

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

POPE COUNTY
HOUSING AND REDEVELOPMENT AUTHORITY
GLENWOOD, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

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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**POPE COUNTY
HOUSING AND REDEVELOPMENT AUTHORITY
GLENWOOD, MINNESOTA**

For the Year Ended December 31, 2010



Management and Compliance Report

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

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**POPE COUNTY
HOUSING AND REDEVELOPMENT AUTHORITY
GLENWOOD, MINNESOTA**

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**POPE COUNTY
HOUSING AND REDEVELOPMENT AUTHORITY
GLENWOOD, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-2 Preparation of Financial Statements

The Pope County Housing and Redevelopment Authority (HRA) is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the Authority's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

The Pope County HRA has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, the Authority has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the Authority's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than incur the time and expense of obtaining the necessary training and expertise required to prepare financial statements internally. As a result of this condition, the government lacks internal controls over the preparation and reporting of financial statements in accordance with GAAP.

We recommend the Pope County HRA obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the HRA still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise to sufficiently review, understand, and approve the Authority's financial statements, including notes.

Client's Response:

HRA Administration has identified an individual on its staff to obtain the expertise to review and prepare more of the information required for the audits.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

10-1 Contract Compliance

The Pope County Housing and Redevelopment Authority (HRA) is funding a Government Center Renovation (GCR) project, which includes the construction of a Law Enforcement Center (LEC). Once construction is complete, Pope County will lease the LEC from the HRA. The HRA contracted with Contegrity Group, Inc., to be the General Contract Manager for the LEC project.

On June 1, 2010, the County Board authorized the GCR Committee to expense bond funds as deemed appropriate in the design, development, and construction of the GCR project. On October 6, 2010, the HRA Board approved a resolution to move forward with the GCR project and to expense bond monies for the GCR project in consultation with County Commissioners on the GCR Committee. The GCR Committee is comprised of representatives from the Pope County Commissioners, County staff, the Contegrity Group, Inc., Klein McCarthy Architects, and eStudio Architects.

Minn. Stat. § 471.345 requires a formal bidding procedure for public contracts over \$100,000. For such contracts the county board is required to award the contract to the lowest responsible bidder. Minn. Stat. § 375.21. The lowest-responsible-bidder requirement applies to HRAs under Minn. Stat. § 469.015. Contegrity Group, Inc., in conjunction with the GCR Committee, carried out the bidding process for the project. There are no public minutes documenting the bidding process or the decisions made by the GCR Committee on the GCR project.

No records were available demonstrating that any county or HRA official or board made determinations as to the lowest responsible bidder on GCR construction contracts. All public officers and employees “shall make and preserve all records necessary to a full and accurate knowledge of their official activities.” Minn. Stat. § 15.17.

We recommend that the County Board and the HRA Board award contracts that require bidding in a public manner with a public record as required by state law.

Client’s Response:

In the future, Pope County HRA will follow Minnesota Statutes when seeking and awarding bids and contracts.

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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 Commissioners
Pope County Housing and Redevelopment Authority

We have audited the financial statements of Pope County, which include the financial statements of the Pope County Housing and Redevelopment Authority (HRA) as the discretely presented component unit and as supplementary information, as of and for the year ended December 31, 2010, and have issued our report thereon dated September 27, 2011. 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 the Pope County HRA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 Recommendations as item 08-2 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 the Pope County HRA'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 Political Subdivisions* 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 Political Subdivisions* 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, the Pope County HRA complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 10-1.

The Pope County HRA's written responses to the internal control and legal compliance findings identified in our audit have been included in our Schedule of Findings and Recommendations. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

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

September 27, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR