

METROPOLITAN MOSQUITO CONTROL DISTRICT
FINANCIAL AUDIT
FOR THE YEAR ENDED DECEMBER 31, 1992

JULY 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-38

METROPOLITAN MOSQUITO CONTROL DISTRICT

FINANCIAL AUDIT FOR THE YEAR ENDED DECEMBER 31, 1992

Public Release Date: July 2, 1993

No. 93-38

OBJECTIVES:

- EXAMINE THE DISTRICT'S FINANCIAL STATEMENTS.
- EVALUATE INTERNAL CONTROL STRUCTURE: Cash and investments, revenues and receipts, operating disbursements, payroll, consumable inventory, and fixed assets.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We issued an unqualified opinion on the district's financial statements.

We found one area where the district needed to improve internal control structure:

- The district needs to improve internal controls over receipts.

We found that the district had complied with finance-related legal provisions.

Contact the Financial Audit Division for additional information.
296-1730

FINANCIAL AUDIT DIVISION

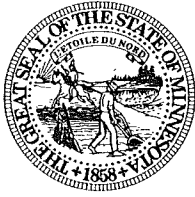
Metropolitan Mosquito Control District

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Metropolitan Mosquito Control District

Financial Section



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Independent Auditor's Report

Mr. Steve Loeding, Chair
Metropolitan Mosquito Control Commission


Members of the Metropolitan Mosquito Control Commission

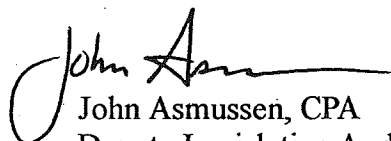
Mr. Robert Sjogren, Ph.D., Director
Metropolitan Mosquito Control District

We have audited the accompanying balance sheets of the Metropolitan Mosquito Control District as of December 31, 1992, and the related statements of revenues, expenditures, and changes in fund balance for the two years then ended. These financial statements are the responsibility of the Metropolitan Mosquito Control District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Mosquito Control District as of December 31, 1992, and the results of its operations and the changes in its fund balance for the two years then ended, in conformity with generally accepted accounting principles.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

April 28, 1993

METROPOLITAN MOSQUITO CONTROL DISTRICT

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

DECEMBER 31, 1992

ASSETS	Governmental Fund Type General	ACCOUNT GROUPS		TOTALS	
		General	General	(Memorandum only)	
		Fixed Assets	Long-term Debt	December 31,	
				1992	1991
Cash	\$ 7,584,973			\$ 7,584,973	\$10,498,102
Prepaid Rent & Ins.	32,626			32,626	37,226
Taxes Receivable: (net of allowance for uncollectible taxes of \$15,000)	2,452,054			2,452,054	1,354,724
Inventory at cost	1,736,488			1,736,488	1,394,277
Property and Equipment		\$3,383,573		3,383,573	3,242,322
Building		4,660,027		4,660,027	2,329,719
Amount to be provided for Employee Benefits			\$ 398,886	398,886	374,097
Total Assets	<u>\$ 11,806,141</u>	<u>\$8,043,600</u>	<u>\$ 398,886</u>	<u>\$20,248,627</u>	<u>\$19,230,467</u>
<u>LIABILITIES AND FUND EQUITY</u>					
Liabilities:					
Accounts Payable	\$ 278,279			\$ 278,279	\$ 414,101
Accrued Salary and Wages	34,153			34,153	96,790
Employee Benefits Payable	9,996		\$ 398,886	408,882	377,683
Deferred Revenue	1,350,832			1,350,832	1,170,185
Total Liabilities	<u>\$ 1,673,260</u>		<u>\$ 398,886</u>	<u>\$ 2,072,146</u>	<u>\$ 2,058,759</u>
Fund Equity:					
Investment in general fixed assets		\$8,043,600		\$ 8,043,600	\$ 5,572,041
Fund Balance:					
Reserved for Inventory	\$ 1,736,488			\$ 1,736,488	\$ 1,394,277
Reserved for building	221,554			221,554	2,190,496
Unreserved Fund Balance	<u>8,174,839</u>			<u>\$ 8,174,839</u>	<u>\$ 8,014,894</u>
(See designation for building project, in footnotes)					
Total Fund Equity	<u>\$ 10,132,881</u>	<u>\$8,043,600</u>		<u>\$18,176,481</u>	<u>\$17,171,708</u>
Total Liabilities and Fund Equity	<u>\$ 11,806,141</u>	<u>\$8,043,600</u>	<u>\$ 398,886</u>	<u>\$20,248,627</u>	<u>\$19,230,467</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, 1992 and 1991

