

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

CARVER COUNTY
CHASKA, MINNESOTA

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.

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**CARVER COUNTY
CHASKA, MINNESOTA**

Year Ended December 31, 2007



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, 2007**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Carver County.
- B. 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:
 - Workforce Investment Act (WIA) Cluster
 - WIA Adult CFDA #17.258
 - WIA Youth CFDA #17.259
 - WIA Dislocated Worker CFDA #17.260
 - Social Services Block Grant 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

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-2 License Center Operations

Our review of the operations at the County's License Center a year ago disclosed several significant deficiencies in internal control. Physical controls at the collection/receipting area were absent so that staff and public had access to unlocked collection drawers. Collections at the License Center due to the County were 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.

Physical controls are now in place, and when the License Center operations move to its new location, physical controls will also be in place. Bank reconciliations are now being completed properly and are reviewed and dated by a supervisor. Collections, however, are still not being submitted to the County's Finance Department in a timely manner.

We recommend that the County continue to review internal controls at the License Center and make efforts to submit its collections to the County Finance Department in a timely manner.

Client's Response:

We will be training additional staff to aid in the reporting process. This will aid us in the revenue submittal by the 20th of each month.

ITEMS ARISING THIS YEAR

07-1 Prior Period Adjustment

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 of the financial statements on a timely basis. One indication of a control deficiency that typically is considered significant is restatement of previously issued financial statements to reflect the corrections of a misstatement. The January 1, 2007, net assets were restated to reflect previously unrecognized revenue.

We recommend that the County review its records subsequent to year-end to make sure it has reported all possible adjustments.

Client's Response:

We acknowledge the adjustment, however, we would like to clarify that this adjustment did not affect our fund financial statements (modified accrual). The adjustment occurred in our government-wide statements (GASB 34 full accrual), which has no impact on the current amount available for spending. The County will comply with the auditor's request of reviewing its records subsequent to year-end to make sure it has reported all possible adjustments and take the necessary precautions to ensure that these adjustments do not occur in the future.

07-2 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items); and
- expenditure/expense processing.

We recommend that County management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

We plan on implementing the Auditor's recommendation in 2008. We feel we have established the necessary internal controls and segregation of duties to minimize our risks, but agree that documenting in a formal plan and continuing to monitor our internal control structure is necessary as we continue to grow. The County's Finance Department plans to develop an internal audit function to document, improve and randomly test the County's internal controls.

PREVIOUSLY REPORTED ITEM RESOLVED

Cash and Investment Reconciliation (06-1)

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

Resolution

The cash and investment reconciliation is now being made to the general ledger.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



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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, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 23, 2008. 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 06-2, 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 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 do not believe any 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 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 Carver 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

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STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 23, 2008

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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, 2007. 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 \$3,476,353 in federal awards during the year ended December 31, 2007, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the 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, 2007.

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, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 23, 2008. 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 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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

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DEPUTY STATE AUDITOR

June 23, 2008

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**CARVER COUNTY
CHASKA, MINNESOTA**

Schedule 2

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administration Matching Grants for Food Stamp Program	10.561	\$ <u>8,125</u>
U.S. Department of Justice		
Direct		
Bulletproof Vest Partnership Program	16.607	\$ 7,101
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Block Grant	16.523	11,833
Violence Against Women Formula Grant	16.588	<u>10,000</u>
Total U.S. Department of Justice		\$ <u>28,934</u>
U.S. Department of Labor		
Passed Through Minnesota Department of Employment and Economic Development Senior Community Service Employment Program	17.235	\$ 93,560
Passed Through Hennepin County		
Workforce Investment Cluster		
Workforce Investment Act - Adult	17.258	1,983
Workforce Investment Act - Youth	17.259	13,175
Workforce Investment Act - Dislocated Worker	17.260	<u>130,896</u>
Total U.S. Department of Labor		\$ <u>239,614</u>
U.S. Department of Transportation		
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	<u>4,370</u>
Total U.S. Department of Transportation		\$ <u>92,470</u>

**CARVER COUNTY
CHASKA, MINNESOTA**

Schedule 2
(Continued)

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

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 Health		
Immunization Grants	93.268	\$ 9,880
Center for Disease Control and Prevention	93.283	133,205
Maternal and Child Health Service Block Grant	93.994	49,781
Passed Through Minnesota Department of Human Services		
Temporary Assistance to Needy Families (TANF)	93.558	286,861
Child Care Mandatory and Matching Funds	93.596	15,376
Adoption Incentive Payments	93.603	390
Foster Care Title IV-E	93.658	176,411
Social Services Block Grant Title XX	93.667	314,057
Independent Living	93.674	4,579
Block Grants for Community Mental Health Services	93.958	15,567
Total U.S. Department of Health and Human Services		\$ 1,006,107
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 27,352
Passed Through Minnesota Department of Public Safety		
Cooperating Technical Partners	97.045	166,528
Homeland Security Grant Program	97.067	33,407
Passed Through Hennepin County		
Disaster Assistance Projects	97.088	11,215
Total U.S. Department of Homeland Security		\$ 238,502
Total Federal Awards		\$ 1,613,752

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 2007, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.