

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**MID-STATE COMMUNITY HEALTH SERVICES**  
**MORRIS, 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.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@state.mn.us  
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

**Year Ended December 31, 2008**



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

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**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

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**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2008

<u>Community Health Board</u>	<u>Position</u>	<u>County</u>
Todd Schneeberger	Chair	Grant
Tom Amundson	Member	Grant
Jeanne Olson	Member	Pope
Larry Kittelson	Member	Pope
Don Munsterman	Member	Stevens
Paul Watzke	Vice Chair	Stevens
Jerry M. Deal	Member	Traverse
Gerald Kaus	Member	Traverse

<u>Advisory Committee</u>	<u>Position</u>	<u>County</u>
Deb Hengel	Member	Grant
Todd Schneeberger	Member	Grant
Jeanne Olson	Member	Pope
Cody Rogahn	Member	Pope
Karla Van Moorlehem	Chair	Stevens
Paul Watzke	Member	Stevens
Cheri Rikimoto	Vice Chair	Traverse
Gerald Kaus	Member	Traverse

Administrator  
Sharon Braaten, Pope County Public Health

Fiscal Officer  
Karen Folkens

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## INDEPENDENT AUDITOR'S REPORT

Community Health Board  
Mid-State Community Health Services

We have audited the accompanying financial statements of the governmental activities and the General Fund of Mid-State Community Health Services as of and for the year ended December 31, 2008, which collectively comprise Mid-State Community Health Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mid-State Community Health Services' management. Our responsibility is to express opinions on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Mid-State Community Health Services as of December 31, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, listed in the table of contents, 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

March 11, 2010

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

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

Mid-State Community Health Services' (Mid-State) Management's Discussion and Analysis (MD&A) provides an overview of Mid-State'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 financial statements.

Mid-State is a joint powers governmental operation of Grant, Pope, Stevens, and Traverse Counties, created with the intention to distribute grants received by other governments to the Public Health programs of the counties in the joint powers.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. Mid-State's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement, and 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 first two statements are each presented in a single column. Because Mid-State Community Health Services had no capital assets, long-term liabilities, or revenue deferred as unavailable at December 31, 2007 or 2008, the balance sheet and the operating statement presented on the modified accrual basis of accounting are the same as the statement of net assets and the statement of activities, respectively, presented on a full accrual basis of accounting.

**FINANCIAL ANALYSIS**

	<b>Net Assets</b>			
	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Assets				
Current and other assets	\$ 243,987	\$ 253,449	\$ (9,462)	(3.73)
Liabilities				
Current liabilities	<u>142,321</u>	<u>130,460</u>	<u>11,861</u>	9.09
Net Assets				
Unrestricted	<u>\$ 101,666</u>	<u>\$ 122,989</u>	<u>\$ (21,323)</u>	(17.34)

The decrease in total net assets is due to excess expenditures over revenues in the amount of \$21,323.

<b>Changes in Net Assets</b>				
	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
<b>Revenues</b>				
Intergovernmental	\$ 729,230	\$ 696,490	\$ 32,740	4.70
Miscellaneous	<u>43,336</u>	<u>28,359</u>	<u>14,977</u>	52.81
<b>Total Revenues</b>	<u>\$ 772,566</u>	<u>\$ 724,849</u>	<u>\$ 47,717</u>	6.58
<b>Expenses</b>				
General government	\$ 40,362	\$ 35,700	\$ 4,662	13.06
Intergovernmental	<u>753,527</u>	<u>669,670</u>	<u>83,857</u>	12.52
<b>Total Expenses</b>	<u>\$ 793,889</u>	<u>\$ 705,370</u>	<u>\$ 88,519</u>	12.55
<b>Change in Net Assets</b>	<u>\$ (21,323)</u>	<u>\$ 19,479</u>	<u>\$ (40,802)</u>	209.47

The change in net assets is due mainly to an increase in expenditures for Community Health Services and the Child and Teen Checkup program.

