

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

CLAY COUNTY
MOORHEAD, MINNESOTA

FOR THE 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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**CLAY COUNTY
MOORHEAD, MINNESOTA**

For the Year Ended December 31, 2012



Management and Compliance Report

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

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Questioned Costs	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance	13
Schedule of Expenditures of Federal Awards	17
Notes to the Schedule of Expenditures of Federal Awards	20

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**CLAY COUNTY
MOORHEAD, 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:

Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CFDA #14.228
Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for Temporary Assistance for Needy Families State Program - ARRA	CFDA #93.714
Child Support Enforcement	CFDA #93.563
Foster Care - Title IV-E	CFDA #93.658
Medical Assistance Program	CFDA #93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-4 Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record-keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel within several Clay County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The smaller fee offices generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: This is not unusual in operations the size of Clay 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 internal control point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County informed us that collecting fees for services at a department level provides a convenience for their customers. Fee services are provided in several locations, so having customers paying at a single point of collection, such as the Treasurer's Office, would be very inconvenient. The staffing available in several of these smaller offices limits the potential for complete segregation of duties.

Recommendation: We recommend Clay County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

Clay County is aware of the lack of segregation of duties in some of the smaller departments and has implemented oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

11-1 Network/Application Password Controls

Criteria: County management is responsible for the County's internal controls over its information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls that have been established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

Condition: Clay County updated to a new version of the Integrated Financial System (IFS) application software in 2011. This application was written as a web-based application and may be run on a server or a mainframe system. For an employee of Clay County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The sign-on differs from the sign-on for the IBM AS-400 system, so the mainframe security settings do not apply to the application. Clay County has not updated the network controls for the change to a web-based application to ensure password controls are working as intended.

Context: The IFS application is the general ledger for Clay County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year-end, certain accrual information is also recorded in the application. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

Effect: Normal password controls in place in the IBM AS-400 system are not effective for the IFS application, so a review of the IFS application controls and County network controls is imperative to ensure passwords are working as intended.

Cause: Clay County updated to a new web-based version of the IFS application software. County management was not aware of some of the password implications of this change.

Recommendation: We recommend Clay County management review password controls in place that limit access to the IFS and other web-based applications to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

Clay County management will review County network controls to ensure password controls are appropriate to protect County data.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

12-1 Income Maintenance DHS 2550 Reporting

Programs: Temporary Assistance for Needy Families (CFDA No. 93.558), Child Support Enforcement (CFDA No. 93.563), Foster Care - Title IV-E (CFDA No. 93.658), and Medical Assistance (MA) (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: The Minnesota Department of Human Services (DHS) provides guidance on the completion of the quarterly Income Maintenance DHS-2550 report in DHS bulletin no. 11-32-02. DHS bulletin no. 11-32-02 provides that costs reported in Section A of DHS-2550 are the "direct costs associated with staff required to participate in the random moment time study (IMRMS)." The DHS bulletin no. 11-32-07 provides the IMRMS Operational Procedures which requires that the IMRMS Coordinator in the County identify Income Maintenance employees as participants in the IMRMS and update the IMRMS employee data base quarterly.

Condition: During our review of the Income Maintenance DHS-2550 reporting, we noted that five employees were not properly reported. These employees were reported in the IMRMS Section A of the quarterly Income Maintenance DHS-2550 reports for two quarters in which they were not identified as participants in the random moment study by the IMRMS Coordinator. One of the five employees was a retired employee that came back as an "emergency appointment" for 62 days. The other four were reported in quarter two and quarter three. They were identified as participants in the random moment study by the IMRMS Coordinator in August, making them eligible for quarter four.

Questioned Costs: None.

Context: The amount of federal administrative reimbursements through DHS for several programs is determined based on the reporting done through the quarterly Income Maintenance DHS-2550 report.

Effect: Incorrect reporting of an employee's expenses on the quarterly Income Maintenance DHS-2550 report results in receiving funding from the wrong sources and may affect the amount of funding received. The differences could not be readily determined.

