

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**ISANTI COUNTY**  
**CAMBRIDGE, 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.

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

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**ISANTI COUNTY  
CAMBRIDGE, 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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**ISANTI COUNTY  
CAMBRIDGE, MINNESOTA**

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**ISANTI COUNTY  
CAMBRIDGE, 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? **Yes**

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

**Federal Awards**

Internal control over major programs:

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

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? **Yes**

The major programs are:

Formula Grants for Other Than Urbanized Areas	CFDA #20.509
Medical Assistance Program	CFDA #93.778
Homeland Security Grant Program	CFDA #97.067

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

Isanti County qualified as a low-risk auditee? **Yes**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 05-1 Segregation of Duties

**Criteria:** A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

**Condition:** Several of the County's departments that collect fees lack proper segregation of duties. Offices that do not have sufficient segregation of duties include Highway, Sheriff, and Public Health. These departments generally have one staff person who is responsible for billing, collecting, recording and depositing receipts, as well as reconciling bank accounts.

**Context:** Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Isanti County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

**Effect:** Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The County informed us that due to the available resources it would not be able to hire additional qualified accounting staff to segregate duties in every department.

**Recommendation:** We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

#### Client's Response:

*Isanti County management is aware of this situation. The County will continue to review its internal control procedures periodically and will modify its procedures as necessary to address any issues related to the lack of segregation of duties.*



07-1 Monitoring Internal Controls/Accounting Policies and Procedures Manual

**Criteria:** County management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls would include documenting the County's accounting policies and procedures and performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for members of the County Board, management, and for external financial reporting. Written policies and procedures should exist to ensure the County's practices are followed as intended by management. The risk assessment is intended to determine if the internal controls 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. Significant internal controls would cover areas such as: cash and investment activities; major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items); expenditure processing; and payroll.

**Condition:** Our inquiry of County management found that significant internal controls of its accounting system have not been documented. The County lacks written policies and procedures, including risk assessment and monitoring procedures.

**Context:** Without formal policies and procedures, including risk assessment and monitoring procedures, the County increases its risk of fraud. Monitoring of internal controls is necessary to determine controls are in place and operating effectively.

**Effect:** As a result of this condition, the County's practices may not be followed as intended by management, and employees may not understand the purpose of internal controls. The lack of risk assessment and monitoring procedures increases the risk of fraud.

**Cause:** The County has begun to develop formal policies and procedures that will include monitoring and risk assessment procedures. Due to limited time and resources, the County has not been able to complete this project.

**Recommendation:** We recommend that County management continue to take the necessary steps in implementing procedures to document the significant internal controls in its accounting system. We also recommend that a formal plan be developed that calls for assessing and monitoring the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

*Isanti County management will continue to work towards development of a formal plan to document and evaluate the effectiveness of the County's internal controls. As part of this process, the County plans to adopt additional accounting policies and procedures.*

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

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

11-1 Eligibility Testing

**Program:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

**Condition:** The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. In other circumstances, information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- One individual's case file contained documentation of a vehicle owned by the recipient; however, the asset was not entered into MAXIS.
- One case file contained documentation to show that the individual was receiving \$154 of monthly pension income, which was not entered into MAXIS.
- One individual received transition year medical assistance for nine months during 2012; however, due to a wage increase, the individual should have only been eligible for six months. The County was notified of the individual's wage increase via a wage notice in MAXIS. Once the wage notice was received, the individual was put on transition year medical assistance, which required a six month recertification. The six month recertification should have found the individual ineligible due to the amount by which the individual's wage increased; however, the recertification was not completed or entered into MAXIS in a timely manner.

- One individual's income increased in 2011; however, due to the individual being self-employed and not filing their income taxes until August 2012, the County was not made aware of the increase until September 2012. Once received, the income verification was not entered in MAXIS until December 2012. This resulted in the individual receiving assistance when they were ineligible.

**Questioned Costs:** Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

**Context:** The State of Minnesota contracts with the County Social Services Department to perform the "intake function" (meeting with the social services client to determine income and categorical eligibility), while the state maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

**Effect:** The improper input of information into MAXIS and lack of follow-up of issues increases the risk that a client will receive benefits when they are not eligible.

