

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MANAGEMENT AND COMPLIANCE REPORT FOR

SCOTT COUNTY
SHAKOPEE, 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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**SCOTT COUNTY
SHAKOPEE, 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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**SCOTT COUNTY
SHAKOPEE, MINNESOTA**

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

04-1 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 publish financial statements or a summary in a form prescribed by the State Auditor 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 include only 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.

Starting in 2004, the annual financial statements 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 annual financial statements and vendor claims paid as discussed above.

Client's Response:

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 2004, 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 County changed its practice of what it published with its 2004 financial statements due to significant State funding cuts, pressure from citizens for a more efficient government and the availability of publishing on the internet. The County made available in full, the Comprehensive Annual Financial Report on the County's internet site. A summarized listing of payments of over \$5,000 to vendors was also included on the County's internet site. The County will modify the listing of payments on the internet to include all payments rather than just those over \$5,000 for 2005 activity. The change in practice to internet publication saved over \$11,000 and significant staff time.

Recent proposed legislation, which did not pass in the last session, eliminating newspaper publishing requirements did receive support from the Office of the State Auditor.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-5 Business Continuity Plan

The County does not have a formal business continuity plan if a disaster or major computer breakdown were to occur. A business continuity plan would give greater assurance that the County is prepared for either situation. A business continuity plan should include, but is not limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and all other County employees;
- a list of materials the County would need to continue operations and how they would be obtained;

- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

Since our previous audit, the County set up a computer at its Public Works site to run concurrently with its main computer so that operations would continue in case of a major computer breakdown.

We recommend the County develop and implement a business continuity plan. All County employees should be familiar with the plan. The plan should detail the steps to be taken to continue operations in the event of a disaster or major computer breakdown.

Client's Response:

A coordinated effort via a Business Continuity – Business Recovery Planning Committee has been formed to address this issue. The following activities are planned as part of this process:

Development of a Framework for Business Continuity Plan for Scott County

- *Completing a Risk Assessment, evaluating:*
 - *What are the risks (and to some extent their probability) inherent to the organization as a whole or to individual groups?*
 - *What is the probable impact of these risks?*
 - *What resources would be needed to continue service during an incident?*
 - *What time and resources would be needed to recover from an incident?*
- *Completing a GAP Analysis, evaluating where and identifying what needs to be done:*
 - *What, if any, proactive steps to avoid the risk(s) have the county taken – and what might be recommended?*
 - *What preparations have divisions/departments made to continue their operations during an incident (disruption) and what remains to be done?*
 - *What is the availability of the resources necessary to operate during and then recover from an incident (disruption)?*

Make a determination based upon the risk assessment and GAP Analysis of the continuation and recovery alternatives across all of our functional areas.

Develop and implement a continuation and recovery plan based upon the alternatives identified by the risk assessment and GAP analysis; and last to validate the plan that was developed and implemented.

PREVIOUSLY REPORTED ITEM RESOLVED

Wire Transfer Policy (01-1)

The County's wire transfer policy was outdated.

Resolution

The County Board approved a new wire transfer policy authorizing the Treasurer to use wire transfers and authorizing the Chief Financial Officer to approve procedures for executing wire transfers.

C. **OTHER ITEM FOR CONSIDERATION**

Governmental Accounting Standards Board

Governmental Accounting Standards Board (GASB) 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.

In anticipation of implementing GASB Statement 40, we recommend that the County address the issues noted above.

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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
Scott County

We have audited the financial statements of Scott County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 13, 2005. We did not audit the financial statements of the Scott County Housing and Redevelopment Authority, a discretely presented component unit of Scott 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 Scott 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. 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 Scott 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, Scott 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 04-1.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 13, 2005



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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Scott County

Compliance

We have audited the compliance of Scott 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 its major federal program for the year ended December 31, 2004. Scott County's major federal program is 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 its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Scott County's financial statements include the operations of the Scott County Housing and Redevelopment Authority (HRA), which received federal awards 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 Scott 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 Scott 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, Scott County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Scott 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 Scott County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 13, 2005. We did not audit the financial statements of the Scott County HRA, a discretely presented component unit. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Scott 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 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: July 13, 2005

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**SCOTT COUNTY
SHAKOPEE, 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 Housing and Urban Development		
Direct		
Shelter Plus Care Grant	14.238	\$ <u>89,483</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Employment and Economic Development		
Juvenile Accountability Incentive Block Grant	16.523	\$ 51,746
Direct		
COPS FAST	16.710	<u>3,911</u>
Total U.S. Department of Justice		\$ <u>55,657</u>
U.S. Department of Labor		
Passed Through Minnesota Department of Employment and Economic Development		
SCSEP	17.235	\$ 55,273
Passed Through Hennepin-Scott-Carver Service Delivery Area #9		
Workforce Investment Act - Adult	17.258	25,742
Workforce Investment Act - Youth	17.259	37,592
Workforce Investment Act - Dislocated Worker	17.260	<u>185,311</u>
Total U.S. Department of Labor		\$ <u>303,918</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 1,184,482
Formula Grants for Other than Urbanized Areas	20.509	98,893
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	2,546
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	<u>18,043</u>
Total U.S. Department of Transportation		\$ <u>1,303,964</u>

**SCOTT COUNTY
SHAKOPEE, MINNESOTA**

Schedule 2
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Disease Control	93.283	\$ 135,110
Promoting Safe and Stable Families	93.556	45,696
Temporary Assistance for Needy Families	93.558	288,799
Refugee and Entrant Assistance Grant	93.576	928
Child Care Mandatory and Matching Funds	93.596	57,811
Child Welfare Services - State Grants	93.645	563
Foster Care Title IV-E	93.658	59,391
Social Services Block Grant Title XX	93.667	504,335
Chafee Foster Care Independent Living	93.674	10,648
Passed Through Minnesota Department of Health Immunization Grants	93.268	8,400
Block Grants for Community Mental Health Services	93.958	4,964
Maternal and Child Health Services Block Grant	93.994	71,974
Total U.S. Department of Health and Human Services		\$ 1,188,619
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 79,724
Emergency Management Performance Grants	97.042	42,531
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	9,237
Total U.S. Department of Homeland Security		\$ 131,492
Total Federal Awards		\$ 3,073,133

**SCOTT COUNTY
SHAKOPEE, MINNESOTA**

Schedule 2
(Continued)

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

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 Scott County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues as reported in the financial statements do not equal expenditures because of timing differences.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.