

# STATE OF MINNESOTA

## Office of the State Auditor



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

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MANAGEMENT AND COMPLIANCE REPORT

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

YEAR ENDED DECEMBER 31, 2016

## **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 650 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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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**Year Ended December 31, 2016**



**Management and Compliance Report**

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

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

TABLE OF CONTENTS

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
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	4
Schedule of Findings and Questioned Costs	8
Corrective Action Plan	17
Summary Schedule of Prior Audit Findings	20
Schedule of Expenditures of Federal Awards	23
Notes to the Schedule of Expenditures of Federal Awards	25

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE 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  
Freeborn County  
Albert Lea, 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, each major fund, and the aggregate remaining fund information of Freeborn County, Minnesota, as of and for the year ended December 31, 2016, 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 16, 2017.

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

In planning and performing our audit of the financial statements, we considered Freeborn County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001, 2015-002, and 2016-001, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Freeborn 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.

In connection with our audit, nothing came to our attention that caused us to believe that Freeborn 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.

### **Other Matters**

Included in the Schedule of Findings and Questioned Costs are management practices comments and an other matter. We believe these recommendations and information to be of benefit to the County, and they are reported for that purpose.



## **Freeborn County's Response to Findings**

Freeborn County's responses to the internal control and management practices findings, and to the other matter identified in our audit are described in the Corrective Action Plan. The County's responses were not subjected 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 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 16, 2017

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REBECCA OTTO  
STATE AUDITOR

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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  
Freeborn County  
Albert Lea, Minnesota

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

We have audited Freeborn 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, 2016. Freeborn 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 Freeborn 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 Freeborn 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, Freeborn 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, 2016.

#### ***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 2015-004. Our opinion on each major federal program is not modified with respect to this matter.

Freeborn County's response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. Freeborn County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Management of Freeborn 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2015-002 and 2015-004, that we consider to be significant deficiencies.

Freeborn County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. Freeborn County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County, Minnesota, as of and for the year ended December 31, 2016, 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 16, 2017, 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 Freeborn 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 16, 2017

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**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? **Yes**

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)? **Yes**

The major federal programs are:

Highway Planning and Construction	CFDA No. 20.205
Medical Assistance Program	CFDA No. 93.778

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

Freeborn 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

Finding Number 2015-001

Journal Entry Approval

**Criteria:** Controls should be designed to provide segregation of incompatible duties.

**Condition:** The County has established procedures to have personnel independent of inputting journal entries into the general ledger, review journal entries for accuracy and also approve journal entries. Three of the 25 journal entries tested did not have evidence of review and approval.

**Context:** County procedures indicate journal entries are input to the general ledger by the Chief Deputy Auditor-Treasurer and Auditor-Treasurer.

**Effect:** When established internal control procedures are not followed, there is an increased risk errors or irregularities will not be detected in a timely manner.

**Cause:** The County Auditor-Treasurer indicated that she was not thorough in her review and some journal entries were missed for review.

**Recommendation:** We recommend all journal entries entered into the general ledger be reviewed and approved by an individual independent of the individual who entered the journal entry.

**View of Responsible Official:** Concur

Finding Number 2015-002

Approval of Disbursements - Activities Allowed and Unallowed, Allowable Costs/Cost Principles

**Criteria:** Management is responsible for establishing and maintaining internal control over the various accounting cycles, including the processing of disbursements. Management is also responsible for the accuracy and completeness of all financial records and related information, including but not limited to, the controls over initiating, authorizing, recording, and processing disbursements in the general ledger system.



**Condition:** During our testing of internal control over compliance for the Medical Assistance Program (CFDA No. 93.778), we noted 2 of 60 disbursements tested did not include evidence to indicate they were reviewed and approved by a supervisor who has oversight responsibility.

**Context:** Proper approval by a supervisor who has oversight responsibility is an important function to ensuring amounts are accurate and proper.

**Effect:** Payment of unapproved claims is an indication of a failure in the internal control designed to prevent unauthorized, unallowed, or unallowable claims.

**Cause:** Procedures were changed and implemented in the beginning of May 2016 to address issues from the prior year finding. There were items that were not approved in the beginning of 2016 until the procedures were implemented.

**Recommendation:** We recommend the County continue to document review and approval of claims, as was implemented by the County in May 2016.

