

# STATE OF MINNESOTA

## Office of the State Auditor



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

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MANAGEMENT AND COMPLIANCE REPORT OF

**ITASCA COUNTY**  
**GRAND RAPIDS, 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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**ITASCA COUNTY  
GRAND RAPIDS, 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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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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**ITASCA COUNTY  
GRAND RAPIDS, 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? **Yes**
- 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? **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:

Cooperative Agreements	
Wabana Creek Bridge	10-RO-11090320-030
Maki and Tilly Creek	12-PA-11090300-018
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
Schools and Roads - Grants to States	CFDA #10.665
Payments in Lieu of Taxes	CFDA #15.226
Child Support Enforcement	CFDA #93.563
Social Services Block Grant	CFDA #93.667
Homeland Security Grant Program	CFDA #97.067

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

Itasca 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

##### 96-5 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:** At Itasca County, the same individuals who collect and receipt cash also make the bank deposits, and some individuals who can write receipts also have the capability to make journal entries, post to the general ledger, or reconcile the bank accounts. At the department level, there is a lack of segregation of duties between cash collection and billing functions.

**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 always possible. This is not unusual in operations the size of Itasca 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 has informed us that it does not have the economic resources needed to hire additional qualified accounting staff in order 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:

*Itasca County elected officials and management are aware of the limited resources we have and that these limitations will sometimes create an exposure to internal control weaknesses.*

06-2 Internal Control Over Budgeting

**Criteria:** A good budget policy should outline the key factors, controls, and other information necessary to be used by County management during the budget process.

**Condition:** The County Board has adopted a budget policy, but it is lacking key information such as which funds are required to be budgeted, the budgetary basis, and the legal level of control over the budget.

**Context:** Budgeting is a vital process in controlling the County's revenues and expenditures and helping determine the required tax levy.

**Effect:** Not including all of the key elements in the policy could lead to missing procedures, approvals, or information needed during the budget process.

**Cause:** The County's budget policy has not been updated to include this information.

**Recommendation:** We recommend the County Board amend its budget policy to include the elements recommended above to provide better internal control over the budget process.

Client's Response:

*Itasca County will review its budget policy and make changes that will include these recommended changes.*

06-4 Audit Adjustments and/or Restatements

**Criteria:** 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control 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.

**Condition:** During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

**Context:** The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** Audit adjustments were necessary to record additional receivables and payables found during the audit, record additional capital assets, and make reclassification and elimination entries as necessary.

**Cause:** The adjustments were required due to incomplete or improper information being used to prepare the financial worksheets used to summarize information for the financial statement.

**Recommendation:** We recommend that the County staff review the trial balances, journal entries, and financial statement presentation in detail to help ensure their accuracy. Significant errors or misclassifications noted should be corrected.

Client's Response:

*County staff will review trial balances, journal entries, and financial statements in detail.*

#### ITEM ARISING THIS YEAR

##### 12-1 Cash Reconciliations

**Criteria:** A good system of internal control provides for timely reconciliation of cash and pooled investments on hand to the cash and pooled investment balances reported in the financial system of the County. Differences should be investigated and corrected.

**Condition:** During our audit, we noted that cash and investments were not being reconciled to the financial system on a regular basis. At December 31, 2012, there was a difference between the cash and investment records and the financial system of \$50,713 that could not be reconciled.

**Context:** Not reconciling these records on a regular basis increases the likelihood that errors or irregularities could be occurring and not be discovered on a timely basis.

**Effect:** The longer these differences go on, the more difficult it will be for reconciling items to be identified, and there is an increased risk of improprieties going undetected.

**Cause:** Staff not following internal controls in place for monthly reconciliations and then not investigating and correcting variances that are found.

**Recommendation:** We recommend that the County staff perform monthly reconciliations of their cash and pooled investments on hand to the balances recorded in the financial system. Variances identified should be investigated and corrected on a timely basis.

Client's Response:

*Cash will be reconciled monthly and will be reviewed by the County Auditor/Treasurer. This has always been done in the past, however, last year we had a vacancy in two of our accounting positions.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-4 Collateral Assignments

**Criteria:** Itasca County has deposits with Grand Rapids State Bank and Wells Fargo. These banks have pledged collateral to Itasca County to secure these deposits. Minn. Stat. § 118A.03, subd. 4, requires the collateral assignments to be in writing, and to include language specified in the statute.

**Condition:** The collateral pledge agreement which Itasca County has with Wells Fargo is not current. The most current pledge agreement on file is dated 2003. Also, the Wells Fargo pledge agreement does not contain the language required by Minn. Stat. § 118A.03, subd. 4, that “upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.” Grand Rapids State Bank has updated its pledge agreement, however, its pledge agreement also does not contain the language required by Minn. Stat. § 118A.03, subd. 4.

**Context:** Current collateral assignments are advisable to ensure that the proper statutory language is included in the collateral assignments so that the County's interests are properly protected. The collateral assignments should also be approved by the bank's Board of Directors or loan committee in order to perfect the collateral.

**Effect:** There is an increased risk that the County will not be able to recover the value of its deposits in the event of a bank failure.

**Cause:** The County attempted to obtain a new collateral assignment from Wells Fargo in 2011, however, the new collateral assignment still did not have the required language and was never entered into. For Grand Rapids State Bank, the updated assignment was not written with the proper language included.

**Recommendation:** We recommend that the Chief Accountant obtain new collateral assignments from each of these banks. The new assignments should be reviewed to make sure they include the statutory language required by Minn. Stat. § 118A.03, subd. 4, and are approved by the bank's Board of Directors or loan committee.