	<u>1992</u>	<u>1991</u>
Revenues:		
Taxes -		
Anoka County	\$ 592,961	\$ 585,570
Carver County	94,069	86,075
Dakota County	898,147	871,910
Hennepin County	4,067,898	4,253,134
Ramsey County	1,500,204	1,491,439
Scott County	169,077	159,221
Washington County	459,853	464,447
Homestead & Agricultural		
Credit & other aids	1,860,155	1,642,629
(See footnote #1, J)		
Tax Delinquent Income	123,703	55,794
Investment Income	248,420	474,372
Miscellaneous	190,858	138,657
Total Revenues	<u>\$10,205,345</u>	<u>\$10,223,248</u>
Expenditures:		
Board of Commissioners -		
Salaries	\$ 6,950	\$ 15,550
Travel	4,704	5,710
Administrative	680,740	637,743
Control	8,315,453	8,074,158
Capital Expenditures	2,664,284	1,630,076
Total Expenditures	<u>\$11,672,131</u>	<u>\$10,363,237</u>
Excess (deficiency)		
of revenues over		
expenditures	<u>\$ (1,466,786)</u>	<u>\$ (139,989)</u>
Fund Balance at beginning		
of year	<u>\$11,599,667</u>	<u>\$11,739,656</u>
Fund Balance at end of year	<u>\$10,132,881</u>	<u>\$11,599,667</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 ACTUAL

GENERAL FUND

Year Ended December 31, 1992

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Taxes -			
Anoka County	\$ 613,956	\$ 592,961	\$ (20,995)
Carver County	96,270	94,069	(2,201)
Dakota County	936,448	898,147	(38,301)
Hennepin County	4,237,332	4,067,898	(169,434)
Ramsey County	1,564,143	1,500,204	(63,939)
Scott County	168,694	169,077	383
Washington County	469,716	459,853	(9,863)
Homestead & Agricultural			
Credit & other aids	1,860,155	1,860,155	0
(See footnote #1,J)			
Tax Delinquent Income		123,703	123,703
Investment Income		248,420	248,420
Miscellaneous		190,858	190,858
Total Revenues	<u>\$ 9,946,714</u>	<u>\$10,205,345</u>	<u>\$ 258,631</u>
Expenditures:			
Board of Commissioners -			
Salaries	\$ 15,600	\$ 6,950	\$ 8,650
Travel	6,400	4,704	1,696
Administrative	676,415	680,740	(4,325)
Control	9,055,124	8,315,453	739,671
Capital Expenditures	3,213,175	2,664,284	548,891
Total Expenditures	<u>\$12,966,714</u>	<u>\$11,672,131</u>	<u>\$ 1,294,583</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (3,020,000)</u>	<u>\$ (1,466,786)</u>	<u>\$ 1,553,214</u>
Fund Balance at beginning of year	<u>\$11,599,667</u>	<u>\$11,599,667</u>	<u>0</u>
Fund Balance at end of year	<u>\$ 8,579,667</u>	<u>\$10,132,881</u>	<u>\$ 1,553,214</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 ACTUAL

