

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT FOR

SCOTT COUNTY
SHAKOPEE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

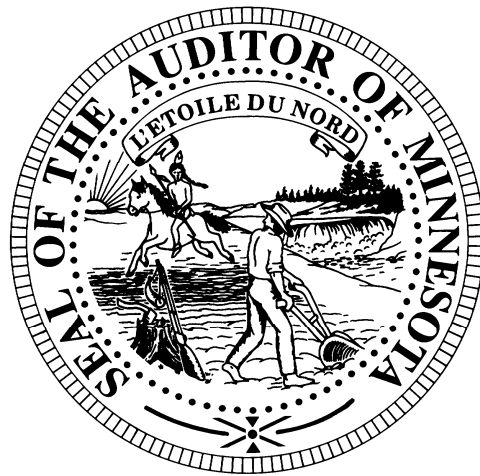
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**SCOTT COUNTY
SHAKOPEE, MINNESOTA**

For the Year Ended December 31, 2007



Management and Compliance Report

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

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**SCOTT COUNTY
SHAKOPEE, MINNESOTA**

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**SCOTT COUNTY
SHAKOPEE, 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 an unqualified opinion on the basic financial statements of Scott County.
- B. Significant deficiencies in internal control were disclosed by the audit of the financial statements 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 Scott 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 Scott 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
Workforce Investment Act (WIA) Cluster	
WIA Adult Program	CFDA #17.258
WIA Youth Activities	CFDA #17.259
WIA Dislocated Workers	CFDA #17.260
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Scott 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

06-1 Cash at Sheriff's Office

The Scott County Sheriff's Office has been unable to successfully identify the total cash balance as stated on ALCATRAZ, its inmate account tracking system. ALCATRAZ is accounting software purchased from T. W. Vending. Since the total amount of cash cannot be identified, the Sheriff's Office is not able to reconcile the amount in the checking account to the bank statement.

Without bank reconciliations, the County has no assurance that the book balance is accurately stated. Bank reconciliations would provide evidence that all funds received and disbursed have been correctly processed through the bank account.

We recommend that the Sheriff's Office contact the vendor to get the support or training necessary to identify the ALCATRAZ cash balance in order to reconcile the checking account to the bank statement.

Client's Response:

The Scott County Jail hired a new employee with experience reconciling systems and this new employee was able to perform monthly reconciliations of T.W. Vending information. However, in May of 2008, T.W. Vending made software upgrades to their system and reconciling has become an issue again. Scott County continues to work with T.W. Vending to correct the problems that were caused from the latest upgrade but at this point, the issue has not been resolved.

The contract with T.W. Vending expires in August of 2008 and currently Scott County is going through the process of selecting a vendor to provide inmate vending services. Selection of a vendor is scheduled to occur on August 1 and the ease of reconciliation has been placed as a high priority in the selection process.

ITEMS ARISING THIS YEAR

07-1 Payroll Processing

The employee who processes the payroll has the ability to make changes to salaries prior to processing the payroll and then reverse those changes after the payroll has been processed. Legitimate changes to the payroll are documented and approved each payroll period, but changes are not reviewed after the changes have been added to the payroll system.

There is a log within the payroll system that has a listing of all changes to each employee's payroll profile. The log shows who made the change and the date of the change. All changes showing on the payroll log should have backup documentation. The log cannot be edited.

We recommend that, after each payroll is processed, the payroll log be reviewed to determine that all changes to the payroll have been approved and are accurately input.

Client's Response:

Scott County is in the process of implementing a new general ledger and payroll system. As part of this implementation our payroll process is being reviewed for internal control issues and will be structured in a way to provide the internal controls needed in the future. Part of the controls will include a report of all changes made to payroll records that will be reviewed.

The short-term solution for 2008 is running parallel information in the current system and in the new system. Employee A will enter payroll changes in the current system, employee B will enter information in the new system and employee C will review information from both the current system and the new system.

07-2 Documenting and Monitoring Internal Control

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

Schedule 1
(Continued)

systems, or changes to services being provided. We understand the County is in the process of implementing a new general ledger system and a new payroll system. These new systems will require new risk assessment and formal control procedures including documentation of steps for monitoring the controls.

In addition to the new systems, 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:

Internal controls are one of the factors in the process of setting up and implementing the new general ledger and payroll system. In 2008, the County is planning on monitoring and documenting the controls in relation to our existing system.

In late 2008 and throughout 2009, the County will perform risk assessment and formal control procedures including documentation of steps for monitoring the controls. The steps the County will perform include: (1) Prioritize the vulnerability of the internal controls. (2) Initiate the process of testing controls by documenting how transactions and events are supposed to be handled in the particular department, activity or control cycle selected for evaluation. (3) Identify all of the related control policies and procedures designed to compensate for potential risks implicit in financial reporting. (4) Study the design of each compensating control to evaluate whether the control would be effective if operating as designed. If the compensating control is properly designed, the next step (5) would be to test to see if the control has actually been implemented and remains operational. (6) Evaluate the results of the testing.

