

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, 2012

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, 2012



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 OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

| | |
|---|--------------|
| Special Supplemental Nutrition Program for Women, Infants, and Children | CFDA #10.557 |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | CFDA #10.561 |
| Highway Planning and Construction | CFDA #20.205 |
| Child Support Enforcement | CFDA #93.563 |

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

Sherburne County qualified as low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS RESOLVED

Network Access Termination (10-1)

Our testing of controls over information technology security identified four terminated full-time employees whose network access was still active six days or longer after leaving employment with the County.

Resolution

All terminated employees tested after the date we informed the County of this problem in the previous audit had their network access terminated in a timely manner.

Audit Adjustment (11-1)

During the previous audit, we identified a material adjustment that resulted in significant changes to the County's financial statements.

Resolution

We noted no material audit adjustments during the current audit.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-1 Traffic Safety Course

Criteria: As stated in Minn. Stat. § 169.022, in part, “. . . Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided, that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalties provided for in this chapter for the same offense.”

In 2009, the Minnesota Legislature enacted a new statute, Minn. Stat. § 169.999, to authorize the issuance of administrative citations and prescribe criteria for them. *See* 2009 Minn. Laws, ch. 158. Among other provisions, the statute states that a governing body resolution must be passed to authorize issuance of administrative citations. The resolution must bar peace officers from issuing administrative citations in violation of Minn. Stat. § 169.999 and specifies the offenses for which an administrative citation may be used. The authority requires the use of a uniform administrative citation prescribed by the Commissioner of Public Safety and specifies that the fine for an administrative violation must be \$60, two-thirds of which must be credited to the general revenue fund of the local unit of government, and one-third of which must be transferred to the Commissioner of Minnesota Management & Budget for deposit in the state's General Fund. A local unit of government receiving administrative fine proceeds must use one-half of the funds for law enforcement purposes. Each local unit of government must follow these and other criteria specified in the new statute.

Condition: Sherburne County has established a Traffic Safety Course option in lieu of issuance or court filing of a state uniform traffic ticket. Sheriff's Deputies have the discretion to offer traffic violators the option of attending the Traffic Safety Course in lieu of a citation. The course is two hours long and costs \$75, which is payable to the Sherburne County Sheriff.

Context: In a letter to State Representative Steve Smith on December 1, 2003, the Minnesota Attorney General specifically addressed the issue of a driver improvement course or clinic in lieu of a ticket or other penalty. After reviewing the state law, the Attorney General concluded: "All such programs, however, require that a *trial court* make the determination as to whether attendance at such a [driver's] clinic is appropriate. We are aware of no express authority for local officials to create a *pretrial* diversion program." (Emphasis is that of the Attorney General.)

The Minnesota Supreme Court has stated, "[a]s a creature of the state deriving its sovereignty from the state, the county should play a leadership role in carrying out legislative policy." *Kasch v. Clearwater County*, 289 N.W. 2d 148, 152 (Minn. 1980), quoting *County of Freeborn v. Bryson*, 243 N.W. 2d 316, 321 (Minn. 1976).

Effect: The County's Traffic Safety Course is unauthorized and in violation of Minn. Stat. § 169.022.

Cause: The County asserts that it disagrees with this finding.

Recommendation: We recommend the County comply with Minn. Stat. ch. 169, including Minn. Stat. § 169.999 (2009) or any subsequent legislation, by not offering a Traffic Safety Course in lieu of issuance or court filing of a state uniform traffic ticket.

Client's Response:

The Sherburne County Sheriff's Office, the Sherburne County Attorney's Office, and the Judges of the District Court in Sherburne County, have reviewed our traffic safety program and the parameters under which it is held. Our conclusions differ from those reached in the State Auditor's report, and we respectfully disagree with the report's findings and recommendations.



REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Sherburne County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sherburne County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sherburne County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's

financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that Sherburne County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 09-1. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Sherburne County's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The County's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 7, 2013

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REBECCA OTTO
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Sherburne County

Report on Compliance for Each Major Federal Program

We have audited Sherburne County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Sherburne County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Sherburne County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Sherburne County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sherburne County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We have issued our report thereon dated June 7, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of this Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 7, 2013

