

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

CARVER COUNTY
CHASKA, 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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**CARVER COUNTY
CHASKA, 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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**CARVER COUNTY
CHASKA, MINNESOTA**

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**CARVER COUNTY
CHASKA, 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 Carver County.
- B. No matters involving internal control over financial reporting were 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*."
- C. No instances of noncompliance material to the financial statements of Carver County were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award programs is 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." It was not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Carver County expresses an unqualified opinion.
- F. A finding relative to a major federal award program for Carver County was reported as required by 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
Workforce Investment Act (WIA) Cluster	
WIA Adult Program	CFDA #17.258
WIA Adult Program - ARRA	CFDA #17.258
WIA Youth Activities	CFDA #17.259
WIA Youth Activities - ARRA	CFDA #17.259
WIA Dislocated Workers	CFDA #17.260
WIA Dislocated Workers - ARRA	CFDA #17.260

Schedule 1
(Continued)

Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA #20.205
Highway Planning and Construction - ARRA	CFDA #20.205
Energy Efficiency and Conservation Block Grant Program	
- ARRA	CFDA #81.128
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. Carver 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 RESOLVED

Documenting and Monitoring Internal Control (07-2)

The County was not documenting its risks and the processes used to minimize its risks. The County did not have a plan developed for monitoring the internal control structure on an annual basis.

Resolution

The County has identified potential areas in the accounting system that are susceptible to risk and has documented the internal control structure it has in place to minimize those risks. The County also began internally testing its controls over the major transaction cycles starting with fiscal year 2009 and has documented recommendations to improve its processes.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

09-1 Energy Efficiency and Conservation Block Grant Program - ARRA (CFDA #81.128) -
Davis-Bacon Act

The County had no documented process for complying with the Davis-Bacon Act, which requires the County to pay prevailing wage rates not less than those established by the U.S. Department of Labor on projects funded by federal dollars.

We recommend the County develop written procedures for complying with the Davis-Bacon Act. Documentation should exist to support the monitoring of and compliance with this requirement.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

David Frischmon, Finance Director

Action Planned:

The County's contract with its EECBG project contractor states that the contractor is responsible for complying with all Federal requirements for this project. At the completion of the project, the County will require the contractor to document compliance with the Davis-Bacon Act before making the final payment.

Completion Date:

Project completion is expected Fall of 2010. Compliance documentation will be obtained prior to the final payment being made to the contractor.

IV. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (for example, corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

Carver County may want to review Statement 54 for its effects on current reporting and consider whether additional policies or board resolutions will be necessary to implement the standard.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.

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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
Carver County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Carver 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 30, 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 Carver County Community Development Agency, as described in our report on Carver 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 Carver 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carver 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, except tax increment financing because Carver County does not use tax increment financing.

The results of our tests indicate that, for the items tested, Carver County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe the information to be of benefit to Carver County, and it is reported for that purpose.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Carver 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 30, 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
Carver County

Compliance

We have audited the compliance of Carver 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. Carver 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.

Carver County's basic financial statements include the operations of the Carver County Community Development Agency (CDA) component unit, which expended \$3,770,464 in federal awards during 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 Carver County CDA because it was audited 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 Carver 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, Carver 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 Carver 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 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. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 09-1. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Carver 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 30, 2010. We did not audit the Carver County CDA, a discretely presented component unit. Our audit was performed for the purpose of forming opinions on the County's financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Carver County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan 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 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 30, 2010

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**CARVER COUNTY
CHASKA, 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 Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program Cluster		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 251,678
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program - ARRA	10.561	11,029
Total U.S. Department of Agriculture		\$ 262,707
U.S. Department of Justice		
Direct		
Bulletproof Vest Partnership Program	16.607	\$ 540
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Block Grants	16.523	17,786
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	5,466
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804	21,579
Total U.S. Department of Justice		\$ 45,371
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Human Services Homelessness Prevention and Rapid Re-Housing Program - ARRA	14.257	\$ 47,441
U.S. Department of Labor		
Passed Through Minnesota Department of Employment and Economic Development		
Senior Community Service Employment Program	17.235	\$ 77,084
Senior Community Service Employment Program - ARRA	17.235	9,146
Passed Through Hennepin County		
Workforce Investment Act (WIA) Cluster		
WIA Adult Program	17.258	21,541
WIA Adult Program - ARRA	17.258	2,967
WIA Youth Activities	17.259	56,609
WIA Youth Activities - ARRA	17.259	42,650
WIA Dislocated Workers	17.260	212,861
WIA Dislocated Workers - ARRA	17.260	193,520
Total U.S. Department of Labor		\$ 616,378

**CARVER COUNTY
CHASKA, 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 Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	\$ 13,933
Highway Planning and Construction - ARRA	20.205	856,367
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	<u>22,603</u>
Total U.S. Department of Transportation		<u>\$ 892,903</u>
U.S. Environmental Protection Agency		
Passed Through Minnesota Department of Health State Indoor Radon Grants	66.032	<u>\$ 979</u>
U.S. Department of Energy		
Direct Energy Efficiency and Conservation Block Grant Program - ARRA	81.128	<u>\$ 146,715</u>
U.S. Department of Health and Human Services		
Passed Through the National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	\$ 6,082
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	26,001
Immunization Grants	93.268	7,687
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	107,552
Maternal and Child Health Service Block Grant	93.994	48,775
Passed Through Minnesota Department of Human Services Projects for Assistance in Transition from Homelessness (PATH)	93.150	7,233
Promoting Safe and Stable Families	93.556	7,325
Temporary Assistance for Needy Families	93.558	366,845
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	1,337,590
Child Support Enforcement - ARRA	93.563	134,168
Refugee and Entrant Assistance State Administered Programs	93.566	614
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	57,560
Child Welfare Services State Grants	93.645	42,023
Foster Care - Title IV-E Cluster		
Foster Care - Title IV-E	93.658	260,493
Foster Care - Title IV-E - ARRA	93.658	9,003
Social Services Block Grant	93.667	310,809
Chafee Foster Care Independence Program	93.674	4,258
Medical Assistance Program	93.778	1,158,965
Block Grant for Community Mental Health Services	93.958	<u>13,676</u>
Total U.S. Department of Health and Human Services		<u>\$ 3,906,659</u>

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

**CARVER COUNTY
CHASKA, 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 Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 37,397
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	42,514
Homeland Security Grant Program	97.067	<u>75,595</u>
Total U.S. Department of Homeland Security		\$ 155,506
Total Federal Awards		<u>\$ 6,074,659</u>

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**CARVER COUNTY
CHASKA, 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 Carver County. Carver County's financial statements include the operations of the Carver County Community Development Agency (the CDA) component unit, which expended \$3,770,464 in federal awards during the year ended December 31, 2009, which are not included in the Schedule of Expenditures of Federal Awards. The CDA has its own single audit. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Carver 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 Carver County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Carver 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.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 6,177,638
Grants received more than 60 days after year-end, deferred in 2009	
Child Support Enforcement	38,700
Deferred in 2008, recognized as revenue in 2009	
Foster Care - Title IV-E	(26,320)
Medical Assistance Program	<u>(115,359)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 6,074,659</u>

**CARVER COUNTY
CHASKA, MINNESOTA**

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.