STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT FOR

SCOTT COUNTY
SHAKOPEE, MINNESOTA

FOR THE 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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SCOTT COUNTY
SHAKOPEE, MINNESOTA

For the Year Ended December 31, 2008

Management and Compliance Report

Audit Practice Division
Office of the State Auditor
State of Minnesota

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SCOTT COUNTY
SHAKOPEE, MINNESOTA

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SCOTT COUNTY
SHAKOPEE, MINNESOTA

Schedule 1

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

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Scott County.

B. Significant deficiencies in internal control were disclosed by the audit of the financial statements and are 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.*" None were material weaknesses.

C. No instances of noncompliance material to the financial statements of Scott County were disclosed during the audit.

D. No matters involving internal control over compliance relating to the audit of the major federal award programs were 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."

E. The Auditor's Report on Compliance for the major federal award programs for Scott County expresses an unqualified opinion.

F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

G. The major programs are:

Food Stamp Program	CFDA #10.561
Temporary Assistance for Needy Families	CFDA #93.558
Child Support Enforcement	CFDA #93.563
Foster Care Title IV-E	CFDA #93.658
Medical Assistance	CFDA #93.778

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

I. Scott 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 ITEMS NOT RESOLVED

06-1 Cash at Sheriff's Office

The Scott County Sheriff's Office has been unable to successfully identify the total cash balance as stated on TEAM, its inmate account tracking system. The TEAM software replaced the ALCATRAZ software, with which the Sheriff's Office was also unable to identify its total cash balance. The accounting software was purchased from T. W. Vending. Since the total amount of cash cannot be identified, the Sheriff's Office is not able to reconcile the amount in the checking account to the bank statement.

Without bank reconciliations, the County has no assurance that the book balance is accurately stated. Bank reconciliations would provide evidence that all funds received and disbursed have been correctly processed through the bank account.

We recommend that the Sheriff's Office contact the vendor to get the support or training necessary to identify the TEAM cash balance in order to reconcile the checking account to the bank statement.

Client's Response:

T. W. Vending has created an enhancement that now allows for reconciling the cash balance by providing reports directly from the TEAM software. T. W. Vending has demonstrated how this process will work and will be training a Scott County representative in early August and with this enhancement reconciliations will become a standard month end process.

07-2 Documenting and Monitoring Internal Control

The overall financial reporting objective is for management to prepare reliable financial statements that do not contain material misstatements. Although internal control has always been a critical management function, the recent changes in audit reporting requirements underscore the importance management should place on designing and implementing an effective internal control system. The effective internal control system should be documented and monitored on a regular basis.

Currently, Scott County does have controls relating to its various transaction cycles and certain account balances. The controls, however, are not documented, and the controls system is not monitored by the County.

We recommend that Scott County document its internal control, with an emphasis on risk assessment, the control environment, the various control activities, and the application of information and communication. Further, the County should monitor its internal control system on a regular basis.

Client's Response:

Internal controls are one of the factors in the process of setting up and implementing the new general ledger and payroll system. In 2009 the County is planning on monitoring and documenting the controls in relation to our existing system. Scott County hired a new Controller in 2009 with experience in setting up and monitoring internal controls. One of the responsibilities for this position will be to review the internal controls.

In late 2009 and throughout 2010 the County will perform risk assessment and formal control procedures including documentation of steps for monitoring the controls. The steps the County will perform include 1) prioritize the vulnerability of the internal controls. 2) Initiate the process of testing controls by documenting how transactions and events are supposed to be handled in the particular department, activity or control cycle selected for evaluation. 3) Identify all of the related control policies and procedures designed to compensate for potential risks implicit in financial reporting. 4) Study the design of each compensating control to evaluate whether the control would be effective if operating as designed. If the compensating control is properly designed, the next step 5) would be to test to see if the control has actually been implemented and remains operational. 6) Evaluate the results of the testing.

ITEM ARISING THIS YEAR

08-1 Prior Period Adjustment

Statement on Auditing Standards (SAS) 112, *Communicating Internal Control Related Matters Identified in an Audit*, requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit. 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. SAS 112 also provides guidance on evaluating the severity of control deficiencies identified in an audit of financial statements. One control deficiency that typically is considered significant is the restatement of previously reported financial statements to reflect the correction of a material misstatement. The prior period adjustment that was made to the County's 2008 government-wide financial statements resulted from the overstatement of Minnesota Department of Transportation appropriations for the year-end 2007 financial statements.

We recommend that the County review the Minnesota Department of Transportation's appropriations and only record the appropriations in the correct year.

Client's Response:

There was a misconception in the understanding of what amounts were allotted funds on a report from the Minnesota Department of Transportation. During 2008 clarification was issued from the Department of Transportation on how their report should be interpreted. With this clarification this error will not occur again.

PREVIOUSLY REPORTED ITEM RESOLVED

Payroll Processing (07-1)
Changes to the payroll for each payroll period were not reviewed to determine that all changes to the payroll were approved and accurately input.

Resolution
With the implementation of its new Lawson payroll system, there will be a report generated that will indicate the changes that have been made during the payroll period. An electronic version of this report will be reviewed prior to payroll processing.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-5 Business Continuity Plan

The County does not have a complete business continuity plan that would direct its response if a disaster or major computer breakdown were to occur. A business continuity plan would give greater assurance that the County is prepared for either situation. The County has established a Business Continuity Planning Committee which has been assessing risks and prioritizing the computer applications that are most critical. Eventually, the Committee will be developing a business continuity plan.

We recommend the County continue in its efforts to develop and implement a business continuity plan.

