

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

STEARNS COUNTY
ST. CLOUD, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

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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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Year Ended December 31, 2014



Management and Compliance Report

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

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**STEARMS COUNTY
ST. CLOUD, MINNESOTA**

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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:

| | |
|--|--------------|
| Special Supplemental Nutrition Program for Women, Infants, and Children | CFDA #10.557 |
| Highway Planning and Construction Cluster | |
| Highway Planning and Construction | CFDA #20.205 |
| Recreational Trails Program | CFDA #20.219 |
| Medical Assistance Program | CFDA #93.778 |

The threshold for distinguishing between Types A and B programs was \$430,851.

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1996-006

Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. Offices that do not have sufficient segregation of duties include the Sheriff, Jail, Environmental Services, and Parks. These departments generally have one staff person who is responsible for billing, collecting, recording and depositing receipts, as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Stearns County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County informed us that it does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend the County's elected officials and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client Response:

We are aware of the problems with segregation of duties in certain areas. In many of these areas, we feel it would be cost-prohibitive to implement total segregation (cost vs. benefit). Thereby, other accounting techniques and methods are used to verify the reasonableness of these areas of concern.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2013-001

Eligibility

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

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: The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. We noted the following exceptions in our sample of 40 cases tested:

- Five case files did not include an annual review form in the file and/or it was not date stamped upon receipt by the County.
- Two case files had other health insurance that was not properly entered and identified in MAXIS.
- Four case files were missing the annual eligibility re-determinations.
- Seven case files had assets or income that was not sufficiently verified and/or was not properly entered into MAXIS.

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 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 participants.

Effect: The lack of documentation and improper input of information into MAXIS increases the risk that a program participant will receive benefits when they are not eligible.

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

Recommendation: We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly input into MAXIS and issues are followed up in a timely manner. In addition, consideration should be given to providing further training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Janet Goligowski, Division Director - Gateway Services
Stearns County Human Services
janet.goligowski@co.stearns.mn.us
320-656-6202*

Corrective Action Planned:

Firstly, in October 2014, Stearns County implemented case reviews as indicated in the 2013 Corrective Action Plan. We continue to do ongoing case reviews. Upon completion of reviews, supervisors are required to provide both individual training and unit training as well as immediate action on the case findings. Stearns County HS management team conducts monthly training sessions, individual training and mentor-facilitated training to assure staff are familiarized with the often quick and numerous changes.

Secondly, due to inherent limitations during 2013 through 2014 with the federal Healthcare expansion rules, DHS issued directions to counties waiving some required case verifications and documentation. For cases going forward, DHS continues to issue ongoing directions to counties to reconcile document requirements. We anticipate that as DHS' eligibility systems and expansion rules

stabilize counties will receive further directions on how to handle cases without waiving program requirements. Stearns County HS management team conducts monthly training sessions, individual training and mentor-facilitated training to assure staff are familiarized with the often quick and numerous changes.

In addition, in July 2015, an internal Quality Assurances-Audit team has been established to facilitate ongoing real-time case reviews specifically targeting healthcare cases for additional analysis of errors, and then earmarking training and case corrections.

Anticipated Completion Date:

*Monthly trainings for four units. December 2015
Ongoing case reviews since 2014
QA-Audit team meets quarterly effective July 2015*

ITEM ARISING THIS YEAR

Finding 2014-001

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting

Program: U.S. Department of Agriculture's Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557)

Pass-Through Agency: Minnesota Department of Health

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 federal programs.

Condition: The County's Public Health Department uses the Public Health Documentation (PH-Doc) system to track staff time by program. At the end of the month, reported hours from PH-Doc are used to support salary expenditures reported on the monthly requests for reimbursement submitted to the Minnesota Department of Health. The time entered into PH-Doc by Public Health staff is not approved by supervisors, nor is it compared and reconciled to the County's payroll system or general ledger.

Questioned Costs: None.

Context: Public Health staff record the time they spend on various programs throughout the day in the PH-Doc system. Payroll expenditures reported to the granting agency and requested for reimbursement are calculated based on hours worked from the PH-Doc reports times the applicable hourly pay rates.

Effect: The payroll expenditures reported to the Minnesota Department of Health and reimbursed with federal grant funds may not be accurate, or may not be for allowable activities/costs.