PREVIOUSLY REPORTED ITEM RESOLVED

Prior Period Adjustment (06-2)

The County reported a prior period adjustment on its 2006 financial report because certain receivables were not recorded on its 2005 financial report.

Resolution

The County has taken care to review its records subsequent to year-end to make sure it has recorded all possible adjustments.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-5 Business Continuity Plan

The County does not have a complete business continuity plan that would direct its response 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. The County has established a Business Continuity Planning Committee, which has been assessing risks and prioritizing the computer applications that are most critical. It will be developing a business continuity plan.

We recommend the County continue in its efforts to develop and implement a business continuity plan.

Client's Response:

The County has a completed draft of a Business Continuity Plan that would direct its response in resuming time-sensitive services and processes, technology, and support functions in a timely and organized manner so that Scott County continues as a viable and stable government entity after a business disruption. The business disruption is considered to be any event that would render any one of the business unit locations unusable or inaccessible for up to 72 hours. The Plan was developed based on a 72-hour scenario with loss of electric power and computers. The Business Continuity Planning Committee will coordinate desktop and operational exercises to test and practice the plan.



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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
Scott 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 Scott County as of and for the year ended December 31, 2007, and have issued our report thereon dated June 13, 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 Scott County Community Development Agency, as described in our report on Scott 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 Scott 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 06-1, 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 Scott County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

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.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation and information to be of benefit to Scott County, and it is reported for that purpose.

Scott County's written responses to the significant deficiencies and management practices finding 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 Scott County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 13, 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
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 each of its major federal programs for the year ended December 31, 2007. Scott 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.

Scott County's financial statements include the operations of the Scott County Community Development Agency (CDA) component unit, which expended \$3,100,525 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 Scott County CDA 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 each of its major federal programs for the year ended December 31, 2007.

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, 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 Scott 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 Scott 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 13, 2008. We did not audit the financial statements of the Scott County CDA, 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

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 13, 2008

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**SCOTT COUNTY
SHAKOPEE, 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	Passed Through to Subrecipients
U.S. Department of Housing and Urban Development			
Direct			
Shelter Plus Care Grant	14.238	\$ 78,265	\$ -
CDBG/Brownsfield Economic Development Initiative	14.246	<u>66,515</u>	<u>66,515</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 144,780</u>	<u>\$ 66,515</u>
U.S. Department of Justice			
Direct			
COPS FAST	16.710	<u>\$ 1,598</u>	<u>\$ -</u>
U.S. Department of Labor			
Passed Through Minnesota Department of Economic Security			
SCSEP	17.235	\$ 52,632	\$ -
Passed Through Dakota-Scott Service Delivery Area #14			
Workforce Investment Act - Adult	17.258	127,349	-
Workforce Investment Act - Youth	17.259	136,872	-
Workforce Investment Act - Dislocated Worker	17.260	<u>171,456</u>	<u>-</u>
Total U.S. Department of Labor		<u>\$ 488,309</u>	<u>\$ -</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	\$ 4,523,553	\$ -
Formula Grants for Other Than Urbanized Areas	20.509	98,700	-
Passed Through Minnesota Department of Public Safety			
State and Community Highway Safety	20.600	2,928	-
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	<u>37,673</u>	<u>-</u>
Total U.S. Department of Transportation		<u>\$ 4,662,854</u>	<u>\$ -</u>
U.S. Elections Assistance Commission			
Passed Through Minnesota Office of Secretary of State			
Help America Vote Act Requirements Payments	90.401	<u>\$ 13,515</u>	<u>\$ -</u>
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	\$ 224,417	\$ -
Temporary Assistance for Needy Families (TANF)	93.558	398,991	-
Child Care Mandatory and Matching Funds	93.596	81,439	-
Child Welfare Services - State Grants	93.645	25,390	-
Foster Care Title IV-E	93.658	94,850	-
Social Services Block Grant Title XX	93.667	407,755	-
Chafee Foster Care Independent Living	93.674	2,842	-
Block Grants for Community Mental Health Services	93.958	48,148	-

**SCOTT COUNTY
SHAKOPEE, 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	Passed Through to Subrecipients
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Health			
Immunization Grants	93.268	70,409	-
Disease Control	93.283	167,289	-
Maternal and Child Health Services Block Grant	93.994	<u>66,933</u>	<u>-</u>
Total U.S. Department of Health and Human Services		<u>\$ 1,588,463</u>	<u>\$ -</u>
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Hazard Mitigation Grant	97.039	\$ 3,789	\$ -
Emergency Management Performance Grants	97.042	35,502	-
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	<u>49,359</u>	<u>-</u>
Total U.S. Department of Homeland Security		<u>\$ 88,650</u>	<u>\$ -</u>
Total Federal Awards		<u>\$ 6,988,169</u>	<u>\$ 66,515</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 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.
3. Pass-through grant numbers were not assigned by the pass-through agencies.