



FINANCIAL AUDIT DIVISION REPORT

**Metropolitan Mosquito
Control District
Financial Statement Audit
Year Ended December 31, 2009**

August 19, 2010

Report 10-28

FINANCIAL AUDIT DIVISION
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Mr. James Stark, Executive Director
Metropolitan Mosquito Control District

In auditing the Metropolitan Mosquito Control District's basic financial statements for the year ended December 31, 2009, we considered the district's internal controls over financial reporting. We also tested the district's compliance with significant legal provisions impacting the basic financial statements. We did not identify any instances of noncompliance with legal provisions material to the financial statements. This report contains our findings and recommendations on internal control over the district's financial reporting process. However, given the limited nature of our work, we do not express an overall opinion on the effectiveness of the district's internal controls or compliance. In addition our work may not have identified all significant control deficiencies or instances of noncompliance with legal requirements.

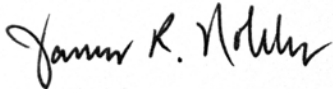
We conducted our work in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. This report meets the audit standard requirements of the American Institute of Certified Public Accountants and the Government Accountability Office to communicate internal control matters identified in a financial statement audit. The audit was conducted by Michael Hassing, CPA, CISA (Audit Manager) and Zach Yzermans, CPA (Auditor-in-Charge), assisted by auditor Anna Solomka.

We issued an unqualified audit opinion on the district's financial statements. However, this report contains one finding related to the preparation of the financial statements. We consider the deficiency to be a material weakness. 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 entity's financial statements will not be prevented or detected and corrected on a timely basis.

We discussed the results of the audit with the Metropolitan Mosquito Control District on August 17, 2010. The district's response to our finding and recommendation is presented in the accompanying section of this report titled, *Agency Response*. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Metropolitan Mosquito Control Commission's management and the Legislative Audit Commission and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 19, 2010.

We received the full cooperation of the district's staff while performing this audit.



James R. Nobles
Legislative Auditor



Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: July 29, 2010

Report Signed On: August 17, 2010

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Report Summary

Conclusion

- The Metropolitan Mosquito Control District's financial statements for the year ended December 31, 2009, were presented fairly in accordance with generally accepted accounting principles in all material respects.
- The district had a material weakness in its internal controls over financial reporting. It did not initially prepare financial statements for assets held in an irrevocable trust fund for postemployment benefit obligations other than pensions. The district made the correction to the final financial statements.
- The district's internal controls over operations adequately safeguarded its assets and produced reliable financial data over the following areas: receipts, cash and investments, inventory, fixed assets, payroll, administrative expenses, and accounts payable.
- The district's financial transactions were in accordance with applicable laws, regulations, and policies, including *Minnesota Statutes* 2009, 473.701 through 473.716.

Finding

- The Metropolitan Mosquito Control District's preliminary financial report did not include financial statements for the assets it held in an irrevocable trust fund for postemployment benefit obligations other than pensions. ([Finding 1, page 7](#))

Audit Objectives and Scope

Audit Objectives:

- To give an opinion on the district's financial statements.
- To review internal controls over financial reporting and operations.
- To determine compliance with applicable laws, regulations, and policies.
- To follow up on prior audit findings.

Audit Period: The fiscal year ended December 31, 2009

Areas Audited:

- | | |
|------------------------------|--------------------|
| • Cash and Investments | • Receipts |
| • Inventory and Fixed Assets | • Payroll Expenses |
| • Operating Expenses | |

Metropolitan Mosquito Control District

Agency Overview

The Metropolitan Mosquito Control District is responsible for controlling mosquitoes, black flies, and ticks in the seven-county Twin Cities metropolitan area.¹ The district was established by the Minnesota Legislature in 1958 and operates under *Minnesota Statutes* 2009, 473.701 – 473.716.

The district is governed by the Metropolitan Mosquito Control Commission, composed of 18 county commissioners from the seven metropolitan counties. The commission sets the annual budget, develops policies, and oversees the district's operations. The district is exempt from the finance-related rules and regulations applicable to most state agencies.

Ms. Myra Peterson was selected the chair of the commission during 2008 and is serving her second year in that position. The commission appoints the executive director who directs the district's operations and carries out the policies established by the commission. James Stark is the executive director of the Metropolitan Mosquito Control District.

The district realized a net gain of over \$1.2 million in 2009. It had \$17.7 million in operating revenues earned chiefly through property taxes assessed to homeowners within the seven-county metropolitan area. The district spent \$16.5 million on operations during the year ended December 31, 2009. The most significant expenses included about \$15.5 million for direct mosquito control expenditures, which consisted of wages, inventory, and the costs of applying materials through a contracted helicopter service. The district's administrative costs were approximately \$1 million.

The district had net assets of approximately \$26.4 million at December 31, 2009. Cash and investments totaled about \$15.4 million, and capital assets, net of depreciation, totaled about \$9.8 million. Leases payable of \$2.1 million and accounts and benefits payable of just over \$1.1 million represented the district's largest liabilities. The district established an irrevocable trust fund of \$1.3 million to provide resources to pay for nonretirement, postemployment benefits.

