

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

**CROW WING COUNTY**  
**BRAINERD, MINNESOTA**

YEAR ENDED DECEMBER 31, 2008

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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**CROW WING COUNTY  
BRAINERD, MINNESOTA**

**Year Ended December 31, 2008**



**Management and Compliance Report**

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

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**CROW WING COUNTY  
BRAINERD, MINNESOTA**

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**CROW WING COUNTY  
BRAINERD, MINNESOTA**

**Schedule 1**

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

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of Crow Wing County.
- B. A significant deficiency involving internal control was disclosed by the audit of the financial statements of Crow Wing County and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Crow Wing County were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." It was not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Crow Wing County expresses an unqualified opinion.
- F. A finding relative to a major federal award program for Crow Wing County was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:

State Administrative Matching Grants for Food	
Stamp Program	CFDA #10.561
Highway Planning and Construction	CFDA #20.205
Child Support Enforcement	CFDA #93.563
Foster Care Title IV-E	CFDA #93.658
Social Services Block Grant Title XX	CFDA #93.667
Medical Assistance Program	CFDA #93.778

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

I. Crow Wing County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-1 Internal Control Monitoring

County management is responsible for monitoring the County's internal controls. This responsibility requires performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for the County Administrator, members of the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Our inquiry of County management found that significant internal controls of the accounting system are still in the beginning stages of documentation. Some significant internal controls are assessed on an informal basis. Significant internal controls would cover such areas as:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing; and
- payroll.

There is no formal process for the County's risk assessments, which are not documented to demonstrate what was reviewed and the results of the reviews.

We recommend that County personnel document the significant internal controls in the accounting system. We also recommend that a formal plan be developed that calls for assessing and monitoring of the internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

### **III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

#### ITEM ARISING THIS YEAR

#### 08-1 Highway Planning and Construction (CFDA #20.205) - Davis-Bacon Act

The County has instituted a payroll tracking system to document contractors and subcontractors, when applicable, who have worked on a federal project and that the required payroll reports have been submitted to the County. Those payrolls are to be used in determining compliance with the Davis-Bacon Act, which requires the County to pay prevailing wage rates not less than those established by the U.S. Department of Labor on projects funded by federal dollars. However, the County could not provide written evidence that it had actually performed procedures to determine compliance with the Davis-Bacon Act on the payrolls submitted.

We recommend that the County document on the payrolls submitted evidence of the procedures performed on the payrolls to support the monitoring of and compliance with this requirement.

#### Corrective Action Plan:

##### Contact Person:

*Mark Melby, Engineering Coordinator*

##### Corrective Action Plan:

*The County was under the assumption that the payroll tracking spreadsheet was sufficient documentation in monitoring Contractor compliance with the Davis-Bacon Act. Before final payment is made, we verify that the required payroll reports are received. We do acknowledge the fact that once the payroll reports are reviewed, they are not initialed or signed to verify that they were actually reviewed.*

*From this point forward, all payroll reports will be initialed or signed by the employee reviewing the payroll reports. We will conduct more frequent interviews in the field and document appropriately. Our written procedure for monitoring compliance with the Davis-Bacon Act is to follow the Mn/DOT Labor Compliance Manual on file in our office and to review guidelines on the Mn/DOT Web site.*

Estimated Completion Date:

*October 30, 2009*

#### **IV. OTHER FINDINGS AND RECOMMENDATIONS**

##### MINNESOTA LEGAL COMPLIANCE

##### PREVIOUSLY REPORTED ITEM NOT RESOLVED

###### 07-3 Standby Letters of Credit

Minn. Stat. § 118A.03, subd. 2, includes as acceptable collateral: “irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank’s public debt is rated “AA” or better by Moody’s Investors Service, Inc., or Standard & Poor’s Corporation.” The Federal Home Loan Bank that provides letters of credit for Crow Wing County’s depositories is not including written evidence of the bank’s public debt rating.

We recommend that the County Treasurer obtain written evidence of the bank’s public debt rating when receiving standby letters of credit from the Federal Home Loan Bank.

