

**METROPOLITAN MOSQUITO CONTROL COMMISSION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED DECEMBER 31, 1985**

JULY 1986

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

NOTICE

State of Minnesota
Office of the Legislative Auditor
Veterans Service Building • St. Paul, MN 55155
612/296-4708

METROPOLITAN MOSQUITO CONTROL DISTRICT

Report Summary July 1986

The Office of the Legislative Auditor has released an audit report on the Metropolitan Mosquito Control District (MMCD) for the year ended December 31, 1985. The major objective was to express an opinion on the District's annual financial statements.

We issued an unqualified opinion on the District's financial statements, which indicates that the statements are fairly presented in compliance with generally accepted accounting principles. Revenues and expenditures for 1985 increased by approximately \$1.5 million over those for 1984, and generated a net profit of approximately \$1.4 million.

The second section of the report contained our management letter, which was generated by our reviews of the District's financial statements and system of internal controls. The letter contained only one recommendation for the District to secure its bank deposits with adequate collateral.

The MMCD director in his response to the management letter, concurred with the recommendation.

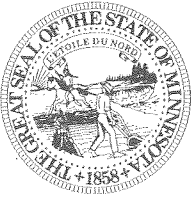
FINANCIAL AUDIT DIVISION
(612) 296-1730

METROPOLITAN MOSQUITO CONTROL DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Auditor's Opinion.	1
Financial Statements	
Exhibit A - Combined Balance Sheet.	3
Exhibit B - Statement of Revenues, Expenditures and Changes in Fund Balance.	4
Exhibit C - Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual	5
Exhibit D - Notes to Financial Statements	6
Supplemental Information	
Exhibit E - Summary of Departmental Expenditures - Budget and Actual	12
MANAGEMENT LETTER SECTION	
Management Letter.	17
I. Current Findings and Recommendations	19
II. Status of Prior Audit Recommendations.	20
Agency Response.	22

**METROPOLITAN MOSQUITO CONTROL COMMISSION
FINANCIAL SECTION**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Mr. Hal Norgard, Chairman
Metropolitan Mosquito Control Commission

Mr. Robert Sjogren, Ph.D., Director
Metropolitan Mosquito Control District

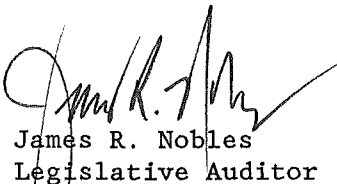
and

Members of the Metropolitan Mosquito Control Commission

We have examined the balance sheet of the Metropolitan Mosquito Control District as of December 31, 1985, and the related statement of revenues, expenditures and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above, present fairly, the financial position of the Metropolitan Mosquito Control District at December 31, 1985, and the results of its operations and the changes in its fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional data in Exhibit E is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


