

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MANAGEMENT AND
COMPLIANCE REPORT OF

RICE COUNTY
FARIBAULT, MINNESOTA

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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**RICE COUNTY
FARIBAULT, MINNESOTA**

Year Ended December 31, 2004



Management and Compliance Report

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

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**RICE COUNTY
FARIBAULT, MINNESOTA**

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**RICE COUNTY
FARIBAULT, MINNESOTA**

Schedule 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Rice County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Rice County and is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Rice 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 Rice County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|--|--------------|
| Highway Planning and Construction | CFDA #20.205 |
| Temporary Assistance for Needy Families (TANF) | CFDA #93.558 |
| Social Services Block Grant (Title XX) | CFDA #93.667 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Rice 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

96-6 Departmental Segregation of Duties

Due to the limited number of office personnel within several Rice County offices, segregation of the accounting functions necessary to ensure adequate internal control is not possible. Offices which do not have sufficient segregation of duties include Courts, Recorder, Planning, Sheriff, Health, Highway, Social Services, Solid Waste, and Extension. In these offices, there may be only one employee to receive and account for departmental collections. This is not unusual in operations the size of Rice County; however, the County's management should constantly be aware of this condition and realize the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Examples of incompatible duties which should be performed by separate individuals are:

- receipting collections, posting collections to registers, and making bank deposits;
- signing checks and reconciling the bank accounts;
- receipting collections and posting collections to the accounts receivable records;
- approving receivable write-offs/write-downs and posting adjustments to the accounts receivable records; and
- entering data, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

Some procedures the County's management should implement to strengthen control in these offices are:

- Departmental collections should be remitted to the County Auditor/Treasurer more frequently than once each month, perhaps weekly or even daily, to reduce the amount of funds on hand.

- Department heads should monitor operations within their offices to determine that reports are submitted properly and are in agreement with cash balances and grant expenditures.
- When an office has only a department head and one other employee, the department head should perform some of the accounting functions.

We recommend that the County's management be aware of the lack of segregation of duties within the accounting functions and implement oversight procedures to ensure adequate controls are in place over cash, receivables, and other items.

Client's Response:

As recommended, the County will periodically examine controls over its cash, receivables, and other items, and will implement oversight procedures where cost effective.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 Individual Ditch Fund Cash and Fund Balance Deficit

Minn. Stat. § 103E.655, subd. 2, allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures. Under Minn. Stat. § 103E.655, the loan must be paid back with interest. The County has 30 individual ditch systems. The following is a summary of the deficit balances as of December 31:

Schedule 1
(Continued)

<u>Year</u>	<u>Deficit Cash Balance</u>	<u>Deficit Fund Balance</u>
1997	9 ditches totaling \$19,331	11 ditches totaling \$24,876
1998	12 ditches totaling \$59,867	14 ditches totaling \$71,563
1999	7 ditches totaling \$17,607	9 ditches totaling \$18,757
2000	8 ditches totaling \$3,734	9 ditches totaling \$5,456
2001	10 ditches totaling \$38,766	11 ditches totaling \$62,051
2002	12 ditches totaling \$74,519	12 ditches totaling \$97,617
2003	11 ditches totaling \$46,950	14 ditches totaling \$57,113
2004	None	8 ditches totaling \$87,071

We recommend the County eliminate the individual fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of the ditch system.

Client's Response:

In 2004, the County has made strides in correcting past findings by advancing cash from its General Fund to the Ditch Fund in order to cover all deficit cash balances. The County also plans on levying special assessments in future years to cover deficit fund balances as recommended.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-2 Disaster Recovery Plan

The County does not currently have a disaster recovery plan that has been tested and approved by the County Board of Commissioners.

We recommend that the County establish a disaster recovery plan to be approved by the County Board of Commissioners and establish guidelines for maintaining and testing an up-to-date plan.

Client's Response:

With the transition of MIS staff, Rice County has had some difficulty in addressing this issue. The County has currently hired the services of a firm to do a County-wide information systems security audit. The County expects to utilize some of the resources and information gathered here to assist us in the development of our disaster recovery plan. We will work diligently to prioritize the resolution of this comment for the next year.

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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
Rice County

We have audited the financial statements of Rice County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rice 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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-6.

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. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rice 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, Rice 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 97-1.

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
Rice County

Compliance

We have audited the compliance of Rice County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. Rice 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 Rice 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, Rice County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Rice 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 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 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 Rice County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 13, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Rice 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

**RICE COUNTY
FARIBAULT, 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 Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	\$ 140,820
Passed Through Minnesota Department of Human Services State Administrative Matching Grant for Food Stamp Program	10.561	<u>9,932</u>
Total Department of Agriculture		<u>\$ 150,752</u>
U.S. Department of Housing and Urban Development		
Direct Section 8 Housing Choice Vouchers	14.871	<u>\$ 1,578,086</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 81,649
Juvenile Justice and Delinquency Prevention	16.540	44,861
Title V Delinquency Prevention Program	16.548	1,094
Crime Victim Assistance	16.575	<u>20,682</u>
Total Department of Justice		<u>\$ 148,286</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 260,220
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	<u>37,260</u>
Total Department of Transportation		<u>\$ 297,480</u>
Environmental Protection Agency		
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	\$ 5,745
Passed Through Minnesota Board of Soil and Water Resources Nonpoint Source Implementation	66.460	<u>9,420</u>
Total Environmental Protection Agency		<u>\$ 15,165</u>

**RICE COUNTY
FARIBAULT, 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 Education		
Passed Through Minnesota Department of Natural Resources Adult Education - State Grant Program	84.002	\$ 5,000
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Immunization Grant	93.268	\$ 1,800
Center for Disease Control and Prevention	93.283	82,128
Temporary Assistance for Needy Families (TANF Home Visit)	93.558	32,640
Maternal and Child Health Services Block Grant	93.994	59,830
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	6,818
Temporary Assistance for Needy Families (TANF)	93.558	396,274
Child Care Development Block Grant	93.575	14,150
Child Care Mandatory and Matching Funds	93.596	10,051
Child Welfare Services - State Grant	93.645	91
Foster Care - Title IV-E	93.658	39,813
Social Services Block Grant - Title XX	93.667	355,026
Chafee Foster Care Independent Living	93.674	19,085
Community Mental Health Services Block Grant	93.958	<u>10,633</u>
Total Department of Health and Human Services		\$ <u>1,028,339</u>

**RICE COUNTY
FARIBAULT, 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 Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support	97.004	\$ 75,445
Emergency Management Performance Grant	97.042	25,552
State and Local Emergency Operations Planning Grant	97.051	<u>4,350</u>
Total Department of Homeland Security		<u>\$ 105,347</u>
Total Federal Awards		<u>\$ 3,328,455</u>

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 Rice 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. In some instances, expenditures shown are greater than reported revenues because the reimbursement revenue was not available.
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.