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**SHERBURNE COUNTY
ELK RIVER, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|--|------------------------------------|----------------------------|
| U.S. Department of Agriculture | | |
| Direct | | |
| Conservation Reserve Program | 10.069 | \$ 889 |
| Passed Through Minnesota Department of Health | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 384,632 |
| Passed Through Minnesota Department of Human Services | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | <u>310,803</u> |
| Total U.S. Department of Agriculture | | <u>\$ 696,324</u> |
| U.S. Department of Commerce | | |
| Passed Through City of St. Cloud | | |
| Public Safety Interoperable Communications Grant Program | 11.555 | <u>\$ 3,000</u> |
| U.S. Department of Justice | | |
| Direct | | |
| Bulletproof Vest Partnership Program | 16.607 | \$ 31,452 |
| Juvenile Mentoring Program | 16.726 | 113,341 |
| Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA | 16.804 | 7,119 |
| Passed Through Minnesota Department of Public Safety | | |
| Juvenile Justice and Delinquency Prevention - Allocation to States | 16.540 | <u>1,667</u> |
| Total U.S. Department of Justice | | <u>\$ 153,579</u> |
| U.S. Department of Transportation | | |
| Passed Through Minnesota Department of Transportation | | |
| Highway Planning and Construction | 20.205 | \$ 2,367,598 |
| Passed Through Minnesota Department of Public Safety | | |
| Highway Safety Cluster | | |
| State and Community Highway Safety | 20.600 | 2,894 |
| Alcohol-Impaired Driving Countermeasures Incentive Grants | 20.601 | 3,294 |
| State Traffic Safety Information System Improvement Grants | 20.610 | 40,000 |
| Passed Through City of Elk River | | |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | <u>10,177</u> |
| Total U.S. Department of Transportation | | <u>\$ 2,423,963</u> |

**SHERBURNE COUNTY
ELK RIVER, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

(Continued)

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|--|------------------------------------|---------------------|
| U.S. Department of Health and Human Services | | |
| Passed Through Minnesota Department of Health | | |
| Public Health Emergency Preparedness | 93.069 | \$ 81,501 |
| Universal Newborn Hearing Screening | 93.251 | 1,650 |
| Immunization Cooperative Agreements | 93.268 | 3,220 |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | 93.283 | 450 |
| Temporary Assistance for Needy Families (TANF) Cluster | | |
| Temporary Assistance for Needy Families | 93.558 | 61,212 |
| (Total Temporary Assistance for Needy Families CFDA 93.558 \$512,684) | | |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 52,073 |
| Passed Through Minnesota Department of Human Services | | |
| Promoting Safe and Stable Families | 93.556 | 14,564 |
| Temporary Assistance for Needy Families Cluster | | |
| Temporary Assistance for Needy Families | 93.558 | 451,472 |
| (Total Temporary Assistance for Needy Families CFDA 93.558 \$512,684) | | |
| Emergency Contingency Fund for TANF State Program - ARRA | 93.714 | 19,595 |
| Child Support Enforcement | 93.563 | 1,151,024 |
| Refugee and Entrant Assistance - State-Administered Program | 93.566 | 779 |
| Child Care and Development Block Grant | 93.575 | 40,597 |
| Community-Based Child Abuse Prevention Grants | 93.590 | 36,628 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | 12,743 |
| Foster Care Title IV-E | 93.658 | 269,734 |
| Social Services Block Grant | 93.667 | 231,276 |
| Chafee Foster Care Independence Program | 93.674 | 7,857 |
| Children's Health Insurance Program | 93.767 | 102 |
| Medical Assistance Program | 93.778 | 1,255,078 |
| Total U.S. Department of Health and Human Services | | \$ 3,691,555 |
| U.S. Department of Homeland Security | | |
| Passed Through Minnesota Department of Natural Resources | | |
| Boating Safety Financial Assistance | 97.012 | \$ 20,245 |
| Passed Through Minnesota Department of Public Safety | | |
| Hazard Mitigation Grant | 97.039 | 9,337 |
| Emergency Management Performance Grants | 97.042 | 78,752 |
| Homeland Security Grant Program | 97.067 | 67,299 |
| Total U.S. Department of Homeland Security | | \$ 175,633 |
| Total Federal Awards | | \$ 7,144,054 |

**SHERBURNE COUNTY
ELK RIVER, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Sherburne County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Sherburne County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Sherburne County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Sherburne County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

| | | |
|---|----|---------|
| Highway Safety Cluster | \$ | 46,188 |
| Temporary Assistance for Needy Families Cluster | | 532,279 |

5. Subrecipients

The County did not pass any federal money to subrecipients during the year ended December 31, 2012.

**SHERBURNE COUNTY
ELK RIVER, MINNESOTA**

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.