

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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MANAGEMENT AND COMPLIANCE REPORT FOR

**OLMSTED COUNTY**  
**ROCHESTER, MINNESOTA**

FOR THE 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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**OLMSTED COUNTY  
ROCHESTER, MINNESOTA**

**For the Year Ended December 31, 2004**



**Management and Compliance Report**

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

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**OLMSTED COUNTY  
ROCHESTER, MINNESOTA**

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**OLMSTED COUNTY  
ROCHESTER, 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 Olmsted County.
- B. No matters involving internal control over financial reporting were 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*."
- C. No instances of noncompliance material to the financial statements of Olmsted 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 Olmsted 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
Federal Transit Technical Studies Grant	CFDA #20.505
Temporary Assistance for Needy Families	CFDA #93.558
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Olmsted County was 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 RESOLVED

**Controls Over the Electronic Data Processing System (02-2)**

During the audit of data processing, we noted two security settings on the computer systems were set below the recommended minimums for the AS/400.

**Resolution**

The County has addressed the security settings.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Publishing Board Minutes, Financial Statements, and Claims Paid

Minn. Stat. § 375.12 requires County Board minutes to be published within 30 days of the meeting, and this publication is to include an individualized itemized list of County Board-approved payments over \$300. Minn. Stat. § 375.17 requires the County Board to prepare financial statements not later than March, and these financial statements or a summary in a form prescribed by the State Auditor must be published in a duly qualified legal newspaper in the County. If the full statements are published, they must include a listing of all claims paid unless the publication of the minutes contained this data, then this listing would only include vendors being paid more than \$5,000 during the year. Minn. Stat. § 331A.01 discusses how the County can publish summaries. This section does not change the publication of year-end vendor payments as discussed in Minn. Stat. § 375.17. Also, this section requires that the full data be available at a specified County location or by standard or electronic mail.

Upon review of the County's published minutes, we noted that quarterly the County published a summary of payments made the previous quarter. Starting in 2002, the annual financial statement and a listing of vendors paid over \$5,000 were posted on the County's home page after an ad was published in the paper stating the financial statements were posted. Because the County does not publish a list of vendor payments when the Board minutes are published, if the full financial statements are published, they should include an itemized account of amounts paid out during the year.

We recommend that the County comply with statutes and publish its Board minutes, annual financial statements, and vendor claims paid as discussed above.

Client's Response:

*The Auditor's observations are correct. The statutes requiring publication of the County's financial statements and vendor payments have not kept up with the growth in complexity and size of counties. For many years prior to 2002, the County followed the publication format specified by the State Auditor's Office but did not publish in the official newspaper the detailed list of County disbursements after each Board meeting. The detailed listing of disbursements currently is over 150 pages long for each month's activity and clearly impractical and uneconomical to publish in a newspaper.*

*The County changed its practice of what it published with its 2002 financial statements due to significant State funding cuts, loss of staff in the Finance Office, and the availability of publication on the Internet. The Administrative Committee of the County Board approved publishing a notice in the newspaper reporting that the full, nationally recognized, Comprehensive Annual Financial Report was available on the Internet. The notice also reported that a summarized listing of payments to vendors of over \$5,000 was available on the County's Internet site. This change in practice saves approximately \$5,000 and significant staff time. We will also publish with the notice in the paper that the reports are available for examination in the County Administration and Finance offices if citizens choose to review them that way.*

*County Finance staff are unaware of any major county in the State of Minnesota that follows the statutory guidelines for publication of their financial statements or expenditure listings. The laws have become impractical and other means exist to keep the public informed. Finance staff will discuss what options are available with the County Board and follow their direction for future publications.*

**Schedule 1**  
**(Continued)**

*During the 2005 legislative session attempts were made through the Association of Minnesota Counties, Metropolitan Inter-County Association, and the Office of the State Auditor toward changing and updating the law in a way that benefits counties but we are unaware of any progress being made. We are interested in pursuing future opportunities to change and update the laws if it becomes possible to do so.*



# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

PATRICIA ANDERSON  
STATE AUDITOR

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## **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 Commissioners  
Olmsted County

We have audited the financial statements of Olmsted County as of and for the year ended December 31, 2004, and have issued our report thereon dated May 10, 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Olmsted County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Olmsted 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, Olmsted 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 03-1.

This report is intended solely for the information and use of the Board of 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 10, 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 Commissioners  
Olmsted County

### Compliance

We have audited the compliance of Olmsted 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. Olmsted 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.

