

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT
PREPARED AS A RESULT OF THE AUDIT OF THE

CAPITOL REGION WATERSHED DISTRICT
SAINT PAUL, MINNESOTA

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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**CAPITOL REGION WATERSHED DISTRICT
SAINT PAUL, MINNESOTA**

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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**CAPITOL REGION WATERSHED DISTRICT
SAINT PAUL, MINNESOTA**

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**CAPITOL REGION WATERSHED DISTRICT
SAINT PAUL, MINNESOTA**

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

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

12-1 Documenting and Monitoring Internal Controls

Criteria: District management is responsible for the Capitol Region Watershed District's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by District management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. The following significant internal control areas should be documented: cash receipting, cash disbursing, payroll, and capital assets. The District should also document controls specific to the use of credit cards and electronic fund transfers (EFT).

Condition: The District has documentation in its policies and procedures manual over most of these areas; however, due to a personnel change and an increase in the amount of the District's projects, changes were made to the operation of the internal controls. As a result, the documentation and the risk assessment of the District's internal controls need to be updated.

Context: Up-to-date documentation of the internal controls will make transitions easier when there are staffing changes. New staff will have a reference guide for proper accounting procedures.

Effect: Documenting and monitoring the internal control is necessary to determine controls are in place and are operating effectively. Without this documentation, the District increases its risk of error or fraud.

Cause: Due to the timing of these changes, the District has not yet completed its update of the documentation of its internal controls.

Recommendation: We recommend that District management update its policies and procedures manual to document the significant internal controls that have been implemented or are in the process of being implemented. Monitoring activities should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

The District management is in the process of updating policies and procedures for: Accounts Payable, Payroll Approval, and the usage of the district credit card. The updates and changes to the policies and procedures will be presented to the Board of Managers and approved in the fall of 2013. The District is in the process of upgrading its accounting process with new software. The upgrades will increase the efficiency and approval process of accounts payable and payroll systems. The current accounts payable process and new software will be operating side by side until the end of 2013. In 2014, the new software is expected to be in full operation. The procedures will be updated again in 2014 to reflect the new system.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

12-2 Contracts

Criteria: The District is required by Minn. Stat. § 471.425, subd. 4a, in contracts between the District and a prime contractor, to state that the prime contractor must pay subcontractors within ten days of receipt of payment from the District or pay interest at the rate of one and one-half percent per month or any part of a month.

Condition: The District did not provide documentation demonstrating their compliance with Minn. Stat. § 471.425, subd. 4a.

Context: This is the first year that the District had significant contracts where this statute applied.

Effect: The District is not in compliance with Minn. Stat. § 471.425, subd. 4a.

Cause: The District did not have this wording in its contracts.

Recommendation: We recommend the District add the wording regarding payment of subcontractors from Minn. Stat. § 471.425, subd. 4a, to its bid specifications and contracts.

Client's Response:

The District has added the wording regarding payment of subcontractors from Minn. Stat. § 471.425, subd. 4a, to its bid specifications and contracts and is now fully compliant.

12-3 IC-134 Withholding Affidavit:

Criteria: Minnesota Statutes, section 270C.66 states that before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors, the District is required to obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92.

Condition: The District did not provide documentation demonstrating their compliance with Minn. Stat. § 270C.66.

Context: This is the first year that the District had significant contracts where this statute applied.

Effect: The District is not in compliance with Minn. Stat. § 270C.66.

Cause: The District did not obtain a certificate by the Commissioner of Revenue before releasing the final payment on applicable contracts.

Recommendation: We recommend the District obtain an IC-134 Withholding Affidavit form for any contract requiring the employment of employees for wages by contractors or subcontractors.

Client's Response:

The District will obtain IC-134 Withholding Affidavit forms for any contracts requiring the employment of employees for wages by contractors or subcontractors.

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STATE AUDITOR

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COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board of Managers
Capitol Region Watershed District

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and each major fund of the Capitol Region Watershed District 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 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Capitol Region Watershed District as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control 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, 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A significant deficiency is reported in the Schedule of Findings and Recommendations as item 12-1.

Other Matters

The Capitol Region Watershed District's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the District's response and, accordingly, we express no opinion on it.

Use of This Report

This communication is intended solely for the information and use of the Board of Managers, management, and others within the 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

September 12, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR



REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Managers
Capitol Region Watershed District

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the governmental activities and each major fund of the Capitol Region Watershed District 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 12, 2013.

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 Capitol Region 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 12-2 and 12-3. 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.

The Capitol Region Watershed District's written responses to the 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 communication is intended solely for the information and use of the Board of Managers, management, and others within the Capitol Region Watershed District and the State Auditor 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

September 12, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR