

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT FOR

OLMSTED COUNTY
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

The mission of the Office of the State Auditor 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

For the Year Ended December 31, 2007



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, 2007

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Olmsted County.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of Olmsted 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 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:

Federal Transit Metro Planning Grant	CFDA #20.505
Promoting Safe and Stable Families	CFDA #93.556
Temporary Assistance for Needy Families	CFDA #93.558
Homeland Security	CFDA #97.067
CCDF Cluster	
Child Care and Development Block Grant	CFDA #93.575
Child Care Mandatory and Matching Funds	CFDA #93.596

H. The threshold for distinguishing between Types A and B programs was \$329,020.

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

ITEMS ARISING THIS YEAR

07-1 Documentation of Internal Controls

The County should have adequate documentation of the components of internal control for each accounting procedure. These should be updated to reflect current procedures. The County has inadequate documentation of the major internal control procedures for the following:

- Community Services disbursements process,
- License Center receipting process, and
- Public Works disbursement process.

We recommend the County update its documentation on current procedures to reflect all internal control processes. These processes should include accounting procedures, review procedures, and monitoring activities performed relating to the major components of internal control. The procedures should be properly updated to reflect current procedures being performed.

Client's Response:

The Community Services Accounts Payable procedures narrative has been updated and includes staff detail indicating separation of duties and documents the steps for authorized signatures.

The License Center Receipting narrative has been updated to reflect current procedures and includes segregation of duties indicated by name of staff involved in the various tasks.

The Public Works Accounts Payable procedures flow chart has been updated and includes names of staff involved in various duties and includes a narrative describing the separation of duties incorporated into the procedures.

In December 2007, the Finance Department hired a .40 FTE Internal Control Specialist to work on improving Olmsted County's internal controls, as well as develop a system to document that the controls are being monitored. Since adding that position, we have been able to make some good improvements to our system of controls.

07-2 General Disbursement Internal Control Testing

While reviewing County disbursements for six attributes, we noted the following exceptions:

- eight of the claims did not contain evidence of review and cancellation, and
- nine of the claims did not contain evidence of authorized signors approval.

Per step nine of the County Payment Process Flowchart, department authorized staff must approve claims. The audit label includes the following information: GAX number, initials and date verified goods received, initials and date extended and footed, approved for payment, GAX total, vendor number, and account coding. All claims should have the appropriate documentation to support the payment.

We recommend the County monitor policies and procedures for the disbursing process to ensure that internal controls are being followed and disbursements are made only for properly authorized and documented claims.

Client's Response:

We have made the following changes to our accounts payable procedures:

- *Someone other than the main Accounts Payable staff will audit sample invoices quarterly to assure the person signing as approving the invoice is on the Authorized Signature sheets. Results of the audit will be documented and exceptions addressed.*
- *The Payment process flowchart no longer includes the step to add coding: "Finance Staff of department receives the invoice, reviews and applies the audit label ~~and coding.~~"*

Schedule 1
(Continued)

- *Invoices that are processed for payment using a “Manual Disbursement” (MD) will not always need an authorized signature included on an audit label. All “MD” documents are approved using workflow so the appropriate approvals are documented within the CGI accounting system.*

Eight of the nine claims were payments of the HRA, an agency fund. The following changes have been made regarding authorization:

- *A hard copy of the Payment Review or Payment History List will be printed and attached to the HAP Totals Signature spreadsheet.*
- *Housing administrator (Gary) will sign the audit stamp. Backups are Planning Supervisor and Director.*
- *The signature sheet will be attached to the first GAX in the run and will cover all payments.*
- *The detail on the Payment Review or Payment History Listing is confidential and will be stored in PW Finance.*

HRA disbursements are processed using HAPPY software data interfaced into our CGI accounting system. At this time, HAPPY duties are not completely segregated. A review process will be put into place to confirm the information in the HAPPY System and CGI match the tenant file.

- *Timing of testing will be quarterly.*
- *Finance will pull 20 random files across all programs and rentals included in HAPPY occupancy and TARS.*
- *The Rental Assistance Coordinator (RAC) will be limited to READ ONLY ACCESS to HAPPY.*
- *The RAC will pull the hard copy files and trace data from the file to HAPPY to ensure that the information matches (whether it is HAP payment amount, rent charged, or amount collected).*
- *Finance staff will then ensure that any outgoing payments match or incoming receipts match what is in AMS to what is in HAPPY and the file.*

PREVIOUSLY REPORTED ITEM RESOLVED

Segregation of Duties – Recycling Center (06-1)

Olmsted County does not segregate the duties of cash collection and receipting and cash disbursing for the Recycling Center.

Resolution

The County has implemented compensating controls to segregate duties of receipting and disbursing for the Recycling Center.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

07-3 Contract and Bid Laws

The County did not comply with Minn. Stat. § 471.345 competitive bid laws for the contract with NewMech Facility Solutions, Inc., for energy performance on Graham Arena 1 (07-124P). The contract was originally determined to be an exception to the competitive bidding requirements under Minn. Stat. § 471.345 energy efficient projects. The contract was then determined not to fall under the requirements when reviewed by the County Attorney. Therefore, the contract should have been bid out according to Minnesota statutes.

We recommend the County comply with the competitive bid laws.

Client's Response:

The New Mech Facility Solutions, Inc., contract for improvements designed to reduce energy consumption and operational costs that includes a written guarantee of energy savings was intended to qualify as an energy efficiency project according to the requirements of Minn. Stat. § 471.345, subd. 13. What appears to be in question is whether the energy/operational savings would meet or exceed the cost of the alterations over the 15-year period required by statute.

The Olmsted County Attorney's Office recommends that, for future projects of this nature, a resolution for the County Board will include documentation of the basis for compliance with the statute.

07-4 Assessor's Office

The County Assessor's Office was unable to show it was in compliance with Minn. Stat. § 273.08 for real property listed for taxation. Minn. Stat. § 273.08 states: "The assessor shall actually view, and determine the market value of each tract or lot of real property listed for taxation, including the value of all improvements and structures thereon, at maximum intervals of five years and shall enter the value opposite each description."

We recommend the County Assessor's Office follow Minn. Stat. § 273.08 by viewing each real property at least every five years, except for those that are exempt which should be viewed at least every six years according to Minn. Stat. § 273.18. The Assessor's Office should have supporting documentation showing they actually viewed each property within the guidelines of the statute.

Client's Response:

The Olmsted County Assessor's Office has received your initial findings regarding compliance with Minn. Stat. §§ 273.08 and 273.18. The findings reflect that 45,121 parcels out of 67,196 have been visited in the last five years and six years for exempt properties.*

The Olmsted County Assessor's Office has and will continue to make every effort to comply with the requirements that are set forth by statute. Olmsted County employs eight residential and two commercial appraisers. The work load is allocated by property classification and is as follows:

	<i>Parcels</i>	<i>Appraisers</i>	<i>Parcels/App</i>
<i>Residential and Agriculture</i>	58,840	8	7,355
<i>Com/Ind/Apt</i>	3,736	2	1,868
<i>Exempt</i>	4,630	All	463*

**Exempt parcels are distributed to entire appraisal staff, adding 463 parcels to each appraiser.*

Schedule 1
(Continued)

A 2003 study summarizing parcel counts per appraiser in other Minnesota counties is listed below:

	<i>Olmsted</i>	<i>Stearns</i>	<i>Dakota</i>	<i>Anoka</i>	<i>Sherburne</i>	<i>Washington</i>	<i>Winona</i>	<i>Rice</i>	<i>Carver</i>	<i>Scott</i>	<i>Ramsey</i>
<i>Total Parcels</i>	62,503	63,000	144,377	120,799	32,849	91,988	23,000	28,000	34,278	45,000	151,500
<i>Parcels County Assessed</i>	62,167	45,000	144,377	74,747	32,849	65,224	16,500	28,000	34,278	45,000	151,500
<i>Residential Parcels</i>	58,348	38,600	136,282	68,954	31,248	62,623	14,600	26,320	30,478	40,500	139,500
<i>C/I, Apt, Other</i>	3,819	6,400	8,095	5,793	1,601	2,601	1,900	1,680	3,800	4,500	12,000
<i>Res. Parcels/Appraiser</i>	7,529	5,514	7,173	5,108	3,472	5,798	4,867	4,785	3,810	5,786	7,750
<i>C/I, Apt, Oth/Appraiser</i>	3,055	2,133	1,156	1,655	1,601	1,301	1,520	1,680	3,800	4,500	1,000

Olmsted County has a large parcel count per appraiser and it well exceeds standards that are suggested by the International Association of Assessment Officers. The large parcel count per appraiser contributes greatly to adhering to Minn. Stat. §§ 273.08 and 273.18. Comparing Olmsted County to other Minnesota counties one can see that the parcel count per appraiser is greater than most counties with the exception of Ramsey County.

It is my intention to propose a plan that utilizes supplemental employees to assist in viewing and collecting updated data to assist in meeting state mandates. Successful implementation of this plan should enable Olmsted County to meet the inspection requirements of Minn. Stat. §§ 273.08 and 273.18.

07-5 Public Purpose of Expenditures Relating to Waste to Energy Facility

Olmsted County expended approximately \$2,000 of public funds for an event to celebrate the County Board’s decision to go ahead with the third burner unit project at the Waste to Energy Facility. This event was not open to the general public. We were unable to determine the public purpose or legal authority for this expenditure.

We recommend the County follow the public purpose doctrine. The public purpose doctrine is based on the Minnesota State Constitution, Art. X § 1. Pursuant to the doctrine, public entities may spend public funds only “[i]f the purpose is a public one for which tax money may be used, and there is authority to make the expenditure, and the use is genuine.” *Tousley v. Leach*, 180 Minn. 293, 296; 230 N.W. 788, 789 (1920). Thus, for an expenditure of a public entity to be proper, the public entity must first have the authority to make the expenditure. Even if it has become common practice or custom for

Schedule 1
(Continued)

the public entity to expend public funds on certain times or events, this does not convert such expenditures into legal expenditures. *State ex rel Johnson v. Smith*, 84 Minn. 295, 299; 87 N.W. 775, 776 (1901). In addition to the appropriate authority, the expenditure must also be made for a public purpose. The definition of “public purpose” is not a precise definition, however, the courts have generally construed it to mean “such an activity as will serve as a benefit to the community as a body and which, at the same time, is directly related to the functions of government.” *Visina v. Freeman*, 252 Minn. 177, 184; 89 N.W. 2d 635 (1958). If the primary objective of the expenditure is to further a private end, then the expenditure is illegal even if it incidentally serves some public purpose. *City of Pipestone v. Madsen*, 178 N.W. 2d 594, 599 (Minn. 1970); *Burns v. Essling*, 194 N.W. 404, 405 (Minn. 1923).

Client’s Response:

This kick-off event for construction of additional capacity at the County’s Waste to Energy Facility was held, in large part, to try to prevent similar problems to those that happened during the construction of the original facility and with subsequent additions over the years. While, presented as a “celebration,” it was an attempt to avoid what happened at the conclusion of the construction of the original facility, namely, an expensive, time-consuming law suit by the County against the engineers and contractor. We have to learn from the past and we are working very hard to avoid a repeat of that expense. It is essential that we form a partnership with the private sector firms and their people so that the project is constructed on time, on cost, and meeting design specifications. Working to form a productive team is accomplished through many overlapping and parallel routes. This type of quasi-social event is one way to help build a productive team and accomplish the real goal of an efficient project. There is a very essential purpose to an event like this. Public Purpose doesn’t mean the public has to be invited; it has to mean it was worth spending public money on it. In this case, we attempted to save money in the future by getting the project off to a good start and ensuring that it will perform as specified. Deviations from design specs like we had with the most recent air pollution control upgrade can cost millions of dollars in the long run. We can’t afford to not learn from the past.

It was also significant to have a media event to try to get media coverage of what was planned, to explain the project, expose the contractors to the public, and explain that the original units had been successfully paid for with a public mortgage “recycling”. The event was held in public, during daylight hours, prudently catered as a picnic, and held in view of the plant. There was nothing extravagant about any of it. The kick-off event cost less than a full page ad in the paper, the only other way we can assure coverage by the local media.

The County Attorney reminds us that only the County Board can determine what has a public purpose for this local government. The entire Board attended this event, former Board members attended, the current Board approved the payment of the bills. We are working on an approximately \$90 million dollar facility. The cost of this kick-off event is absolutely minor in comparison and yet essential as part of trying to assure a successful project.

07-6 Undocumented Advance

The County Community Services made an advance of \$600,000 to a nonprofit agency-- Child Care Resource and Referral. The County was unable to provide the statutory authority to make the advance, and the County Board did not approve this advance.

We recommend the County not make advances to another agency unless they have statutory authority to do so. Also, any advances should be made by the County Board and not the individual departments.

Client's Response:

On May 13, 2008, the Board approved this advance to Child Care Resource and Referral for the purpose of maintaining cash flow to make timely provider payments for child care assistance services. The \$600,000 will be secured as a promissory note and will be repaid in 2008 when the DHS statewide computer system is in place to begin paying providers directly.

The request from Child Care Resource and Referral for this cash flow advance was reviewed and approved by the FSA Division Director in consultation with Olmsted County Community Services Finance. It was mistakenly not considered a loan for which Board approval is necessary.

07-7 Human Services Department - Destruction of Records

Receipts documentation supporting the Social Welfare Fund transactions was not available for inspection due to destruction of these records. According to Minn. Stat. § 15.17, “[a]ll officers and agencies of the state, counties, cities, towns, school districts, municipal subdivisions or corporations, or other public authorities or political entities within the state . . . shall make and preserve all records necessary to a full and accurate knowledge of their official activities.” Documents may be destroyed in accordance with

the County's record retention schedule or, if no schedule is adopted, in compliance with an application for authority to dispose of records approved by the Records Disposition Panel. See Minn. Stat. § 138.17. The County's current record retention policy is not clear in addressing the destruction of Social Welfare Fund records.

We recommend that the Human Services Department comply with Minn. Stat. §§ 15.17 and 138.17. In addition, we recommend that the County's record retention policy be updated to address the Social Welfare Fund records.

Client's Response:

Social Welfare procedures have been changed to reflect modifications that prevent a reoccurrence of this finding.

The destruction of the backup records for the batch receipting into the Social Welfare system were done in error by the employee cleaning out a file cabinet. The employee has been instructed to follow the County's record retention policy and to consult with a supervisor prior to destroying any records supporting receipting. A three-part receipt book has been purchased as an extra precaution so that the third part will stay in the book as documentation.

The issue about not having a copy of all bills for disbursements is being rectified. The supervisor has instructed staff to make a copy of the bill for the file when all that is available is the return to vendor portion of the bill.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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
Olmsted County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Olmsted County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 12, 2008. 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 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 07-1 and 07-2 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 the 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 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 items 07-3 through 07-6.

Olmsted County's written responses to the significant deficiencies and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses 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 Olmsted 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 12, 2008

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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
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, 2007. 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.

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, 2007.

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, 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 Olmsted 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 business-type activities, each major fund, and the aggregate remaining fund information of Olmsted County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 12, 2008. Our audit was performed for the purpose of forming opinions on Olmsted 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 and 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 12, 2008

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**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Supplemental Food Program for Women, Infants, and Children	10.557	18438004	\$ 558,087
WIC Farmers Market Nutrition Program (FMNP)	10.572	N/A	2,050
Passed Through Minnesota Department of Human Services Food Stamp Administration	10.561	N/A	25,300
Food Stamp Program Outreach/Participation Program	10.580	N/A	51,014
Total U.S. Department of Agriculture			\$ 636,451
U.S. Department of Housing and Urban Development			
Passed Through Three Rivers Community Action Program Supportive Housing Program	14.235	N/A	\$ 5,589
Direct Shelter + Care	14.238	N/A	103,568
Total U.S. Department of Housing and Urban Development			\$ 109,157
U.S. Department of Justice			
Passed Through Minnesota Department of Employment and Economic Development Juvenile Accountability Incentive Block Grant	16.523	N/A	\$ 15,496
Violence Against Women Formula Grant	16.588	N/A	10,702
Residential Substance Abuse Treatment for State Prisoners	16.593	N/A	2,490
Passed Through Minnesota Department of Corrections Crime Victim Assistance Grant, Sexual Assault	16.575	N/A	91,583
Edward Byrne Memorial Formula Grant Program	16.579	N/A	1,747
Direct State Criminal Alien Assistance Program	16.606	N/A	94,876
Total U.S. Department of Justice			\$ 216,894
U.S. Department of Labor			
Passed Through Minnesota Department of Labor and Industry Occupational Safety and Health State Program	17.503	N/A	\$ 2,130

