

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

**BLUE EARTH COUNTY**  
**MANKATO, MINNESOTA**

YEAR ENDED DECEMBER 31, 2008

## **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, 2008**



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, 2008**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of Blue Earth County.
- B. A 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 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:

Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558
Child Support Enforcement Title IV-D	CFDA #93.563
Foster Care Title IV-E	CFDA #93.658
Social Services Block Grant	CFDA #93.667
Medical Assistance Program	CFDA #93.778
- 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

PREVIOUS REPORTED ITEM NOT RESOLVED

07-1 Audit Adjustments

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 of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the County's internal controls. During our audit, we proposed the following adjustments that resulted in significant changes to the County's financial statements:

- restatement of the fund balance in the General Fund for \$1,443,841 in Economic Development Authority (EDA) Lease Revenue Bond activity;
- restatement of the fund balance in the Building and Capital Purchases (Building) Fund for \$8,602,883 in EDA Lease Revenue Bond activity; and
- reclassification of cash and investments from the Building Fund to the General Fund. Cash and investments of \$272,292 had been allocated to the General Fund and \$1,167,071 to the Building Fund. After review of the EDA Lease Revenue Bond activity, it was determined that \$1,435,710 belonged to the General Fund and \$3,653 belonged to the Building Fund.

The inability to detect a material misstatement 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:

*Blue Earth County concurs with this 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, 2008, 13 of the 136 individual ditch systems had deficit fund balances totaling \$450,434.

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:

*Blue Earth County concurs with the finding.*

07-2 Public Works Deficit Fund Balance

As of December 31, 2008, the Public Works Special Revenue Fund had a deficit fund balance of \$1,736,748. 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:

*Blue Earth County concurs with the finding.*

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REBECCA OTTO  
STATE AUDITOR

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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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 10, 2009. 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.

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 07-1 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 Blue Earth 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 consider item 07-1 described above to be a material weakness.

### 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 Blue Earth County, and they are reported for that purpose.

Blue Earth County's written responses to the material weakness 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 10, 2009

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REBECCA OTTO  
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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, 2008. Blue Earth County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Blue Earth County's financial statements include the operations of the Blue Earth County Economic Development Authority (EDA) component unit, which expended \$630,263 in federal awards for the year ended December 31, 2008, 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 conducted by other auditors.

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, 2008.

#### Internal Control Over Compliance

The management of Blue Earth County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Blue Earth 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 Blue Earth County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 10, 2009. Our audit was performed for the purpose of forming opinions on Blue Earth County's basic financial statements. We did not audit the Economic Development Authority Enterprise Fund, which was audited by other auditors. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management and 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 10, 2009

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**BLUE EARTH COUNTY  
MANKATO, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	\$ 193,492
Passed Through Minnesota Department of Human Services State Administrative Matching Grant for Supplemental Nutrition Assistance Program	10.561	290,405
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program	10.572	800
Passed Through Minnesota Pollution Control Agency Cooperative Forestry Assistance	10.664	<u>5,808</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 490,505</u></b>
<b>U.S. Department of Housing and Urban Development</b>		
Direct Shelter Plus Care	14.238	<b><u>\$ 57,832</u></b>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	\$ 10,590
Direct Drug Court Discretionary Grant	16.585	<u>229,270</u>
<b>Total U.S. Department of Justice</b>		<b><u>\$ 239,860</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,543,052
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	30,456
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	20,645
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>9,954</u>
<b>Total U.S. Department of Transportation</b>		<b><u>\$ 1,604,107</u></b>

**BLUE EARTH COUNTY  
MANKATO, MINNESOTA**

**Schedule 2**  
**(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health		
Immunization Grants	93.268	\$ 20,649
Center for Disease Control and Prevention	93.283	85,593
Temporary Assistance for Needy Families (TANF Home Visits)	93.558	77,547
Maternal and Child Health Services Block Grant	93.994	60,405
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	29,082
Temporary Assistance for Needy Families (TANF)	93.558	944,247
Child Support Enforcement Title IV-D	93.563	908,542
Refugee and Entrant Assistance	93.566	697
Child Care Cluster		
Child Care Development Block Grant	93.575	661,266
Child Care Mandatory and Matching Funds	93.596	293,761
Foster Care Title IV-E	93.658	313,136
Social Services Block Grant	93.667	394,015
Chafee Foster Care Independence Program	93.674	6,772
State Children's Insurance Program	93.767	770
Medical Assistance Program	93.778	790,348
Community Mental Health Services Block Grant	93.958	14,724
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 4,601,554</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Homeland Security Grant Program	97.067	\$ 5,157
<b>Total Federal Awards</b>		<b>\$ 6,999,015</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Blue Earth County, not including the Blue Earth County Economic Development Authority component unit. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2008, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.