Olmsted County's financial statements include the operations of the Olmsted County Housing and Redevelopment Authority (HRA) component unit, which expended \$3,475,643 in federal awards during the year ended December 31, 2004, which are not included in the schedule of expenditures of federal awards. Our audit, described below, did not include the operations of the HRA 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 Olmsted 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, Olmsted 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 Olmsted 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 Olmsted County as of and for the year ended December 31, 2004, and have issued our report thereon dated May 10, 2005. 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 Board of 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 10, 2005

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**OLMSTED COUNTY  
ROCHESTER, MINNESOTA**

*Schedule 2*

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

<b>Federal Grantor Pass-Through Agency Grant Program</b>	<b>Federal CFDA Number</b>	<b>State Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Passed Through University of Minnesota Post After School Program	10.500	N/A	\$ 12,800
Passed Through Minnesota Department of Health Supplemental Food Program for Women, Infants and Children	10.557	18438004	388,765
Passed Through Minnesota Department of Human Services Food Stamp Administration	10.561	N/A	<u>33,434</u>
<b>Total Department of Agriculture</b>			<b>\$ 434,999</b>
<b>U.S. Department of Housing and Urban Development</b>			
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grant	14.228	N/A	\$ 2,672
Passed Through Minnesota Housing Finance Agency Shelter + Care	14.238	N/A	<u>92,007</u>
<b>Total Department of Housing and Urban Development</b>			<b>\$ 94,679</b>
<b>U.S. Department of Justice</b>			
Passed Through Minnesota Department of Employment and Economic Development Juvenile Accountability Incentive Block Grant	16.523	N/A	\$ 57,373
Gun Violence Grant	16.609	2002-GP-CX-160	40,000
Passed Through Minnesota Department of Corrections Crime Victim Assistance Grant, Sexual Assault	16.575	N/A	<u>70,263</u>
<b>Total Department of Justice</b>			<b>\$ 167,636</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	76904	\$ 579,083
Federal Transit Technical Studies Grant	20.505	76995	429,231
State and Community Highway Safety	20.600	N/A	29,328
Alcohol Traffic Safety and Drunk Driving	20.601	N/A	<u>1,263</u>
<b>Total Department of Transportation</b>			<b>\$ 1,038,905</b>

**OLMSTED COUNTY  
ROCHESTER, MINNESOTA**

**Schedule 2**  
**(Continued)**

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

<b>Federal Grantor Pass-Through Agency Grant Program</b>	<b>Federal CFDA Number</b>	<b>State Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Environmental Protection Agency</b>			
Passed Through Minnesota Department of Health Air Pollution Control	66.032	8895400200	\$ 18,750
Passed Through Minnesota Pollution Control Agency Feedlot Run-off Reduction Grant	66.460	N/A	21,228
<b>Total Environmental Protection Agency</b>			<b>\$ 39,978</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Health Tuberculosis Control	93.116	N/A	\$ 17,500
Bioterrorism Preparedness	93.283	N/A	181,103
Refugee Health	93.576	N/A	7,500
Minnesota Department of Health Special Project - Sexual Violence Prevention	93.991	N/A	35,169
Maternal and Child Health Services Block Grant	93.994	772-3029	142,358
Passed Through Minnesota Department of Human Services Time Limited Reunification, LIGSS, Altern Response	93.556	N/A	122,000
Temporary Assistance for Needy Families Administrative	93.558	N/A	1,399,659
Low Income Home Energy Assistance (EAP)	93.568	OENM0147	429,676
Community Services Block Grant	93.569	00100111-12	146,021
Community Based Family Resource and Support Grants	93.590	N/A	15,317
Child Care and Development	93.596	N/A	2,532,756
Children's Justice Act Grant	93.643	N/A	26,267
Foster Care Title IV-E	93.658	N/A	113,090
Social Services Block Grant Title XX	93.667	N/A	788,047
Support for Emancipation and Living Functionally (SELF) Grant	93.674	N/A	33,237
Block Grant for Community Mental Health Services	93.958	N/A	64,079
<b>Total Department of Health and Human Services</b>			<b>\$ 6,053,779</b>

**OLMSTED COUNTY  
ROCHESTER, MINNESOTA**

*Schedule 2*  
*(Continued)*

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

<b>Federal Grantor Pass-Through Agency Grant Program</b>	<b>Federal CFDA Number</b>	<b>State Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety - Emergency Services			
Domestic Preparedness Grant	97.004	N/A	\$ 95,244
Emergency Management Performance Grant	97.042	2000-3139	47,229
Disaster Planning	97.051	DR-1225	14,027
<b>Total Department of Homeland Security</b>			<b>\$ 156,500</b>
<b>Total Cash Awards</b>			<b>\$ 7,986,476</b>
<b>Non-Cash Awards</b>			
<b>U.S. Department of Housing and Urban Development</b>			
Passed Through Minnesota Department of Employment and Economic Development			
Well Loan Agreement	14.228	N/A	154,990
<b>Total Expenditures of Federal Awards</b>			<b>\$ 8,141,466</b>

Notes to Schedule of Expenditures of Federal Awards

- The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Olmsted County. The County's reporting entity is defined in Note 1 to the financial statements. The Olmsted County Housing and Redevelopment Authority is not included in this schedule.
- The expenditures in this schedule are on the modified accrual basis of accounting.
- During 2004, the County passed \$2,523,436 of \$2,532,756 (CFDA #93.596) money to Child Care Resources and Referral, a subrecipient of Human Services.

	<b>Included in CFDA Number</b>	<b>Expenditures</b>
<b>Sub-Granted--Human Services</b>		
Child Care Basic Sliding Fee	93.596	\$ 1,854,112
MFIP Child Care	93.596	669,324
<b>Total</b>		<b>\$ 2,523,436</b>