

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA

FOR THE 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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**STEVENS TRAVERSE GRANT
PUBLIC HEALTH
MORRIS, MINNESOTA**

For the Year Ended December 31, 2008



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

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2008

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Joint Public Health Board			
Jerry Deal	Member	Traverse	December 31, 2010
Gerald Kaus	Member	Traverse	December 31, 2010
David Naatz	Member	Traverse	December 31, 2010
Herb Kloos	Member	Stevens	December 31, 2010
Larry Sayre	Chair	Stevens	December 31, 2008
Paul Watzke	Member	Stevens	December 31, 2008
Todd Schneeberger	Member	Grant	December 31, 2008
Vernell Wagner	Vice Chair	Grant	December 31, 2008
Ronald Woltjer	Member	Grant	December 31, 2010
Joint Public Health Interim Director			
Sandy Tubbs			Indefinite

*Sandy Tubbs was appointed Director with an indefinite term effective April 22, 2009.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Stevens Traverse Grant Public Health Board
Stevens Traverse Grant Public Health

We have audited the accompanying basic financial statements of Stevens Traverse Grant Public Health as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of Stevens Traverse Grant Public Health's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Stevens Traverse Grant Public Health at December 31, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 11, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(Unaudited)**

Stevens Traverse Grant Public Health's (Health Service) Management's Discussion and Analysis (MD&A) provides an overview of the Health Service's financial activities for the fiscal year ended December 31, 2008. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Health Service's financial statements.

The Health Service is a joint powers enterprise operation of Grant, Stevens, and Traverse Counties created to provide community health care for the residents of the tri-county area.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The Health Service's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The financial statements present the Health Service's financial activities and consist of the following:

- The statement of net assets compares assets and liabilities to give an overall view of the financial health of the Health Service.
- The statement of revenues, expenses, and changes in net assets provides information on an aggregate view of the Health Service's operations. All of the current year's revenues and expenses are taken into account regardless of when the cash was received or paid.
- The statement of cash flows provides sources and uses of cash for the Health Service.

FINANCIAL ANALYSIS

	Net Assets			Percent Change (%)
	2008	2007	Increase (Decrease)	
Assets				
Current and other assets	\$ 619,933	\$ 818,203	\$ (198,270)	(24.23)
Capital assets	46,351	4,588	41,763	910.27
Total Assets	<u>\$ 666,284</u>	<u>\$ 822,791</u>	<u>\$ (156,507)</u>	(19.02)
Liabilities				
Current liabilities	\$ 112,703	\$ 85,761	\$ 26,942	31.42
Noncurrent liabilities	59,210	48,389	10,821	22.36
Total Liabilities	<u>\$ 171,913</u>	<u>\$ 134,150</u>	<u>\$ 37,763</u>	28.15
Net Assets				
Invested in capital assets	\$ 46,351	\$ 4,588	\$ 41,763	910.27
Unrestricted	448,020	684,053	(236,033)	(34.51)
Total Net Assets	<u><u>\$ 494,371</u></u>	<u><u>\$ 688,641</u></u>	<u><u>\$ (194,270)</u></u>	(28.21)

The decrease in total assets is due primarily to the large decrease in cash, resulting from a large increase in expenses over revenues.

	Changes in Net Assets			Percent Change (%)
	2008	2007	Increase (Decrease)	
Operating revenues				
Charges for services	\$ 1,141,403	\$ 991,341	\$ 150,062	15.14
Intergovernmental	294,176	288,089	6,087	2.11
Miscellaneous	15,175	1,132	14,043	1,240.55
Total operating revenues	<u>\$ 1,450,754</u>	<u>\$ 1,280,562</u>	<u>\$ 170,192</u>	13.29
Nonoperating revenues				
Interest income	11,746	28,543	(16,797)	(58.85)
Transfers from member counties	276,756	255,762	20,994	8.21
Total Revenues	<u>\$ 1,739,256</u>	<u>\$ 1,564,867</u>	<u>\$ 174,389</u>	11.14
Operating expenses				
Personal services	\$ 1,391,474	\$ 1,209,805	\$ 181,669	15.02
Nursing services	301,634	185,610	116,024	62.51
Supplies	106,469	54,616	51,853	94.94
Maternal and child health	29,378	29,408	(30)	(0.10)
Women, Infants, and Children Program	94,752	90,162	4,590	5.09
Depreciation	9,819	1,224	8,595	702.21
Total Expenses	<u>\$ 1,933,526</u>	<u>\$ 1,570,825</u>	<u>\$ 362,701</u>	23.09
Change in Net Assets	<u><u>\$ (194,270)</u></u>	<u><u>\$ (5,958)</u></u>	<u><u>\$ (188,312)</u></u>	3,260.66

(Unaudited)

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The increase in total expenses is due to large increases in personal service and nursing service expenses.

The increase in personal service expenses is due to Public Health hiring six new employees in 2008, paying unemployment for the previous Director, and expenses paid for salary and fringe benefits for the current Director. Also, Public Health contracted with Douglas County for the purchase of environmental services.

The large increase in nursing service expenses is due to Elderly Waiver and Cadi expenses for repairing homes and the purchase of handicapped vehicle adjustments. Public Health purchased three vehicles in 2008, which accounted for the increase in capital assets.

CAPITAL ASSETS ADMINISTRATION

	Capital Assets (Net of Depreciation)			
	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Furniture, equipment, and vehicles	<u>\$ 46,351</u>	<u>\$ 4,588</u>	<u>\$ 41,763</u>	910.27

ECONOMIC FACTORS

- The State of Minnesota’s finances have been declining, which could result in the cutback of various grants.
- Stevens County’s unemployment rate continues to be one of the lowest in the state.

CONTACTING THE HEALTH SERVICE’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Health Service’s finances and to show the Health Service’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director, Sandy Tubbs, 621 Pacific Avenue, Morris, Minnesota 56267.

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BASIC FINANCIAL STATEMENTS

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

Assets

Current assets

Cash in custody of Stevens County Treasurer	\$ 437,404
Petty cash and change funds	25
Accounts receivable	20,040
Due from other governments	162,464
	<hr/>

Total current assets **\$ 619,933**

Capital assets

Furniture and equipment	\$ 70,842
Less: accumulated depreciation	(24,491)
	<hr/>

Net capital assets **\$ 46,351**

Total Assets **\$ 666,284**

Liabilities

Current liabilities

Accounts payable	\$ 34,125
Salaries payable	10,185
Compensated absences payable	58,439
Due to other governments	9,954
	<hr/>

Total current liabilities **\$ 112,703**

Noncurrent liabilities

Compensated absences	59,210
	<hr/>

Total Liabilities **\$ 171,913**

Net Assets

Invested in capital assets	\$ 46,351
Unrestricted	448,020
	<hr/>

Total Net Assets **\$ 494,371**

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Operating Revenues	
Charges for services	\$ 1,141,403
Intergovernmental	
Minnesota Department of Health	
Community health services	\$ 115,072
Family planning	9,679
Freedom to Breathe	6,045
Federal grants	
Women, Infants, and Children Program	94,729
State Indoor Radon grant	3,776
Immunization grant	3,450
Temporary Assistance for Needy Families	32,047
Maternal and child health	29,378
Total intergovernmental	\$ 294,176
Miscellaneous	\$ 15,175
Total Operating Revenues	\$ 1,450,754
Operating Expenses	
Personal services	\$ 1,391,474
Nursing services	301,634
Supplies	106,469
Women, Infants, and Children Program	94,752
Maternal and child health	29,378
Depreciation	9,819
Total Operating Expenses	\$ 1,933,526
Operating Income (Loss)	\$ (482,772)
Nonoperating Revenues (Expenses)	
Interest income	\$ 11,746
Transfers from member counties	276,756
Total Nonoperating Revenues (Expenses)	\$ 288,502
Change in Net Assets	\$ (194,270)
Net Assets - January 1	688,641
Net Assets - December 31	\$ 494,371

The notes to the financial statements are an integral part of this statement.

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 1,538,507
Payments to suppliers	(512,340)
Payments to employees	<u>(1,373,604)</u>
Net cash provided by (used in) operating activities	\$ (347,437)
Cash Flows from Noncapital Financing Activities	
Transfers from member counties	276,756
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(51,582)
Cash Flows from Investing Activities	
Interest received	<u>13,274</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (108,989)
Cash and Cash Equivalents at January 1	<u>546,418</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 437,429</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ (482,772)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 9,819
Changes in assets and liabilities	
Accounts receivable	(12,004)
Due from other governments	99,757
Accounts payable	21,000
Salaries payable	1,177
Due to other governments	(1,107)
Compensated absences - current	5,872
Compensated absences - long-term	<u>10,821</u>
Total adjustments	<u>\$ 135,335</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (347,437)</u></u>

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

1. Summary of Significant Accounting Policies

Stevens Traverse Grant Public Health's (Health Service) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Health Service has the option to apply FASB pronouncements issued after that date, the Health Service has chosen not to do so. The more significant accounting policies established in GAAP and used by the Health Service are discussed below.

A. Financial Reporting Entity

Stevens Traverse Public Health was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective July 1, 1995. Effective July 1, 2004, Grant County Public Health formally joined the organization, resulting in the new entity, Stevens Traverse Grant Public Health. The Stevens Traverse Grant Joint Public Health Board consists of nine members--comprised of three Commissioners from each of the respective counties.

The primary functions of the Health Service are to prevent illness and to promote efficiency and economy in the delivery of community health services.

The Health Service is not a component unit of any of the three member counties, nor does it have any component units. The Health Service's financial statements will not be included in any member county's financial statements.

Stevens County, as an agent, reports the cash transactions of Stevens Traverse Grant Public Health in an agency fund on its annual financial statements.

Joint Ventures

The Health Service participates in a joint venture which is described in Note 5.B.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The Health Service's operations are accounted for as an enterprise fund, with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Enterprise funds are used to account for: (1) operations that provide a service to citizens financed primarily by charging users for that service; and (2) activities where the periodic measurement of net income is considered appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus and Basis of Accounting

Stevens Traverse Grant Public Health's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Health Service's policy to use restricted resources first and then unrestricted resources as needed.

D. Budget

The Health Service adopts an annual budget prepared on the accrual basis. The budget is approved by the Stevens Traverse Grant Joint Public Health Board and submitted to all member counties. The County Board of each county represented approves or disapproves its portion of the budget.

E. Assets, Liabilities, and Net Assets

1. Assets

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash in custody of the Stevens County Treasurer and petty cash and change funds.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets

1. Assets (Continued)

Receivables

The Health Service provides services to certain clients covered by various third-party reimbursement programs at varying rates, generally below established charges. Variances from established charges are recorded on the basis of preliminary estimates of the amounts to be received from third parties and adjusted in future periods as final settlements are determined.

Capital Assets and Depreciation

Capital assets, which include furniture, equipment, and vehicles, are reported in the financial statements. Capital assets are defined by the Health Service as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Depreciation is determined using the straight-line method for the estimated useful lives of the assets:

Furniture, equipment, and vehicles	3 - 20 years
------------------------------------	--------------

2. Liabilities

Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Revenues and Expenses

1. Operating and Nonoperating Revenues

The Health Service distinguishes operating revenues from nonoperating revenues. Operating revenues generally result from providing services and producing and delivering goods in connection with an activity's principal ongoing operations. Operating revenues include charges for services and intergovernmental operating grants, since they constitute the Health Service's ongoing operations. All revenues not meeting this definition are reported as nonoperating revenues.

2. Expenses

Stevens Traverse Grant Public Health recognizes expenses, including compensated absences, when incurred. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes

A. Assets

1. Receivables

Receivables as of December 31, 2008, are as follows:

Accounts	\$ 20,040
Due from other governments	<u>162,464</u>
Total	<u>\$ 182,504</u>

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

2. Detailed Notes

A. Assets

1. Receivables (Continued)

Stevens Traverse Grant Public Health did not have any receivables scheduled to be collected beyond one year.

2. Capital Assets

A summary of the changes in capital asset accounts for the year ended December 31, 2008, is:

	Balance January 1, 2008	Depreciation Expense	Additions	Deletions	Balance December 31, 2008
Capital assets, depreciated					
Furniture, equipment, and vehicles	\$ 19,260	\$ -	\$ 51,582	\$ -	\$ 70,842
Less: accumulated depreciation	<u>(14,672)</u>	<u>(9,819)</u>	<u>-</u>	<u>-</u>	<u>(24,491)</u>
Net Capital Assets	<u>\$ 4,588</u>	<u>\$ (9,819)</u>	<u>\$ 51,582</u>	<u>\$ -</u>	<u>\$ 46,351</u>

B. Liabilities

Long-Term Debt

The following is a summary of the changes in long-term debt of Stevens Traverse Grant Public Health.