### **Budgetary Highlights**

The Mid-State Community Health Services Board did not make any budgetary amendments/revisions in 2008.

Actual revenues exceeded budgeted revenues by \$53,264, primarily due to the recognition of miscellaneous revenue for the administrative portion of grants.

Budgeted expenditures exceeded actual expenditures by \$74,587 due to over/under spending on various grants.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

- 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 BOARD'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Mid-State's finances and to show Mid-State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrator, Sharon Braaten, 211 E. Minnesota Avenue, Glenwood, Minnesota 56344.

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## **BASIC FINANCIAL STATEMENTS**

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**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

*EXHIBIT 1*

**GENERAL FUND BALANCE SHEET  
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

**Assets**

Cash and pooled investments	\$ 146,181
Accounts receivable	7,889
Due from other governments	89,917
	<hr/>
<b>Total Assets</b>	<b>\$ 243,987</b>

**Liabilities and Fund Balance/Net Assets**

**Liabilities**

Accounts payable	\$ 59,244
Due to other governments	72,783
Deferred revenue - unearned	10,294
	<hr/>
<b>Total Liabilities</b>	<b>\$ 142,321</b>

**Fund Balance/Net Assets**

Unreserved/unrestricted	101,666
	<hr/>
<b>Total Liabilities and Fund Balance/Net Assets</b>	<b>\$ 243,987</b>

Mid-State Community Health Services has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Balance Sheet of the General Fund is the same as the Statement of Net Assets of the Governmental Activities.

**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

*EXHIBIT 2*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Revenues</b>	
Intergovernmental	\$ 729,230
Miscellaneous	43,336
	43,336
<b>Total Revenues</b>	<b>\$ 772,566</b>
<b>Expenditures/Expenses</b>	
<b>Current</b>	
General government	\$ 40,362
	40,362
<b>Intergovernmental</b>	
Community Health Services Grant	\$ 177,207
Maternal and Child Health	49,525
Women, Infants, and Children Food Program	151,211
Family Planning Grant	140,427
TANF Home Visiting Grant	57,143
Public Health Preparedness Grant	99,032
CTC Outreach Program	73,160
Immunization Grant	4,050
Adolescent Health Initiative	1,772
	1,772
<b>Total intergovernmental</b>	<b>\$ 753,527</b>
	753,527
<b>Total Expenditures/Expenses</b>	<b>\$ 793,889</b>
	793,889
<b>Change in Fund Balance/Net Assets</b>	<b>\$ (21,323)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>122,989</b>
	122,989
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 101,666</b>
	101,666

Mid-State Community Health Services has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund is the same as the Statement of Activities for the Governmental Activities.

**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

*EXHIBIT 3*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 719,302	\$ 719,302	\$ 729,230	\$ 9,928
Miscellaneous	-	-	43,336	43,336
<b>Total Revenues</b>	<b>\$ 719,302</b>	<b>\$ 719,302</b>	<b>\$ 772,566</b>	<b>\$ 53,264</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Accounting and auditing	\$ 6,500	\$ 6,500	\$ 17,939	\$ (11,439)
Administrative services and charges	35,569	35,569	22,423	13,146
Medical consultant services	600	600	-	600
<b>Total general government</b>	<b>\$ 42,669</b>	<b>\$ 42,669</b>	<b>\$ 40,362</b>	<b>\$ 2,307</b>
<b>Intergovernmental</b>				
Community Health Services Grant	\$ 147,652	\$ 147,652	\$ 177,207	\$ (29,555)
Maternal and Child Health Women, Infants, and Children Food Program	44,616	44,616	49,525	(4,909)
Family Planning Grant	141,636	141,636	151,211	(9,575)
TANF Home Visiting Grant	137,153	137,153	140,427	(3,274)
Public Health Preparedness Grant	56,087	56,087	57,143	(1,056)
CTC Outreach Program	83,431	83,431	99,032	(15,601)
Immunization Grant	59,458	59,458	73,160	(13,702)
Coaching Series Program	-	-	4,050	(4,050)
	6,600	6,600	1,772	4,828
<b>Total intergovernmental</b>	<b>\$ 676,633</b>	<b>\$ 676,633</b>	<b>\$ 753,527</b>	<b>\$ (76,894)</b>
<b>Total Expenditures</b>	<b>\$ 719,302</b>	<b>\$ 719,302</b>	<b>\$ 793,889</b>	<b>\$ (74,587)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (21,323)</b>	<b>\$ (21,323)</b>
<b>Fund Balance - January 1</b>	<b>122,989</b>	<b>122,989</b>	<b>122,989</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 122,989</b>	<b>\$ 122,989</b>	<b>\$ 101,666</b>	<b>\$ (21,323)</b>

