

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT FOR

OLMSTED COUNTY
ROCHESTER, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

The mission of the State Auditor's Office 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.

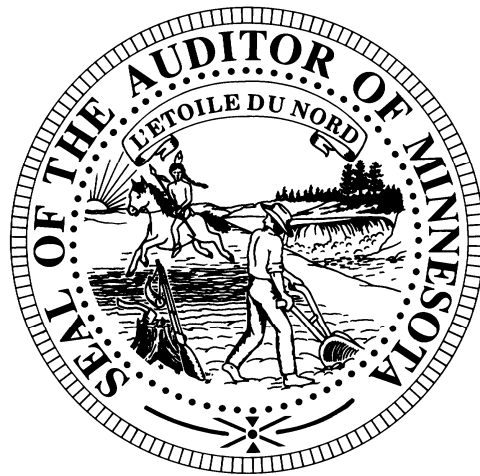
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

For the Year Ended December 31, 2006



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

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**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

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**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

Schedule 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Olmsted County.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of Olmsted 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*." The deficiency was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Olmsted 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 Olmsted 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:
- | | |
|--|--------------|
| Special Supplemental Nutrition Program | CFDA #10.557 |
| Help America Vote Act | CFDA #90.401 |
| Child Care and Development Block Grant | CFDA #93.575 |
| Foster Care Title IV-E | CFDA #93.658 |
- H. The threshold for distinguishing between Types A and B programs was \$375,349.
- I. Olmsted County was determined to be a low-risk auditee.

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

ITEM ARISING THIS YEAR

06-1 Segregation of Duties - Recycling Center

The basic objective of internal control is to provide for segregation of incompatible duties. Responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction. The following duties should be segregated, if possible:

- An individual independent of the cash collection and receipting function and the cash disbursement function should review the monthly general ledger.
- Individuals who collect and receipt cash should not:
 - post cash receipts to the general ledger system,
 - process cash disbursements,
 - maintain the general ledger,
 - make bank deposits,
 - make wire transfers,
 - make general journal entries, or
 - prepare billings.
- Individuals who process vouchers for payments should not:
 - print or sign checks, or
 - make journal entries.

Olmsted County does not segregate the duties of cash collection and receipting and cash disbursing for the Recycling Center.

We recommend the County segregate these functions as much as possible. If it is not possible to segregate these duties, Olmsted County management should be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being performed by staff. One possible oversight procedure is to distribute detailed monthly revenue and expenditure reports to department heads and require them to affirm they have reviewed the reports and concur with the revenues and expenditures reported for their department.

Client's Response:

Public Works Finance staff agrees with the concerns of the auditors in all of these areas. Olmsted County Recycling Center management and supervisors are aware of the auditors concerns and are working with Public Works Finance on processes and procedures to address these issues. Due to the high volume of business and transactions that occur at the Recycling Center, some of the audit processes and suggestions are not cost effective at this time. Public Works Finance has been researching and developing a plan to have one financial center for all Solid Waste Facilities that would combine financial centers for the Waste-to-Energy Facility, Hazardous Waste and the Recycling Center. The center's staff would be responsible for all financial transactions leaving the daily operations to separate plant staff. Public Works Finance and Solid Waste Administration agree that this one center would result in the segregation of incompatible duties cited in this finding.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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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
Olmsted 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 Olmsted County as of and for the year ended December 31, 2006, and have issued our report thereon dated June 14, 2007. 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 Olmsted 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-1 to be a significant deficiency 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 Olmsted 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 the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Olmsted 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, Olmsted County complied with the material terms and conditions of applicable legal provisions.

Olmsted County's written response to the significant deficiency finding identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Olmsted 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 14, 2007

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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
Olmsted County

Compliance

We have audited the compliance of Olmsted 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, 2006. Olmsted County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Olmsted 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, Olmsted 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, 2006.

Internal Control Over Compliance

The management of Olmsted 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 Olmsted 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 business-type activities, each major fund, and the aggregate remaining fund information of Olmsted County as of and for the year ended December 31, 2006, and have issued our report thereon dated June 14, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Olmsted 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, the Administrative Committee, 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 14, 2007