James R. Nobles
Legislative Auditor

May 5, 1986


John Asmussen, CPA
Deputy Legislative Auditor

METROPOLITAN MOSQUITO CONTROL DISTRICT

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

DECEMBER 31, 1985

	GOVERNMENTAL FUND TYPE	ACCOUNT GROUPS		TOTALS	
		General	General	(Memorandum Only)	
		Fixed Assets	Long-Term Debt	December 31,	
ASSETS	General			1985	1984
Cash	\$2,259,907			\$2,259,907	\$ 397,113
Taxes Receivable: (net of allowance for uncollectible taxes of \$15,000)	388,814			388,814	261,682
Inventory, at cost	1,958,735			1,958,735	2,769,880
Property and Equipment		\$1,494,111		1,494,111	1,415,859
Building		259,069		259,069	172,828
Amount to be Provided for Employee Benefits			\$ 213,353	213,353	231,268
Total Assets	<u>\$4,607,456</u>	<u>\$1,753,180</u>	<u>\$ 213,353</u>	<u>\$6,573,989</u>	<u>\$5,248,630</u>
<u>LIABILITIES AND FUND EQUITY</u>					
Liabilities:					
Accounts Payable	\$ 788,897			\$ 788,897	\$ 883,529
Accrued Salaries and Wages	29,776			29,776	22,500
Employee Benefits Payable	24,123		\$ 213,353	237,476	250,525
Deferred Revenue	331,587			331,587	1,082,790
Total Liabilities	<u>\$1,174,383</u>		<u>\$ 213,353</u>	<u>\$1,387,736</u>	<u>\$2,239,344</u>
Fund Equity:					
Investment in general fixed assets		\$1,753,180		\$1,753,180	\$1,588,687
Fund Balance:					
Reserved for Inventory	\$1,958,735			1,958,735	2,769,880
Reserved for Hennepin County					
Property Tax - Tier II	890,000			890,000	
Unreserved Fund Balance	584,337			584,337	(1,349,283)
Total Fund Equity	<u>\$3,433,073</u>	<u>\$1,753,180</u>		<u>\$5,186,253</u>	<u>\$3,009,284</u>
Total Liabilities and Fund Equity	<u>\$4,607,456</u>	<u>\$1,753,180</u>	<u>\$ 213,353</u>	<u>\$6,573,989</u>	<u>\$5,248,628</u>

The accompanying notes are an integral part of the financial statements.

METROPOLITAN MOSQUITO CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GENERAL FUND

Years Ended December 31, 1985 and 1984

	<u>1985</u>	<u>1984</u>
Revenues:		
Taxes -		
Anoka County	\$ 418,254	\$ 374,530
Carver County	59,014	55,163
Dakota County	555,004	504,331
Hennepin County	4,750,268	3,567,078
Ramsey County	1,162,893	1,071,645
Scott County	115,296	105,687
Washington County	299,543	259,805
Tax Delinquent Income	91,431	-0-
Miscellaneous	<u>63,803</u>	<u>43,383</u>
Total Revenues	<u>\$7,515,506</u>	<u>\$5,981,622</u>
Expenditures:		
Board of Commissioners -		
Salaries	\$ 16,980	\$ 9,275
Travel	2,815	2,863
Administrative	351,812	370,497
Control	5,623,911	3,944,573
Capital Expenditures	<u>378,512</u>	<u>435,517</u>
Total Expenditures	<u>\$6,374,030</u>	<u>\$4,762,725</u>
Excess (deficiency) of revenues over expenditures	<u>\$1,141,476</u>	<u>\$1,218,897</u>
Fund Balance at beginning of year as previously reported	\$1,420,597	\$ 337,097
Prior period adjustment for correction of errors in property tax recognition	<u>871,000</u>	<u>(135,397)</u>
Fund balance at beginning of year as restated	<u>\$2,291,597</u>	<u>\$ 201,700</u>
Fund balance at end of year	<u>\$3,433,073</u>	<u>\$1,420,597</u>

The accompanying notes are an integral part of the financial statements.

METROPOLITAN MOSQUITO CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUALGENERAL FUND
Year Ended December 31, 1985

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
Revenues:			
Taxes -			
Anoka County	\$ 426,783	\$ 418,254	\$ (8,529)
Carver County	59,750	59,014	(736)
Dakota County	586,685	555,004	(31,681)
Hennepin County	4,827,000	4,750,268	(76,732)
Ramsey County	1,230,843	1,162,893	(67,950)
Scott County	121,775	115,296	(6,479)
Washington County	318,665	299,543	(19,122)
MN Dept. of Health		91,431	91,431
Miscellaneous		<u>63,803</u>	<u>63,803</u>
Total Revenues	<u>\$7,571,501</u>	<u>\$7,515,506</u>	<u>\$ (55,995)</u>
Expenditures:			
Board of Commissioners -			
Salaries	\$ 13,300	\$ 16,980	\$ (3,680)
Travel	6,400	2,815	3,585
Administrative	317,600	351,812	(34,212)
Control	6,048,600	5,623,911	424,689
Capital Expenditures	<u>462,700</u>	<u>378,512</u>	<u>84,188</u>
Total Expenditures	<u>\$6,848,600</u>	<u>\$6,374,030</u>	<u>\$ 474,570</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 722,901</u>	<u>\$1,141,476</u>	<u>\$ 418,575</u>
Fund balance at beginning of year	\$1,420,597	\$1,420,597	
Prior period adjustment for correction of an error in property tax recognition	<u>871,000</u>	<u>871,000</u>	
Fund balance at beginning of year as restated	<u>\$2,291,597</u>	<u>\$2,291,597</u>	
Fund balance at end of year	<u>\$3,014,498</u>	<u>\$3,433,073</u>	<u>\$ 418,575</u>

