

Memorandum

Date: December 20, 2019

To: SWCD District Managers and Board Chairs

From: Jeremy Olson, Chief Financial Officer

RE: SWCD Financial Statements and Audits

Summary of Changes

- Annual audits will be required for all SWCDs beginning year ended 2019.
- Discontinuance of the use of Finance Report packages formerly due March 15th.
- 1/3 review estimate by the Office of the State Auditor of submitted audits.
- County revenue breakdown still required for year-end reports.

Background

In early 2019 an audit work group was established to review the audit and financial statement requirements that Soil and Water Conservation Districts (SWCD) have had in place since 1993. The purpose was to further the discussion regarding the types of audits, their frequency, and dollar thresholds to determine if changes could be made to more efficiently and effectively meet audit needs and requirements. The workgroup included representatives from SWCDs including supervisors and staff, the Minnesota Association of Soil and Water Conservation Districts (MASWCD), Minnesota Office of the State Auditor (OSA), and the Minnesota Board of Soil and Water Resources (BWSR). At its conclusion, the workgroup would make recommendations to BWSR and OSA for a revised Memorandum of Understanding (MOU) reflecting updated audit requirements. The updated MOU has now been completed and attached.

Discussion

The group identified a need for SWCD training in the areas of accounting, grants management and internal controls. Ongoing challenges identified were: 1) each year several SWCDs need assistance to prepare unaudited financial statements and BWSR does not have the capacity to provide these services and 2) there has been considerable variance in some SWCD's unaudited financial statement data vs. audited financial statement data. While there is value in prompt financial statement data submissions at March 15th, it is more useful for evaluation to wait until December 31st to ensure the data is an accurate representation of the financial position of an SWCD.

As funding levels have increased significantly in recent years, the majority of SWCDs now meet the current annual revenue threshold requiring audited financial statements. A survey of SWCDs identified that unaudited financial statements were time consuming to prepare; and prepping for an audit by a CPA firm required less staff time. Further, audit costs for SWCD's are an allowable expense as overhead in the BWSR billable rate calculations. Since CPA firms must begin their process using the most recent audited financial statements, the development of the annual financial reports in March may be a less cost effective alternative than consistent and routine annual audits.

Requirement Updates

SWCD Audits

Based on the recommendation of this work group, BWSR moved forward with updating its Memorandum of Understanding with OSA to require annual SWCD audited financial statements.

In accordance with Minnesota Statutes 103C.325, Subd. 2, the Office of the State Auditor (OSA) and the MN Board of Soil and Water Resources (BWSR) shall require that **all Soil and Water Conservation Districts must have an annual financial audit regardless of revenue, effective with the Year Ended 2019 financial statements.**

For the purposes of fulfilling the audit requirement, SWCDs may contract directly with a Certified Public Accountant (CPA) with experience in auditing governmental entities and in good standing with the State Board of Accountancy. SWCDs may refer to the Audit Bid Letter template and CPA Guide for additional information on sending the audit requests to CPA firms for a price quote. Both documents can be found at:

<https://bwsr.state.mn.us/swcd-financial-statements>

Draft copies of the annual audited financial statements are due to OSA by **October 31**, following the year ended December 31. OSA will review one-third of the draft SWCD audited financial statements each year. However, review of a district's financials could occur more often if requested by BWSR (i.e. significant deficiencies identified by the CPA firm during the audit process).

Final copies of the annual audited financial statements are due and shall be sent to the OSA, BWSR's Chief Financial Officer, and other parties having an interest in the SWCD operations by December 31, following the year ended the previous December 31.

Annual Financial Statements

Unaudited financial statements or summary Balance Sheet/Profit and Loss reports no longer need to be submitted to BWSR by March 15.

Breakdowns of County Revenue reports should continue to be submitted to BWSR no later than October 31.

If you have any questions about the changes noted above, please contact Jeremy Olson at Jeremy.Olson@state.mn.us or 651-282-2929.