Stearns County
Saint Cloud, Minnesota

Management and Compliance Report

Year Ended December 31, 2025

Audit Practice Division

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR
State Auditor Julie Blaha

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Stearns County
Saint Cloud, Minnesota

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STATE OF MINNESOTA

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Independent Auditor's 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*

Board of County Commissioners
Stearns County
Saint Cloud, Minnesota

We have audited, in accordance with the 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County, Minnesota, as of and for the year ended December 31, 2025, including the Housing and Redevelopment Authority (HRA) of Stearns County component unit as of and for the year ended June 30, 2025, 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, 2026. Our report includes a reference to other auditors who audited the financial statements of the HRA of Stearns County, 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stearns County's internal control over financial reporting as a basis for designing 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 a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a 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.

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. 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 or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stearns 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 financial statements. 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

In connection with our audit, we noted that Stearns County failed to comply with the provisions of the miscellaneous provisions section of the *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters, as described in the Schedule of Findings and Questioned Costs as item 2025-002. Also, in connection with our audit, nothing came to our attention that caused us to believe that Stearns County failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, and claims and disbursements sections of the *Minnesota Legal Compliance Audit Guide for Counties*, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

Other Items

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

Stearns County's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Stearns County's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. 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 the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and 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/Julie Blaha

Julie Blaha
State Auditor

/s/Lisa Young

Lisa Young, CPA
Deputy State Auditor

September 9, 2026

STATE OF MINNESOTA

Julie Blaha
State Auditor

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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of County Commissioners
Stearns County
Saint Cloud, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Stearns County's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of Stearns County's major federal programs for the year ended December 31, 2025. Stearns County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Stearns County complied, in all material respects, with the 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, 2025.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Stearns County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Stearns County's compliance with the compliance requirements referred to above.

Other Matter – Federal Expenditure Not Included in the Compliance Audit

Stearns County's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Stearns County component unit for the year ended June 30, 2025, which expended $3,172,084 in federal awards which are not included in Stearns County's Schedule of Expenditures of Federal Awards during the year ended December 31, 2025. Our compliance audit, described in the Opinion on Each Major Federal Program section, does not include the operations of the HRA of Stearns County component unit because other auditors performed a single audit in accordance with the Uniform Guidance.

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Stearns County's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Stearns County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Stearns County's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;

- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and

- obtain an understanding of the County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, 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 the County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance, and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2025-001. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on Stearns County's response to the noncompliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. Stearns County's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance 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, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 a 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 a 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 attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2025-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Stearns County's response to the internal control over compliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. Stearns County's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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/Julie Blaha

Julie Blaha
State Auditor

/s/Lisa Young

Lisa Young, CPA
Deputy State Auditor

September 9, 2026

Stearns County
Saint Cloud, Minnesota

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2025

Section 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? **None reported**

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

Federal Awards

Internal control over the major federal programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

Identification of the major federal programs:

Assistance Listing Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction
93.558	Temporary Assistance for Needy Families

Dollar threshold used to distinguish between Type A and Type B programs: $1,000,000.

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

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

2025-001 <u>**Eligibility**</u>
Prior Year Finding Number: N/A
Year of Finding Origination: 2022
Type of Finding: Internal Control Over Compliance and Compliance
Severity of Deficiency: Significant Deficiency and Other Matter

Federal Agency: U.S. Department of Health and Human Services
Program: 93.558 Temporary Assistance for Needy Families
Award Number and Year: 2501MNTANF; 2025

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish, document, and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Title 42 United States Code § 602(a)(1)(B)(iii) requires each state to create a written document that shall set forth the objective criteria for the delivery of benefits and the determination of eligibility. The Minnesota Department of Human Services' State Plan for Temporary Assistance for Needy Families (TANF) and Minn. Stat. § 142G.10, subd. 1, establish the general eligibility requirements for TANF benefits.

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by Stearns County to support the eligibility determination process. In the recipient files reviewed for eligibility, not all documentation was available, updated, or input correctly to support recipient eligibility. The following exceptions were noted in the sample of 40 MAXIS recipient files tested:

- One recipient's case file did not include supporting documentation for verification of school enrollment.
- One recipient's case file did not include evidence of a signature on the combined application form.
- One recipient's case file did not include supporting documentation for establishing parenthood.

Questioned Costs: Not applicable. The County administers the program, but the State of Minnesota pays benefits to recipients in this program.

Context: The State of Minnesota and Stearns County split the eligibility determination process. Pursuant to Minnesota statutes, Stearns County performs the "intake function" needed for this program, while the State maintains the MAXIS system, which supports the eligibility determination process. Recipients receive benefit payments from the State. The total population of eligible recipients was 885.

The sample size was based on the guidance from Chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The lack of updating information in MAXIS and the lack of verification or follow-up of eligibility determining factors increase the risk that program recipients will receive benefits when they are not eligible.

Cause: Program personnel entering recipient data into MAXIS did not ensure all required information was input correctly, supported, and retained.

Recommendation: We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations exists and information is properly input or updated in MAXIS. In addition, the County should consider providing further training to program personnel.