The accompanying notes are an integral part of the financial statements.

METROPOLITAN MOSQUITO CONTROL DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 1985

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Metropolitan Mosquito Control District was established under Minnesota Laws 1959, Chapter 488 (coded Minn. Stat. Sections 473.701 to 473.716). The District operates under the Metropolitan Mosquito Control Commission representing the seven county metropolitan area. It was created to control mosquitos and black gnats in the metropolitan area, which consists of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington Counties. A director is responsible for the supervision of the District and reports to the Commission.

This summary of significant accounting policies of the Metropolitan Mosquito Control District is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standard Board and have been consistently applied in the preparation of the financial statements.

A. Basis of Presentation

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The fund and account groups maintained are presented as follows:

Governmental Fund

General Fund - The General Fund is the general operating fund of the District and is used to account for all financial activities.

Account Groups

General Fixed Assets Account Group - The General Fixed Assets group of accounts is used to account for all fixed assets of the District.

General Long-Term Debt Account Group - The General Long-Term Debt group of accounts contains the long-term obligations of the District represented by employee benefit obligations.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Revenues and expenditures are recognized on the modified accrual basis as follows:

Revenue Recognition - Revenues are recognized when they are earned or when they become measurable and available.

Expenditure Recognition - Expenditures are generally recognized when the related liability is incurred. An exception to this general rule is the long-term portion of employee benefits for unused sick and vacation leave.

C. Budgets and Budgetary Accounting

The Commission adopts an annual budget for the General Fund for the fiscal year commencing the following January. The budget is prepared on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles (GAAP). It includes the amounts that can be expended based on detailed budget estimates for individual expenditure accounts and the related anticipated revenues, as shown in the basic financial statements and supplementary information.

MMCD is limited by Minn. Stat. Section 473.711 to provide for expenditures not exceeding six-tenths of one mill times the current assessed valuation of the district. The Commission may levy a tax not to exceed six-tenths of one mill on all taxable property in the district to provide for its operations.

All budget amounts lapse at the end of the year to the extent they have not been expended or encumbered.

D. Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market. It consists of expendable supplies held for consumption in the next operating year.

E. Fixed Assets and Real Property

Fixed assets and real property are stated at cost. The costs of fixed assets and real property, which are purchased from current revenue, are accounted for as expenditures in the year paid.

Depreciation is not provided in the District's accounts because it does not constitute a current budgetary expenditure.

F. Amount to be Provided for Employee Benefits

Resources for the payment of employee benefits included in the General Long-Term Debt group of accounts will be provided by the General Fund.

G. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operation.

H. Total Columns on Statements

Total columns on the statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Such data also is not comparable to a consolidation.

I. Property Taxes

Property tax levies are set by the Commissioner of Revenue, acting as the State Board of Equalization, and based on the budget established by MMCD. The levies are certified to Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties. The levies are limited to six-tenths of one mill in each of the counties.

Property taxes are payable in equal installments by real property owners to the counties on May 15 and October 15. In general, the counties remit the collection to MMCD after each payment date.

Taxes payable on homestead property are partially reduced by a homestead credit. This credit is paid to MMCD by the state in lieu of taxes levied against homestead property. The state remits this credit in six equal installments in July through December each year.

