

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

SHERBURNE COUNTY
ELK RIVER, 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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**SHERBURNE COUNTY
ELK RIVER, 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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**SHERBURNE COUNTY
ELK RIVER, MINNESOTA**

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**SHERBURNE COUNTY
ELK RIVER, 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? **Yes**

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

Federal Awards

Internal control over major programs:

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

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? **Yes**

The major programs are:

Temporary Assistance for Needy Families	CFDA #93.558
Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778

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

Sherburne County qualified as low-risk auditee? **No**

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

Finding 2013-001

Network Access Termination

Criteria: When employees are terminated, the County's written procedures direct the Information Services (IS) Department to disable all necessary network accounts the same day as the employee's last day in the office if the event is non-mutual. If the event is mutual and proper notice has been given, the accounts are to be removed within one business day of the employee's last day of employment.

Condition: Our testing of controls over information technology security identified four instances where terminated employees' access to the County's network was not removed in a timely manner. We noted two instances where terminated employees still had active network accounts 5 days after leaving employment with the County; one whose accounts were still active 14 days after leaving employment; and one whose accounts remained active 31 days after leaving employment.

Context: The IS Department's Employee Access Termination Tracking procedures were adopted in 2010.

Effect: When terminated employees have access to County systems, it increases the risk that malicious damage to the County's data files and systems, fraud, and/or misstatements may occur.

Cause: All four instances were seasonal employees in the Public Works Department, and Public Works did not provide Human Resources with timely notification of the employment end dates.

Recommendation: We recommend the County implement additional procedures that allow for the removal of a terminated employee's network access in a timely manner in accordance with the IS Department's Employee Access Termination Tracking procedures.

Client's Response:

Sherburne County in 2010 had implemented a flow chart and User Unenrollment form in response to a 2010 comment. This form has been distributed to the Department Heads and is located on the I: Drive of the County's network which is accessible for all Departments and Supervisors. Going forward a yearly reminder will be sent out to all of the Department Heads, that these forms must be turned in prior to the employee termination day to ensure timely removal from the County's network, in order to reduce the risk of malicious damage to the County's data files and systems from occurring. Accounts are to be removed within one to two business days of the employee's last day of employment.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

Finding 2013-002

Eligibility

Program: U.S. Department of Health and Human Services' Temporary Assistance for Needy Families (TANF) Grant (CFDA #93.558)

Pass Through Agency: Minnesota Department of Human Services (DHS)

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

Condition: While periodic supervisory reviews are performed to provide reasonable assurance of controls over compliance and compliance with grant requirements for eligibility, not all documentation was available to support that the participant was eligible for benefits, nor was there evidence to support that all information was entered into MAXIS correctly. The following exceptions were noted in our sample of 40 cases tested:

- Eight cases had either incorrect or missing shared household codes entered in MAXIS.
- One case contained an incorrect application form for the Minnesota Family Investment Program (MFIP). The recipient completed the Minnesota Transition Application Form (MTAF) to apply for MFIP when the Combined Application Form (CAF) should have been used.

- For one case, the case worker did not enter the recipient's income for March 2013 into MAXIS. For this same case, the case worker did not use the recipient's income from January 2013 in the grant calculation, resulting in an overpayment for that month.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County's Health and Human Services Department to perform the "intake function" (meeting with the social services participant to determine income and categorical eligibility), while the state maintains the computer system (MAXIS) supporting the eligibility determination process and actually pays the benefits to the participants.

Effect: Erroneous information entered into MAXIS increases the risk that participants will receive benefits when they are not eligible.

Cause: Program personnel entering case information into MAXIS did not ensure all required information was entered into MAXIS correctly.

Recommendation: We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly obtained and entered into MAXIS. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Cathy Stubbs - Income Maintenance Program Supervisor

Corrective Action Planned:

1. *Re-training of staff occurred February 2014. Training included the proper coding for shared household standards. In addition, an area will be added to the current case review form to address the household codes, and will be included in the monthly random case reviews to ensure that the proper coding takes place in the TANF area.*

2. *Policy surrounding use of CAF or MTAF reviewed at unit meeting in December 2013. Standard agency policy is not to accept MTAF if over 30 days from the close of Diversionary Work Program (DWP). Unit staff were retrained in February 2014 and is part of the random case review process.*
3. *Overpayment paperwork completed on this particular case. Re-training of staff is scheduled in June 2014 on current policy of applying correct budget cycle (use of income) when transitioning households from DWP to MFIP. Budget cycle and income budgeting is currently part of the random case review process.
Side Note: This is a known system problem in MAXIS as this area is not automated.*

Anticipated Completion Date:

1. *February 5, 2014*
2. *February 19, 2014*
3. *June 30, 2014*

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Traffic Safety Course (2009-001)

In prior audits, the State Auditor questioned the legal authority for the County's Traffic Safety Course.