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**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

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

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1. Summary of Significant Accounting Policies

Mid-State Community Health Services' (Mid-State) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) 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 issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by Mid-State are discussed below.

A. Financial Reporting Entity

Mid-State was established January 1, 1983, by a joint powers agreement among Grant, Pope, Stevens, and Traverse Counties. The agreement was established to secure more efficient health care services for the mutual benefit of each of the joint participants. The joint powers agreement remains in force until any single county notifies the State Board of Health and the other parties of its intentions to withdraw, at least one year before the beginning of the calendar year in which it takes effect.

Control is vested in Mid-State's Board. The Board consists of eight members, two from each county. Each member of the Board is appointed by the County Commissioners of the county they represent. Members of the Board serve an annual term, with no more than three consecutive terms.

The financial activities of Mid-State are accounted for in an agency fund by Stevens County. The employees who administer the activities of Mid-State are considered to be employees of Stevens Traverse Grant Public Health.

Mid-State is a joint venture independent of the counties that formed it. Each county has an ongoing responsibility to provide funding for the operating costs of the Board and Advisory Committee. The funding is allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board and its Advisory Committees. In addition, administrative operating costs are allocated proportionately, with total subsidy funds available to each member county.

**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The financial statements combine fund level financial statements (General Fund column) and government-wide financial statements (governmental activities column). These statements include the overall financial activities of Mid-State.

The government-wide columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Mid-State's net assets are reported as unrestricted net assets.

Mid-State reports one governmental fund. The General Fund is Mid-State's primary operating fund. It accounts for all the financial resources of the organization.

C. Measurement Focus and Basis of Accounting

The governmental activities 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds (General Fund) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Mid-State considers all revenues to be available if collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recognized as expenditures to the extent that they have matured. When both restricted and unrestricted resources are available for use, it is Mid-State's policy to use restricted resources first and then unrestricted resources as needed.

Intra-fund transactions have not been eliminated in the financial statements. Eliminations have not been presented so that expenditures for each of the grants are reported in their entirety.

**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets

1. Assets

Due From/To Other Governments

Amounts represent receivables and payables related to grants from other federal, state, and local governments for program administration.

Capital Assets and Depreciation

Capital assets are reported in the governmental activities column in the government-wide financial statements. Mid-State has adopted Stevens County's capitalization policy, which defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Currently, Mid-State has no capital assets that meet the threshold for capitalization.

2. Liabilities

Deferred Revenue

Mid-State's fund and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

2. Detailed Notes on Accounts

A. Assets

Cash Deposits

As of December 31, 2008, Mid-State had \$146,181 on deposit with Stevens County. Cash transactions are administered by the Stevens County Auditor/Treasurer, who is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit cash in financial institutions designated by the County Board. All funds of Stevens County are pooled.

**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

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2. Detailed Notes on Accounts

A. Assets

Cash Deposits (Continued)

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. Minnesota statutes require that all county deposits be covered by insurance, surety bond, or collateral, a requirement with which Stevens County was in compliance at December 31, 2008.

Receivables

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

Accounts	\$ 7,889
Due from other governments	<u>89,917</u>
Total	<u>\$ 97,806</u>

Mid-State did not have any receivables scheduled to be collected beyond one year.