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**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Supplemental Food Program for Women, Infants, and Children	10.557	18438004	\$ 601,578
WIC Farmers Market Nutrition Program (FMNP)	10.572	N/A	2,000
Passed Through Minnesota Department of Human Services Food Stamp Administration	10.561	N/A	41,959
Direct USDA Rural Development Grant	10.760	N/A	22,758
Total U.S. Department of Agriculture			\$ 668,295
U.S. Department of Housing and Urban Development			
Passed Through Minnesota Department of Employment and Economic Development Rural Homeless Assistance and Stability	14.235	N/A	\$ 14,826
Passed Through Minnesota Housing Finance Agency Shelter + Care	14.238	N/A	109,054
Total U.S. Department of Housing and Urban Development			\$ 123,880
U.S. Department of Justice			
Passed Through Minnesota Department of Employment and Economic Development Juvenile Accountability Incentive Block Grant	16.523	N/A	\$ 17,880
Passed Through Minnesota Department of Corrections Crime Victim Assistance Grant, Sexual Assault	16.575	N/A	74,287
Re-entry Services	16.579	N/A	31,903
SMART Grant	16.588	N/A	6,005
Residential Substance Abuse Treatment	16.593	N/A	41,386
Total U.S. Department of Justice			\$ 171,461
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	N/A	\$ 273,137
Federal Transit Technical Studies Grant	20.505	76995	516,240
State and Community Highway Safety	20.600	N/A	98,959
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	N/A	9,647
Alcohol Traffic Safety and Drunk Driving	20.601	76995	3,893
Total U.S. Department of Transportation			\$ 901,876

**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures
U.S. Environmental Protection Agency			
Passed Through Minnesota Department of Health Air Pollution Control	66.032	8895400200	\$ 24,051
Passed Through Minnesota Pollution Control Agency Feedlot Run-off Reduction Grant	66.460	N/A	1,640
Total U.S. Environmental Protection Agency			\$ 25,691
U.S. Election Assistance Commission			
Passed Through Minnesota Secretary of State Help America Vote Act	90.401	N/A	\$ 719,582
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health Tuberculosis Control	93.116	N/A	\$ 5,000
Immunization/Perinatal Hep B	93.268	N/A	5,257
Bioterrorism Preparedness	93.283	N/A	180,528
Steps to a Healthier US	93.283	N/A	324,201
Smoke Cessation	93.283	N/A	24,975
Refugee	93.576	N/A	8,338
Maternal and Child Health Services Block Grant	93.994	772-3029	133,573
Passed Through National Association of County and City Health Officials Food Borne Illness Systems Demonstration Project	93.283	N/A	30,000
Passed Through Minnesota Department of Human Services Time Limited Reunification, LIGSS, Alternative Response	93.556	N/A	147,387
Temporary Assistance for Needy Families Administrative	93.558	N/A	1,349,604
Low Income Home Energy Assistance (EAP)	93.568	OENM0147	263,088
Community Services Block Grant	93.569	00100111-12	117,428
Child Care and Development	93.575	N/A	4,856,846
Title IV-B Alternative Response	93.645	N/A	116,855
Foster Care Title IV-E	93.658	N/A	254,702
Social Services Block Grant Title XX	93.667	N/A	719,212
Support for Emancipation and Living Functionally (SELF) Grant	93.674	N/A	7,900
Block Grant for Community Mental Health Services	93.958	N/A	41,105
Chemical Dependency Block Grant	93.959	N/A	26,085
Total U.S. Department of Health and Human Services			\$ 8,612,084

**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety - Emergency Services			
Domestic Preparedness Grant	97.004	N/A	\$ 1,053,457
Emergency Food and Shelter	97.024	N/A	750
Emergency Management Performance Grant	97.042	2000-3139	41,089
Passed Through Minnesota Department of Natural Resources			
Flood Plain Analysis Grant	97.045	N/A	62,896
Total U.S. Department of Homeland Security			\$ 1,158,192
Total Cash Awards			\$ 12,381,061
Non-Cash Awards			
U.S. Department of Housing and Urban Development			
Passed Through Minnesota Department of Employment and Economic Development			
Well Loan Agreement	14.228	N/A	130,575
Total Expenditures of Federal Awards			\$ 12,511,636

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**OLMSTED COUNTY
ROCHESTER, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

I. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Olmsted County. The County's reporting entity is defined in Note 1 to the financial statements.

II. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred.

The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

III. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$	12,298,570
Federal Transit Technical Studies grant received more than 60 days after year-end		166,308
Emergency Management Performance grant received more than 60 days after year-end		10,000
Child Care and Development grant received more than 60 days after year-end		365,837
Food Borne Illness Systems Demonstration grant received more than 60 days after year-end		15,000
Child Care and Development grant deferred in 2005 and recognized in 2006		(336,632)
Foster Care Title IV-E grant deferred in 2005 and recognized in 2006		(138,022)
Well Loan Agreement Non-Cash Awards		130,575
Expenditures Per Schedule of Expenditures of Federal Awards	\$	12,511,636

IV. Subrecipient of Olmsted County

During 2006, Olmsted County passed \$4,573,738 of \$4,856,846 (CFDA #93.575) money to Child Care Resources and Referral, a subrecipient of Human Services.

Sub-Granted - Human Services	CFDA Number	Expenditures
Child Care Basic Sliding Fee	93.575	\$ 2,234,493
MFIP Child Care	93.575	2,339,245
Total		\$ 4,573,738