Client Response:

*The Chief Accountant will obtain collateral assignments and make sure they comply with Minn. Stat. § 118A.03, subd 4.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Broker Certifications (06-7)**

In 2011, the County failed to obtain a broker certification from one of its investment brokers. These certifications are required to be obtained annually per Minn. Stat. § 118A.04, subd. 9.

**Resolution**

Testing performed as part of the 2012 audit showed the County did obtain all required broker certifications.



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  
Itasca 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 Itasca County as of and for the year ended December 31, 2012, including the Nursing Home Enterprise Fund as of and for the year ended September 30, 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 26, 2013. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Itasca Medical Care Enterprise Fund, as described in our report on Itasca County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

In planning and performing our audit of the financial statements, we considered Itasca 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs, as item 06-4 to be a material weakness.

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 attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, as items 96-5, 06-2, and 12-1 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Itasca 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 considered all of the listed categories, except that we did not test for compliance with the provisions of tax increment financing because that provision was not applicable.

In connection with our audit, nothing came to our attention that caused us to believe that Itasca 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 08-4. 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**

Itasca 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

September 26, 2013

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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  
Itasca County

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

We have audited Itasca 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. Itasca 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 Itasca 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 Itasca 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 on the County's compliance with those requirements.

***Opinion on Each Major Federal Program***

In our opinion, Itasca 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 Itasca 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 Itasca 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 26, 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 County's 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 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 26, 2013

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**ITASCA COUNTY  
GRAND RAPIDS, 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>		
Direct		
Cooperative Agreement - Wabana Creek Bridge	10.10-RO-11090320-030	\$ 461,899
Cooperative Agreement - Maki and Tilly Creek	10.12-PA-11090300-018	20,356
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	318,852
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		
	10.561	318,437
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Assistance		
	10.664	109,621
Passed Through Minnesota Department of Finance Schools and Roads - Grants to States		
	10.665	<u>216,489</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 1,445,654</u></b>
<b>U.S. Department of Commerce</b>		
Passed Through the Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program (Total Public Safety Interoperable Communications Grant Program 11.555 \$206,900)		
	11.555	\$ 199,400
Passed Through Minnesota Northeast Regional Radio Board Public Safety Interoperable Communications Grant Program (Total Public Safety Interoperable Communications Grant Program 11.555 \$206,900)		
	11.555	<u>7,500</u>
<b>Total U.S. Department of Commerce</b>		<b><u>\$ 206,900</u></b>
<b>U.S. Department of the Interior</b>		
Direct		
Payments in Lieu of Taxes	15.226	<b><u>\$ 497,475</u></b>

**ITASCA COUNTY  
GRAND RAPIDS, 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 Justice</b>		
Direct		
Supervised Visitation, Safe Havens for Children	16.527	\$ 81,025
Drug Court Discretionary Grant Program	16.585	93,611
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	64,659
Public Safety Partnership and Community Policing Grants	16.710	65,739
(Total Public Safety Partnership and Community Policing Grants 16.710 \$67,619)		
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	16.736	79,751
Justice Assistance Grant Program Cluster		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA	16.804	600
Passed Through the Minnesota Department of Public Safety Public Safety Partnership and Community Policing Grants	16.710	1,880
(Total Public Safety Partnership and Community Policing Grants 16.710 \$67,619)		
Justice Assistance Grant Program Cluster		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	<u>79,804</u>
<b>Total U.S. Department of Justice</b>		<b><u>\$ 467,069</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Public Safety and City of Grand Rapids Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<b><u>\$ 1,427</u></b>
<b>U.S. Department of Energy</b>		
Direct		
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	<b><u>\$ 58,652</u></b>

**ITASCA COUNTY  
GRAND RAPIDS, 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</b>		
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board		
Public Health Emergency Preparedness	93.069	\$ 29,966
Maternal and Child Health Services Block Grant to the States	93.994	51,523
Passed Through Minnesota Department of Human Services		
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$599,547)	93.558	537,952
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	21,894
Child Support Enforcement	93.563	942,952
Refugee and Entrant Assistance - State Administered Programs	93.566	565
Child Care and Development Block Grant	93.575	17,332
Foster Care Title IV-E	93.658	9,908
Social Services Block Grant	93.667	321,490
Chafee Foster Care Independence Program	93.674	11,330
Children's Health Insurance Program	93.767	107
Medical Assistance Program	93.778	1,158,738
Passed Through Minnesota Department of Health		
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$599,547)	93.558	61,595
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 3,165,352</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 44,595
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	77,221
Emergency Management Performance Grants	97.042	30,116
Interoperable Emergency Communications	97.055	32,016
Homeland Security Grant Program	97.067	306,469
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 490,417</b>
<b>Total Federal Awards</b>		<b>\$ 6,332,946</b>

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Itasca 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 Itasca 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 Itasca County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Itasca 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 entity identifying numbers are presented where available.

4. Clusters

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

Justice Assistance Grant Program Cluster	\$	80,404
Temporary Assistance for Needy Families (TANF) Cluster		621,441

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5. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$ 6,394,948
Grants received more than 60 days after year-end, deferred in 2012	
Special Supplemental Nutrition Program for Women, Infants, and Children	58,723
Public Health Emergency Preparedness	8,014
Medical Assistance Program	99,577
Deferred in 2011, recognized as revenue in 2012	
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	(91,348)
Supervised Visitation, Safe Havens for Children	(47,956)
Grants to Encourage Arrest Policies and Enforcement of Protections Orders Program	(57,165)
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	(17,368)
Temporary Assistance for Needy Families	(14,479)
Expenditures per Schedule of Expenditures of Federal Awards	\$ 6,332,946

6. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
16.527	Supervised Visitation, Safe Havens for Children	\$ 81,025
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	64,659
16.736	Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	79,751
Total		\$ 225,435

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.