

# STATE OF MINNESOTA

## Office of the State Auditor



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

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MANAGEMENT AND COMPLIANCE REPORT

**MEEKER COUNTY ECONOMIC  
DEVELOPMENT AUTHORITY  
(A COMPONENT UNIT OF MEEKER COUNTY)**

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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**MEEKER COUNTY ECONOMIC  
DEVELOPMENT AUTHORITY  
(A COMPONENT UNIT OF MEEKER COUNTY)**

**Year Ended December 31, 2012**



**Management and Compliance Report**

**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**MEEKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY  
LITCHFIELD, MINNESOTA**

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**MEEKER COUNTY ECONOMIC DEVELOPMENT AUTHORITY  
LITCHFIELD, MINNESOTA**

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

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

96-2 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 receipting process of the Meeker County Economic Development Authority (EDA) lacks proper segregation of duties.

**Context:** Due to the limited number of office personnel, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. This is not unusual in operations the size of the EDA; however, the EDA'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 EDA's ability to detect misstatements of the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The EDA's current receipting process does not include a review of deposits before they are brought to the County Treasurer's and County Auditor's offices.

**Recommendation:** We recommend that the EDA's elected officials and management be aware of the lack of segregation of duties of the receipting function and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

*The EDA has implemented steps to meet these requirements and is always looking to implement new ways of oversight to ensure that internal controls and procedures are being followed. In 2013 staff will implement the review of all deposits by the administrative assistant by the executive director on the day of the deposit versus on a weekly basis.*

ITEM ARISING THIS YEAR

12-1 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.

**Condition:** During our audit of the Debt Service Fund, we proposed an audit adjustment which was reviewed and approved by the appropriate staff and is reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the County's internal control.

**Context:** Meeker County EDA provides compiled financial statements for audit. The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** An audit adjustment was necessary to record Loans Receivable and the related repayment activity for the year. The Loans Receivable balance at December 31, 2012 was \$293,662.

**Cause:** Compiled financial statements have historically not included Loans Receivable.

**Recommendation:** We recommend that Meeker County EDA review their internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.



Client's Response:

*In the past, loans overseen by the EDA have not become part of the EDA's financials as the EDA acted and interpreted its position as a pass through for the funds. Upon review with the Auditor, the EDA can see the interpretation of the loan documents that would lend to the inclusion of these loan receivables as part of the EDA's financials. The EDA will implement immediately loans receivable as part of its bi-monthly financials completed by the EDA's accountant.*

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REBECCA OTTO  
STATE AUDITOR

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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

Economic Development Authority Board  
Meeker County Economic Development Authority

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 the business-type activities of the Meeker County Economic Development Authority (EDA), which are part of Meeker County's financial statements, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report on Meeker County's financial statements dated September 26, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Meeker County EDA's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the EDA's internal control over financial reporting.

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as items 96-2 and 12-1 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Meeker County EDA'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**

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: 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, except we did not test for compliance in deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions because they were tested in conjunction with the audit of the financial statements of Meeker County. We also did not test for contracting and bidding because the Meeker County EDA did not enter into any contracts that were subject to legal requirements as stipulated by Minnesota statutes.

In connection with our audit, nothing came to our attention that caused us to believe that Meeker County EDA failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for 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 EDA's noncompliance with the above referenced provisions.

## **Other Matters**

Meeker County's EDA's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. The EDA's responses were not subject 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 EDA'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 EDA'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 26, 2013