Cause: The time reporting/payroll system used by the County to process its payroll has separate review and approval procedures in place. There are no processes in place for approval, review, and reconciliation of the time reported in the PH-Doc system.

Recommendation: We recommend the Public Health Department establish and implement procedures for supervisory review and approval of the coding of time in the PH-Doc system. The payroll expenditures calculated and reported to the granting agency should also be reconciled to the County's payroll system.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Renee S. Frauendienst, RN, PHN, BSN, CPI
Public Health Division Director/CHS Administrator
Stearns County Human Services
renee.frauendienst@co.stearns.mn.us
320-656-6284*

Corrective Action Planned:

Because this will take a significant amount of extra time for the supervisors (approximately 2 hours per employee) and that we anticipate this will be needed for all grants and includes not only PH staff but also Office Services staff, we will be recommending a short-term solution and a long-term solution that would streamline the process.

Short-term:

- 1. PH and F&T will work with Xerox to create a report that can be run each pay period that provides a summary of time worked by employee.*
- 2. The supervisor will run the report and compare the PH Doc reported time to payroll.*
- 3. Any differences will be verified with the employee by the supervisor.*
- 4. If the correction needs to take place in PH Doc, the supervisor will work with the application specialist to make the change in PH Doc.*

5. *If the correction needs to take place in the Payroll system, the supervisor will return the timesheet to the employee for correction and resubmission.*
6. *Once the timesheet matches PH Doc the supervisor will approve the time sheet.*

Long-term:

1. *HS F&T, Administration and PH Division will work with the Auditor's office and Xerox to explore the development of an interface between payroll and PH Doc. (Olmsted County has done this already with their payroll system.)*
2. *This would allow employees to put their time into PH Doc and the supervisor would verify their time in PH Doc each week.*
3. *An interface would then allow payroll to use the verified time in PH Doc to populate their time in the County payroll system for payment.*

Anticipated Completion Date:

Short term: October 31

Long term: April 30, 2016

PREVIOUSLY REPORTED ITEM RESOLVED

Requirements of Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA (CFDA No. 16.804) (2013-002)

The County did not maintain adequate internal controls over compliance or comply with certain compliance requirements of the grant.

Resolution

The County had no expenditures related to this grant during 2014.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

Finding 2014-002

Depository Pledge Agreements

Criteria: Minn. Stat. § 118A.03, subd. 4, states in part, “Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution.”

Condition: Stearns County could not provide depository pledge agreements for three of the four securities pledged by United Banker’s Bank for deposits held at Liberty Savings Bank at year-end.

Context: At December 31, 2014, the County had \$482,339 on deposit with Liberty Savings Bank.

Effect: The County was not in compliance with Minnesota statutes regarding depository pledge agreements.

Cause: The County provided us with Substitution of Collateral notices from United Banker’s Bank which staff believed met the statutory requirements.

Recommendation: We recommend the County Auditor/Treasurer’s Office obtain collateral pledge agreements from every bank for every security pledged. Any new assignment should be reviewed to ensure it includes the statutory language required by Minn. Stat. § 118A.03.

Client’s Response:

We are currently working with all banking institutions to obtain existing Collateral Pledge Agreements. All new collateral assignments will be reviewed by the Financial Coordinator to be certain a Collateral Pledge Agreement is obtained. All Collateral Pledge Agreements will be kept on file for the duration of the agreement.

Finding 2014-003

Contract Compliance

Criteria: Pursuant to Minn. Stat. §§ 471.345, subd. 3, and 375.21, contracts estimated to exceed \$100,000 must be made using sealed bids solicited by public notice by advertising for bids in a qualified legal newspaper of the County or through the alternative dissemination of bids and requests as provided by Minn. Stat. § 331A.03. In addition, all contracts should be executed in writing in accordance with Minn. Stat. § 375.21, subd. 1.

Condition: On August 12, 2014, the County Board approved a contract to replace the roof on the Administration Building. Although the contract was above the \$100,000 bid threshold, the County could not provide us with documentation showing that it advertised for bids in a qualified newspaper or obtained a signed contract for the project.