GENERAL FUND

Year Ended December 31, 1991

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Taxes -			
Anoka County	\$ 604,391	\$ 585,570	\$ (18,821)
Carver County	88,791	86,075	(2,716)
Dakota County	909,640	871,910	(37,730)
Hennepin County	4,504,593	4,253,134	(251,459)
Ramsey County	1,598,108	1,491,439	(106,669)
Scott County	163,589	159,221	(4,368)
Washington County	475,138	464,447	(10,691)
Homestead & Agricultural			
Credit & other aids	1,642,629	1,642,629	0
(See footnote #1,J)			
Tax Delinquent Income		55,794	55,794
Investment Income		474,372	474,372
Miscellaneous		138,657	138,657
Total Revenues	<u>\$ 9,986,879</u>	<u>\$10,223,248</u>	<u>\$ 236,369</u>
Expenditures:			
Board of Commissioners -			
Salaries	\$ 15,550	\$ 15,550	\$ 0
Travel	5,750	5,710	40
Administrative	652,245	637,743	14,502
Control	8,958,334	8,074,158	884,176
Capital Expenditures	3,424,835	1,630,076	1,794,759
Total Expenditures	<u>\$13,056,714</u>	<u>\$10,363,237</u>	<u>\$ 2,693,477</u>
Excess (deficiency)			
of revenues over			
expenditures	<u>\$ (3,069,835)</u>	<u>\$ (139,989)</u>	<u>\$ 2,929,846</u>
Fund Balance at			
beginning of year	<u>\$11,739,656</u>	<u>\$11,739,656</u>	<u>0</u>
Fund Balance at			
end of year	<u>\$ 8,669,821</u>	<u>\$11,599,667</u>	<u>\$ 2,929,846</u>

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

METROPOLITAN MOSQUITO CONTROL DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 1992

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Metropolitan Mosquito Control District (MMCD) 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 mosquitoes and black gnats and to perform surveillance on Lyme ticks 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. As provided by Minn. Stat. Section 473.129, Subd.6, a member of the Metropolitan Council is appointed to serve as a representative to the Metropolitan Mosquito Control Commission. This member receives a copy of all Commission meeting minutes. For financial reporting purposes, the Commission is not considered part of the Metropolitan Council.

Significant Accounting Policies

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 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. Also, consumable inventory items are recognized as expenditures in the period used, rather than in the period purchased.

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 expenditures not exceeding its property tax levy limitation. To provide for its operations the Commission was limited to a maximum levy not to exceed six-tenths of one mill on all taxable property in the District through 1988. The property tax levy limitation for 1992 is the 1991 property tax levy limitation adjusted by a multiplier based on Market valuation changes between 1990 and 1991.

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

D. Deposits

All deposits are in a single financial institution, First Bank Security N.A., and are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as "Cash." Minn. Stat. Section 118.01 requires that deposits by municipalities, including special districts, be secured by depository insurance or a combination of depository insurance and collateral security. The statute further requires the total collateral computed at its fair market value shall be at least 10 percent more than the amount on deposit in excess of any insured portion. The MMCD's deposits at year-end were appropriately secured by federal depository insurance and by collateral held by First Bank Security N.A. in MMCD's name.

E. Inventory

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

F. 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.

G. 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.

H. 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.

I. Total Columns on Statements

Total columns on the statements are captioned "Memorandum Only" to indicate 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.

J. 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 the statutory levy limitation 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 two equal installments in July and December each year.

For 1992 the Homestead and Agricultural Credit Aid was \$1,860,155.

K. Budget

The 1992 annual budget for Operations was \$9,946,714. The Capital Expenditures budget includes the capital purchases budget plus \$3,020,000 for the long-term building project.

2. GENERAL FIXED ASSETS

A summary of changes in general fixed assets as of December 31, 1992 follows:

	<u>Motor Vehicles</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Balance			
Jan. 1, 1992	\$2,264,008	\$ 978,315	\$3,242,323
Additions	<u>65,497</u>	<u>268,480</u>	<u>333,977</u>
	2,329,505	\$1,246,795	3,576,300
Deletions	<u>(146,635)</u>	<u>(46,091)</u>	<u>(192,726)</u>
Balance			
Dec. 31, 1992	<u>\$2,182,870</u>	<u>\$1,200,704</u>	<u>\$3,383,574</u>

3. BUILDING

A. Headquarters

The Anoka Operating Division Headquarters has been constructed with cost shown on the balance sheet as \$722,647. 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. This facility was built in 1985 and in 1992 the expansion was completed to provide additional space for operational use. The Scott-Carver Operating Division Headquarters was constructed in 1991 at a cost of \$751,051. The Administrative/Research Headquarters was constructed in 1992 at a cost of \$3,175,289. A cost of \$11,040 has been incurred for preliminary work on the Dakota Operating Division Headquarters.

