

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

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 150 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 700 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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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Year Ended December 31, 2015



Management and Compliance Report

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **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 federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal programs are:

Child Support Enforcement	CFDA No. 93.563
Medical Assistance Program	CFDA No. 93.778

The threshold for distinguishing between Types A and B programs was \$750,000.

Freeborn County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

Finding 2015-001

Journal Entry Approval

Criteria: Controls should be designed to provide segregation of incompatible duties.

Condition: The County has established procedures to have personnel independent of inputting journal entries into the general ledger review journal entries for accuracy and also approve journal entries. One of the 25 journal entries tested did not have evidence of review and approval.

Context: County procedures indicate journal entries are input to the general ledger by the Chief Deputy Auditor-Treasurer and Auditor-Treasurer. Our testing indicated journal entries are also being input by the Human Service Accountant. The journal entries input by the Human Service Accountant are not reviewed and approved by an individual independent of journal entry processing.

Effect: When established internal control procedures are not followed, there is an increased risk errors or irregularities will not be detected in a timely manner.

Cause: The County Auditor-Treasurer was not aware the Human Service Accountant was entering journal entries into the general ledger.

Recommendation: We recommend all journal entries entered into the general ledger be reviewed and approved by an individual independent of the individual who entered the journal entry.

Client's Response:

The County will have the Human Service Director review all journal entries made by the DHS Accountant. The County will change the procedures to indicate that the DHS Accountant has the ability to make journal entries for DHS.

Finding 2015-002

Approval of Disbursements

Criteria: Management is responsible for establishing and maintaining internal control over the various accounting cycles, including the processing of disbursements. Management is also responsible for the accuracy and completeness of all financial records and related information, including but not limited to, the controls over initiating, authorizing, recording, and processing disbursements in the general ledger system.

Condition: During our testing of internal control over compliance for Child Support Enforcement (CFDA No. 93.563) and the Medical Assistance Program (CFDA No. 93.778), we noted 19 of 80 disbursements tested did not include evidence to indicate they were reviewed and approved by a supervisor who has oversight responsibility.

Context: Proper approval by a supervisor who has oversight responsibility is an important function to ensuring amounts are accurate and proper.

Effect: Payment of unapproved claims is an indication of a failure in the internal control designed to prevent unauthorized, unallowed, or unallowable claims.

Cause: County staff indicated they felt handwritten general ledger coding on the claim was documentation of review and approval. Review of this procedure established the individual who enters the claim into the general ledger is also the individual writing the general ledger coding on the claim.

Recommendation: We recommend internal controls be implemented to ensure all invoices submitted for federal reimbursement contain proper approval by a supervisor who has oversight responsibilities.

Client's Response:

Invoices approved by the Human Service Accountant will be approved (initialed by the DHS Director).

PREVIOUSLY REPORTED ITEMS RESOLVED

Segregation of Duties - Payroll (2007-004)

The County had a lack of segregation of duties between input, processing, and disbursing in the payroll function. The County had established a procedure to have personnel independent of the payroll payment process review information input into the payroll system. The Highway Department did not always perform this review or the review was not being completed in a timely manner.

Resolution

The Highway Department had personnel independent of the payroll payment process review information input into the payroll system in a timely manner.

Information Technology Policies and Procedures (2009-002)

The County did not have documented information technology systems policies and procedures in place to address the following: information security, operation development, risk assessment of the systems, and email encryption methods.

Resolution

The County implemented several information technology systems policies and procedures during 2015.

Access to Accounting System (2010-001)

The Information Technology Department personnel had user access to the payroll accounting system.

Resolution

The Auditor-Treasurer's Office reviews any payroll processing performed by the Information Technology Department. Only select staff within the Auditor-Treasurer's Office have the ability to approve the electronic fund transfer for the payment of payroll.

Audit Adjustments (2011-001)

During the prior year audit, we proposed a material audit adjustment of \$409,997 to the Ditch Special Revenue Fund which increased deferred inflows of resources - unavailable revenue and decreased intergovernmental revenue. This adjustment was reviewed and approved by the appropriate staff and was reflected in the financial statements.

Resolution

The County Board approved a change in the revenue recognition policy from 60 days to 45 days effective for Fiscal Year 2015. This gave the County additional time to review and detect errors prior to the start of the trial balance audit.

Workstation Security (2013-001)

The County did not require employees to lock access to their workstation when unattended. Some workstations' security settings were not set to properly protect data and programs from unauthorized access.

Resolution

The County implemented a policy requiring employees to lock their workstations when unattended.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding 2015-002

Activities Allowed and Unallowed, Allowable Costs/Cost Principles

Program: U.S. Department of Health and Human Services' Child Support Enforcement (CFDA No. 93.563), Award #1504MN4005, 2014 and 2015; and Medical Assistance Program (CFDA No. 93.778), Award #1505MN5ADM, 2015

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: Based on our testing of internal controls, 9 of the 40 Child Support Enforcement invoices tested, and 10 of the 40 Medical Assistance Program invoices tested did not include evidence to indicate they were reviewed and approved by a supervisor who has oversight responsibility.

The sample size was based on guidance from Chapter 21 of the AICPA Audit Guide, *Government Auditing Standards and Single Audit*.

Questioned Costs: Not applicable.

Context: Proper approval by a supervisor who has oversight responsibility is an important function to ensure amounts charged to federal programs are accurate and proper.

Effect: Payment of unapproved claims is an indication of a failure in the internal control designed to prevent unauthorized, unallowed, or unallowable claims.

Cause: County staff indicated they felt handwritten general ledger coding on the claim was documentation of review and approval. Review of this procedure established the individual who enters the claims into the general ledger is also the individual writing the general ledger coding on the claim.

Recommendation: We recommend internal controls be implemented to ensure all invoices submitted for federal reimbursement contain proper approval by a supervisor who has oversight responsibilities.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Brian Buhmann

Corrective Action Planned:

Invoices approved by the Human Service Accountant will be approved (initialed by the DHS Director).

Anticipated Completion Date:

May 3, 2016

Finding 2015-003

Reimbursement Request Review

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award #1505MN5ADM, 2015

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: During our walkthrough of internal controls over the reporting compliance requirement, we noted the Local Collaborative Time Study Cost Schedule (DHS-3220) reimbursement reports do not contain evidence of review and approval by an individual independent of preparation.

Questioned Costs: Not applicable.

Context: The Local Collaborative Time Study Cost Schedule (DHS-3220) reimbursement request does not have a signature block and date to document review and approval.

Effect: When internal controls are not properly designed, there is an increased risk of errors and irregularities.

Cause: The County indicated the Public Health Department was not aware there should be review and approval of the Local Collaborative Time Study Cost Schedule (DHS-3220) reimbursement request.

Recommendation: We recommend the Local Collaborative Time Study Cost Schedule (DHS-3220) reimbursement request be reviewed and approved by an individual independent of preparation.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Alan Olson, Human Service Accountant

Corrective Action Planned:

The LCTS Program Supervisor shall sign the cost reports before they are submitted.

Anticipated Completion Date:

The actions have already been put into place as of May 2, 2016.

Finding 2015-004

Program Eligibility Intake Function

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award #1505MN5ADM, 2015

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The State of Minnesota maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. During our review of the Medical Assistance Program, the asset information in the MAXIS system did not match the supporting documentation provided by the client in 4 of the 40 case files tested, and the income information in the MAXIS system did not match the supporting documentation provided by the client in 1 of the 40 case files tested.

The sample size was based on guidance from Chapter 21 of the AICPA Audit Guide, *Government Auditing Standards and Single Audit*.

Questioned Costs: Not applicable.

Context: The Minnesota Department of Human Services maintains the computer system, MAXIS, for which a portion of the Medical Assistance Program eligibility is determined. The State of Minnesota contracts with the County Social Services Department to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the state maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the clients.

Effect: The lack of documented verification of key eligibility determining factors increases the risk that clients will receive benefits when they are not eligible.

Cause: The County indicated staff need to be more cautious to ensure all information on the application or renewal form match what is entered into the MAXIS system.

Recommendation: We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly maintained in case files.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Jill Westney

Corrective Action Planned:

Will remind financial workers during monthly staff meetings that information in MAXIS needs to be accurate even when that update does not impact eligibility.

Anticipated Completion Date:

June 2016 Financial Worker Staff Meeting

PREVIOUSLY REPORTED ITEM RESOLVED

Reporting Compliance Requirements (CFDA No. 93.563) (2014-001)

The County reported salaries and fringe expenditures on Form DHS-2250 Section E for employees who were listed on the random moment study (IMRMS). These employees should have been reported in Section A of the DHS-2250 report.

Resolution

The County reported salaries and fringe expenditures on Form DHS-2250 Section A for employees who were listed on the random moments study (IMRMS).

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2015-005

Collateral to Secure Deposits

Criteria: The County is required by Minn. Stat. § 118A.03 to obtain collateral to secure deposits to the extent funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount on deposit, unless the collateral is an irrevocable letter of credit issued by Federal Home Loan Banks, which requires an amount at least equal to the amount on deposit.

Condition: The County had deposits at Wells Federal Bank that were not adequately covered by FDIC coverage on May 31, 2015.

Context: Deposits in excess of the FDIC coverage were \$4,733,484 on May 31, 2015.

Effect: The County is not in compliance with Minn. Stat. § 118A.03.

Cause: The County indicated deposits at the bank had a large increase for tax collections in May.

Recommendation: We recommend the County establish procedures to monitor all County deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

Client's Response:

There were extra funds in the general checking account due to school settlements being paid out the next week. The County will monitor the account daily during high settlement times.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-005

Disaster Recovery Plan

Criteria: The County needs to provide for the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements. A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan as to how the County will continue operations until normal operations are re-established;
- a list of materials the County needs to continue operations and how they will be obtained;
- identification of the space to be used; and
- a schedule for developing and periodically reviewing and updating the plan.

Condition: Freeborn County has not completed or approved a formal disaster recovery plan, although the County has started a plan.

Context: A disaster recovery plan would give greater assurance the County is prepared for a disaster or major computer breakdown.

Effect: In the event a disaster occurred, the County could experience a delay in reporting of financial services to the public.

Cause: The County is aware of the issue but has not had time to address the completion of a plan.

Recommendation: We recommend the County continue to develop, implement, and test the disaster recovery plan. All County employees should be familiar with the plan.

Client's Response:

We will continue to work on this plan, but with the rapid changes in technology and the changing of key personnel, this will always be a work in process.

Finding 2012-002

Ditch Fund Balance Deficits

Criteria: Each ditch benefits specific landowners; therefore, each individual ditch should have adequate resources to meet its financial obligations. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

Condition: As of December 31, 2015, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

Context: Three of the 62 individual ditch systems had deficit fund balances as of December 31, 2015, totaling \$60,715, which is an increase from the \$22,622 deficit reported in the prior year.

Effect: Ditch systems with deficits indicate measures have not been taken to ensure an individual ditch system can meet financial obligations.

Cause: The County indicated deficits were due to the ditch levies not being sufficient to cover costs.

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

Client's Response:

The County will continue to build a balance for repairs and maintenance as allowed by statute. Minnesota Statutes ch. 103E allows benefitted land owners to petition for an improvement on the ditch. Engineering study and redetermination of benefits must be performed. The County cannot assess these costs until the studies are completed, so we will not have the funds for improvement projects.

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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
Freeborn County
Albert Lea, Minnesota

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, each major fund, and the aggregate remaining fund information of Freeborn County, Minnesota, as of and for the year ended December 31, 2015, 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 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Freeborn 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 deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 and 2015-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Freeborn 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 Counties*, 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 Freeborn County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as item 2015-005. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations and information to be of benefit to the County, and they are reported for that purpose.

Freeborn County's Response to Findings

Freeborn County's responses to the internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Counties* 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 16, 2016

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

Board of County Commissioners
Freeborn County
Albert Lea, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Freeborn County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *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, 2015. Freeborn 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Freeborn 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Freeborn 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, Freeborn 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, 2015.

Report on Internal Control Over Compliance

Management of Freeborn 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 the Uniform Guidance, 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 in 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 certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items to 2015-002, 2015-003, and 2015-004, that we consider to be significant deficiencies.

Freeborn County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Freeborn County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County, Minnesota, as of and for the year ended December 31, 2015, 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 16, 2016, 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 Freeborn County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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. Such 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 the Uniform Guidance. 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 16, 2016

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	12-700-00073	\$ 242,527
Passed through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15152MN10152514	249,214
Passed through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP)	10.572	Not Provided	<u>446</u>
Total U.S. Department of Agriculture			<u>\$ 492,187</u>
U.S. Department of Justice			
Direct			
State Criminal Alien Assistance Program	16.606		\$ 10,630
Bulletproof Vest Partnership Program	16.607		<u>4,462</u>
Total U.S. Department of Justice			<u>\$ 15,092</u>
U.S. Department of Transportation			
Passed through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction (Total expenditures for Highway Planning and Construction Cluster \$158,422)	20.205	00024	\$ 8,422
Passed through Minnesota Department of Natural Resources Highway Planning and Construction Cluster Recreational Trails Program (Total expenditures for Highway Planning and Construction Cluster \$158,422)	20.219	0033-11-AD	150,000
Total U.S. Department of Transportation			<u>\$ 158,422</u>
U.S. Department of Education			
Passed through Minnesota Department of Employment and Economic Development Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	Not Provided	\$ 140
Passed through Albert Lea School District No. 241 Special Education - Grants for Infants and Families	84.181	Not Provided	<u>2,492</u>
Total U.S. Department of Education			<u>\$ 2,632</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	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	Not Provided	\$ 3,500
Passed through Minnesota Department of Health			
Public Health Emergency Preparedness	93.069	12-700-00073	26,000
Universal Newborn Hearing Screening	93.251	12-700-00073	75
Immunization Cooperative Agreements	93.268	12-700-00073	2,800
Temporary Assistance for Needy Families	93.558	12-700-00073	44,266
(Total Temporary Assistance for Needy Families 93.558 \$523,179)			
Money Follows the Person Rebalancing Demonstration	93.791	12-700-00073	622
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00073	41,259
Passed through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	1501MNRCMA	4,282
Temporary Assistance for Needy Families	93.558	1502MNTANF	478,913
(Total Temporary Assistance for Needy Families 93.558 \$523,179)			
Child Support Enforcement	93.563	1504MN4005	528,536
Refugee and Entrant Assistance - State-Administered Programs	93.566	1501MNRCMA	154
Child Care and Development Block Grant	93.575	G1501MNCDF	15,847
Community-Based Child Abuse Prevention Grants	93.590	1302MNFPRG	6,655
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCW55	1,161
Foster Care - Title IV-E	93.658	1501MNFOST	157,058
Social Services Block Grant	93.667	1501MNSOSR	192,364
Chafee Foster Care Independence Program	93.674	1401MN1420	560
Children's Health Insurance Program	93.767	1405MN5021	127
Medical Assistance Program	93.778	1505MN5ADM	1,011,042
Total U.S. Department of Health and Human Services			\$ 2,515,221
U.S. Social Security Administration			
Passed through Minnesota Department of Human Services			
Social Security - Disability Insurance	96.001	Not Provided	\$ 815
U.S. Department of Homeland Security			
Passed through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	R29G4CGSFY15	\$ 2,434
Passed through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	047-99047-01	104,540
Emergency Management Performance Grants	97.042	Not Provided	48,317
Total U.S. Department of Homeland Security			\$ 155,291
Total Federal Awards			\$ 3,339,660

Freeborn County did not pass any federal awards through to subrecipients during the year ended December 31, 2015

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

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Freeborn 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 Freeborn County under programs of the federal government for the year ended December 31, 2015. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) from the Office of Management and Budget (OMB). Because the schedule presents only a selected portion of the operations of Freeborn County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Freeborn County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on a modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Freeborn County has elected not to use the 10 percent de minimis indirect cost rate allowed under the uniform Guidance.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,955,701
Unavailable in 2014, recognized as revenue in 2015	
Highway Planning and Construction (CFDA #20.205)	(20,027)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	(282,432)
Grants received more than 60 days after year-end, unavailable in 2015	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)	52,303
Temporary Assistance for Needy Families (CFDA #93.558)	160,445
Child Support Enforcement (CFDA #93.563)	73,679
Refugee and Entrant Assistance - State-Administered Programs (CFDA #93.566)	50
Foster Care - Title IV-E (CFDA #93.658)	28,645
Medical Assistance Program (CFDA #93.778)	174,365
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	<u>196,931</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 3,339,660</u>