Context: The County Board approved the contract in the amount of \$213,900. The County's bid specifications for the project require that, within 10 days after notification in writing of the owner's intent to award the contract, the accepted bidder will be required to enter into a contract with the owner on Standard Form of Agreement Between Owner and Contractor (Document A101).

Effect: Without proper documentation, we were unable to determine the County's compliance with Minn. Stat. §§ 471.345, subd. 3, and 375.21.

Cause: The County did not follow the proper statutory guidelines regarding contracting and bidding. We were provided with the County's 2014-2018 Capital Improvement Plan, which included the roofing project, in lieu of the affidavit of publication for bids. We were also given a purchase order in lieu of a signed contract.

Recommendation: We recommend the County Purchasing Department be informed of and provided with the statutory requirements to ensure compliance with the applicable contracting and bidding statutes for all future contracts. Adequate documentation of compliance should be maintained in the files.

Client's Response:

Minn. Stat. §§ 471.345, subd. 3, 375.21, and 331A.03 have been issued to the Purchasing Director and reviewed with his immediate supervisor. Beginning immediately these statutes will be strictly adhered to. Contracts exceeding \$100,000 will be reviewed by the Purchasing Director's supervisor for compliance. Copies of all public notices for bids will be kept on file through completion of the related contract(s).

PREVIOUSLY REPORTED ITEM RESOLVED

Withholding Affidavit for Contractors (Form IC-134) (2013-003)

During 2013, the County made final payment on two contracts before the Minnesota Department of Revenue's Affidavit of Withholding forms (IC-134) were obtained from the contractors as required by Minn. Stat. § 270C.66.

Resolution

During 2014, the required affidavit of withholding forms were obtained on all applicable contracts tested for compliance.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Stearns County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live,

how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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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
Stearns County
St. Cloud, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 25, 2015. Our report includes a reference to other auditors who audited the financial statements of the Housing and Redevelopment Authority (HRA) of Stearns County, the discretely presented component unit, for the year ended June 30, 2014, as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stearns 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 1996-006, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stearns County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance in tax increment financing as the cities administer the tax increment financing in Stearns County.

In connection with our audit, nothing came to our attention that caused us to believe that Stearns County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 2014-002 and 2014-003. 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 is an other item for consideration. We believe this information to be of benefit to the County, and it is reported for that purpose.

Stearns County's Response to Findings

Stearns County's responses to the internal control and legal compliance 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 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

September 25, 2015

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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 OMB CIRCULAR A-133

Independent Auditor's Report

Board of County Commissioners
Stearns County
St. Cloud, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Stearns 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, 2014. Stearns County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Stearns County's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Stearns County component unit, which expended \$1,290,847 in federal awards during the year ended June 30, 2014, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA of Stearns County because it had a separate single audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Stearns 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 Stearns 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, Stearns 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of Stearns 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 certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2014-001, that we consider to be significant deficiencies.

Stearns 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. Stearns County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County, Minnesota, as of and for the year ended December 31, 2014, including the Housing and Redevelopment Authority (HRA) of Stearns County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We have issued our report thereon dated September 25, 2015, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the HRA of Stearns County, which was audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has

been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 25, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|--|------------------------------------|----------------------------|
| U.S. Department of Agriculture | | |
| Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | \$ 599,237 |
| Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) | 10.561 | <u>1,149,940</u> |
| Total U.S. Department of Agriculture | | <u>\$ 1,749,177</u> |
| U.S. Department of Justice | | |
| Direct | | |
| Justice Systems Response to Families | 16.021 | \$ 371 |
| State Criminal Alien Assistance Program | 16.606 | 15,439 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 29,110 |
| Passed Through Minnesota Department of Public Safety Juvenile Justice and Delinquency Prevention - Allocation to States | 16.540 | <u>55,637</u> |
| Total U.S. Department of Justice | | <u>\$ 100,557</u> |
| U.S. Department of Transportation | | |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction | 20.205 | \$ 2,577,701 |
| Passed Through Minnesota Department of Natural Resources Highway Planning and Construction Cluster Recreational Trails Program | 20.219 | 108,432 |
| Passed Through City of St. Cloud State and Community Highway Safety | 20.600 | 12,162 |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | <u>23,891</u> |
| Total U.S. Department of Transportation | | <u>\$ 2,722,186</u> |
| U.S. Department of Health and Human Services | | |
| Direct | | |
| Food and Drug Administration - Research | 93.103 | \$ 81,984 |
| Passed Through Minnesota Department of Health Public Health Emergency Preparedness | 93.069 | 87,634 |
| Universal Newborn Hearing Screening | 93.251 | 6,050 |
| Immunization Cooperative Agreements | 93.268 | 41,647 |
| Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program | 93.314 | 150 |