¹ Counties included in the district are Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

Objectives, Scope, and Methodology

Our audit of the district's financial statements focused on the following objectives:

- Were the district's basic financial statements for the year ended December 31, 2009, fairly presented in accordance with generally accepted accounting principles in all material respects?
- Were the district's internal controls over financial reporting and for receipts, cash and investments, inventory, fixed assets, payroll, administrative expenses, and accounts payable adequate to ensure that it safeguarded its assets and produced reliable financial data?
- For the items tested, were the district's financial transactions in accordance with applicable laws, regulations, and policies, including *Minnesota Statutes* 2009, 473.701 through 473.716?

To answer these questions, we reviewed the accounting principles applicable to the district's financial statements. We gained an understanding of the district's accounting policies and procedures and the business systems used to administer its financial activities and to prepare the financial statements. We obtained and analyzed electronic accounting data and other audit evidence and reconciled the supporting data to the district's accounting system. We interviewed district staff to gain an understanding of the internal controls related to the district's financial operations. In determining our audit approach, we considered the risk of errors in the accounting records and potential noncompliance with finance-related legal requirements. In addition, we examined samples of financial transactions and reviewed supporting documentation to test whether the district's controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We conducted the 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. We used various criteria to evaluate internal control and compliance. We used, as our criteria to evaluate entity controls, the guidance contained in the *Internal Control-Integrated Framework*, published by the

Committee of Sponsoring Organizations of the Treadway Commission.² We also used state and federal laws, regulations, and contracts, as well the district's internal policies and procedures as evaluation criteria over compliance.

Conclusion

The district's financial statements for the year ended December 31, 2009, were fairly presented in accordance with generally accepted accounting principles in all material respects.

The district had a material weakness in its internal controls over financial reporting.³ It did not initially prepare financial statements for assets held in an irrevocable trust fund for postemployment benefit obligations other than pensions. The district made the correction to the final financial statements.

The district's internal controls over operations adequately safeguarded its assets and produced reliable financial data over the following areas: receipts, cash and investments, inventory, fixed assets, payroll, administrative expenses, and accounts payable.

The results of our tests of legal requirements disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

² The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

³ According to auditing standards, 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 entity's financial statements will not be prevented or detected and corrected on a timely basis.

Finding and Recommendation

Finding 1

The Metropolitan Mosquito Control District's preliminary financial report did not include financial statements for the assets it held in an irrevocable trust fund for postemployment benefit obligations other than pensions.

The district did not include in its preliminary financial report a *Statement of Plan Net Assets* or a *Statement of Changes in Plan Net Assets* for \$1.3 million of assets held in an irrevocable trust fund to provide resources for its postemployment benefit obligations other than pensions.⁴ The district maintained control of the assets and established the Public Employees Retirement Association as the administrator of the account. The district provided the required footnote disclosures for the net obligation and the required supplemental information, including schedules of employer contributions, funding progress, and the actuarial value of the assets held in trust. However, the district did not initially prepare the required financial statements to report the assets in its preliminary financial report. The district made the correction to the final financial statements.

A recent government accounting standard, effective for the district's fiscal year 2009 financial statements, required entities that have assets held in trust for postemployment benefits, other than pensions, to report those assets on two financial statements – a statement of plan net assets and a statement of changes in plan net assets.⁵ The district conducted research and included in its financial report the applicable financial statement disclosures, but did not identify the requirement to include the additional financial statements. Uncorrected, the omission of the trust fund assets included in the Statement of Fiduciary Net Assets would have been misleading to users of the district's financial statements.

Recommendation

- *The Metropolitan Mosquito Control District should ensure the accuracy and completeness of its financial statements when reporting postemployment benefits, other than pensions, or when implementing new accounting pronouncements.*

⁴ The Metropolitan Mosquito Control District provides retirees, who meet certain defined requirements, payments for a portion of medical insurance premiums until they reach age 65.

⁵ Government Accounting Standards Board Statement 43: Financial Reporting for Postemployment Benefit Plans Other than Pensions, paragraph 16-17.



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August 17, 2010

Dear Mr. Nobles:

I am writing in response to the finding and recommendation in your report for the financial and compliance audit for the Metropolitan Mosquito Control District, the year ending December 31, 2009.


You found that the District's preliminary financial report did not include financial statements for assets held in an irrevocable trust for post employment benefits other than pensions although other requirements for the trust fund were included. Your recommendation is to ensure the accuracy and completeness of our financial statements when reporting post employment benefits, or when implementing new accounting pronouncements. We would like to thank the Office of the Legislative Auditor for identifying these areas that need improvement.

The Financial Statements for the post employment benefits other than pension trust fund are included in the final Metropolitan Mosquito Control District financial report for 2009 and will be included in future years. The District is developing internal control processes which will address a series of questions when implementing new accounting pronouncements to ensure all aspects of accounting for them is addressed including the effect on financial reporting.

Sincerely,

James R. Stark
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