

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MANAGEMENT AND COMPLIANCE REPORT
PREPARED AS A RESULT OF THE AUDIT OF

BLUE EARTH COUNTY
MANKATO, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Year Ended December 31, 2004



Management and Compliance Report

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

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**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

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**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Schedule 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Blue Earth County.
- B. A reportable condition in internal control over financial reporting was disclosed by an audit of the financial statements and is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It is not a material weakness.
- C. No instances of noncompliance material to the financial statements of Blue Earth County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Blue Earth County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Child Care Mandatory and Matching Funds	CFDA #93.596
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Blue Earth County was not determined to be a low-risk auditee.

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-2 Segregation of Duties

Due to the limited number of office personnel within a Blue Earth County department, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. This is not unusual in operations the size of Blue Earth County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that Blue Earth County's management be aware of the absence of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

Client's Response:

Blue Earth County concurs with the findings in the 2004 audit.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-1 Written Collateral Assignments

Minn. Stat. § 118A.03, subd. 4, states, in part, that the collateral assignment shall recite that, upon default, the financial institution shall release the collateral to the government entity on demand. The County signed a pledge agreement with Wells Fargo Bank Minnesota, NA that requires that the County give written notice in the

event of default and allow at least three business days after such notice to cure the default. This language does not meet the requirement of the statute.

We recommend the County review all the written assignments for collateral for legal compliance with Minnesota statutes and request new agreements that meet legal requirements as needed.

Client's Response:

Blue Earth County concurs with the findings in the 2004 audit.

PREVIOUSLY REPORTED ITEM RESOLVED

Contract Compliance (01-3)

The County was unable to show compliance with Minn. Stat. § 471.345, subd. 4, requiring contracts from \$10,000 to \$50,000 to be made either upon sealed bids or by direct negotiation by obtaining two or more quotations when possible.

Resolution

Our tests of contract compliance disclosed no instances of noncompliance.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

97-8 Ditch Deficit Fund Balances

As of December 31, 2004, 8 of the 136 individual ditch systems had deficit fund balances totaling \$180,683.

We recommend that the County eliminate the individual ditch deficit fund balances by levying assessments pursuant to Minn. Stat. § 103E.735, which permits the accumulation of a surplus balance for the repair and maintenance costs of a ditch system.

Client's Response:

Blue Earth County concurs with the findings in the 2004 audit.

02-2 Travel Claims

Our review of travel claims disclosed the following:

- Three of 16 claims tested did not follow the requirements of the County's Purchasing and Expense Guideline which states, "Employee Expense Forms will contain only expenses from one calendar month," and "All forms should be submitted by the first Tuesday of the month following the month in which the expense was incurred."
- One claim contained mileage greater than the distance between Mankato and the city traveled to.

We recommend the County comply with the County policies contained in the Purchasing and Expense Guideline.

Client's Response:

Blue Earth County concurs with the findings in the 2004 audit.



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PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of County Commissioners
Blue Earth County

We have audited the financial statements of Blue Earth County as of and for the year ended December 31, 2004, and have issued our report thereon dated May 13, 2005. We conducted our 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 did not audit the Economic Development Authority Enterprise Fund, which was audited by other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Blue Earth County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 01-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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 the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition listed above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Blue Earth County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Blue Earth County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 02-1.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: May 13, 2005



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PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners
Blue Earth County

Compliance

We have audited the compliance of Blue Earth County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. Blue Earth County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Blue Earth County's financial statements include the operations of the Blue Earth County Economic Development Authority (EDA) component unit, which expended \$541,746 in federal awards during the year ended June 30, 2004, which are not included in the schedule of expenditures of federal awards. Our audit, described below, did not include the operations of the EDA because it had a separate single audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Blue Earth County's

compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Blue Earth County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Blue Earth County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Blue Earth County as of and for the year ended December 31, 2004, and have issued our report thereon dated May 13, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Blue Earth County's basic financial statements. We did not audit the Economic Development Authority Enterprise Fund, which was audited by other auditors. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: May 13, 2005

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**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	\$ 162,830
Passed Through Minnesota Department of Human Services Administrative Matching Grant for Food Stamp Program	10.561	12,398
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Grant for Food Stamp Program	10.572	<u>1,000</u>
Total Department of Agriculture		\$ 176,228
U.S. Department of Justice		
Passed Through Minnesota Department of the Supreme Court Supervised Visitation	16.527	\$ 1,032
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	15,926
Crime Victim Assistance	16.575	<u>20,474</u>
Total Department of Justice		\$ 37,432
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,134,074
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	42,907
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	<u>2,664</u>
Total Department of Transportation		\$ 1,179,645
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Immunizations Grant	93.268	\$ 27,033
Center for Disease Control and Prevention	93.283	80,164
Temporary Assistance for Needy Families (TANF Home Visit)	93.558	17,094
Maternal and Child Health Services Block Grant	93.994	64,955

**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	408,901
Child Care Mandatory and Matching Funds	93.596	671,858
Children's Justice Grant	93.643	1,231
Child Welfare Services	93.645	10,413
Foster Care - Title IV-E	93.658	223,575
Adoption Assistance	93.659	5,313
Social Services Block Grant - Title XX	93.667	436,382
Independent Living	93.674	15,538
Community Mental Health Services	93.958	4,726
Total Department of Health and Human Services		\$ 1,967,183
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support	97.004	\$ 64,360
Emergency Management Performance Grant	97.042	20,981
Total Department of Homeland Security		\$ 85,341
Total Federal Awards		\$ 3,445,829

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Blue Earth County, not including the Blue Earth County Economic Development Authority component unit. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. In some instances, expenditures shown are greater than reported revenues because the related receivables were not available.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.