STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

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

MARTIN COUNTY
FAIRMONT, MINNESOTA

YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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MARTIN COUNTY
FAIRMONT, MINNESOTA

Year Ended December 31, 2008

Management and Compliance Report

Audit Practice Division
Office of the State Auditor
State of Minnesota

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MARTIN COUNTY
FAIRMONT, MINNESOTA

TABLE OF CONTENTS

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MARTIN COUNTY
FAIRMONT, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the County's internal controls. During our audit, we proposed audit adjustments, which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

The County will modify internal control over financial reporting so we can monitor and detect misstatements.

06-4 Capital Assets

For financial reporting and asset management purposes, the County is required to keep records of its capital assets, including infrastructure. The County has made improvements in capital asset record keeping through the implementation of the Integrated Financial System (IFS) Capital Asset Program. The program is maintained by the Auditor/Treasurer's Office. The program assists in tracking capital assets and calculating depreciation. However, further improvements need to be made to ensure that every County department's capital assets activity has been included in the system.

Capital asset policies utilized by the County in maintaining the capital asset system have not been formally approved. The County Board has not adopted a capital assets policy. The County has adopted policies regarding infrastructure and procedures for capitalization thresholds, useful lives, and depreciation; however, the County does not have policies and procedures in place to identify capital asset additions and deletions for entry in the capital assets system. County staff generally identifies capital asset additions by reviewing capital expenditure accounts at year-end and determining which assets to capitalize. There is no system in place to identify asset disposals. Also, a physical inventory of capital assets has never been done.

We recommend the County Board establish a capital assets policy to define the County's accounting policies over capital assets. The Board should also establish policies and procedures to identify capital asset additions and deletions. Department heads should report capital asset additions and deletions at least annually. Also, we recommend a physical inventory of capital assets be performed periodically. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every five years. Some critical capital assets may need more frequent accounting. We also recommend that departments reconcile their capital assets listings to the records maintained by the Auditor/Treasurer.

Client's Response:

The County will establish a capital asset policy. The County does have procedures to identify additions and deletions but not in formal written form and in a policy. The County will look at conducting a physical inventory as per recommended.

PREVIOUSLY REPORTED ITEMS RESOLVED

Agency Funds (05-1)

The County did not reconcile agency funds to ascertain their balances were identifiable.

Resolution

The County approved transfers and new fund accounts to eliminate negative balances and better account for the activity in its agency funds.

Sheriff's Department Checking Accounts (05-2)

The collections in the Sheriff's Department checking accounts were not reported and remitted to the County on a timely basis.

Resolution

The Sheriff's Department has implemented procedures to report and remit all collections to the County Auditor/Treasurer in a timely manner.

Budgeting (06-2)

The County did not have a formal written budget policy.

Resolution

The County Board approved and adopted a budget policy on August 18, 2009.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

05-3 Individual Ditch System Deficits

It is a continuing practice for Martin County to have individual ditch systems with cash and fund balance deficits. Of the 178 individual systems, 34 ditch systems had deficit cash balances totaling $178,370 at December 31, 2008. In cases where a ditch account has insufficient funds to pay project costs, Minn. Stat. § 103E.655, subd. 2, allows 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. This statute also specifies such loans must be repaid with interest. Allowing a ditch system to maintain a deficit cash balance, in effect, constitutes an interest-free loan from the other ditch systems in violation of Minnesota law.

In addition, eight ditch systems had negative fund balances totaling $110,269, on a full accrual basis, as of December 31, 2008. Minn. Stat. § 103E.735, subd. 1, provides that 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 $40,000, whichever is larger.

We recommend Martin County eliminate the individual ditch system cash balance deficits by borrowing from an eligible fund with a surplus cash balance and the County levy assessments pursuant to Minn. Stat. § 103E.735, subd. 1, to accumulate a cash balance sufficient to provide for the repair and maintenance costs of ditch systems.

Client's Response:

Each year this finding is addressed and because of the timing of the levies and unknown repairs to systems, there are systems that will be in the negative balance status.

05-4 Publication of Vendors

For 2005, Martin County did not publish a summary of disbursements over $5,000 by vendor. For 2006, the County published a summary of disbursements over $5,000 by vendor; however, it did not list individual vendors paid with credit cards. For 2007, the County published a summary of disbursements over $5,000 (including individual vendors paid with credit cards), but it chose to exclude certain vendors from the list. Minn. Stat. § 375.17, subd. 2, specifies the conditions for publication of payments to vendors. Minn. Stat. § 471.38 specifies the conditions for payment of claims, specifically that claims presented for payment must be in writing and itemized.

We recommend Martin County comply with Minnesota statutes regarding the proper publication of information regarding payments to vendors.

Client's Response:

The County will publish the list that conforms with Minnesota statutes.

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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
Martin County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martin County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 23, 2009. 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 Martin County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 06-1 and 06-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Martin County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Martin 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 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, Martin County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 05-3 and 05-4.

Martin County's written responses to the significant deficiencies, material weaknesses, and legal compliance findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, and others within Martin County and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

October 23, 2009