B. Building Project

The District headquarters development program continued in 1992 with the completion of the expansion to Anoka Operating Division Headquarters, construction of Administrative/Research Headquarters, and commencement of the Dakota Division Headquarters Project. The District has reserved \$221,554 toward completion of these buildings. The District has also designated \$2,650,000 to upgrade and standardize the three remaining headquarters locations as the quality of many of the current facilities is inconsistent and not well suited to program needs.

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, 1992.

	<u>Total</u>
Employee benefits payable at Jan. 1, 1992	\$377,683
Portion currently payable in 1992	<u>(3,586)</u>
Long term employee benefits payable at Jan. 1, 1992	\$374,097
Net change in compensated absences	<u>24,789</u>
Long term employee benefits payable at December 31, 1992	<u>\$398,886</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, 1992 was \$1,350,832.37 consisting of taxes and other receivables which are not expected to be collected within 60 days as required by NCGA Interpretation 3. When information on tax cancellations and abatements is complete, approximately thirty-five percent of receivables will be written off.

7. LEASES

Operating leases consist of rental of various Division headquarters. The District plans to own headquarter facilities in the future (see footnote 3.B. above, Building Project).

The following is a yearly schedule of future minimum rental payments under operating leases (including base rent, property taxes and operating costs):

1993	\$193,346
1994	\$149,232
1995	\$152,520
1996	\$158,166
1997	\$164,095

Total minimum lease payments	<u>\$817,359</u>
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Total rental expense including short-term, seasonal equipment vehicles is as follows:

1991	\$499,595
1992	\$480,345

8. RETIREMENT PLAN

A. Plan Description

All full-time and certain part-time employees of the Metropolitan Mosquito Control District are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) which is a cost-sharing multiple-employer retirement plan. PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not, one member has elected Medicare Coverage. All new members must participate in the Coordinated Plan. The payroll for employees covered by PERA plans for the year ended December 31, 1992, was \$2,386,682.59, the District's total payroll was \$3,380,485.93.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined

retirement benefits are based on a member's average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for Coordinated and Basic members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic member is 2 percent of average salary for each of the first 10 years of service and 2.5 percent for each remaining year. For a Coordinated member, the annuity accrual rate is 1 percent of average salary for each of the first 10 years and 1.5 percent for each remaining year. Using Method 2, the annuity accrual rate is 2.5 percent of average salary for Basic members and 1.5 percent for Coordinated members. For PERF members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

B. Contributions Required and Contributions Made

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. The District makes annual contributions to the pension plans equal to the amount required by state statutes. According to Minnesota Statutes Chapter 356.215, Subd. 4(g), the date of full funding required for the PERA plans is the year 2020. As part of the annual actuarial valuation, PERA's actuary determines the sufficiency of the statutory contribution rates towards meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. Current statutory contribution rates and actuarially required contribution rates for the plans are as follows:

	<u>Statutory Rates:</u>		<u>Required</u>
	<u>Employees</u>	<u>Employer</u>	<u>Rates</u>
PERF (Basic & Coordinated Plans)	4.41%	4.74%	9.95%

Total contributions made by the District during fiscal year 1992 were:

<u>PERF:</u>	<u>Amounts</u>		<u>Percentage of Covered Payroll</u>	
	<u>Employees</u>	<u>Employer</u>	<u>Employees</u>	<u>Employer</u>
Basic Plan	\$12,053	\$ 15,715	5.41 %	7.05 %
Coordinated Plan	<u>94,736</u>	<u>100,336</u>	42.51 %	45.03 %
Totals	<u>\$106,789</u>	<u>\$116,051</u>		

The District's contribution for the year ended June 30, 1992 to the PERF represented .191 percent of total contributions required of all participating entities.