Resolution

Sherburne County suspended its Traffic Safety Course in January 2014.

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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
Sherburne 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 business-type activities, each major fund, and the aggregate remaining fund information of Sherburne County, Minnesota, 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 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sherburne 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sherburne 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.

In connection with our audit, nothing came to our attention that caused us to believe that Sherburne 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.

Sherburne County's Response to Findings

Sherburne County's response to the internal control 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 6, 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
Sherburne County

Report on Compliance for Each Major Federal Program

We have audited Sherburne 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. Sherburne County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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 Sherburne 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 Sherburne 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, Sherburne 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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002. Our opinion on each major federal program is not modified with respect to this matter.

Sherburne County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Sherburne County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Sherburne 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002, that we consider to be a significant deficiency.

Sherburne County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Sherburne County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Sherburne 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 6, 2014, which contained unmodified opinions on those financial statements. 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

June 6, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

**SHERBURNE COUNTY
ELK RIVER, 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		
Direct		
Conservation Reserve Program	10.069	\$ 889
Passed Through Minnesota Department of Health		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	387,048
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	286,974
Total U.S. Department of Agriculture		\$ 674,911
U.S. Department of Justice		
Direct		
Bulletproof Vest Partnership Program	16.607	\$ 6,547
Juvenile Mentoring Program	16.726	118,952
Passed Through Minnesota Department of Public Safety		
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	8,812
Total U.S. Department of Justice		\$ 134,311
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 552,671
Passed Through Minnesota Department of Public Safety		
Highway Safety Cluster		
State and Community Highway Safety	20.600	659
Alcohol-Impaired Driving Countermeasures Incentive Grants	20.601	335
Passed Through City of Elk River		
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	10,838
Total U.S. Department of Transportation		\$ 564,503
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	\$ 96,149
Universal Newborn Hearing Screening	93.251	1,875
Immunization Cooperative Agreements	93.268	2,800
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	525
Temporary Assistance for Needy Families	93.558	61,212
(Total Temporary Assistance for Needy Families CFDA 93.558 \$462,570)		
Maternal and Child Health Services Block Grant to the States	93.994	52,163

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**SHERBURNE COUNTY
ELK RIVER, 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 (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	15,075
Temporary Assistance for Needy Families	93.558	401,358
(Total Temporary Assistance for Needy Families CFDA 93.558 \$462,570)		
Child Support Enforcement	93.563	1,213,130
Refugee and Entrant Assistance - State-Administered Program	93.566	633
Child Care and Development Block Grant	93.575	34,435
Community-Based Child Abuse Prevention Grants	93.590	11,585
Stephanie Tubbs Jones Child Welfare Services Program	93.645	7,538
Foster Care Title IV-E	93.658	191,146
Social Services Block Grant	93.667	228,200
Chafee Foster Care Independence Program	93.674	6,982
Children's Health Insurance Program	93.767	165
Medical Assistance Program	93.778	1,437,274
Block Grants for Community Mental Health Services	93.958	2,745
		<hr/>
Total U.S. Department of Health and Human Services		\$ 3,764,990
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 5,609
Passed Through Minnesota Department of Public Safety		
Hazard Mitigation Grant	97.039	34,162
Homeland Security Grant Program	97.067	67,428
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Total U.S. Department of Homeland Security		\$ 107,199
		<hr/>
Total Federal Awards		\$ 5,245,914

**SHERBURNE COUNTY
ELK RIVER, 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 Sherburne County. 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 Sherburne 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 Sherburne County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Sherburne County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of Sherburne County. Governmental funds use 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:

Highway Safety Cluster	\$	994
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5. Subrecipients

The County did not pass any federal money to subrecipients during the year ended December 31, 2013.