**Cause:** Program personnel entering case information into MAXIS did not ensure all required information was input into MAXIS correctly and in the time frame allowed for eligibility determination.

**Recommendation:** We recommend that the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly input into MAXIS and issues are followed up on in a timely manner. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Karrie Kolb, Financial Assistant Supervisor*

Corrective Action Planned:

1. *Isanti County Family Services will continue to implement a more consistent and structured process for case reviews.*
  - A. *Every two months, each Eligibility Worker conducts a random case review.*
  - B. *If any errors are found, the Eligibility Worker corrects the error and signs off on the review sheet that it was corrected and completed.*

- C. *Any deficiencies found will be reviewed and discussed with the entire Income Maintenance Staff during our monthly Whole Unit Meeting to bring awareness and reduce the errors in the future.*

Person Responsible: *Supervisor and all Eligibility Workers*

*\*\*Isanti County Family Services reverted back to individualized caseloads effective October 2012, to help with the reduction of case errors and processing guidelines.*

- 2. *Resolve DAIL messages that will affect case eligibility on or before 10 day cutoff to insure program compliance.*

- A. *Eligibility Workers will monitor their DAIL messages on a daily basis and make necessary adjustments on the cases to ensure that the correct benefits are being issued.*
- B. *The Supervisor will monitor DAIL messages to ensure program compliance and make aware any potential concerns on an as needed basis.*

Person Responsible: *Supervisor and all Eligibility Workers*

- 3. *Bring awareness to all Eligibility Workers, the importance of income verification and how it impacts a participant's eligibility for the public assistance programs.*

- A. *Continue to remind the Eligibility Workers about the required verifications that are needed in order to correctly determine program eligibility and provide policy manual references on an as needed basis.*

Person Responsible: *Supervisor*

- 4. *Provide additional training to staff on an as needed basis.*

- A. *Isanti County Family Services will review available trainings offered by the Department of Human Services and recommend to those that exhibit weaknesses in specific program areas.*

Person Responsible: *Supervisor*

5. Create Awareness to the Income Maintenance Staff.
  - A. *Meet with staff to discuss case deficiencies.*
  - B. *Further discuss with staff, the value of quality work verses quantity of work.*

Person Responsible: Supervisor

Anticipated Completion Date:

*June 4, 2013*

#### ITEM ARISING THIS YEAR

##### 12-1 Reporting

**Program:** U.S. Department of Homeland Security's Homeland Security Grant Program (CFDA No. 97.067)

**Pass-Through Agency:** Minnesota Department of Public Safety

**Criteria:** The Urban Area Security Initiative (UASI) program guidance provided as part of the grant application between Isanti County and the Minnesota Department of Public Safety states that expenditures must be reported on a quarterly basis, but not more often than monthly, through the Financial Status Report (FSR), which is due within 30 days of the end of the reported period. A report must be submitted for every quarter (or month) of the performance period, including partial calendar periods, as well as for periods where no grant activity occurs.

**Condition:** The County did not submit quarterly FSR's for the UASI grant during 2012 as required by the program guidance. One FSR was submitted during 2012 for expenditures paid for from March 2011 through March 2012. Although additional UASI expenditures were incurred during 2012, no FSR's were submitted. Furthermore, the report that was submitted during 2012 was not maintained nor reviewed by anyone independent of the preparer.

**Questioned Costs:** None.

**Context:** The amount of federal reimbursements received by the County through the Minnesota Department of Public Safety for the UASI grant is based on the expenditures reported on the quarterly FSR's submitted online. At the time of the audit, we noted \$24,253 in UASI expenditures that had been paid for by the County, throughout 2012, but not reported to the Minnesota Department of Public Safety and, therefore, not yet reimbursed.

**Effect:** Non-submittal of reports or delinquent reporting may result in denied reimbursements and withdrawal of future grant awards. It also results in reimbursements not received within a timely manner. The lack of a review and approval process increases the risk that reports will not be submitted as required or will not be correct.