##### PREVIOUSLY REPORTED ITEM RESOLVED

###### **Collateral Substitution - Depository Pledge Agreement (07-2)**

The Depository Pledge Agreement with Bremer Bank allowed the financial institution to substitute collateral before it gave any notice to the County which did not meet the standard set by Minn. Stat. § 118A.03, subd. 5.

###### **Resolution**

The County obtained a new pledge agreement from Bremer Bank that meets the standard set by statute.



REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of County Commissioners  
Crow Wing County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Crow Wing County as of and for the year ended December 31, 2008, and have issued our report thereon dated November 6, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Serpent Lake Sanitary Sewer District, a discretely presented component unit, as described in our report on Crow Wing 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. The financial statements of the Serpent Lake Sanitary Sewer District were not audited in accordance with *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Crow Wing County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

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

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

### Compliance and Other Matters

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

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Crow Wing County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 07-3.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

November 6, 2009

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners  
Crow Wing County

### Compliance

We have audited the compliance of Crow Wing County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Crow Wing County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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 Crow Wing County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Crow Wing County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

### Internal Control Over Compliance

The management of Crow Wing County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on 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.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in Crow Wing County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 08-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Crow Wing County as of and for the year ended December 31, 2008, and have issued our report thereon dated November 6, 2009. We did not

audit the financial statements of the Serpent Lake Sanitary Sewer District, a discretely presented component unit. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Crow Wing County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Crow Wing County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

November 6, 2009

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**CROW WING COUNTY  
BRAINERD, MINNESOTA**

Schedule 2

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 284,388	\$ -
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	384,658	-
<b>Total U.S. Department of Agriculture</b>		<b>\$ 669,046</b>	<b>\$ -</b>
<b>U.S. Department of Housing and Urban Development</b>			
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants	14.228	<b>\$ 3,800</b>	<b>\$ -</b>
<b>U.S. Department of Justice</b>			
Direct			
Bulletproof Vest Partnership Grant	16.607	\$ 9,743	\$ -
Edward Byrne Memorial Justice Assistance Grant Program	16.738	12,731	-
<b>Total U.S. Department of Justice</b>		<b>\$ 22,474</b>	<b>\$ -</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,294,932	\$ -
Highway Safety Cluster			
State and Community Highway Safety	20.600	25,079	-
Alcohol Traffic Safety and Drunk Driving	20.601	3,570	-
<b>Total U.S. Department of Transportation</b>		<b>\$ 1,323,581</b>	<b>\$ -</b>
<b>U.S. Environmental Protection Agency</b>			
Direct			
Congressionally Mandated Projects	66.202	<b>\$ 102,263</b>	<b>\$ -</b>

**CROW WING COUNTY  
BRAINERD, MINNESOTA**

*Schedule 2*  
*(Continued)*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Health			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 66,467	\$ -
Temporary Assistance for Needy Families (TANF)	93.558	75,359	-
Community Mental Health Block Grant	93.958	70,952	-
Maternal and Child Health Services Block Grant	93.994	65,874	-
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	73,778	-
Temporary Assistance for Needy Families (TANF)	93.558	891,872	762,560
Child Support Enforcement	93.563	977,873	-
Refugee and Entrance Assistance Grant	93.566	1,056	-
Community Based Child Abuse Prevention Grant	93.590	34,446	-
Child Care Cluster			
Block Grant - Child Care and Development	93.575	833,578	-
Child Care Mandatory and Matching Funds	93.596	329,035	-
Foster Care Title IV-E	93.658	396,208	-
Social Services Block Grant Title XX	93.667	391,001	-
Chafee Foster Care Independence Program	93.674	24,326	-
State Children's Insurance Program	93.767	1,013	-
Medical Assistance Program	93.778	890,732	-
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 5,123,570</b>	<b>\$ 762,560</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety			
State Domestic Preparedness Equipment Support Program	97.004	\$ 67,591	\$ -
Boating Safety Financial Assistance	97.012	54,073	-
Pre-Disaster Mitigation (PDM) Competitive Grant	97.017	284	-
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 121,948</b>	<b>\$ -</b>
<b>Total Federal Awards</b>		<b>\$ 7,366,682</b>	<b>\$ 762,560</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Crow Wing County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.