2. GENERAL FIXED ASSETS

At December 31, 1984, the fixed asset account group showed a balance of \$1,415,859 on the financial statements, but the amount was not supported by the physical counts at December 31, 1984. The records also did not include the original costs or the specific location of the assets. The physical counts as of December 31, 1985, were used to set the value of general fixed assets as follows:

	<u>Motor Vehicles</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Balance:			
December 31, 1985	<u>\$1,154,755</u>	<u>\$ 339,356</u>	<u>\$1,494,111</u>

3. BUILDING

The Anoka County district headquarters is being constructed, with costs to date shown on the balance sheet as \$259,069. The land is owned by Anoka County and is being leased for \$1 per year for 99 years. Should the District break the lease, Anoka County is to purchase the building at its depreciated value as calculated by using 20 years straight-line depreciation.

4. CHANGES IN LONG-TERM DEBT

The following is a summary of employee benefit transactions of the Metropolitan Mosquito Control District for the year ended December 31, 1985:

	<u>Total</u>
Employee benefits payable at January 1, 1985	\$ 250,527
Employee benefits paid due to retirements 1985	(21,165)
Additional accrued compensated absences	<u>8,115</u>
Employee benefits payable at December 31, 1985	<u>\$ 237,477</u>

5. COMPENSATED ABSENCES

Compensated absences consist of vested employee vacation and sick leave benefits. These benefits are determined based on a formula with a maximum amount of hours accumulated and are payable upon death, termination or retirement. The current portion of this liability is reflected in the General Fund, and the long-term portion is reflected in the General Long-Term Debt group of accounts.

6. DEFERRED REVENUE

The deferred revenue balance at December 31, 1985, was \$331,587, consisting of taxes receivable which are not expected to be collected within 60 days as required by NCGA Interpretation 3.

7. ACCOUNTING AND REPORTING CHANGES

Prior Period Adjustment - January 1, 1984

NCGA Interpretation 3 states that property tax revenues are recognized when they become available, which means then due and expected to be collected within sixty days. The District's financial statements for the General Fund were retroactively restated to comply with the interpretation as follows:

	<u>December 31, 1983 as previously reported</u>	<u>Adjustment</u>	<u>January 1, 1984 as restated</u>
Deferred Revenue	\$ -0-	\$ 135,397	\$ 135,397
Revenue from			
Property Taxes	4,802,351	(11,329)	4,791,022
Fund Balance	243,100	(124,068)	119,032

7. ACCOUNTING AND REPORTING CHANGES (con't)

Prior Period Adjustment - January 1, 1985

The deferred revenue balance at December 31, 1984, was shown as \$1,082,790. The main portion was \$871,000 collected for a Tier II (additional spraying) program that was cancelled during 1984. The program was resumed in 1985 and additional taxes were collected. Because \$871,000 will be expended in the future for the Tier II program and there is no obligation to repay Hennepin County, the amount is more appropriately shown as a reservation of fund balance than as deferred revenue.

8. LEASES

Operating leases consist of rental of various county headquarters and administrative offices. It is expected that, in the normal course of business, expiring leases will be renewed or replaced by leases on other properties.

The following is a yearly schedule of future minimum rental payments under operating leases:

1986	\$ 241,737
1987	227,555
1988	149,910
1989	104,719
1990	<u>100,162</u>
Total Minimum Lease Payments	<u>\$ 824,085</u>

Total rental expenses, including short-term, seasonal equipment and vehicles are as follows:

1984	\$ 147,153
1985	181,284

9. RETIREMENT PLAN

The employees of the District are members of the state-administered Public Employees Retirement Association (PERA). Since January 1, 1968, all new employees are members of the coordinated PERA - Social Security coverage. Employees beginning prior to that date had the choice of continuing under PERA coverage or becoming members of the coordinated plan. The District provides the employer's share for both plans.