Compensated absences payable - January 1	\$ 100,956
Change in compensated absences	<u>16,693</u>
Compensated absences payable - December 31	<u>\$ 117,649</u>
Due Within One Year	<u>\$ 58,439</u>

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of Stevens Traverse Grant Public Health are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July, 1, 1989, and the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. The Health Service makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

Stevens Traverse Grant Public Health is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	<u>2008</u>	<u>2009</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75

The Health Service's contributions for the years ending December 31, 2008, 2007, and 2006, were \$67,690, \$57,008, and \$47,157, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Risk Management

Stevens Traverse Grant Public Health is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, the Health Service is a member of the Minnesota Counties Insurance Trust (MCIT). The Health Service retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

4. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$410,000 per claim in 2008 and \$430,000 per claim in 2009. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Stevens Traverse Grant Public Health in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and Stevens Traverse Grant Public Health pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess Stevens Traverse Grant Public Health in a method and amount to be determined by MCIT.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although Stevens Traverse Grant Public Health expects such amounts, if any, to be immaterial.

B. Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement among Stevens, Traverse, Grant, and seven other counties, under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Prime West Central County-Based Purchasing Initiative (Continued)

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprising one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents. In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. In 1999, Steven Traverse Public Health provided \$50,000 in the form of an initial start-up loan to the Prime West Central County-Based Purchasing Initiative. The initial \$50,000 was returned to Stevens Traverse Grant Public Health in 2006. Stevens Traverse Grant Public Health did not contribute any funds in 2008.

Douglas County acts as fiscal agent for the Prime West Central County-Based Purchasing Initiative and reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from its administrative office at Prime West Health Systems, Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

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**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008**

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of Stevens Traverse Grant Public Health and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. Stevens Traverse Grant Public Health has established controls and procedures for the recording, processing, and summarizing of their accounting data used in the preparation of its financial statements.

Management has requested that the Office of the State Auditor prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of Stevens Traverse Grant Public Health. This decision was based on the availability of Stevens Traverse Grant Public Health's staff and the cost benefit of using our expertise.

We recommend the Stevens Traverse Grant Public Health Board be mindful that limited staffing causes inherent risks in safeguarding the agency's assets and the proper reporting of its financial activity.

07-1 Documenting and Monitoring Internal Controls

Management is responsible for Stevens Traverse Grant Public Health's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for 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. Although Stevens Traverse Grant Public Health may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.

At a minimum, the following significant internal control areas, with associated policies and procedures, should be documented:

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

We recommend that management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

ITEM ARISING THIS YEAR

08-1 Controls Over Reporting and Monitoring Grant Revenues

When comparing the client-prepared grant analysis for the State Indoor Radon Grant (CFDA No. 66.032) to the receipts posted, we noted Stevens Traverse Grant Public Health had not received a reimbursement for expenses incurred from April 1 through June 30, 2008. Expenses are reimbursed from the Minnesota Department of Health upon

submission of the budget justification form, including an attached invoice and other documentation detailing the expenses. The Minnesota Department of Health had no record of receiving the reporting documentation required for reimbursement of expenses incurred from April 1 through June 30, 2008. The time period for reporting has expired, resulting in a funding loss of \$1,893 to Stevens Traverse Grant Public Health.

Stevens Traverse Grant Public Health should have sufficient review procedures in place to ensure all grant reporting documents are submitted timely. A monitoring system should be in place to ensure timely follow-up on expected grant revenues. Discussions with Stevens Traverse Grant Public Health staff indicate they were not aware that they did not receive the \$1,893 reimbursement for expenditures relating to the State Indoor Radon Grant.

We recommend that Stevens Traverse Grant Public Health establish oversight procedures to ensure all grant reporting documents are submitted timely and that receipts are monitored to ensure timely follow-up on expected grant revenues.

II. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

Health Care Savings Plan (07-2)

There were no contributions made to a health care savings plan for an eligible employee.

Resolution

A health care savings plan was established in October 2009 for the employee's excess sick leave.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Stevens Traverse Grant Joint Public Health Board
Stevens Traverse Grant Public Health

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of Stevens Traverse Grant Public Health as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Stevens Traverse Grant Public Health's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Public Health's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Public Health's internal control over financial reporting.

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 Public Health'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 Public Health's financial statements that is more than inconsequential will not be prevented or detected by the Public Health's 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 Public Health's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 06-1, 07-1, and 08-1 to be significant deficiencies in internal control over financial reporting.

Minnesota Legal Compliance

We have audited the basic financial statements of Stevens Traverse Grant Public Health as of and for the year ended December 31, 2008. 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, except that we did not test for compliance in contracting and bidding and public indebtedness because the Stevens Traverse Grant Public Health did not do any contracting in 2008 and has no debt.

The results of our tests indicate that, for the items tested, the Stevens Traverse Grant Public Health complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Stevens Traverse Grant Joint Public Health Board, management, and others within Stevens Traverse Grant Public Health 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

March 11, 2010