C. Funding Status and Progress

1. Pension Benefit Obligation

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess PERA's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among Public Employees Retirement Systems and among employers. PERA does not make separate measurements of assets and pension benefit obligation for individual employers.

The pension benefit obligations of the PERA as of June 30, 1992, are shown below:

(In Thousands)	<u>PERF</u>
Total pension benefit obligations	\$4,868,124
Net assets available for benefits, at cost (Market Value for PERF = \$4,068,082)	<u>3,933,124</u>
Unfunded (assets in excess of) pension benefit obligation	<u>\$ 935,000</u>

The measurement of pension benefit obligation is based on an actuarial valuation as of June 30, 1992. Net assets available to pay pension benefits were valued as of June 30, 1992.

2. Changes in Benefit Provisions.

Effective for the June 30, 1992, valuation legislative activity since the last actuarial valuation resulted in some minor changes in benefit provision for the PERF fund. These changes did not have a significant impact on the PERF.

D. Ten-Year Historical Trend Information

Ten-year historical trend information is presented in PERA's Comprehensive Annual Financial Report for the year ending June 30, 1992. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

E. Related Party Investments

As of June 30, 1992, and for the fiscal year then ended, PERA held no securities issued by the District or other related parties.

9. PATENT

The District has received two patents from the U.S. Patent Office. In 1992, \$20,000 in royalties were collected from the patents.

After fees are recovered, thirty-three and one third percent will be paid to the Director. Fees have been recovered on one of the patents. In 1992, a payment of \$6,282.55 was made to the Director. If he terminates employment, he will be entitled to 25 percent for the duration of the patents. The patents are for the process currently used for manufacturing insecticide briquets. The District has licensed rights to manufacture the briquets to a private company, and revenue will accrue to the District from sales to entities other than the District. The District is currently negotiating an agreement licensing additional manufacturing and development rights to a private company. The first patent was issued on June 2, 1987; the second on March 22, 1988.

Metropolitan Mosquito Control District

Management Letter Section

Audit Participation

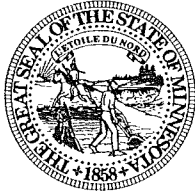
The following members of the Office of the Legislative Auditor prepared this management letter:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Joan Haskin, CPA	Auditor-in-Charge
Mark Johnson	Auditor

Exit Conference

The results of our audit were discussed with the following staff of the Metropolitan Mosquito Control District on May 6, 1993:

Robert Sjogren, Ph.D.	Director
William Caesar	Business Administrator
Patricia Egerer	Accounting Clerk
John Thompson	Data Processing Manager
Paul Heller	Accounting Assistant



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Steve Loeding, Chair
Metropolitan Mosquito Control Commission

Members of the Metropolitan Mosquito Control Commission

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

Audit Scope

We have audited the financial statements of the Metropolitan Mosquito Control District for the year ended December 31, 1992, and issued our report thereon dated April 28, 1993. We have also made a study and evaluation of the internal control structure of the Metropolitan Mosquito Control District in effect at December 31, 1992.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Metropolitan Mosquito Control District are free of material misstatements.

As part of our examination of the financial statements and our study and evaluation of the internal control structure, we performed tests of Metropolitan Mosquito Control District's compliance with certain provisions of laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Metropolitan Mosquito Control District is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, and contracts. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the Metropolitan Mosquito Control District's records.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operations of policies and procedures may deteriorate.

Internal Control Structure

For the purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- revenue and tax receipts
- payroll and other operating expenditures
- consumable and fixed asset inventory control

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of the Metropolitan Mosquito Control District. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in

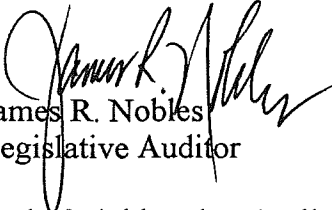
Senator Phil Riveness, Chair
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Page 3

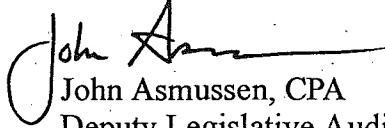
the normal course of performing their assigned functions. We believe that the reportable condition described above is not a material weakness.