Contributions of \$59,604 in 1985 were made by the District. PERA is a statewide contributory retirement plan for which an individual governmental unit's portion of the unfunded liability is not available because no governmental unit is directly liable for any unfunded liability under Minnesota law.

10. PATENT PENDING

The District has applied for a patent from the U.S. Patent Office. If any royalties from the patent are collected, 33 1/3 percent will be given to the Director. If he terminates employment, he will be entitled to 25 percent for the duration of the patent. The patent is for the process currently used for manufacturing insecticide briquets. The District has licensed the rights to manufacture the briquets to a private company, and revenue will accrue to the District from the sale.

METROPOLITAN MOSQUITO CONTROL DISTRICT
SUMMARY OF DEPARTMENT EXPENDITURES
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 1985

EXPENDITURES	COMMISSIONERS			ADMINISTRATION		
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
SALARIES AND WAGES	16,980	13,300	(3,680)	153,197	156,900	3,702
HOSPITALIZATION AND LIFE INSURANCE				7,982	7,400	(582)
FEDERAL INSURANCE CONTRIBUTIONS ACT (FICA)				10,907	9,800	(1,107)
PUBLIC EMPLOYEES RETIREMENT ASSOC. (PERA)				6,653	7,700	1,046
UNIFORMS						
OTHER EMPLOYEE BENEFITS						
UNEMPLOYMENT						
RENT				16,250	11,300	(4,950)
UTILITIES				2,863	1,600	(1,263)
JANITORIAL				2,247	1,600	(647)
MISCELLANEOUS						
PRINTING AND STATIONERY				1,112	1,200	87
TELEPHONE				6,557	3,200	(3,357)
POSTAGE				1,548	1,800	251
OFFICE SUPPLIES				5,134	2,500	(2,634)
DUES AND SUBSCRIPTIONS				1,870	1,500	(370)
OTHER				1,858	1,500	(358)
INTEREST				63,742	90,000	26,257
TRAVEL	2,814	6,400	3,585	5,208	7,500	2,291
LEGAL				37,813	4,800	(33,013)
AUDIT				14,287	4,500	(9,787)
OUTSIDE SERVICES				741		(741)
INSURANCE:						
PROPERTY					200	200
LIABILITY				643		(643)
TRUCK AND AUTO						
WORKER'S COMPENSATION				300	325	25
EMPLOYEE BOND				300	75	(225)
COMPUTER				205		(205)
HEADQUARTERS						
LABORATORY AND RESEARCH MATERIALS						
RESEARCH GRANTS						
ENVIRONMENTAL IMPACT STUDY (EIS)				9,997		(9,997)
INSECTICIDES						
REPAIR AND MAINTENANCE				447	2,000	1,553
HELICOPTER						
GAS, OIL AND MAINTENANCE						
VEHICLE & EQUIPMENT RENTAL						
ADVERTISING FOR BIDS				19	200	180
RADIO EXPENSE						
PUBLIC INFORMATION PROGRAM						
BLOOD TESTS						
LIGHT TRAPS AND MISCELLANEOUS						
FIELD SUPPLIES						
ENGINEERING						
TOTAL	19,794	19,700	(94)	351,889	317,600	(34,289)

METROPOLITAN MOSQUITO CONTROL DISTRICT
SUMMARY OF DEPARTMENT EXPENDITURES
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 1985