**Cause:** The County does not have procedures in place to ensure that reports are reviewed, approved, and submitted as required. The late submission of reports was a result of County personnel not being familiar with the reporting requirements of the grant and no formal review process in place.

**Recommendation:** We recommend that County Management ensure personnel responsible for preparing and submitting the quarterly FSR's are familiar with the grant reporting requirements. We also recommend that the County establish and implement policies and procedures to ensure a detailed review of quarterly reports is performed prior to submission.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Mari Bostrom, Isanti County Emergency Management Director  
Bill Guenther, Sheriff*

Corrective Action Planned:

*IC (Isanti County) Emergency Management will submit quarterly FSR's for grant funds in E-grants system. A copy of the report will be sent to the IC Sheriff's Office for review. All expenditures will be reviewed by the IC Sheriff's Office prior to purchasing. All expenses over \$5,000 will additionally be approved by the IC Board of Commissioners prior to incurring funds. Once expenses have been approved, IC EM (Emergency Management) will purchase said items and submit quarterly into E-Grants for reimbursement from MN HSEM. The IC Auditor/Treasurers office will receive copies of all warrants/invoices. Each grant is given its own line item within the ICEM budget to allow IC Auditor/Treasurer to supply IC EM with Proof of Payment, quarterly, in order to submit proper reporting in E-grants.*

*Quarterly Progress reports will also be reviewed by the IC Sheriff's Office for review, approval and submission. Upon being awarded future UASI grant funding the EM will sit down the IC Sheriff and go over all grant requirements. The grant will also be presented to the Isanti County Board of Commissioners for acceptance.*

Person Responsible:

*Mari Bostrom, Isanti County Emergency Management Director*

Anticipated Completion Date:

*June 1, 2013*

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

##### MINNESOTA LEGAL COMPLIANCE

##### PREVIOUSLY REPORTED ITEM NOT RESOLVED

##### 11-3 Contract Compliance

**Criteria:** Minn. Stat. § 270C.66 provides that the County should not make final payment to a contractor under a contract requiring wages until the contractor provides documentation that the contractor and any subcontractors have complied with the provisions of Minn. Stat. § 290.92.

**Condition:** During 2012, the County Board awarded two contracts for work at Springvale Park to Knife River and Leaf Construction in the amounts of \$56,185 and \$43,800, respectively. These contracts involved the installation of a trail base and paving; however, affidavit of withholding (IC-134) forms were not obtained from the contractors prior to making final payment.

**Context:** Prior to final payment being authorized and processed, the affidavit of withholding should be obtained from the contractor for all contracts including payments for labor.

**Effect:** Noncompliance with Minn. Stat. § 270C.66.

**Cause:** The Parks Director was not aware of the statutory requirements relating to these contracts.

**Recommendation:** We recommend the County officials involved in the contracting process be informed of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

Client's Response:

*Isanti County will inform its departments of the statutory requirements related to contracting. In particular, the County will inform each department of the need to obtain an affidavit of withholding prior to requesting final payment on any contract that includes payment for labor.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Prompt Payment of Claims (11-2)**

Two out of 25 general disbursements and 3 out of 25 Human Service's disbursements were not paid within the 35 days of the invoice date as required by Minn. Stat. § 471.425, subd. 2.

**Resolution**

No instances of noncompliance with Minn. Stat. § 471.425, subd. 2, were noted during 2012.





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 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  
Isanti 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Isanti 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 19, 2013.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Isanti 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questions Costs as items 05-1 and 07-1 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

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

## **Minnesota Legal Compliance**

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 included all of the listed categories, except that we did not test for compliance with the provision for tax increment financing since the cities administer tax increment financing in Isanti County.

In connection with our audit, nothing came to our attention that caused us to believe that Isanti 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 11-3. 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**

Isanti County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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 results 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 19, 2013

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

### Independent Auditor's Report

Board of County Commissioners  
Isanti County

### **Report on Compliance for Each Major Federal Program**

We have audited Isanti 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 its major federal programs for the year ended December 31, 2012. Isanti 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 Isanti 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 Isanti 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, Isanti 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.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 11-1 and 12-1. Our opinion on each major federal program is not modified with respect to these matters. Isanti County's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Isanti County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of Isanti 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 a 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 the 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We

did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 11-1 and 12-1, that we considered to be significant deficiencies.

