

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CROW WING COUNTY
BRAINERD, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

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 150 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 700 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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**CROW WING COUNTY
BRAINERD, MINNESOTA**

Year Ended December 31, 2015



Management and Compliance Report

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

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **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? **None reported**

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal programs are:

Highway Planning and Construction	CFDA No. 20.205
Temporary Assistance for Needy Families	CFDA No. 93.558
Medical Assistance Program	CFDA No. 93.778

The threshold for distinguishing between Types A and B programs was \$750,000.

Crow Wing 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 ITEM NOT RESOLVED

Finding 2007-001

Documenting and Monitoring Internal Controls

Criteria: County management is responsible for developing and monitoring its internal control over financial reporting. 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. 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; capital assets (capitalization process and related depreciation); major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items); expenditure/expense processing, including social services expenditures; and payroll.

Condition: Our inquiry of County management found that significant internal controls of its accounting system have not been documented, including the documentation of 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 to 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:

The Board of Commissioners of Crow Wing County has adopted a series of Financial Policies, two of which are particularly applicable to the documenting and monitoring of internal controls: the Accounting, Auditing, and Financial Reporting Policy and the Internal Control Policy. The County has developed a plan to assess internal controls annually. This plan includes a risk assessment checklist as well as focuses on transactional-level controls. In May and June of 2016, Finance staff completed the County-wide Risk Assessment and a Transactional Controls Assessment. To date, Finance staff has performed an in-house audit of first quarter disbursements. Additional procedures will be developed for areas of disbursements, cash handling, and payroll processing. Finance staff believes these steps will be sufficient to meet or exceed the State Auditor's requirements for documenting and monitoring internal controls.

PREVIOUSLY REPORTED ITEM RESOLVED

Restatement (2014-001)

In the prior year, a prior period adjustment was necessary to reduce \$941,678 of the January 1, 2014, Community Services Special Revenue Fund fund balance, as previously reported, which represented the accumulation of estate recoveries through December 31, 2013, that had not been processed by the State of Minnesota.

Resolution

No restatements of the January 1, 2015, fund balances were necessary in 2015.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS RESOLVED

Eligibility Testing (CFDA No. 93.778) (2013-002)

The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. During our previous audit, in our sample of 40 cases, we noted one case had conflicting information with data entered into the MAXIS system, three cases did not have verification of asset requirements, and one case where a reconciliation could not be performed between information in the case file and information entered into the MAXIS system.

Resolution

During the 2015 audit, we tested a sample of 40 cases. Information input into the MAXIS system was consistent with information maintained in the case files located at the County.

Davis-Bacon Act (CFDA No. 20.205) (2014-002)

The County received the certified payrolls from contractors and subcontractors but did not maintain evidence that the certified payrolls were reviewed for compliance with the Davis-Bacon Act.

Resolution

During the 2015 audit, based on our review of certified payrolls from contractors and subcontractors maintained by the County, we determined the County documented its review of this information for compliance with the Davis-Bacon Act.



REBECCA OTTO
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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
Crow Wing County
Brainerd, Minnesota

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 Crow Wing County, Minnesota, as of and for the year ended December 31, 2015, 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 14, 2016.

Our report includes a reference to other auditors who audited the financial statements of the Brainerd Lakes Regional Airport as described in our report on the County's financial statements. This report does not include the results of the other auditors' 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 Crow Wing 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 a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2007-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Crow Wing 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 Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: 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 Crow Wing County does not use tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Crow Wing County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. 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.

Crow Wing County's Response to Finding

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* 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 14, 2016

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

Board of County Commissioners
Crow Wing County
Brainerd, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Crow Wing County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *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, 2015. Crow Wing 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Crow Wing 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Crow Wing 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, Crow Wing 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, 2015.