EXHIBIT E

CONTROL			TOTALS		
ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
1,736,070	1,826,100	90,030	1,906,247	1,996,300	90,053
56,285	60,400	4,114	64,267	67,800	3,533
57,187	53,600	(3,587)	68,094	63,400	(4,694)
52,950	58,600	5,649	59,603	66,300	6,697
6,442	4,000	(2,442)	6,442	4,000	(2,442)
31,666	50,000	18,333	31,666	50,000	18,333
143,622	132,100	(11,522)	159,872	143,400	(16,472)
28,492	18,000	(10,492)	31,355	19,600	(11,755)
3,893	3,000	(893)	6,140	4,600	(1,540)
	500	500		500	500
1,033	2,000	966	2,145	3,200	1,053
7,536	8,600	1,063	14,093	11,800	(2,293)
97		(97)	1,645	1,800	155
6,697	7,100	402	11,831	9,600	(2,231)
694	800	105	2,564	2,300	(264)
5,964	1,000	(4,964)	7,822	2,500	(5,322)
			63,742	90,000	26,257
3,097	3,400	302	11,119	17,300	6,181
			37,813	4,800	(33,013)
			14,287	4,500	(9,787)
11,929	10,000	(1,929)	12,670	10,000	(2,670)
9,639	3,000	(6,639)	9,639	3,200	(6,439)
11,873	11,500	(373)	12,516	11,500	(1,016)
32,134	13,500	(18,634)	32,134	13,500	(18,634)
61,048	46,000	(15,048)	61,348	46,325	(15,023)
			300	75	(225)
2,671	4,700	2,028	2,876	4,700	1,824
27,317	80,000	52,682	27,317	80,000	52,682
3,320	18,000	14,679	3,320	18,000	14,679
16,240	23,500	7,259	16,240	23,500	7,259
			9,997		(9,997)
2,676,767	3,765,000	1,088,233	2,676,767	3,765,000	1,088,233
61,086	76,500	15,413	61,533	78,500	16,967
385,479	442,000	56,520	385,479	442,000	56,520
109,409	139,000	29,590	109,409	139,000	29,590
23,385	5,000	(18,385)	23,385	5,000	(18,385)
476	600	123	495	800	305
1,427	2,100	672	1,427	2,100	672
1,658	6,000	4,341	1,658	6,000	4,341
9,335	12,000	2,665	9,335	12,000	2,665
270	7,000	6,730	270	7,000	6,730
33,230	25,000	(8,230)	33,230	25,000	(8,230)
3,500		(3,500)	3,500		(3,500)
5,623,931	6,919,600	1,295,669	5,995,614	7,256,900	1,261,286
=====	=====	=====	=====	=====	=====

METROPOLITAN MOSQUITO CONTROL COMMISSION MANAGEMENT LETTER SECTION

Audit Participation

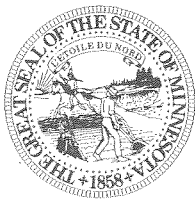
The following members of the Office of the Legislative Auditor prepared this management letter:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Cecile Ebacher, CPA	Auditor-in-Charge
Ann Reite, CPA	Staff Auditor

Exit Conference

The finding and recommendation in this management letter was discussed with the following staff of the Metropolitan Mosquito Control District on May 16, 1986:

Robert Sjogren, Ph.D.	Director
William Caesar	Business Administrator
Trish Egerer	Account Clerk



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Hal Norgard, Chairman
Metropolitan Mosquito Control Commission

Robert Sjogren, Ph.D., Director
Metropolitan Mosquito Control District

Members of the Metropolitan Mosquito Control Commission

Audit Scope

We have completed a financial and compliance audit of the Metropolitan Mosquito Control District (MMCD) for the year ended December 31, 1985. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on May 5, 1986.

The objectives of the audit were to:

- express an opinion on the financial statements of MMCD for the year ended December 31, 1985;
- study and evaluate major internal accounting control systems over revenues, expenses, assets, and liabilities;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Sections 473.701 through 473.716, and other finance-related legal provisions; and
- determine the status of prior audit recommendations.

Management Responsibilities

The management of MMCD is responsible for establishing and maintaining a system of internal accounting control. The objectives of the system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures.