Cause: New employees are given a code to include on their electronic timesheet that indicates the account to bill their time. Financial workers are considered IMRMS staff and are given the account used for reporting in the IMRMS Section A of the Income Maintenance DHS-2550 report; however, the IMRMS Coordinator can report only the new employee to the Minnesota Department of Human Services as a participant in the IMRMS quarterly, resulting in a timing difference. Until an employee is actually included in the IMRMS, the employee should not be reported in the IMRMS Section A of the Income Maintenance DHS-2550 report. For the employee hired back as an emergency appointment, the IMRMS Coordinator did not identify the employee to the Minnesota Department of Human Services as a participant in the IMRMS.

Recommendation: We recommend Clay County contact the Minnesota Department of Human Services to discuss the implications and any resolution of reporting these employees incorrectly on the Income Maintenance DHS-2550 reports.

Corrective Action Plan:

Name of Contact Persons Responsible for Corrective Action:

Susan Roll and Mary Luhman-Olsen

Corrective Action Planned:

Quarterly, while Auditor staff prepares the DHS 2550 report, the Income Maintenance Supervisor will submit the IMRMS staff participant list. The Auditor staff will compare this list to the 601 payroll report. Any staff not listed as a participant will be manually adjusted out of 601 and into the 600 program area for this report.

Anticipated Completion Date:

Beginning with the second quarter in 2013.

PREVIOUSLY REPORTED ITEMS RESOLVED

Supervisory Review Over Income Maintenance DHS 2550/Social Services DHS 2556 Reporting (11-2)

During our testing of controls over Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), Foster Care - Title IV-E (CFDA No. 93.658), and Medical Assistance Program (MA) (CFDA No. 93.778), we noted no documented review process of reporting. Department of Human Services' bulletins provide that signed copies of the DHS 2550 and DHS 2556 should be maintained for the length of time required by the County's record retention policy, or three years, whichever is longer.

Resolution

Beginning with the third quarter in 2012, the Clay County Social Services Director signs a copy of each of the DHS 2550 and DHS 2556 quarterly reports indicating the report has been reviewed.

Eligibility Documentation (11-3)

The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While testing compliance with grant requirements for eligibility for Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558) and Medical Assistance Program (MA) (CFDA No. 93.778), we noted that for 2 of the 25 cases tested for TANF and 2 of the 25 cases tested for MA did not contain copies of birth certificates used to document U.S. citizenship.

Resolution

Our testing of compliance with grant requirements for eligibility for Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), and Medical Assistance Program (MA) (CFDA No. 93.778) revealed the County obtained appropriate documentation or verification for all case files tested for 2012.

Subrecipient Monitoring (11-4)

Clay County passes Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CDGB) (CFDA No. 14.228) funding through to the Clay County Housing and Redevelopment Authority (HRA). However, the County was unable to provide us with sufficient documentation that all necessary monitoring procedures were being applied. Clay County does not receive grant reports or an audit report from the HRA to ensure that required audits are performed.

Resolution

Clay County now obtains a copy of each grant report for monitoring the activities related to the federal grant. The County also obtained a copy of the HRA's 2011 audit report and determined that there were no findings that required corrective action.

Allowable Costs/Cost Principles and Reporting - Temporary Assistance for Needy Families - Home Visiting Program (11-5)

During our testing of quarterly reports submitted to the Minnesota Department of Health for the Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558) Home Visiting Program, we noted the supporting documentation for the amounts reported as program and administrative expenses include nurse salaries, mileage, travel, office rent, and expenses for home visiting services. The expenses related to nurse salaries, travel, and office rent tied to expenses posted to the County's general ledger. The expense for providing home visiting services is based on a rate of \$112 per visit and mileage at a rate of 55 cents per mile. The County could not provide documentation of a cost basis for the rates used or if these rates were approved by the Minnesota Department of Health. Since we could not verify how the rates used relate to expenses for home visits or if this method of reporting was approved by the Minnesota Department of Health, we could not determine if these expenses reported are acceptable.