Client's Response:

The County has continued to invest time and monies toward the completion of a full Business Continuity Plan in 2008-2009. There are actually two parts to the "continuity plan"- the plan for the business units, and the restoration plan for I.T.

Part 1) The County's Business Continuity plan has not yet been fully tested. However, there have been several tabletop exercises (Summer 2008, January 2009, April 2009) in which the Plan has been accessed and used in combination with the County's pandemic flu response plan and Emergency Management Services plan. This use served to provide useful learning opportunities and updates to the plan.

Part 2) Information Technology has completed a Written Disaster Response Plan (called a Technology Availability Plan - "TAP") for 60% of our current electronic systems environment. We expended $20,000 in December 2008, and approximately 100 hours of personnel time to develop this plan in writing and to conduct a tabletop exercise in February of 2009. This "TAP" provides detailed recovery steps, personnel assignments, space and equipment requirements, and the sequence of restorative actions. The balance of the TAP covering the remaining 40% of our electronic environment will be completed by end of 2009. Completion of the balance of the TAP is contingent on the installation and upgrade of the IBM platform, due by October, 2009.

The County has expended:

- *Approximately $60,000 in additional infrastructure hardware and software during 2007-2008 to provide full recovery options at our offsite disaster recovery location.*
- *Approximately $50,000 in 2009 to allow additional storage capacity and performance at the DR site.*
- *Approximately $12,000 in consulting fees for the proper installation and configuration of a fully redundant IBM platform at the DR site.*

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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
Scott 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 Scott County as of and for the year ended December 31, 2008, and have issued our report thereon dated July 24 , 2009. 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 Scott County Community Development Agency, as described in our report on Scott 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 Scott 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 Questioned Costs, as items 06-1, 07-2, and 08-1 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 Scott 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, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Scott 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, Scott County complied with the material terms and conditions of applicable legal provisions.

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

Scott County's written responses to the significant deficiencies and management practices finding identified in our audit have been included in the Schedule of Findings and Questioned Costs. 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, others within Scott 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

July 24, 2009

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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
Scott County

Compliance

We have audited the compliance of Scott 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, 2008. Scott 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.

Scott County's financial statements include the operations of the Scott County Community Development Agency (CDA) component unit, which expended $3,250,962 in federal awards during the year ended December 31, 2008, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Scott County CDA because other auditors were engaged to perform a single audit.

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 Scott 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, Scott 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, 2008.

Internal Control Over Compliance

The management of Scott 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, 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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Scott County's internal control.

Our consideration of the internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 Scott 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 July 24 , 2009. We did not audit the financial statements of the Scott County CDA, a discretely presented component unit. Our audit was performed for the purpose of forming opinions on 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.

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

July 24, 2009

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SCOTT COUNTY
SHAKOPEE, MINNESOTA

Schedule 2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Education			
School Breakfast Program	10.553	$	5,593
National School Lunch Program	10.555		12,719
Passed Through Minnesota Department of Human Services			
Matching Grants for Food Stamp Program	10.561		321,489
Total U.S. Department of Agriculture		**$**	**339,801**
U.S. Department of Housing and Urban Development			
Direct			
Shelter Plus Care Grant	14.238	**$**	**135,346**
U.S. Department of Justice			
Direct			
State Criminal Alien Assistance Program	16.606	$	63,740
COPS FAST	16.710		4,000
Total U.S. Department of Justice		**$**	**67,740**
U.S. Department of Labor			
Passed Through Minnesota Department of Economic Security			
SCSEP	17.235	$	50,853
Passed Through Dakota-Scott Service Delivery Area #14			
Workforce Investment Act - Adult	17.258		134,891
Workforce Investment Act - Youth	17.259		167,140
Workforce Investment Act - Dislocated Worker	17.260		205,148
Total U.S. Department of Labor		**$**	**558,032**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	$	275,552
Formula Grants for Other than Urbanized Areas	20.509		98,700
Passed Through Minnesota Department of Public Safety			
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601		34,763
Total U.S. Department of Transportation		**$**	**409,015**

SCOTT COUNTY
SHAKOPEE, MINNESOTA

Schedule 2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Health and Human Services			
Passed Through National Association of County and City Health Officials			
Medical Reserve Corps Small Grant Program	93.008	$	5,000
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556		161,870
Temporary Assistance for Needy Families	93.558		536,926
Child Support Enforcement	93.563		1,564,983
Refugee and Entrant Assistance - State Administered Programs	93.566		717
Child Care and Development Block Grant	93.575		100,876
Child Welfare Services - State Grants	93.645		34,241
Foster Care Title IV-E	93.658		337,167
Social Services Block Grant Title XX	93.667		404,160
Chafee Foster Care Independent Living	93.674		4,735
Children's Health Insurance Program	93.767		1,572
Medical Assistance Program	93.778		1,327,291
Block Grants for Community Mental Health Services	93.958		13,653
Passed Through Minnesota Department of Health			
Immunization Grants	93.268		18,728
Disease Control	93.283		193,660
Maternal and Child Health Services Block Grant	93.994		66,933
Total U.S. Department of Health and Human Services		**$**	**4,772,512**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	$	17,519
Homeland Security Grant Program	97.067		60,359
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012		8,529
Total U.S. Department of Homeland Security		**$**	**86,407**
Total Federal Awards		**$**	**6,368,853**

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Scott County. The County's reporting entity is defined in Note 1 to the financial statements.

2. The expenditures on this schedule are on the modified accrual basis of accounting.

3. Pass-through grant numbers were not assigned by the pass-through agencies.