

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

BLUE EARTH COUNTY
MANKATO, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

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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**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Year Ended December 31, 2009



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, 2009**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Blue Earth County.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of Blue Earth 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 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:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster	
State Administrative Matching Grants for SNAP	CFDA #10.561
State Administrative Matching Grants for SNAP - ARRA	CFDA #10.561
Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA #20.205
Highway Planning and Construction - ARRA	CFDA #20.205

Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563
Foster Care Title IV-E Cluster	
Foster Care Title IV-E	CFDA #93.658
Foster Care Title IV-E - ARRA	CFDA #93.658

- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Blue Earth County was not 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

07-1 Audit Adjustments

A deficiency in internal control over financial reporting 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 and correct misstatements of the financial statements on a timely basis. During our audit, we proposed the following adjustments that resulted in significant changes to the County's financial statements:

- \$1,427,070 adjustment to increase the fund balance portion reserved for debt service in the General Fund and
- \$3,247,789 adjustment to decrease the fund balance reserved for public works in the Public Works Special Revenue Fund.

The inability to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

We concur with the finding.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

97-8 Ditch Deficit Fund Balances

As of December 31, 2009, 16 of the 137 individual ditch systems had deficit fund balances totaling \$375,720.

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:

We concur with the finding.

07-2 Public Works Deficit Fund Balance

As of December 31, 2009, the Public Works Special Revenue Fund had a deficit fund balance of \$1,175,932. A fund with a deficit fund balance is, in effect, borrowing from the funds with positive fund balances.

We recommend that the County monitor fund balances and eliminate the deficit fund balances by increasing revenues or appropriating sufficient funds to cover expenditures.

Client's Response:

We concur with the finding.

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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, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 4, 2010. 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 Economic Development Authority Enterprise Fund, as described in our report on Blue Earth 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 Blue Earth 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.

A deficiency in internal control over financial reporting 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 07-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. 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.

Also included in the Schedule of Findings and Questioned Costs are management practices comments for consideration. We believe these recommendations to be of benefit to the County and they are reported for that purpose.

Blue Earth County's written responses to the internal control and management practices findings 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 Blue Earth 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 4, 2010

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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
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, 2009. 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 basic financial statements include the operations of the Blue Earth County Economic Development Authority (EDA) component unit, which expended \$837,596 in federal awards for the year ended December 31, 2009, 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, 2009.

Internal Control Over Compliance

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 internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 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, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 4, 2010. Our audit was

performed for the purpose of forming opinions on the County's financial statements that collectively comprise the County's basis 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 others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 4, 2010

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**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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	10.557	\$ 222,051
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	295,074
State Administrative Matching Grants for SNAP - ARRA	10.561	10,515
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP)	10.572	700
Passed Through Minnesota Pollution Control Agency Cooperative Forestry Assistance	10.664	<u>6,669</u>
Total U.S. Department of Agriculture		<u>\$ 535,009</u>
U.S. Department of Housing and Urban Development		
Direct Shelter Plus Care	14.238	<u>\$ 72,958</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Law Enforcement Assistance - Narcotics and Dangerous Drugs Training	16.004	\$ 863
Crime Victim Assistance	16.575	33,500
Enforcing Underage Drinking Laws Program	16.727	<u>1,804</u>
Total U.S. Department of Justice		<u>\$ 36,167</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	\$ 1,649,323
Highway Planning and Construction - ARRA	20.205	1,118,022
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	38,064
Safety Belt Performance Grants	20.609	2,882
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>53,405</u>
Total U.S. Department of Transportation		<u>\$ 2,861,696</u>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	\$ 66,946
Immunization Grants	93.268	16,627
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	48,968
Temporary Assistance for Needy Families	93.558	85,306
Maternal and Child Health Services Block Grant to the States	93.994	59,184
Passed Through Minnesota Department of Human Services		
Temporary Assistance for Needy Families	93.558	796,033
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	961,786
Child Support Enforcement - ARRA	93.563	109,447
Refugee and Entrant Assistance - State-Administered Programs	93.566	743
Child Care and Development Cluster		
Child Care and Development Block Grant	93.575	7,577
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	61,700
Child Welfare Services - State Grants	93.645	3,359
Foster Care - Title IV-E Cluster		
Foster Care - Title IV-E	93.658	290,530
Foster Care - Title IV-E - ARRA	93.658	16,386
Social Services Block Grant	93.667	392,045
Chafee Foster Care Independence Program	93.674	4,800
Medical Assistance Program	93.778	1,014,987
Block Grants for Community Mental Health Services	93.958	2,401
Total U.S. Department of Health and Human Services		<u>\$ 3,938,825</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Special Projects - Homeland Security Emergency Management Interoperable Emergency Communications	97.001	\$ 540
Emergency Management Performance Grants	97.042	30,510
Homeland Security Grant Program	97.067	34,832
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	14,618
Total U.S. Department of Homeland Security		<u>\$ 80,500</u>
Total Federal Awards		<u>\$ 7,525,155</u>

**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Blue Earth County. The County's reporting entity is defined in Note 1 to the financial statements. The Economic Development Authority blended component unit is not included on the County's Schedule of Expenditures of Federal Awards because it has its own single audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Blue Earth County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Blue Earth County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Blue Earth County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

**BLUE EARTH COUNTY
MANKATO, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$ 9,232,700
Grants received more than 60 days after year-end deferred in 2009, expended in 2009, will be revenue in 2010	
Highway Planning and Construction	29,925
Highway Planning and Construction - ARRA	58,843
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	10,983
Child Support Enforcement	33,600
Foster Care - Title IV-E	13,933
Foster Care - Title IV-E - ARRA	1,964
Medical Assistance Program	104,193
Deferred in 2008, expended in 2008, recognized as revenue in 2009	
Drug Court Discretionary Grant Program	(4,739)
Highway Planning and Construction	(1,771,558)
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	(8,895)
Immunization Grants	(19,173)
Medical Assistance Program	(68,566)
Emergency Management Performance Grants	(28,055)
Homeland Security Grant Program	(60,000)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 7,525,155

5. Subrecipients

During 2009, the County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.