

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

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

CARVER COUNTY
CHASKA, 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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**CARVER COUNTY
CHASKA, 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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**CARVER COUNTY
CHASKA, MINNESOTA**

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**CARVER COUNTY
CHASKA, 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 an unqualified opinion on the basic financial statements of Carver County.
- B. A reportable condition in internal control was disclosed by the audit of the financial statements of Carver County 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 was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Carver 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 Carver 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 |
| Block Grant for the Prevention and Treatment
of Substance Abuse | CFDA #93.959 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Carver County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

04-1 Verifying the Investment Balance

The Finance Department staff reconcile the total of pooled cash and investments recorded on the general ledger with the Treasurer's amount monthly. However, they do not independently track the total investment amount or determine the total amount of interest received or realized gains and losses on investments. They should maintain a record of these amounts so they can compare them with the Treasurer's amounts as part of the monthly balancing procedure.

Beginning in 2004, the Finance Department staff have been receiving monthly reports from brokers so they can track the investment transactions. They have been doing some spot checks of investment earnings during the year. However, it would enhance internal control over investments if this additional balancing procedure were done monthly.

We recommend that the Finance Department amend the monthly balancing procedure to include the verification of the investment total, the amount of interest received, and realized gains and losses.

Client's Response:

The State Auditor's office recommends the financial services department reconcile the monthly investment balances with the Treasurer's office for accuracy and reliability. Below states the reconciling process the financial services division will be taking starting with June 2005's investment income and realized gains or losses.

Procedure:

- 1) The Deputy Treasurer will print off a monthly transaction report from Quicken for the period reflected in the Treasurer's monthly income and realized gains and/or losses summary report. The transaction report will be reconciled to the Treasurer's reports by line item to ensure accuracy.*

- 2) *Once the reconciliation has been done between Quicken and the Treasurer's report, the transaction report will then be reconciled to the monthly broker statements. The areas of reconciliation will be: interest income, realized gains and/or losses for the month, and the monthly withdrawal and deposit totals.*
- 3) *To ensure realized gains and/or losses are recorded accurately the price at which investments were sold will be reconciled between the Treasurer's report and the broker statements. Spot checks will be done to verify the original cost of investments within Quicken on material amounts.*
- 4) *Any inaccuracies or discrepancies will be addressed with the Treasurer and corrected as appropriate.*

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

COMPLIANCE

ITEM ARISING THIS YEAR

04-2 Timing of Reimbursement Requests - Highway Planning and Construction
(CFDA #20.205)

The County sent the August 2004 request for reimbursement of Highway Planning and Construction grant funds to the state before the check to the vendor was issued. This was caused by an unusual delay in processing the payment to the vendor.

The federal cash management compliance requirement states that, "When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested."

We recommend that the Public Works Department verify that the payment has been issued to the vendor before the reimbursement request is sent to the state.

Corrective Action Plan:

Project SP 10-610-29, Watertown Bridge Replacement

Check to contractor was dated September 17, 2004 for \$203,344.70.

Reimbursement of Federal funds were received on September 16, 2004 for \$96,855.68.

It was stated by the State Audit staff that this was immaterial due to the transactions being within a week. It should also be considered that it takes as much as 2 - 3 weeks to process a contract payment from the point of processing the partial payment, having it proofed by engineering staff, receiving signatures from the contractor and the County Engineer, and processing the claim. The reimbursement form is not completed until these tasks are complete. It was unknown, and unusual, that Federal reimbursement would have been processed sooner than usual. Processing both forms of paperwork close together was the intent of being proactive and good financial management. In this case, waiting one additional day to process the reimbursement would still have completed those intentions.

Name of Contact Person:

Francis Kerber, Public Works Accountant

Anticipated Completion Date:

Completed.

IV. OTHER ITEM

Governmental Accounting Standards Board

Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, is effective for periods beginning after June 15, 2004. This statement encourages governmental entities to implement an investment policy regarding credit risk, which is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County will also be required under this statement to disclose its interest rate risk, which is the potential variability in fair value resulting from changes in interest rates.