Resolution

Clay County Public Health resubmitted adjusted invoices for the TANF Home Visiting Program to the Minnesota Department of Health for the first two quarters of calendar year 2012 based on programmatic costs rather than using a per visit rate with mileage for expenses for providing home visiting services. The quarterly reports are now based on expenditures that can be tied to the County's general ledger.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

11-6 Withholding Affidavit for Contractors (IC-134)

Criteria: Referring to the withholding of income taxes by the contractor or subcontractor, Minn. Stat. § 270C.66 states that, “[n]o . . . political or governmental subdivision of the state shall make final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors until satisfactory showing is made that said contractor or subcontractor has complied with the provisions of section 290.92.”

Condition: A contract was let with Pierce Roofing & Sheet Metal in 2012 for work on the Courthouse and Law Enforcement Center roofs. Final payment was made on this contract before a Form IC-134, which certifies withholding compliance, was received from the contractor and approved by the Minnesota Department of Revenue. The contracts involved the employment of individuals for wages by the contractor.

Context: Final payment was made on the project on November 28, 2012.

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

Cause: The Building Maintenance Supervisor is aware of the requirement that Form IC-134 should be submitted before final payment is made to contractors; however, he was under the assumption that the Auditor-Treasurer's Office was verifying that the IC-134 was obtained before final payment was made.

Recommendation: We recommend the County officials involved in the contracting process be informed of the statutory requirements and who is responsible for ensuring compliance with the applicable statutes for all future contracts.

Client's Response:

Clay County will not make final settlement with any contractor until Form IC-134 is received and approved by the Minnesota Department of Revenue.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-1 Road and Bridge Deficit Fund Balance

Criteria: Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance.

Condition: As of December 31, 2012, the assets in the County's Road and Bridge Special Revenue Fund did not exceed liabilities, resulting in a deficit fund balance amount.

Context: As of December 31, 2012, the Road and Bridge Special Revenue Fund had a deficit fund balance of \$551,560, which is a decrease from the \$2,301,140 deficit reported in the prior year.

Effect: A fund with a deficit fund balance is, in effect, borrowing from County funds with positive fund balances.

Cause: The County did not levy sufficient taxes nor transfer sufficient funds to cover the expenditures in the Road and Bridge Special Revenue Fund.

Recommendation: We recommend that the County monitor fund balances and eliminate the deficit fund balances by increasing revenues or appropriating sufficient funds to cover expenditures.

Client's Response:

Clay County will monitor the past and present practice of advancing state aid funds along with all other Road and Bridge expenditures to try and stay within acceptable and recommended fund balance requirements.

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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
Clay 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 Clay 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 September 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clay 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 Questioned Costs as items 96-4 and 11-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay 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, except that we did not test for compliance with the provisions for tax increment financing because Clay County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Clay 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 11-6. 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

Also included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

Clay County's responses to the internal control, legal compliance, and management practices 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

September 9, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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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
Clay County

Report on Compliance for Each Major Federal Program

We have audited Clay 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. Clay 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 Clay 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 Clay 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, Clay 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 item 12-1. Our opinion on each major federal program is not modified with respect to these matters. Clay County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Clay County's response was 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 Clay 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 compliance 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 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 a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 12-1, that we consider to be a significant deficiency.

