested, the Lac qui Parle-Yellow Bank Watershed District complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 11-3.

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

This report is intended solely for the information and use of the Board of Supervisors, management, and others within the Lac qui Parle-Yellow Bank Watershed District and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2012