View of Responsible Official: Concur

Section IV – Other Findings and Recommendations

2025-002 **Individual Ditch System Cash and Fund Balance Deficits**
Prior Year Finding Number: N/A
Year of Finding Origination: 2025
Type of Finding: Minnesota Legal Compliance and Management Practice

Criteria: Minnesota Statutes, Section 103E.655, requires that drainage system costs be paid from the drainage system account for which the costs are being incurred. If money is not available in the drainage system account on which the warrant is drawn, the Board may, by unanimous resolution, transfer the necessary funds from other ditch systems with surplus funds or from the General Fund. Such loans must be paid back with interest computed for the time the money is actually needed at the same rate per year charged on drainage liens and assessments. In addition, each County fund should be maintained with a positive fund balance to ensure financial obligations can be met.

Condition: As of December 31, 2025, the Ditch Special Revenue Fund had individual ditch systems with deficit cash balances; the aggregate deficit cash balances totaled $25,057. Deficit balances represent an implicit loan from ditch systems with a positive cash balance or the County General Fund. Additionally, no interest was charged to the deficit cash ditch systems. The Ditch Special Revenue Fund also ended the year with a deficit fund balance of $148,032.

Context: On December 31, 2025, seven of the County's 15 individual drainage systems reported a negative cash balance. In addition, eight of the 15 ditch systems had deficit fund balances totaling $153,795. One of the eight ditch systems with deficit balances has been advanced cash from the General Fund to finance system costs. This advance will be paid back with interest at the established annual special assessment interest rate. As of December 31, 2025, the advance from the General Fund totaled $210,900.

Effect: The County is not in compliance with Minnesota statutes and ditch systems maintaining deficit cash balances are effectively receiving an interest-free loan from ditch systems with surplus funds or the County General Fund. Additionally, a negative fund balance indicates that measures may need to be taken to ensure that ditch systems can meet financial obligations.

Cause: The County indicated that their practice is to approve ditch assessments for costs after they have been incurred or after projects have been completed. In some cases, costs have been significant enough to necessitate levying assessments over multiple years, producing a deficit fund balance until the necessary assessments are fully levied and collected.

Recommendation: We recommend the County develop policies and procedures that include charging interest at the same rate as on drainage liens to comply with statutory requirements for loans made to individual drainage systems with deficit cash balances in accordance with Minn. Stat. § 103E.655. The County should continue to monitor the balances of the ditch systems and eliminate deficit fund balances by approving necessary special assessments as soon as practical for each system.

View of Responsible Official: Concur

Representation of Stearns County
Saint Cloud, Minnesota

Corrective Action Plan

For the Year Ended December 31, 2025

Finding Number: 2025-001
Finding Title: Eligibility
Program: 93.558 Temporary Assistance for Needy Families

Name of Contact Person Responsible for Corrective Action:
Michael Pooler, Economic Supports Division Director

Corrective Action Planned:
The County will continue to implement TANF quality control review measures and hold weekly unit meetings to address case-specific questions and policy clarifications with program experts. These practices support ongoing learning, reduce knowledge gaps, and reinforce the importance of consistent documentation and attention to detail across the unit.

Anticipated Completion Date:
March 31, 2027

Finding Number: 2025-002
Finding Title: Individual Ditch System Cash and Fund Balance Deficits

Name of Contact Person Responsible for Corrective Action:
Randy Schreifels, County Auditor-Treasurer

Corrective Action Planned:
The County has implemented a plan to eliminate the existing negative balances through multi-year special assessments and careful project management. The largest individual ditch system with negative fund balance was in a redetermination of benefits project which will be assessed to new benefited properties beginning in taxes payable 2027. The multi-year plan will be reviewed annually and updated as needed.

Anticipated Completion Date:
December 31, 2027

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Representation of Stearns County
Saint Cloud, Minnesota

Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2025

Finding Number: 2022-002
Year of Finding Origination: 2022
Finding Title: Eligibility
Program: 93.558 Temporary Assistance for Needy Families

Summary of Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. In the case files tested for compliance with Temporary Assistance for Needy Families Program eligibility requirements, not all documentation was available, updated, or input correctly to support participant eligibility. The following exceptions were noted in the sample of 40 cases tested:

- One case file had an incomplete combined application form (CAF) and incorrect assets entered based on the CAF;
- One case file had a parent relationship entered in MAXIS that was not supported by the case file documentation; and
- Two case files had information in MAXIS that did not agree to supporting documentation in the case file.

Summary of Corrective Action Previously Reported: The County will continue to implement TANF targeted case reviews as well as host weekly unit meetings to ask questions and clarifications on case specific questions or policy inquiries. This will continue to bridge knowledge gaps and highlight the importance of documentation alignment and attention to detail across the unit.

Status: Not Corrected. Due to a high volume of hiring, staffing changes, and onboarding activities, our capacity to complete consistent quality assurance reviews has been significantly limited. As staffing levels improve, we continue to reinforce expectations for requesting necessary verifications and documentation from clients and counties when cases are transferred. Additionally, we are reviewing our quality control formats and scheduling procedures to ensure that QC activities are completed on a regular and reliable basis.