

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MANAGEMENT AND
COMPLIANCE REPORT OF

RICE COUNTY
FARIBAUT, 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.

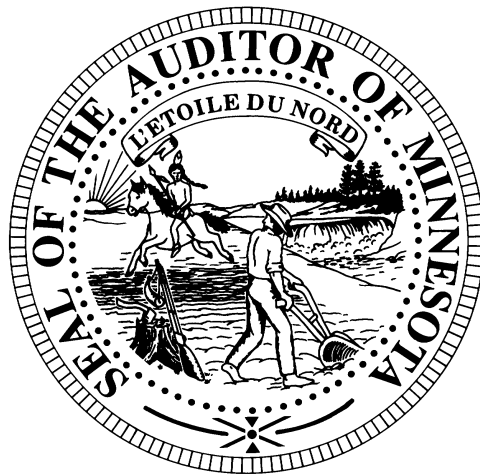
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**RICE COUNTY
FARIBAULT, 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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**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, 2005**

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 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*." 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 program 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 program 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 program is:
 - Highway Planning and Construction
 - CFDA #20.205
- 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 that do not have sufficient segregation of duties include 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:

We have discussed the internal control weaknesses identified in the audit with the corresponding departments. We will make a concerted effort to correct these deficiencies in the future.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

05-1 Electronic or Wire Transfers Policy

Minn. Stat. § 471.381, subd. 3, allows for the payment of claims and obligations by electronic or wire funds transfer. Electronic approval of such payments is allowed, which has the same validity and consequences as an actual signature. "Electronic approval" means an electronic identifier intended by the person making, executing, or adopting it to authenticate and validate an administrative action. The County has not established policies and procedures to ensure the validity of electronic approvals, as the law requires.

We recommend the County establish policies and procedures to ensure the validity of electronic approvals as required by statute.

Client's Response:

We will implement your recommendation.

05-2

Collateral Assignment

The County Auditor/Treasurer was not able to demonstrate that the County had a perfected security interest in pledged collateral from January 26 to June 14, 2006.

In a Federal Court decision, the Court ruled that if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable. Minn. Stat. § 118A.03 requires that, to the extent that deposited funds exceed available federal deposit insurance, the County must obtain an assignment of pledged collateral in an amount equal to 110 percent of the amount on deposit plus accrued interest.

The County is not complying with this requirement unless it obtains an enforceable assignment of pledged collateral. To obtain an enforceable assignment, federal law requires the County to obtain a written assignment of collateral that is approved by the depository bank's board of directors or loan committee and is a continuous official record of the bank.

The bank provided a new resolution in 2006 and it appears that a resolution approving an assignment of collateral may have been in effect since 2004. The County was unable to provide a copy of the 2004 assignment and the copy provided by the bank has no effective date and the signature was undated. We recommend that the County obtain and keep on file collateral assignments with the bank resolutions approving those collateral assignments. Both documents should indicate the time period they are in effect or at the least the date they became effective.

Client's Response:

As of June 2006, Rice County did demonstrate a perfected security interest in collateral for all applicable securities.

We will continue to monitor collateral agreements and written assignments to ensure protection of County assets.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

97-1 Individual Ditch 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 31 individual ditch systems. The following is a summary of the deficit balances as of December 31:

<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
2005	None	9 ditches totaling \$112,086

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:

We will levy special assessments against benefited landowners this fall to remedy these ditch fund balance deficits.

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:

Rice County departments have put significant efforts into establishing a disaster recovery plan. This plan should be completed this fall. When completed, this plan will be approved by the County Board.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (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.

Schedule 1
(Continued)

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 Rice County, GASB Statements 43 and 45 would be implemented for years ended December 31, 2007 and 2008, respectively.

Client's Response:

We have hired Deloitte to assist us with GASB Statements 43 and 45 implementation and will incorporate their analysis in future reports.

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PATRICIA ANDERSON
STATE AUDITOR

**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
Rice County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Rice County as of and for the year ended December 31, 2005, and have issued our report thereon dated June 21, 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.

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 items 05-1 and 05-2.

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: June 21, 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
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 its major federal program for the year ended December 31, 2005. Rice County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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 its major federal program for the year ended December 31, 2005.

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 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 Rice County as of and for the year ended December 31, 2005, and have issued our report thereon dated June 21, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the 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 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: June 21, 2006

**RICE COUNTY
FARIBAULT, 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	\$ 165,960
Passed Through Minnesota Department of Human Services State Administrative Matching Grant for Food Stamp Program	10.561	10,538
Total U.S. Department of Agriculture		\$ 176,498
U.S. Department of Housing and Urban Development		
Direct Section 8 Housing Choice Vouchers	14.871	\$ 1,556,468
U.S. Department of Interior		
Passed Through Minnesota Department of Natural Resources State Wildlife Grant	15.634	\$ 11,823
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 50,037
Juvenile Justice and Delinquency Prevention	16.540	17,961
Title V Delinquency Prevention Program	16.548	18,988
Crime Victim Assistance	16.575	43,889
Direct Public Safety Partnership and Community Policing Grants	16.710	2,029
Edward Byrne Memorial Justice Assistance Grant	16.738	845
Total U.S. Department of Justice		\$ 133,749
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,260,578
Passed Through Minnesota Department of Natural Resources Recreational Trails Program	20.219	11,019
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	7,234
Alcohol Traffic Safety and Drunk Driving Prevention Incentive	20.601	4,735
Total U.S. Department of Transportation		\$ 1,283,566

**RICE COUNTY
FARIBAULT, MINNESOTA**

Schedule 2
(Continued)

**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. Environmental Protection Agency		
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	\$ <u>9,290</u>
U.S. Department of Education		
Passed Through Minnesota Department of Natural Resources Adult Education - State Grant Program	84.002	\$ <u>10,140</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 12,794
Temporary Assistance For Needy Families (TANF)	93.558	364,852
Child Care Development Block Grant	93.575	14,682
Child Care Mandatory and Matching Funds	93.596	15,802
Children's Justice Grant	93.643	3,314
Child Welfare Services - State Grants	93.645	6,592
Foster Care Title IV-E	93.658	102,303
Social Service Block Grant Title XX	93.667	323,608
Chafee Foster Care Independent Living	93.674	61,593
Community Mental Health Services Block Grant	93.958	19,300
Passed Through Minnesota Department of Health Center for Disease Control and Prevention	93.283	47,358
Temporary Assistance For Needy Families (TANF)	93.558	32,638
Maternal and Child Health Services Block Grant	93.994	<u>59,848</u>
Total U.S. Department of Health and Human Services		\$ <u>1,064,684</u>

**RICE COUNTY
FARIBAULT, MINNESOTA**

Schedule 2
(Continued)

**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 Homeland Security		
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.004	\$ 24,517
Homeland Security Grant Program - Emergency Response	97.067	20,336
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	4,729
Total U.S. Department of Homeland Security		\$ 49,582
Total Federal Awards		\$ 4,295,800

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 or less than reported revenues because the reimbursement revenue was not available in the same period.
3. During the year, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.