**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	N/A	\$ 124,845
Passed Through Rochester Olmsted Council Federal Transit Technical Studies Grant	20.505	76995	423,756
Passed Through City of Rochester State and Community Highway Safety	20.600	N/A	11,348
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	N/A	5,957
Alcohol Traffic Safety and Drunk Driving	20.601	N/A	30,322
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	N/A	7,873
Total U.S. Department of Transportation			\$ 604,101
U.S. Environmental Protection Agency			
Passed Through Minnesota Department of Health State Indoor Radon Grants	66.032	8895400200	\$ 17,347
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants	66.460	N/A	2,938
Total U.S. Environmental Protection Agency			\$ 20,285
U.S. Election Assistance Commission			
Passed Through Minnesota Secretary of State Help America Vote Act	90.401	N/A	\$ 13,139
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health Tuberculosis Control	93.116	N/A	\$ 5,000
Immunization Grants	93.268	N/A	5,500
Centers for Disease Control and Prevention Investigations	93.283	N/A	282,750
Temporary Assistance for Needy Families (TANF) - Family Home Visiting	93.558	N/A	114,557
Refugee Health	93.576	N/A	7,998
Preventive Health and Health Services Block Grant	93.991	N/A	2,000
Maternal and Child Health Services Block Grant	93.994	772-3029	132,387
Passed Through National Association of County and City Health Officials Centers for Disease Control and Prevention Investigations	93.283	N/A	189,934

**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	N/A	217,155
TANF - Administrative	93.558	N/A	1,339,242
Low Income Home Energy Assistance (EAP)	93.568	OENM0147	206,323
Community Services Block Grant	93.569	00100111-12	170,094
Child Care and Development Block Grant	93.575	N/A	1,488,427
Community Based Child Abuse Prevention Grants	93.590	N/A	7,026
Child Care Mandatory and Matching Funds	93.596	N/A	2,746,989
Title IV-B Alternative Response	93.645	N/A	178,937
Foster Care Title IV-E	93.658	N/A	378,843
Social Services Block Grant Title XX	93.667	N/A	717,962
Support for Emancipation and Living Functionally (SELF) Grant	93.674	N/A	11,980
Block Grant for Community Mental Health Services	93.958	N/A	24,354
Chemical Dependency Block Grant	93.959	N/A	196,454
Total U.S. Department of Health and Human Services			\$ 8,423,912
U.S. Department of Homeland Security			
Direct			
Emergency Food and Shelter National Board Program	97.024	N/A	\$ 721
Passed Through Minnesota Department of Public Safety - Emergency Services			
President Declared Disaster Assistance	97.036	N/A	298,947
Emergency Management Performance Grant	97.042	2000-3139	30,958
Homeland Security Grant Program	97.067	N/A	385,935
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	N/A	12,483
Flood Plain Analysis Grant	97.045	N/A	89,993
Total U.S. Department of Homeland Security			\$ 819,037
Total Cash Awards			\$ 10,845,106
Non-Cash Awards			
U.S. Department of Housing and Urban Development			
Passed Through Minnesota Department of Employment and Economic Development			
Well Loan Agreement	14.228	N/A	122,225
Total Expenditures of Federal Awards			\$ 10,967,331

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**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

I. Reporting Entity

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.

II. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred.

The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

III. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$	10,450,210
State Administrative Matching grants for Food Stamp Program received more than 60 days after year-end		3,445
Federal Transit Technical Studies grant received more than 60 days after year-end		85,308
Temporary Assistance for Needy Families Administrative grant received more than 60 days after year-end		21,811
Foster Care Title IV-E, Master SW Training grant received more than 60 days after year-end		31
Chafee Foster Care Independence grant received more than 60 days after year-end		4,033
Prevention and Treatment of Substance Abuse grant received more than 60 days after year-end		33,774
Emergency Management Performance grant received more than 60 days after year-end		40,958
Child Care and Development grant received more than 60 days after year-end		409,466
Homeland Security Emergency Management grant received more than 60 days after year-end		353,215
Child Care and Development grant deferred in 2006 and recognized in 2007		(365,837)
Emergency Management Performance grant deferred in 2006 and recognized in 2007		(10,000)
Federal Transit Technical Studies grant deferred in 2006 and recognized in 2007		(166,308)
Food Borne Illness Systems Demonstration grant deferred in 2006 and recognized in 2007		(15,000)
Well Loan Agreement Non-Cash Awards		122,225
		122,225
Expenditures Per Schedule of Expenditures of Federal Awards	\$	10,967,331

**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

IV. Subrecipient of Olmsted County

During 2007, Olmsted County passed \$4,190,166 of \$4,190,166 (CFDA Nos. 93.575 and 93.596) money to Child Care Resource and Referral, a subrecipient of Human Services.

<u>Sub-Granted - Human Services</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Child Care Basic Sliding Fee	93.575 & 93.596	\$ 2,337,285
MFIP Child Care	93.575 & 93.596	<u>1,852,881</u>
Total		<u>\$ 4,190,166</u>