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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
Carver County

We have audited the financial statements of Carver County as of and for the year ended December 31, 2004, and have issued our report thereon dated May 25, 2005. We did not audit the financial statements of the Carver County Housing and Redevelopment Authority, a discretely presented component unit of Carver County. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carver 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 04-1.

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 indicated above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carver 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, Carver County complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the County Board 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 25, 2005



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OFFICE OF THE STATE AUDITOR

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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
Carver County

Compliance

We have audited the compliance of Carver 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. The 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.

Carver County's financial statements include the operations of the Carver County Housing and Redevelopment Authority (HRA) which received federal awards that are not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2004. Our audit described below did not include the Carver County HRA because other auditors were engaged to perform a single audit.

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 Carver 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, Carver 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. However, the results of our auditing procedures disclosed an immaterial instance of noncompliance with those requirements that is described in the accompanying Schedule of Findings and Questioned Costs as item 04-2.

Internal Control Over Compliance

The management of Carver 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 Carver County as of and for the year ended December 31, 2004, and have issued our report thereon dated May 25, 2005. We did not audit the financial statements of the Carver County HRA, a discretely presented component unit. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. 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 basic 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 County Board, 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 25, 2005

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**CARVER COUNTY
CHASKA, 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 Human Services State Administration Matching Grants for Food Stamp Program	10.561	\$ 2,952
U.S. Department of Justice		
Direct		
Bulletproof Vest Partnership Program	16.607	\$ 8,688
Passed Through Minnesota Department of Public Safety Juvenile Accountability Block Grant	16.523	18,666
Violence Against Women Formula Grant	16.588	10,897
Total Department of Justice		\$ 38,251
U.S. Department of Labor		
Passed Through Minnesota Department of Employment and Economic Development Senior Community Service Employment Program	17.235	\$ 58,504
Workforce Investment Act - Adult	17.258	25,082
Workforce Investment Act - Youth	17.259	19,226
Workforce Investment Act - Dislocated Workers	17.260	98,377
Total Department of Labor		\$ 201,189
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 493,640
Public Transportation for Nonurbanized Areas	20.509	88,682
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	6,874
Safety Incentive Grants for Use of Seatbelts	20.604	556
Total Department of Transportation		\$ 589,752

**CARVER COUNTY
CHASKA, 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. Environmental Protection Agency		
Passed Through Minnesota Department of Health State Indoor Radon Grants	66.032	\$ 8,622
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants	66.460	29,955
Total Environmental Protection Agency		\$ 38,577
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Immunization Grants	93.268	\$ 5,301
Center for Disease Control and Prevention	93.283	107,778
Maternal and Child Health Service Block Grant	93.994	53,531
Passed Through Minnesota Department of Human Services Temporary Assistance to Needy Families	93.558	227,144
Community Services Block Grant	93.569	37
Child Care Mandatory and Matching Funds	93.596	22,740
Children's Justice Grants to States	93.643	1,835
Child Welfare Services	93.645	31,225
Foster Care Title IV-E	93.658	298,156
Social Services Block Grant Title XX	93.667	388,445
Independent Living	93.674	12,360
State Children's Insurance Program	93.767	33
Block Grants for Community Mental Health Services	93.958	70,254
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	183,834
Passed Through Minnesota Department of Public Safety Developmental Disabilities Basic Support and Advocacy Grant	93.630	477
Total Department of Health and Human Services		\$ 1,403,150

**CARVER COUNTY
CHASKA, 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 Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 10,000
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	119,709
Emergency Management Performance Grants	97.042	50,114
State and Local All Hazards Emergency Operations Planning	97.051	33,462
Total Department of Homeland Security		\$ 213,285
Total Federal Awards		\$ 2,487,156

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 Carver County. The reporting entity is defined in Note 1 to the basic financial statements. Federal awards expended by the Carver County Housing and Redevelopment Authority, a discretely presented component unit, are not included in this schedule.
2. The expenditures on this schedule are on the full accrual basis of accounting.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grants numbers were not assigned by the pass-through agencies.