

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

SHERBURNE COUNTY
ELK RIVER, MINNESOTA

YEAR ENDED DECEMBER 31, 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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**SHERBURNE COUNTY
ELK RIVER, 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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**SHERBURNE COUNTY
ELK RIVER, MINNESOTA**

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**SHERBURNE COUNTY
ELK RIVER, 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 Sherburne County.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of Sherburne 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 Sherburne County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Sherburne County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Child Support Enforcement Title IV-D	CFDA #93.563
Child Care Development Cluster	
Development Block Grant	CFDA #93.575
Mandatory and Matching Funds of the Child	
Care and Development Fund	CFDA #93.596
Medical Assistance Program	CFDA #93.778
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Sherburne 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

96-2 Departmental Internal Accounting Control

Due to the limited number of office personnel within the Public Health Department and Extension Office, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Sherburne 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.

We understand that the County's management has acknowledged this condition and is taking steps to address this condition whenever possible. We encourage the County to continue with these efforts.

Client's Response:

Where possible, the delegation of duties in the Public Health Department and the Extension Office are being implemented as departments increase staff in the accounting and clerical positions when permitted. Currently in offices where fees and charges for services are received, all departments are entering their receipts in the IFS Receipt Program and are balancing their collections and submitting the daily collections to the Auditor/Treasurer Department to be included with the bank deposit. Departments including Attorney, Public Health, and Court Services turn in their daily collections to the Auditor/Treasurer Department for receipting. The Extension Department has a system to number its publications and plat books, and a log to record those sales for accounting purposes.

PREVIOUSLY REPORTED ITEM RESOLVED

Monitoring Internal Controls (07-1)

The County's Accounting Policies and Procedures Manual had not been updated to include all significant internal controls and the procedures in place to monitor those controls.

Resolution

During 2008, the County implemented additional internal control and monitoring procedures and updated its Accounting Policies and Procedures Manual. The updated manual was approved by the County Board on June 3, 2008.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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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
Sherburne County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sherburne County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 19, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sherburne 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 96-2 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 Sherburne 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 Sherburne 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, Sherburne County complied with the material terms and conditions of applicable legal provisions.

Sherburne County's written response to the significant deficiency identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the County's response 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 Sherburne County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 19, 2009

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

Board of County Commissioners
Sherburne County

Compliance

We have audited the compliance of Sherburne 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. Sherburne County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. 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 Sherburne County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Sherburne 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 Sherburne County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sherburne County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 19, 2009. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 19, 2009

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**SHERBURNE COUNTY
ELK RIVER, MINNESOTA**

Schedule 2

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Direct		
Conservation Reserve Program	10.069	\$ 2,429
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	250,075
Passed Through Minnesota Department of Human Services Administrative Matching Grant for Food Stamp Program	10.561	259,156
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Assistance	10.664	<u>1,260</u>
Total U.S. Department of Agriculture		<u>\$ 512,920</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 276,957
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	39,679
Minimum Penalties for Repeat Offenders	20.608	5,726
Interagency Hazardous Material Public Sector Training and Planning Grant	20.703	<u>1,500</u>
Total U.S. Department of Transportation		<u>\$ 323,862</u>
U.S. Environmental Protection Agency		
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	<u>\$ 7,221</u>
U.S. Department of Health and Human Services		
Passed Through Central Minnesota Council on Aging Special Programs for the Aging - Title IIIB	93.044	\$ 7,635
Passed Through Minnesota Department of Health Immunization Grants	93.268	2,020
Investigations and Technical Assistance	93.283	118,891
Temporary Assistance for Needy Families (TANF)	93.558	51,573
Maternal and Child Health Services Block Grant	93.994	53,509

**SHERBURNE COUNTY
ELK RIVER, MINNESOTA**

**Schedule 2
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families - Title IV-B	93.556	33,015
Temporary Assistance for Needy Families (TANF)	93.558	396,731
Child Support Enforcement Title IV-D	93.563	1,144,702
Refugee and Entrant Assistance	93.566	536
Child Care Development Cluster		
Child Care Development Block Grant	93.575	565,475
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	171,419
Community-Based Child Abuse Prevention Grant	93.590	770
Child Welfare Services	93.645	9,626
Foster Care Title IV-E	93.658	275,461
Social Services Block Grant Title XX	93.667	231,011
Chafee Foster Care Independence Program	93.674	9,800
State Children's Insurance Program	93.767	686
Medical Assistance Program	93.778	908,950
Community Mental Health Services Block Grant	93.958	56,453
Total U.S. Department of Health and Human Services		\$ 4,038,263
U.S. Department of Homeland Security		
Direct		
Cooperating Technical Partners	97.045	\$ 18,492
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	6,658
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grant	97.042	43,858
Homeland Security Grant Program	97.067	10,420
Total U.S. Department of Homeland Security		\$ 79,428
Total Federal Awards		\$ 4,961,694

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 Sherburne County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of Sherburne County. Governmental funds use the modified accrual basis of accounting.
3. The County did not pass any federal money to subrecipients during the year ended December 31, 2008.
4. Pass-through grant numbers were not assigned by the pass-through agency.