

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

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**CARVER COUNTY
CHASKA, 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:

Broadband Technology Opportunities Program (BTOP) - ARRA	CFDA #11.557
Highway Planning and Construction	CFDA #20.205

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

Carver County qualified as a low-risk auditee? **Yes**

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2013-001

Individual Ditch System Deficits

Criteria: Drainage system costs are required by Minn. Stat. § 103E.655 to be paid from the ditch system account for which the costs are being incurred. If money is not available in the drainage system account on which the warrant is drawn, this statute allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures. Such loans must be paid back with interest.

Additionally, individual ditch systems should be maintained with a positive fund balance to display solvency. As provided by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

Condition: The County had individual ditch systems with deficit cash balances and deficit fund balances at December 31, 2013.

Context: At December 31, 2013, seven ditch systems had negative cash balances totaling \$81,159, and eight ditch systems had deficit fund balances totaling \$98,493.

Effect: The County is not in compliance with Minnesota statutes by having ditch systems with negative cash balances. Ditch systems with negative fund balances indicate that measures have not been taken to ensure that an individual ditch system can meet financial obligations.

Cause: Expenditures have been made for ditch systems with insufficient cash to cover the expenditures. Additionally, special assessments levied for systems have not been sufficient to meet all obligations of the systems.

Recommendation: We recommend that the County eliminate the cash deficits by borrowing from eligible funds with surplus cash balances under Minn. Stat. § 103E.655. Individual fund balance deficits should be eliminated by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus cash balance to provide for the repair and maintenance of the ditch systems.

Client's Response:

The County did levy dollars in 2014 to correct this issue.

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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
Carver 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, 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, 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 June 27, 2014. 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 of the financial statements, we considered Carver 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 Carver 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 Carver County has no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Carver County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2013-001. 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.

Carver County's Response to Findings

Carver County's response to the legal compliance 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

June 27, 2014

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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
Carver County

Report on Compliance for Each Major Federal Program

We have audited Carver 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. 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.

Carver County's basic financial statements include the operations of the Carver County Community Development Agency (CDA) component unit, which expended \$8,571,407 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 CDA because the CDA had a 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 Carver 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 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 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, Carver 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 Carver 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 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, 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 June 27, 2014, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the CDA, 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 27, 2014

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**CARVER COUNTY
CHASKA, MINNESOTA**

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

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	10.561	<u>\$ 265,010</u>
U.S. Department of Commerce		
Direct Broadband Technology Opportunities Program (BTOP) - ARRA	11.557	<u>\$ 694,018</u>
U.S. Department of Justice		
Direct Bulletproof Vest Partnership Program	16.607	<u>\$ 7,868</u>
U.S. Department of Labor		
Passed Through Minnesota Department of Employment and Economic Development Senior Community Service Employment Program	17.235	\$ 54,022
Passed Through Hennepin County Workforce Investment Act (WIA) Cluster		
WIA Adult Program	17.258	80,134
WIA Youth Activities	17.259	47,278
WIA Dislocated Worker Formula Grants	17.278	<u>154,288</u>
Total U.S. Department of Labor		<u>\$ 335,722</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,511,233
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	11,622
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>17,498</u>
Total U.S. Department of Transportation		<u>\$ 1,540,353</u>
U.S. Environmental Protection Agency		
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants	66.460	<u>\$ 19,228</u>
U.S. Department of Education		
Passed Through Metropolitan Educational Cooperative Service Unit Special Education - Grants for Infants and Families	84.181	<u>\$ 4,613</u>

**CARVER COUNTY
CHASKA, MINNESOTA**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
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	\$ 142
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	86,375
Universal Newborn Hearing Screening	93.251	525
Immunization Cooperative Agreements	93.268	3,950
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	300
Temporary Assistance for Needy Families	93.558	84,698
(Total Temporary Assistance for Needy Families 93.558 \$320,734)		
Maternal and Child Health Services Block Grant to the States	93.994	48,528
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	17,924
Temporary Assistance for Needy Families	93.558	236,036
(Total Temporary Assistance for Needy Families 93.558 \$320,734)		
Child Support Enforcement	93.563	1,266,816
Refugee and Entrant Assistance State-Administered Programs	93.566	707
Child Care and Development Block Grant	93.575	41,931
Community-Based Child Abuse Prevention Grants	93.590	23,000
Stephanie Tubbs Jones Child Welfare Services Program	93.645	31,962
Foster Care - Title IV-E	93.658	236,581
Social Services Block Grant	93.667	299,988
Chafee Foster Care Independence Program	93.674	1,068
Children's Health Insurance Program	93.767	141
Medical Assistance Program	93.778	1,656,939
		<u>1,656,939</u>
Total U.S. Department of Health and Human Services		\$ 4,037,611
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 9,971
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	50,571
Homeland Security Grant Program	97.067	93,876
		<u>93,876</u>
Total U.S. Department of Homeland Security		\$ 154,418
Total Federal Awards		\$ 7,058,841

**CARVER COUNTY
CHASKA, MINNESOTA**

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

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 (CDA) component unit, which expended \$8,571,407 in federal awards during the year ended December 31, 2013, 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, 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 Carver County, it is not intended to and does not present the financial position, changes in net position, 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Workforce Investment Act Cluster	\$ 281,700
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**CARVER COUNTY
CHASKA, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	7,020,592
Grants received more than 60 days after year-end, deferred in 2013		
Bulletproof Vest Partnership Program		1,555
Child Care and Development Block Grant		2,217
Foster Care - Title IV-E		35,026
Medical Assistance Program		328,797
Emergency Management Performance Grants		50,571
Homeland Security Grant Program		32,707
Deferred in 2012, recognized as revenue in 2013		
Broadband Technology Opportunities Program (BTOP) - ARRA		(296,866)
Universal Newborn Hearing Screening		(600)
Child Care and Development Block Grant		(4,462)
Foster Care - Title IV-E		(1,669)
Emergency Contingency Fund for TANF State Programs - ARRA		(5,613)
Emergency Management Performance Grants		(47,090)
Homeland Security Grant Program		(56,324)
		(56,324)
Expenditures Per Schedule of Expenditures of Federal Awards	\$	7,058,841

6. Subrecipients

During 2013, the County did not pass any federal money to subrecipients.

7. 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.