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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

(Continued)

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|---|------------------------------------|----------------------|
| U.S. Department of Health and Human Services | | |
| Passed Through Minnesota Department of Health (Continued) | | |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | 764,458 |
| PPHF National Public Health Improvement Initiative | 93.507 | 2,000 |
| Temporary Assistance for Needy Families | 93.558 | 155,623 |
| (Total Temporary Assistance for Needy Families 93.558 \$1,478,980) | | |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 115,020 |
| Passed Through Minnesota Department of Human Services | | |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | 51,077 |
| Promoting Safe and Stable Families | 93.556 | 53,591 |
| Temporary Assistance for Needy Families | 93.558 | 1,323,357 |
| (Total Temporary Assistance for Needy Families 93.558 \$1,478,980) | | |
| Child Support Enforcement | 93.563 | 2,320,769 |
| Refugee and Entrant Assistance - State Administered Programs | 93.566 | 24,968 |
| Child Care and Development Block Grant | 93.575 | 98,318 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | 17,191 |
| Foster Care - Title IV-E | 93.658 | 765,452 |
| Social Services Block Grant | 93.667 | 608,510 |
| Chafee Foster Care Independence Program | 93.674 | 7,027 |
| Medical Assistance Program | 93.778 | 2,902,819 |
| | | <u>2,902,819</u> |
| Total U.S. Department of Health and Human Services | | \$ 9,427,645 |
| U.S. Department of Homeland Security | | |
| Passed Through Minnesota Department of Natural Resources | | |
| Boating Safety Financial Assistance | 97.012 | \$ 2,294 |
| Passed Through Minnesota Department of Public Safety | | |
| Hazard Mitigation Grant | 97.039 | 223,612 |
| Emergency Management Performance Grants | 97.042 | 132,413 |
| Homeland Security Grant Program | 97.067 | 3,811 |
| | | <u>3,811</u> |
| Total U.S. Department of Homeland Security | | \$ 362,130 |
| Total Federal Awards | | \$ 14,361,695 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Stearns County. The County's reporting entity is defined in Note 1 to the financial statements. Stearns County's financial statements include the operations of the Stearns County Housing and Redevelopment Authority component unit, which expended \$1,290,847 in federal awards during the year ended June 30, 2014. Those expenditures are not included in the County's Schedule of Expenditures of Federal Awards because it had a separate single audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Stearns County under programs of the federal government for the year ended December 31, 2014. 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 Stearns County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Stearns County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

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

| | |
|---|--------------|
| Highway Planning and Construction Cluster | \$ 2,686,133 |
|---|--------------|

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Subrecipients

Of the expenditures presented in the schedule, Stearns County provided federal awards to subrecipients as follows:

| <u>CFDA Number</u> | <u>Program Name</u> | <u>Amount Provided to Subrecipients</u> |
|--------------------|--|---|
| 16.738 | Edward Byrne Memorial Justice Assistance Grant Program | \$ 14,555 |

6. Reconciliation to Schedule of Intergovernmental Revenue

| | |
|---|----------------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ 15,527,908 |
| Grants received more than 60 days after year-end, unavailable in 2014 | |
| Hazard Mitigation Grant | 223,612 |
| Public Health Emergency Preparedness | 24,135 |
| Temporary Assistance for Needy Families | 3,457 |
| Child Care and Development Block Grant | 8,802 |
| Unavailable in 2013, recognized as revenue in 2014 | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) | (210,657) |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | (202,323) |
| Temporary Assistance for Needy Families | (449,855) |
| Child Support Enforcement | (334,839) |
| Child Care and Development Block Grant | (8,677) |
| Medical Assistance Program | (219,868) |
| | <hr/> |
| Expenditures Per Schedule of Expenditures of Federal Awards | <u>\$ 14,361,695</u> |