Clay County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Clay County's response was 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 business-type activities, each major fund, and the aggregate remaining fund information of Clay 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 September 9, 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

September 9, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

**CLAY COUNTY
MOORHEAD, 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		
Passed Through Minnesota Department of Education		
Child Nutrition Cluster		
School Breakfast Program	10.553	\$ 14,159
National School Lunch Program	10.555	24,155
Passed Through Minnesota Department of Health		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	239,152
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>288,030</u>
Total U.S. Department of Agriculture		<u>\$ 565,496</u>
U.S. Department of Commerce		
Passed Through the Department of Public Safety and the Headwaters Regional Development Commission		
Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 9,039</u>
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	<u>\$ 293,179</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Block Grants	16.523	\$ 17,455
Passed Through Minnesota Department of Public Safety		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	161,150
Passed Through Minnesota Department of Public Safety and City of Moorhead		
Edward Byrne Memorial Formula Grant Program	16.579	44,700
(Total Edward Byrne Memorial Formula Grant Program 16.579 \$80,263)		
Direct		
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	16.528	75,715
Edward Byrne Memorial Formula Grant Program	16.579	35,563
(Total Edward Byrne Memorial Formula Grant Program 16.579 \$80,263)		
Total U.S. Department of Justice		<u>\$ 334,583</u>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**CLAY COUNTY
MOORHEAD, 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 Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 16,699
Passed Through Minnesota Department of Public Safety and City of Moorhead Highway Safety Cluster		
State and Community Highway Safety	20.600	1,830
Occupant Protection Incentive Grants	20.602	4,622
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>1,752</u>
Total U.S. Department of Transportation		<u>\$ 24,903</u>
U.S. Department of Education		
Passed Through Minnesota Department of Employment and Economic Development Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	<u>\$ 9</u>
U.S. Department of Health and Human Services		
Passed Through National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	\$ 5,670
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	57,229
Universal Newborn Hearing Screening	93.251	2,775
Immunization Cooperative Agreements	93.268	2,480
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	20,379
Community Transformation Grants and National Dissemination and Support for Community Transformation Grants (CTG)	93.531	17,313
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families (TANF)	93.558	95,536
(Total Temporary Assistance for Needy Families 93.558 \$831,050)		
Maternal and Child Health Services Block Grant to the states	93.994	70,330

**CLAY COUNTY
MOORHEAD, 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 (Continued)		
Passed Through Minnesota Department of Human Services		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	57,527
Promoting Safe and Stable Families	93.556	14,166
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families (TANF)	93.558	735,514
(Total Temporary Assistance for Needy Families 93.558 \$831,050)		
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	52,856
Child Support Enforcement	93.563	1,017,886
Refugee and Entrant Assistance - State-Administered Programs	93.566	648
Child Care Development Block Grant	93.575	44,673
Stephanie Tubbs Jones Child Welfare Services Program	93.645	3,542
Foster Care - Title IV-E	93.658	357,924
Social Services Block Grant	93.667	377,232
Chafee Foster Care Independence Program	93.674	9,782
Children's Health Insurance Program	93.767	78
Medical Assistance Program	93.778	1,228,873
Block Grants for Community Mental Health Services	93.958	62,500
Block Grants for Prevention and Treatment of Substance Abuse	93.959	111,758
Total U.S. Department of Health and Human Services		\$ 4,346,671
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 49,666
Hazard Mitigation Grant	97.039	61,417
Emergency Management Performance Grants	97.042	50,165
Pre-Disaster Mitigation	97.047	27,806
Total U.S. Department of Homeland Security		\$ 189,054
Total Federal Awards		\$ 5,762,934

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**CLAY COUNTY
MOORHEAD, 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 Clay 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 Clay 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 Clay County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Clay 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 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:

Child Nutrition Cluster	\$ 38,314
Highway Safety Cluster	6,452
Temporary Assistance for Needy Families (TANF) Cluster	883,906

**CLAY COUNTY
MOORHEAD, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	6,061,638
Grants received more than 60 days after year-end, deferred in 2012		
Temporary Assistance for Needy Families (TANF) (CFDA #93.558)		2,293
Foster Care - Title IV-E (CFDA #93.658)		1,839
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		81,358
Hazard Mitigation Grant (CFDA #97.039)		61,417
Deferred in 2011, recognized as revenue in 2012		
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		(445,611)
		(445,611)
Expenditures Per Schedule of Expenditures of Federal Awards	\$	5,762,934

6. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	\$ 293,179

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.