

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CAPITOL REGION WATERSHED DISTRICT
SAINT PAUL, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

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 650 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**

Year Ended December 31, 2017



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

Board of Managers
Capitol Region Watershed District
Saint Paul, Minnesota

We have audited, in accordance with 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the Capitol Region Watershed District's basic financial statements, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency listed in the Schedule of Findings and Recommendations as item 2015-001 to be a material weakness.

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.

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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 24, 2018



REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Managers
Capitol Region Watershed District
Saint Paul, Minnesota

We have audited, in accordance with 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 24, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing, because the Capitol Region Watershed District administers no tax increment financing districts. Additionally, we tested for compliance with the District's authority to issue public indebtedness.

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 Other 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.

This report is intended solely for the information and use of the Board of Managers and management of 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 24, 2018

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017**

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-001

Audit 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 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 District's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we proposed a material audit adjustment that resulted in significant changes to the District's financial statements.

Context: The inability to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustment was found in the audit; however, independent external auditors cannot be considered part of the District's internal control.

Effect: The following audit adjustment was reviewed and approved by District staff and is reflected in the financial statements: in the Capital Improvement Fund, accounts payable was increased by \$97,220, current conservation of natural resources expenditures were increased by \$13,907, and capital outlay expenditures were increased by \$83,313 to record disbursements made in 2018 that related to goods and services received in 2017.

Cause: District personnel overlooked the item during the determination of payables at December 31, 2017.

Recommendation: We recommend the District ensure that disbursements made in the ensuing year related to the previous year's purchase of goods and services be indicated as a payable at year-end in order to be properly included in the District's annual financial statements in accordance with generally accepted accounting principles.

View of Responsible Official: Concur

Client's Response:

Converting to a new accounting system in 2015 has virtually eliminated errors in our accounts payable process. In this situation, the incorrect posting period was selected on the payable invoice screen and it is not a recurring incident.