The results of our tests indicate that, with respect to the items tested, the Metropolitan Mosquito Control District complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Metropolitan Mosquito Control District had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Metropolitan Mosquito Control District. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 2, 1993.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 28, 1993

Report Signed On: June 24, 1993

Current Finding and Recommendation

1. Internal controls over receipts are inadequate.

Internal controls over receipts need improvement in four areas, as follows:

- The Metropolitan Mosquito Control District (MMCD) does not adequately separate the duties over processing receipts.
- The district does not verify that all receipts received are deposited.
- The district does not restrictively endorse checks immediately upon receipt.
- The district does not verify the accuracy of cash receipt data input into its computerized accounting records.

MMCD does not adequately separate the accounting functions for the recording and processing of cash receipts. The business administrator performs most of the accounting functions for receipts. These functions include completing a prenumbered receipt form for each check, preparing the deposit slips, restrictively endorsing all checks, depositing the checks at the bank, posting receipts to the cash journal, and preparing the journal entries for the general ledger accounts. This concentration of cash receipt duties increases the risk that errors or irregularities could occur and go undetected.

MMCD does not verify total receipts deposited. The receptionist opens the mail and sends any checks to the business administrator. The receptionist does not prepare a list of checks received. Without recording incoming receipts, MMCD cannot be sure that all receipts collected are deposited. The receptionist could list checks received before sending them to the business administrator. Someone independent of accounting for receipts could reconcile receipts on the list to the deposits on the bank statements.

MMCD does not restrictively endorse checks until the deposit slips are prepared. The agency should restrictively endorse checks immediately upon receipt to lessen the risk of someone cashing the checks inappropriately. The receptionist could endorse the checks upon receipt.

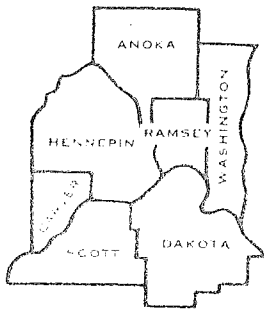
MMCD does not verify the accuracy of the posting of receipts to the general ledger accounts. The business administrator prepares the journal entries. The accounting clerk enters data into the computerized general ledger system. The district does not verify the accuracy of the data to the journal entries. Posting errors would not be detected in a timely manner.

Metropolitan Mosquito Control District

Approximately 98 percent of the revenue comes from county tax payments and investment income credits, usually in the form of large checks.

Recommendation

- *MMCD should improve internal controls over receipts by:*
 - *separating duties over the receipt functions,*
 - *reconciling checks received to bank deposits,*
 - *restrictively endorsing checks immediately upon receipt, and*
 - *verifying the accuracy of postings to the computerized general ledger system.*



METROPOLITAN MOSQUITO CONTROL DISTRICT

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R.D. SJOGREN, Ph.D.
Director

W.J. CAESAR
Business Admin.

June 22, 1993

James Nobles
Legislative Auditor
Centennial Building
1st Floor South
658 Cedar Street
St. Paul, Minnesota 55155

This letter is in response to the finding and recommendations in your management letter for the financial and compliance audit of the Metropolitan Mosquito Control District for the year ending December 31, 1992. The following additions to our processing of revenue receipts have been instituted.

The MMCD receptionist restrictively endorses checks, lists and records basic information from each check received, and then passes the checks to the business administrator for processing. The receptionist transfers the list of checks to an accounting assistant who reconciles that information with bank statements and general ledger accounts independent of actual bank reconciliation.

The District currently uses a manual disbursements journal as a tool to verify data entered into the computerized general ledger system. In addition, to respond to the recommendation, the business administrator and accounting assistant compare journal entries and cash receipt data to the general ledger to verify accuracy.

The accounting department joins me in expressing our thanks to the staff of the Legislative Auditor for their work on this audit.

Sincerely,

R.D. Sjogren, Ph.D.
Director