Senator Randolph W. Peterson
Members of the Legislative Audit Commission
Mr. Hal Norgard, Chairman
Members of the Metropolitan Mosquito Control Commission
Robert Sjogren, Ph.D., Director

Due to inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate

The management of MMCD is also responsible for the District's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by MMCD. The purpose of our testing of transactions was to obtain reasonable assurance that MMCD had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Conclusions

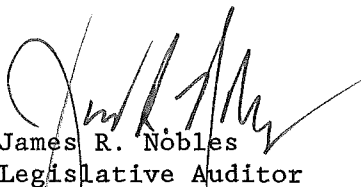
We have issued an unqualified opinion on the Metropolitan Mosquito Control District's financial statements for the year ended December 31, 1985. Our opinion, dated May 5, 1986, is included in the financial section of this report.

In our opinion, the MMCD system of internal accounting control in effect as of December 31, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization.


In our opinion, except as noted in recommendation #1, for the year ended December 31, 1985, MMCD complied in all material respects, with applicable finance-related laws, regulations and policies.

Section I of this letter contains the current recommendation which is presented to assist MMCD in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our audit next year. Section II includes a summary of the progress made on all audit recommendations discussed in our last management letter covering the fiscal year ended December 31, 1984, dated May 1985.

We thank the Metropolitan Mosquito Control District staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

July 11, 1986

METROPOLITAN MOSQUITO CONTROL DISTRICT

I. CURRENT FINDINGS AND RECOMMENDATIONS

MMCD's bank deposits need to be adequately secured.

On December 31, 1985, MMCD had \$1,073,475 in its checking account and \$1,200,000 in certificates of deposit at its depository bank. Minn. Stat. Section 473.711 requires that MMCD follow Minn. Stat. Section 118.01 and 118.10 to ensure that funds on deposit are adequately secured. These statutes require the bank to provide a corporate surety bond for the amount on deposit, less FDIC insurance, or a collateral securities with a market value equal to at least 110 percent of the amount on deposit, less FDIC insurance. Thus, for the amount on deposit at December 31, 1985, the bank should have either a corporate surety bond for at least \$2,073,475 or collateral securities whose market value equaled at least \$2,280,822. MMCD was not aware of these statutory requirements.

At December 31, 1985, the bank had actually only pledged a \$200,000 U.S. Treasury Note, in addition to the FDIC insurance, as collateral for MMCD's deposits. As a result, \$2,080,822 of MMCD's deposits with the bank were not secured. The lack of adequate collateral for these securities places MMCD's assets in danger should the bank have difficulty meeting its financial commitments. It is the responsibility of MMCD to ensure adequate collateral is provided by the bank as specified in Minn. Stat. Section 118.01.

RECOMMENDATION:

1. *MMCD should ensure that its bank deposits are adequately secured in accordance with Minn. Stat. Sections 118.01 and 118.10 by:*
 - *obtaining a list from the bank of all collateral pledged for MMCD deposits;*
 - *instructing the bank to notify them whenever changes to the collateral list are made; and*
 - *periodically monitoring the market value of the securities pledged by the bank to ensure that they are at least 110 percent of the amount on deposit, less the FDIC insurance.*

METROPOLITAN MOSQUITO CONTROL DISTRICT

II. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND

PROGRESS TOWARD IMPLEMENTATION

Fixed asset accounting and physical inventory procedures require improvement.

1. Written procedures should be developed to standardize physical inventory taking at all district offices.

Recommendation Implemented. Prior to the physical inventory taken for December 31, 1985, MMCD developed written procedures and distributed them to the supervisors of each operating division.

2. Inventory records should be updated to show all fixed assets and the related cost by location, so the records can be used to support amounts shown on the annual financial statements.

Recommendation Implemented. The inventory taken for December 31, 1985, was the starting point for the current computerized inventory record, which was developed in early 1986. Our test counts and pricing verifications showed that this record accurately reflected the fixed asset inventory at December 31, 1986 and resulted in a fair presentation of the fixed assets on the financial statements.

3. The total physical inventory should be periodically reconciled to the general fixed asset account group total shown on the MMCD records and any differences should be investigated and adjusted.

