

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

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

BLUE EARTH COUNTY
MANKATO, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

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.

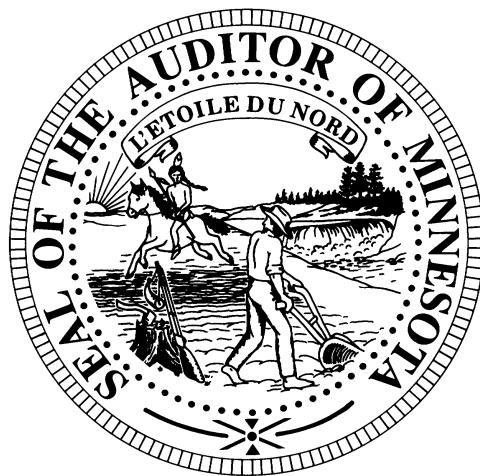
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Year Ended December 31, 2005



Management and Compliance Report

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

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**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

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**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Schedule 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Blue Earth County.
- B. No matters involving internal control over financial reporting were 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*."
- C. No instances of noncompliance material to the financial statements of Blue Earth 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 Blue Earth 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:

Community Development Block Grant	CFDA #14.228
Temporary Assistance for Needy Families	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. Blue Earth 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 RESOLVED

Segregation of Duties (01-2)

Due to the limited number of office personnel within a Blue Earth County department, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible.

Resolution

The County has made adjustments and segregated duties more fully.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Written Collateral Assignments (02-1)

The County signed a pledge agreement with Wells Fargo Bank Minnesota, NA that requires that the County give written notice in the event of default and allow at least three business days after such notice to cure the default. This language does not meet the requirement of Minn. Stat. § 118A.03, subd. 4.

Resolution

The County reduced their balance at Wells Fargo Bank Minnesota, NA so that FDIC coverage is sufficient.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-8 Ditch Deficit Fund Balances

As of December 31, 2005, 7 of the 136 individual ditch systems had deficit fund balances totaling \$452,390.

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

Client's Response:

The County concurs with the findings as presented in the draft Management and Compliance Report.

ITEM ARISING THIS YEAR

05-1 Investment Policy

The County adopted an investment policy in February 1995. The purpose of the policy is to guide the Director of Finance in making investment decisions for the County.

Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* requires the County to disclose its policies on each of several investment risks, if applicable to the County. The risks include credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The County's policy does not address all of these risks.

The County's policy states that in order "to avoid incurring unreasonable risks or losses inherent in overinvesting in specific instruments, individual financial institutions or maturities . . . investment maturities for operating funds shall be scheduled to coincide with cash flow needs" and includes a schedule limiting investment maturities. The County's investments do not fall within these guidelines.

We recommend that the County update its investment policy to include all of the factors discussed in GASB Statement 40; we also recommend the County comply with the provisions of its investment policy.

Client's Response:

The County concurs with the findings as presented in the draft Management and Compliance Report.

PREVIOUSLY REPORTED ITEM RESOLVED

Travel Claims (02-2)

Our review of travel claims disclosed instances of noncompliance with the County's Purchasing and Expense Guideline.

Resolution

The County amended the travel policy and our testing of travel claims disclosed no instances of noncompliance.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The GASB recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, like what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Blue Earth County, GASB Statements 43 and 45 would be implemented for years ended December 31, 2007 and 2008, respectively.

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PATRICIA ANDERSON
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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
Blue Earth 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 Blue Earth County as of and for the year ended December 31, 2005, and have issued our report thereon dated May 12, 2006. 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. We did not audit the Economic Development Authority Enterprise Fund, which was audited by other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Blue Earth 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 Blue Earth 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, Blue Earth County complied with the material terms and conditions of applicable legal provisions.

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: May 12, 2006



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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
Blue Earth County

Compliance

We have audited the compliance of Blue Earth 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, 2005. Blue Earth 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.

Blue Earth County's financial statements include the operations of the Blue Earth County Economic Development Authority (EDA) component unit, which expended \$539,761 in federal awards during the year ended June 30, 2005, which are not included in the schedule of expenditures of federal awards. Our audit, described below, did not include the operations of the EDA because it had a separate single audit in accordance with OMB Circular A-133.

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 Blue Earth 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, Blue Earth 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, 2005.

Internal Control Over Compliance

The management of Blue Earth 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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Blue Earth County as of and for the year ended December 31, 2005, and have issued our report thereon dated May 12, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Blue Earth County's basic financial statements. We did not audit the Economic Development Authority Enterprise Fund, which was audited by other auditors. 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: May 12, 2006

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**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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	\$ 157,731
Passed Through Minnesota Department of Human Services State Administrative Matching Grant for Food Stamp Program	10.561	13,916
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program	10.572	<u>1,200</u>
Total U.S. Department of Agriculture		\$ 172,847
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grant	14.228	\$ 433,696
Lead Hazard Reduction Demo Grant Program	14.905	<u>1,425</u>
Total U.S. Department of Housing and Urban Development		\$ 435,121
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 23,635
Crime Victim Assistance	16.575	40,872
Bryne Formula Grant Program	16.579	<u>74,284</u>
Total U.S. Department of Justice		\$ 138,791
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 166,044
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	29,088
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	<u>2,243</u>
Total U.S. Department of Transportation		\$ 197,375

**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health		
Immunization Grants	93.268	\$ 23,400
Center for Disease Control and Prevention	93.283	69,453
Temporary Assistance for Needy Families (TANF Home Visits)	93.558	51,784
Maternal and Child Health Services Block Grant	93.994	64,976
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	17,369
Temporary Assistance for Needy Families	93.558	613,142
Child Care Development Block Grant	93.575	675,170
Child Care Mandatory and Matching Funds	93.596	566,638
Child Welfare Services	93.645	20,771
Foster Care Title IV-E	93.658	203,177
Social Services Block Grant	93.667	397,765
Independent Living	93.674	16,763
Community Mental Health Services Block Grant	93.958	11,950
Total U.S. Department of Health and Human Services		\$ 2,732,358
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Homeland Security Grant Program	97.004	\$ 42,143
Homeland Security Grant Program (Emergency Response)	97.067	21,431
Total U.S. Department of Homeland Security		\$ 63,574
Total Federal Awards		\$ 3,740,066

**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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 Blue Earth County, not including the Blue Earth County Economic Development Authority component unit. 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.
3. During 2005, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.
5. Federal grant revenues per Schedule of Intergovernmental Revenues \$3,740,066.