B. Liabilities

Deferred Revenue

Deferred revenue - unearned of \$10,294 in connection with the Center for Disease Control and Prevention's Public Health Preparedness grant was available but not earned in the current period and is reported in the General Fund.

3. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The attorney for Mid-State estimates that potential claims against Mid-State resulting from litigation would not materially affect the financial statements.

**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

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3. Summary of Significant Contingencies and Other Items (Continued)

B. Risk Management

Mid-State is exposed to various risks of loss related to torts and errors and omissions or natural disasters. To cover these risks, Mid-State is a member of the Minnesota Counties Insurance Trust (MCIT), a public entity risk pool. Mid-State retains the risk for the deductible portions of its 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 that exceeded insurance coverage for the past three years.

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**MID-STATE COMMUNITY HEALTH SERVICES  
MORRIS, MINNESOTA**

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

**INTERNAL CONTROL**

**PREVIOUSLY REPORTED ITEM 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 Mid-State Community Health Services 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. Mid-State Community Health Services has established controls and procedures for the recording, processing, and summarizing of its 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 Mid-State Community Health Services. This decision was based on the availability of Mid-State's staff and the cost benefit of using our expertise.

We recommend the Mid-State Community Health Services Board be mindful that limited staffing causes inherent risks in safeguarding the agency's assets and the proper reporting of its financial activity.

Client's Response:

*The Mid-State Community Health Services Board and Mid-State Management are aware of the inherent risks limited staffing creates relative to safeguarding the agency's assets and the reporting of financial activity. Mid-State Management will continue to monitor and use the best fiscal practices to decrease this risk. Segregation of duties is employed to the extent possible and includes:*

- *The fiscal officer of the Mid-State Administrative Agency prepares the vouchers/invoices for payment.*
- *The Mid-State CHS Administrator approves all disbursements.*
- *Personnel in the Auditor/Treasurer's Office of the Mid-State Administrative County process the disbursements assuring payment has not previously been made.*
- *A revenues and expenditures report is maintained and reviewed with the Mid-State Community Health Services Board.*

ITEM ARISING THIS YEAR

08-1 Documenting and Monitoring Internal Controls

Management is responsible for Mid-State Community Health Services' 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 Mid-State Community Health Services 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 should be documented:

- cash and investment activities,
- major funding sources (intergovernmental revenues and miscellaneous items), and
- expenditure/expense processing.

We recommend that Mid-State Community Health Services' 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.

Client's Response:

*By May 1, 2010, Mid-State Management and personnel from the Auditor/Treasurer's Office of the Mid-State Administrative County will meet to discuss Mid-State's fiscal processes, assess risks, and identify processes to minimize the risks. Following this, a plan will be developed that will include documenting work roles, evaluating and documenting risks, identifying processes for change and procedures for monitoring no less than annually. Documentation of the plan and plan activity will be maintained.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Disbursements Approval (07-1)**

Claims for payment were not always approved by the Administrator. This duty was sometimes delegated to the fiscal officer.

**Resolution**

Beginning in the last quarter of 2008, management implemented procedures for the Administrator to review and approve all claims.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Community Health Board  
Mid-State Community Health Services

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and the General Fund of Mid-State Community Health Services (Mid-State) 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 Mid-State'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 Mid-State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mid-State'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 Mid-State'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 Mid-State's financial statements that is more than inconsequential will not be prevented or detected by Mid-State'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 Mid-State'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 and 08-1 to be significant deficiencies in internal control over financial reporting.

## Minnesota Legal Compliance

We have audited the financial statements of the governmental activities and the General Fund of Mid-State as of and for the year ended December 31, 2008, which collectively comprise Mid-State's basic financial statements. 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 Mid-State did not do any contracting in 2008 and has no debt.

The results of our tests indicate that, for the items tested, Mid-State complied with the material terms and conditions of applicable legal provisions.

Mid-State's written responses to the significant deficiencies identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit Mid-State's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mid-State Community Health Board, management, and others within Mid-State Community Health Services 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