

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

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**ROCK COUNTY RURAL WATER DISTRICT
LIVERNE, 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 ITEMS NOT RESOLVED

10-1 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 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 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.

Recommendation: We recommend that the District's elected officials 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:

Rock County Rural Water District now has two employees capable of updating customer billings, collecting, recording transactions and remitting funds to the Auditor/Treasurer's office. The Office Manager and our PT Inventory Control employee both are familiar with the daily workings of billing. Also, the System Manager has been assisting with the daily duties to try and become proficient with plans to have Operators learn how to do so too. Management and Board members are aware of the lack of segregation of duties issue.

ITEM 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 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 record the beginning balances of inventories, to reduce revenues for special assessment revenues recognized in previous years, and to make reclassification entries as necessary.

Cause: Rock County staff, as fiscal host for the Rock County Rural Water District, did not have the time to prepare all of the information necessary to provide accurate financial statements.

Recommendation: We recommend that the District modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

The System Manager will periodically check financial statements to ensure accuracy.

PREVIOUSLY REPORTED ITEM RESOLVED

GAAP Financial Statements (10-2)

As is the case with many small and medium-sized entities, the District had relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process.

Resolution

On June 1, 2011, Rock County became the fiscal host for the Rock County Rural Water District. Rock County prepared the Rock County Rural Water District's financial statements in accordance with generally accepted accounting principles (GAAP).

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

11-2 Use of Public Funds to Host Annual Holiday Party

Criteria: In general, a public entity must have express or implied statutory (or charter) authority to make an expenditure. In addition, the expenditure must be made for a public purpose. *See* Minn. Const., art. X, § 1 (“Taxes . . . shall be levied and collected for public purposes.”); *Visina v. Freeman*, 89 N.W.2d 635 (1958) (courts generally construe “public purpose” to mean “such an activity as will serve as a benefit to the community as a body and which, at the same time, is directly related to the functions of government”); *Tousley v. Leach*, 180 Minn. 293, 230 N.W. 788 (1930) (public funds may be used by public entity if the purpose is a public one for which tax money may be used, there is authority to make the expenditure, and the use is genuine).

More specifically, the Minnesota Attorney General has consistently stated that employee social functions should not be paid for with public funds. *See* Op. Atty. Gen. 59A-22 (Jan. 8, 1957) (municipal corporation may not imply authority to appropriate public revenue for celebrations, entertainments, etc., quoting 15 McQuillin, *Municipal Corporations*, 3rd ed., Sec. 39.22), *and* Op. Atty. Gen. 59a-22 (Nov. 23, 1966) (city Christmas party).

Condition: The Rock County Rural Water District has held an annual holiday party which includes the purchase of meals and alcohol with public funds for Board members, employees, and spouses.

Context: The District used \$445 of public funds for the 2011 employee holiday party.

Effect: Claims paid for the annual holiday party, including the purchase of alcohol and the use of public funds for the expenses of a spouse or family member of a public officer or employee, do not serve a public purpose.

Cause: District officials and employees were not aware the use of public funds for a holiday party did not serve a public purpose.

Recommendation: We recommend the District discontinue the practice of spending public funds on holiday parties.

Client's Response:

The Rock County Rural Water Board will no longer be having a holiday party.



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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 Directors
Rock County Rural Water District

We have audited the financial statements of Rock County, which include the activities of the Rock County Rural Water District, a component unit of Rock County, as of and for the year ended December 31, 2011, and have issued our report thereon dated September 24, 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 Rock County Rural Water District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Rock County Rural Water 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 another deficiency 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 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 deficiency described in the accompanying Schedule of Findings and Recommendations as item 10-1 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 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 Rock County Rural Water District complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 11-2.

The Rock County Rural Water 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 Directors, management, and others within the Rock County Rural Water 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 24, 2012