Isanti County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Isanti County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Isanti 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 19, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on Isanti County's 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 19, 2013

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**ISANTI COUNTY  
CAMBRIDGE, MINNESOTA**

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 166,898
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Assistance Program	10.561	162,558
<b>Total U.S. Department of Agriculture</b>		<b>\$ 329,456</b>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Department of Public Safety Law Enforcement Assistance Narcotics and Dangerous Drugs Training	16.004	\$ 3,358
Violence Against Women Formula Grants (Total Violence Against Women Formula Grants 16.588 \$12,514)	16.588	10,000
Passed Through Minnesota Coalition Against Sexual Assault Violence Against Women Formula Grants (Total Violence Against Women Formula Grants 16.588 \$12,514)	16.588	2,514
Passed Through Pine County Edward Byrne Memorial Justice Assistance Grant Program	16.738	5,255
<b>Total U.S. Department of Justice</b>		<b>\$ 21,127</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,637,078
Formula Grants for Other Than Urbanized Areas	20.509	335,829
Passed Through Kanabec County Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	13,762
<b>Total U.S. Department of Transportation</b>		<b>\$ 1,986,669</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 35,527
Universal Newborn Hearing Screening	93.251	450
Center for Disease Control and Prevention Investigations and Technical Assistance	93.283	225
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families (TANF) (Total Temporary Assistance for Needy Families 93.558 \$369,738)	93.558	31,732
Maternal and Child Health Services Block Grant to the States	93.994	36,872

**ISANTI COUNTY  
CAMBRIDGE, MINNESOTA**

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	15,777
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families (TANF)	93.558	338,006
(Total Temporary Assistance for Needy Families 93.558 \$369,738)		
Emergency Contingency Fund for Temporary Assistance for Needy Families		
(TANF) State Program - ARRA	93.714	35,869
Child Support Enforcement	93.563	804,588
Refugee and Entrant Assistance State Administered Programs	93.566	365
Child Care and Development Block Grant	93.575	17,793
Community Based Child Abuse Prevention Grants	93.590	10,201
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,427
Foster Care Title IV-E	93.658	95,525
Social Services Block Grant	93.667	180,557
Chafee Foster Care Independence Program	93.674	4,073
Children's Health Insurance Program	93.767	51
Medical Assistance Program	93.778	753,175
Block Grants for Community Mental Health Services	93.958	78,401
Passed Through St. Cloud Hospital		
Public Health and Social Services Emergency Fund	93.003	45,000
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 2,486,614</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 11,935
Emergency Management Performance Grants	97.042	24,462
Homeland Security Grant Program	97.067	24,516
(Total Homeland Security Grant Program 97.067 \$389,779)		
Passed Through Washington County		
Homeland Security Grant Program	97.067	365,263
(Total Homeland Security Grant Program 97.067 \$389,779)		
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 426,176</b>
<b>Total Federal Awards</b>		<b>\$ 5,250,042</b>

**ISANTI COUNTY  
CAMBRIDGE, 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 Isanti 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 Isanti 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 Isanti County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Isanti County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on 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 to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 5,274,573
Grants received more than 60 days after year-end, deferred in 2012	
Formula Grants for Other Than Urbanized Areas	45,196
Temporary Assistance for Needy Families	1,136
Child Care and Development Block Grant	2,008
Foster Care Title IV-E	1,330
Homeland Security Grant Program	58,122
Deferred in 2011, recognized as revenue in 2012	
Formula Grants for Other Than Urbanized Areas	(114,363)
Homeland Security Grant Program	(17,960)
	(131,995)
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 5,250,042

**ISANTI COUNTY  
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5. Subrecipients

Of the expenditures presented in the schedule, Isanti County provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
20.509	Formula Grants for Other Than Urbanized Areas	\$ 138,411
93.003	Public Health and Social Services Emergency Fund	<u>12,194</u>
	Total	<u>\$ 150,605</u>

6. Clusters

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

Temporary Assistance for Needy Families Cluster	\$ 405,607
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7. 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.