

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

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

YEAR ENDED DECEMBER 31, 2006

## **Description of the Office of the State Auditor**

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of 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 approximately 730 public pension funds; and

**Tax Increment Financing** - 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 Employees 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, 2006**



**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, 2006

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of Carver County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Carver County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- 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:
  - Help America Vote Act CFDA #90.401
  - Social Services Block Grant Title XX CFDA #93.667
- 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

ITEMS ARISING THIS YEAR

06-1 Cash and Investment Reconciliation

The County Finance Department reconciles its cash and investments each month, but the reconciliation is not made to the County's general ledger.

In order to be reliable, the monthly reconciliation has to be made to the County's general ledger.

We recommend that the County's monthly cash and investment reconciliation be made to the general ledger.

Client's Response:

*The County Financial Services Division is currently reviewing its reconciliation procedures and plans to implement the State Auditor's recommendation by July 2007.*

06-2 License Center Operations

Our review of the operations at the County's License Center disclosed several significant deficiencies in internal control. Physical controls at the collection/receipting area are absent so that staff and public have access to unlocked collection drawers. Collections at the License Center due to the County are not submitted to the County's Finance Department in a timely manner. Some of the bank reconciliations for the License Center bank accounts were found to be incomplete, undated, and not reviewed by a supervisor.

In order to maintain internal control at the License Center, access to collections should be limited to appropriate staff; collections due the County should be submitted to the County Finance Department with more frequency; and bank reconciliations should be completed soon after month-end, dated and initialed by the employee, and reviewed by a supervisor.

We recommend the County review internal controls at the License Center and take the necessary steps to improve physical and accounting controls.

Client's Response:

*Since the State Auditor has addressed these internal control deficiencies, we have made or plan to make significant changes to our internal controls. Bank statements are reconciled on a monthly basis. These reconciliations are dated and initialed by the employee who completes them and are then reviewed by a supervisor and initialed. The revenue collected is being submitted to the Auditor's Office on or before the 20th of each month. Also, when the License Center is remodeled in the future, the public will not have access to the unlocked drawers.*

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

None.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Carver County as of and for the year ended December 31, 2006, and have issued our report thereon dated June 26, 2007. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Carver County Community Development Agency, as described in our report on Carver County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carver County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 and 06-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Carver County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe neither of the significant deficiencies described above is 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.

Carver County's written responses to the significant deficiencies identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within the County, 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/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 26, 2007

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REBECCA OTTO  
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# STATE OF MINNESOTA

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### **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, 2006. Carver 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 Community Development Agency component unit, which expended \$3,452,531 in federal awards during the year ended December 31, 2006, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Carver County Community Development Agency because the Agency was audited by other auditors.

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, 2006.

#### 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Carver County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Carver County as of and for the year ended December 31, 2006, and have issued our report thereon

dated June 26, 2007. We did not audit the Carver County Community Development Agency, 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 Board of County Commissioners, management, others within the County, 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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 26, 2007

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**CARVER COUNTY  
CHASKA, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administration Matching Grants for Food Stamp Program	10.561	\$ <u>4,922</u>
<b>U.S. Department of Justice</b>		
Direct		
Bulletproof Vest Partnership Program	16.607	\$ 2,431
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Block Grant	16.523	20,271
Violence Against Women Formula Grant	16.588	<u>10,751</u>
<b>Total U.S. Department of Justice</b>		<b>\$ <u>33,453</u></b>
<b>U.S. Department of Labor</b>		
Passed Through Minnesota Department of Employment and Economic Development Senior Community Service Employment Program	17.235	\$ 60,044
Passed Through Hennepin County		
Workforce Investment Act - Adult	17.258	2,830
Workforce Investment Act - Youth	17.259	1,954
Workforce Investment Act - Dislocated Worker	17.260	<u>51,833</u>
<b>Total U.S. Department of Labor</b>		<b>\$ <u>116,661</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Public Transportation for Nonurbanized Areas	20.509	\$ 88,100
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	24,213
Safety Incentive Grants for Use of Seatbelts	20.604	5,057
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	<u>12,833</u>
<b>Total U.S. Department of Transportation</b>		<b>\$ <u>130,203</u></b>
<b>U.S. Department of Education</b>		
Passed Through Minnesota Department of Health Special Education Grants for Infants and Families with Disabilities	84.181	<u>842</u>
<b>U.S. Election Assistance Commission</b>		
Passed Through Minnesota Secretary of State Help America Vote Act	90.401	<u>342,019</u>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health		
Immunization Grants	93.268	\$ 5,863
Center for Disease Control and Prevention	93.283	140,948
Maternal and Child Health Service Block Grant	93.994	<u>50,227</u>

**CARVER COUNTY  
CHASKA, MINNESOTA**

*Schedule 2*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	33,740
Temporary Assistance to Needy Families (TANF)	93.558	278,896
Child Care Mandatory and Matching Funds	93.596	18,661
Adoption Incentive Payments	93.603	665
Foster Care Title IV-E	93.658	247,887
Social Services Block Grant Title XX	93.667	314,059
Independent Living	93.674	5,731
Block Grants for Community Mental Health Services	93.958	19,231
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	131,200
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,247,108</b>
<b>U.S. Department of Homeland Security</b>		
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	33,265
Homeland Security Grant Program	97.067	29,424
Buffer Zone Protection Plan	97.078	48,378
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 121,067</b>
<b>Total Federal Awards</b>		<b>\$ 1,996,275</b>

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 primary government only. This schedule does not include federal expenditures of the Carver County Community Development Agency. The reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2006, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.