Recommendation Substantially Implemented. MMCD personnel are refining their procedures so that the 1986 physical inventory will be reconciled to the general fixed asset account group total. This reconciliation was not possible in 1985, since the 1985 physical inventory was the basis for the general fixed asset account group total at December 31, 1985.

4. Fixed assets which have become obsolete or are no longer on hand should be removed from the general fixed asset account group total as soon as they are identified.

Recommendation Implemented. Prior to December 1985, MMCD developed and distributed procedures and forms which provide for the business office's timely notification of missing or obsolete inventory items. This action should result in the prompt removal of obsolete and missing items from the inventory system and the general fixed asset account group.

METROPOLITAN MOSQUITO CONTROL DISTRICT

Consumable inventory accounting procedures need to be developed so that all inventory items are included in the balance sheet total.

5. Formal written procedures for the calculation of consumable inventories which consider all inventory on hand at year-end should be developed and continued on an ongoing basis.

Recommendation Implemented. MMCD developed procedures and forms for the taking of the December 31, 1985, inventory and for weekly inventories. These procedures and forms were distributed to the supervisors of the various operating units. Our testing of the year-end consumable inventory balances showed them to be materially correct and complete.

Property tax revenues are not being recognized properly on the financial statements.

6. Property tax revenues should be recognized only as they become available within the first 60 days after year-end.

Recommendation Implemented. Property taxes were properly recognized on the financial statements for the year ended December 31, 1985.

7. MMCD should work with the counties in providing adequate information so MMCD may show property taxes receivable properly on the financial statements.

Recommendation Implemented. Adequate information was received from the counties during 1985 to provide for proper reporting of property taxes receivable on the 1985 financial statements.

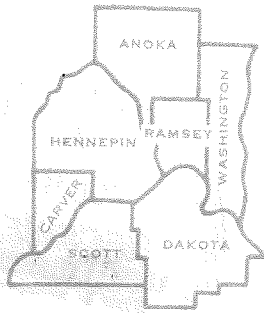
The compensation package of the MMCD director needs to be fully defined in the annual employment contract and reviewed for completion of program duties.

8. The Metropolitan Mosquito Control Commission and the director should include all sources of compensation within the annual employment contract.

Recommendation Implemented. The director's 1985 contract, signed June 19, 1985, included all sources of compensation and was reconciled to the actual payments made to the director during 1985.

9. The Commission should review the work completed to earn the additional compensation for the incompleeted Tier II program and determine if a prorata share should be returned.

Recommendation Implemented. On September 19 and November 25, 1985, the Commission discussed the appropriateness of the director's compensation for the 1984 Tier II program. They did not take any action to recover payments made to the director for that program. The Commission considered this recommendation when setting the Director's 1986 Tier II compensation.



METROPOLITAN MOSQUITO CONTROL DISTRICT

2380 WYCLIFF STREET ■ ST. PAUL, MINNESOTA 55114 ■ 612-645-9149

R. D. SJOGREN, Ph. D.
Director

W. J. CAESAR
Business Admin.

July 11, 1986

Mr. James R. Nobles
Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

In response to your recommendation in the audit of the financial statements of the Metropolitan Mosquito Control District for the year ended December 31, 1985, the following has taken place.

First Bank Security National Association, where MMCD deposits are made, has been informed of the necessity to pledge collateral with a market value at 110% of the amount on deposit less FDIC insurance. The bank has been requested to dedicate the securities at the Federal Reserve in the name of the Metropolitan Mosquito Control District and to send a list of the pledged collateral to the District at the end of each month.

The Business Administrator will be responsible for insuring that the market value of the pledged collateral is periodically reviewed to protect deposits. He will also notify the bank of impending large deposits which will require increases in the amount of the pledged collateral.

We thank the staff of the Legislative Auditor for their work on this audit.

Sincerely,

R. D. Sjogren

R. D. Sjogren, Ph.D.
Director

cc: W. J. Caesar