Report on Internal Control Over Compliance

Management of Crow Wing 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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Crow Wing County, Minnesota, as of and for the year ended December 31, 2015, 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 14, 2016, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Brainerd Lakes Regional Airport (Airport), included in the City of Brainerd's financial statements as a discrete component unit, for the year ended December 31, 2014 (the most recent information available). The Airport is a joint venture between Crow Wing County and the City of Brainerd. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Crow Wing County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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. Such 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 the Uniform Guidance. 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 14, 2016

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant Number	Expenditures
U.S. Department of Agriculture			
Passed through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Not provided	\$ 323,666
Passed through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	15152MN10152514	<u>513,211</u>
Total U.S. Department of Agriculture			<u>\$ 836,877</u>
U.S. Department of Transportation			
Passed through Minnesota Department of Transportation Highway Planning and Construction	20.205	00018	<u>\$ 1,938,452</u>
U.S. Environmental Protection Agency			
Passed through Minnesota Public Facilities Authority Capitalization Grants for Clean Water State Revolving Funds	66.458	MPFA-14-0070-R-FY15	<u>\$ 136,850</u>
U.S. Department of Health and Human Services			
Passed through Minnesota Department of Health Public Health Emergency Preparedness	93.069	Not provided	\$ 31,962
Universal Newborn Hearing Screening	93.251	Not provided	800
Immunization Cooperative Agreements	93.268	Not provided	800
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314	Not provided	150
Temporary Assistance for Needy Families <i>(Total Temporary Assistance for Needy Families CFDA 93.558 - \$795,406)</i>	93.558	1502MNTANF	91,100
Maternal and Child Health Services Block Grant to the States	93.994	Not provided	70,230

**CROW WING COUNTY
BRAINERD, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Contract Number/ Pass-Through Grant 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	M01602414	10,000
Promoting Safe and Stable Families	93.556	1401MNFPS	7,803
Temporary Assistance for Needy Families <i>(Total Temporary Assistance for Needy Families CFDA 93.558 - \$795,406)</i>	93.558	1502 MNTANF	704,306
Child Support Enforcement	93.563	1504MN4005	1,045,624
Refugee and Entrant Assistance - State-Administered Programs	93.566	1501MNRCA	806
Child Care and Development Block Grant	93.575	G1501MNCDF	44,489
Community-Based Child Abuse Prevention Grants	93.590	1302MNFPRG	13,552
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	2,491
Foster Care - Title IV-E	93.658	1501MNFOS	411,121
Social Services Block Grant	93.667	1501MNSOS	324,063
Chafee Foster Care Independence Program	93.674	1401MN1420	10,563
Children's Health Insurance Program	93.767	1405MN5021	233
Medical Assistance Program	93.778	1505MN5ADM	<u>1,946,345</u>
Total U.S. Department of Health and Human Services			\$ <u>4,716,438</u>
U.S. Corporation for National and Community Service			
Retired and Senior Volunteer Program	94.002	15SRNMN003	\$ <u>38,557</u>
U.S. Department of Homeland Security			
Passed through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	91871	\$ 18,875
Boating Safety Financial Assistance	97.012	101290	<u>28,889</u>
Total CFDA #97.012			\$ <u>47,764</u>
Passed through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	A-EMPG-2015- CROWWICO-00018	40,060
Homeland Security Grant Program	97.067	A-SHSP-2014-CROWWICO	<u>95,500</u>
Total U.S. Department of Homeland Security			\$ <u>183,324</u>
Total Federal Awards			\$ <u>7,850,498</u>

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2015.
The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

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**CROW WING COUNTY
BRAINERD, MINNESOTA**

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Total U.S. Department of Homeland Security			\$ 183,324
Total Federal Awards			\$ 7,850,498

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2015.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Crow Wing County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Crow Wing County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Crow Wing 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, as applicable, the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Crow Wing County has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

**CROW WING COUNTY
BRAINERD, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 7,704,632
Grants received more than 60 days after year-end, deferred in 2015	
Child Support Enforcement	45,300
Homeland Security Grant Program	50,195
Funds received recorded as proceeds from revenue note rather than revenue	
Capitalization Grants for Clean Water State Revolving Funds	136,850
Deferred in 2014, recognized as revenue in 2015	
Highway Planning and Construction	(21,423)
Temporary Assistance for Needy Families	(17,372)
Child Care and Development Block Grant	(3,711)
Emergency Management Performance Grants	<u>(43,973)</u>
 Expenditures Per Schedule of Federal Awards	 <u>\$ 7,850,498</u>