

# 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, 2013

## **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, 2013**



**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 OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

**Financial Statements**

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? **No**

The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	CFDA #10.561
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

Blue Earth County qualified as a low-risk auditee? **Yes**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEM RESOLVED

##### **Audit Adjustments (2012-001)**

Adjustments were proposed that resulted in significant changes to the County's financial statements.

##### **Resolution**

There were no adjustments that resulted in significant changes to the County's financial statements for 2013.

## III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

## IV. OTHER FINDINGS AND RECOMMENDATIONS

### MANAGEMENT PRACTICES

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1997-008

##### County Ditch Fund Deficits

**Criteria:** Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is greater.

**Condition:** As of December 31, 2013, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

**Context:** Fifteen of the 130 individual ditch systems had deficit fund balances as of December 31, 2013, totaling \$625,306, which is an increase from the \$371,716 deficit reported in the prior year.

**Effect:** Allowing a ditch system to maintain a deficit fund balance, in effect, constitutes an interest-free loan from other individual ditch systems.

**Cause:** Ditch expenditures were necessary, and the ditch levies were not sufficient to cover all costs.

**Recommendation:** We recommend the County eliminate the ditch fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair costs of a ditch system.

Client's Response:

*We concur.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Public Works Special Revenue Deficit Fund Balance (2007-002)**

The assets in the County's Public Works Special Revenue Fund at December 31, 2012, did not exceed liabilities, resulting in a deficit fund balance amount.

**Resolution**

The Public Works Special Revenue Fund balance was positive at December 31, 2013.

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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***

### Independent Auditor's Report

Board of County Commissioners  
Blue Earth County

We have audited, 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, the financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 19, 2014. 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 auditors' 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 of the financial statements, we considered Blue Earth County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. 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 the attention of those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Blue Earth County's financial statements are free from 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**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Blue Earth County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

### **Other Matters**

Also included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

## **Blue Earth County's Response to Findings**

Blue Earth County's response to the management practices finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

May 19, 2014

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REBECCA OTTO  
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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

### Independent Auditor's Report

Board of County Commissioners  
Blue Earth County

### **Report on Compliance for Each Major Federal Program**

We have audited Blue Earth County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2013. 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.

Blue Earth County's basic financial statements include the operations of the Blue Earth County Economic Development Authority (EDA) component unit, which expended \$659,405 in federal awards during the year ended December 31, 2013, 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 the EDA had a separate single audit in accordance with OMB Circular A-133.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Blue Earth County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

### ***Opinion on Each Major Federal Program***

In our opinion, Blue Earth County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### **Report on Internal Control Over Compliance**

Management of Blue Earth County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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 the attention of those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Report on Schedule of Expenditures of Federal Awards Required by OMB  
Circular A-133**

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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We have issued our report thereon dated May 19, 2014, which contained unmodified opinions on those financial statements. We did not audit the EDA, which was audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

May 19, 2014

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**BLUE EARTH COUNTY  
MANKATO, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<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	10.557	\$ 241,607
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	371,703
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP)	10.572	<u>700</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 614,010</u></b>
<b>U.S. Department of Housing and Urban Development</b>		
Direct Shelter Plus Care	14.238	<b><u>\$ 128,486</u></b>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Trial Courts Drug Court Discretionary Grant Program	16.585	\$ 4,968
Direct State Criminal Alien Assistance Program	16.606	15,469
Bulletproof Vest Partnership Program	16.607	1,070
Passed Through City of Mankato Enforcing Underage Drinking Laws Program	16.727	<u>5,319</u>
<b>Total U.S. Department of Justice</b>		<b><u>\$ 26,826</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	66,896
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	73,691
National Priority Safety Programs	20.616	18,502
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	<u>2,972</u>
<b>Total U.S. Department of Transportation</b>		<b><u>\$ 162,061</u></b>

**BLUE EARTH COUNTY  
MANKATO, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(Continued)**

<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		
Public Health Emergency Preparedness	93.069	\$ 28,906
Immunization Cooperative Agreements	93.268	50,850
Temporary Assistance for Needy Families	93.558	69,100
(Total Temporary Assistance for Needy Families 93.558, \$687,962)		
Maternal and Child Health Services Block Grant to the States	93.994	58,885
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	15,550
Temporary Assistance for Needy Families	93.558	618,862
(Total Temporary Assistance for Needy Families 93.558, \$687,962)		
Child Support Enforcement	93.563	945,165
Refugee and Entrant Assistance - State-Administered Programs	93.566	847
Child Care and Development Block Grant	93.575	41,603
Community-Based Child Abuse Prevention Grants	93.590	16,806
Stephanie Tubbs Jones Child Welfare Services Program	93.645	7,775
Foster Care - Title IV-E	93.658	185,662
Social Services Block Grant	93.667	402,813
Chafee Foster Care Independence Program	93.674	2,733
Children's Health Insurance Program	93.767	156
Medical Assistance Program	93.778	1,239,558
		<u>3,685,271</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 3,685,271</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 4,500
Passed Through Minnesota Department of Public Safety		
Hazard Mitigation Grant	97.039	21,396
Emergency Management Performance Grants	97.042	37,151
Homeland Security Grant Program	97.067	446,247
		<u>509,294</u>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 509,294</b>
<b>Total Federal Awards</b>		<b>\$ 5,125,948</b>

**BLUE EARTH COUNTY  
MANKATO, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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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 (EDA) blended component unit is not included on the County's Schedule of Expenditures of Federal Awards because it has its own single audit. The EDA expended \$659,405 in federal awards during the year ended December 31, 2013.

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, 2013. 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 position, 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**

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4. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$	5,870,343
Grants received more than 60 days after year-end, deferred in 2013		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		76,117
State and Community Highway Safety		11,352
Minimum Penalties for Repeat Offenders for Driving While Intoxicated		46,558
National Priority Safety Programs		18,502
Temporary Assistance for Needy Families		118,789
Child Support Enforcement		142,714
Child Care and Development Block Grant		2,679
Deferred in 2012, recognized as revenue in 2013		
Highway Planning and Construction		(706,435)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		(454,671)
		(1,163,743)
Expenditures Per Schedule of Expenditures of Federal Awards	\$	5,125,948

5. Subrecipients

Of the expenditures presented in the schedule, Blue Earth County provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.238	Shelter Plus Care	\$ 128,486
20.600	State and Community Highway Safety	43,678
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	55,379
20.616	National Priority Safety Programs	13,626
97.067	Homeland Security Grant Program	421,189
	Total	\$ 662,358