**View of Responsible Official:** Concur

#### ITEM ARISING THIS YEAR

Finding Number 2016-001

#### Audit Adjustments/Reclassifications

**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.

**Condition:** During our audit, we proposed audit adjustments that resulted in significant changes to Freeborn County's financial statements. The adjustments were reviewed and approved by the appropriate staff and are reflected in the financial statements.

**Context:** The non-detection of misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. These adjustments were found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

**Effect:** The following significant audit adjustments were necessary to be recorded for December 31, 2016:

- a decrease in net position in the government-wide conversion trial balance of \$942,182 to correct for pension amortization;

- a reclassification within net position in the government-wide conversion trial balance to decrease net investment in capital assets by \$1,910,000 for the current portion of general obligation bonds, and an increase in restricted net position for highway allotments of \$1,237,471; and
- an adjustment of \$177,000 to the Road and Bridge Special Revenue Fund to reduce inventory and increase expenditures for the year-end sand and salt measurement.

**Cause:** The County did not have the correct formulas in the pension amortization schedules, resulting in incorrect amortization entries, and a journal entry was posted incorrectly. The reclassification for net investment in capital assets occurred because the client recorded the long-term debt instead of the total debt related to capital assets. The inventory adjustment resulted from an incorrect measurement of the sand/salt inventory.

**Recommendation:** We recommend the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting to ensure the County's annual financial statements are reported in accordance with generally accepted accounting principles.

**View of Responsible Official:** Concur

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

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2015-002

#### Approval of Disbursements - Activities Allowed and Unallowed, Allowable Costs/Cost Principles

**Program:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award #05-1605MN5ADM, 2016

**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 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.

**Condition:** Based on our testing of internal controls, 2 of the 60 invoices tested did not include evidence to indicate they were reviewed and approved by a supervisor who has oversight responsibility.

**Questioned Costs:** Not applicable.

**Context:** Proper approval by a supervisor who has oversight responsibility is an important function to ensure amounts charged to federal programs are accurate and proper.

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

**Effect:** Payment of unapproved claims is an indication of a failure in the internal control designed to prevent unauthorized, unallowed, or unallowable claims.

**Cause:** Procedures were changed and implemented in the beginning of May 2016 to address issues from the prior year finding. There were a few items that were not approved in the beginning of 2016 until the procedures were implemented.

**Recommendation:** We recommend the County continue to document review and approval of claims, as was implemented by the County in May 2016.

**View of Responsible Official:** Concur

Finding Number 2015-004

Program Eligibility Intake Function

**Program:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award #05-1605MN5ADM, 2016

**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 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.

**Condition:** The State of Minnesota maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. During our review of the Medical Assistance Program, the asset information in the MAXIS system did not match the supporting documentation provided by the client in 4 of the 40 case files tested.

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

**Context:** The Minnesota Department of Human Services maintains the computer system, MAXIS, for which a portion of the Medical Assistance Program eligibility is determined. The State of Minnesota contracts with the County Human Services Department to perform the “intake function” (meeting with the social services clients to determine income and categorical eligibility), while the state maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the clients.

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

**Effect:** The lack of documented verification of key eligibility determining factors increases the risk that clients will receive benefits when they are not eligible.

**Cause:** The County indicated staff need to be more cautious to ensure all information on the application or renewal form match what is entered into the MAXIS system.

**Recommendation:** We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly maintained in case files.

**View of Responsible Official:** Concur

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### A. MANAGEMENT PRACTICES

##### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-005

##### Disaster Recovery Plan

**Criteria:** The County needs to provide for the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements. A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;

- a plan as to how the County will continue operations until normal operations are re-established;
- a list of materials the County needs to continue operations and how they will be obtained;
- identification of the space to be used; and
- a schedule for developing and periodically reviewing and updating the plan.

**Condition:** Freeborn County has not completed or approved a formal disaster recovery plan, although the County has started a plan.

**Context:** A disaster recovery plan would give greater assurance the County is prepared for a disaster or major computer breakdown.

**Effect:** In the event a disaster occurred, the County could experience a delay in reporting of financial services to the public.

**Cause:** The County is aware of the issue but has not had time to address the completion of a plan.

**Recommendation:** We recommend the County continue to develop, implement, and test the disaster recovery plan. All County employees should be familiar with the plan.

**View of Responsible Official:** Concur

Finding Number 2012-002

#### Ditch Fund Balance Deficits

**Criteria:** Each ditch benefits specific landowners; therefore, each individual ditch should have adequate resources to meet its financial obligations. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

**Condition:** As of December 31, 2016, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

**Context:** Fourteen of the 72 individual ditch systems had deficit fund balances as of December 31, 2016, totaling \$399,003.

**Effect:** Ditch systems with deficits indicate measures have not been taken to ensure an individual ditch system can meet financial obligations.

**Cause:** The County indicated deficits were due to the ditch levies not being sufficient to cover costs.

**Recommendation:** We recommend the County eliminate the ditch deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance of a ditch system.

**View of Responsible Official:** Concur

B. OTHER MATTER

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-002

Approval of Disbursements - Activities Allowed and Unallowed, Allowable Costs/Cost Principles

**Program:** U.S. Department of Health and Human Services' Child Support Enforcement (CFDA No. 93.563), Award #1604MNCEST, 2016

**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 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.

**Condition:** Based on our testing of internal controls, 2 of the 60 invoices tested did not include evidence to indicate they were reviewed and approved by a supervisor who has oversight responsibility.

**Questioned Costs:** Not applicable.

**Context:** Proper approval by a supervisor who has oversight responsibility is an important function to ensure amounts charged to federal programs are accurate and proper.

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

**Effect:** Payment of unapproved claims is an indication of a failure in the internal control designed to prevent unauthorized, unallowed, or unallowable claims.

**Cause:** Procedures were changed and implemented in the beginning of May 2016 to address issues from the prior year finding. There were a few items that were not approved in the beginning of 2016 until the procedures were implemented.

**Recommendation:** We recommend the County continue to document review and approval of claims, as was implemented by the County in May 2016.

**View of Responsible Official:** Concur

## V. PREVIOUSLY REPORTED ITEMS RESOLVED

2015-003 Reimbursement Request Review (CFDA No. 93.778)

2015-005 Collateral to Secure Deposits

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**REPRESENTATION OF FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 2015-001**

**Finding Title: Journal Entry Approval**

Name of Contact Person Responsible for Corrective Action:

Pat Martinson

Corrective Action Planned:

The Chief Deputy will double check to make sure all journal entries have been approved before they are filed.

Anticipated Completion Date:

6/12/2017

**Finding Number: 2015-002**

**Finding Title: Approval of Disbursements - Activities Allowed and Unallowed, Allowable Costs/Cost Principles**

**Program: Medical Assistance Program (CFDA #93.778) and Child Support Program (CFDA #93.563)**

Name of Contact Person Responsible for Corrective Action:

Alan Olson

Corrective Action Planned:

We will continue to follow the procedures we put in place early last year. We will continue to review the claims for proper approval.

Anticipated Completion Date:

6/12/2017

**Finding Number: 2016-001**

**Finding Title: Audit Adjustments/Reclassifications**

Name of Contact Person Responsible for Corrective Action:

Pat Paquin

Corrective Action Planned:

We will double check to make sure all entries have been picked up and accounted for.

Anticipated Completion Date:

3/31/2018

**Finding Number: 2015-004**

**Finding Title: Program Eligibility Intake Function**

**Program: Medical Assistance Program (CFDA #93.778)**

Name of Contact Person Responsible for Corrective Action:

Jill Westney

Corrective Action Planned:

We will slow down when entering case reviews to ensure proper information is entered. The Supervisor will continue to randomly select cases to audit as well as have peer reviews to double check information in the system.

Anticipated Completion Date:

6/12/2017

**Finding Number: 1996-005**

**Finding Title: Disaster Recovery Plan**

Name of Contact Person Responsible for Corrective Action:

Kelly Callahan (Interim County Administrator)

Corrective Action Planned:

We will have a basic, simple plan approved by the Board of Commissioners.

Anticipated Completion Date:

7/31/2017

**Finding Number: 2012-002**

**Finding Title: Ditch Fund Balance Deficits**

Name of Contact Person Responsible for Corrective Action:

Winston Beiser

Corrective Action Planned:

We will continue to build reserves up in each ditch to handle unanticipated work.

Anticipated Completion Date:

12/31/2018

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**REPRESENTATION OF FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 2015-001**

**Finding Title: Journal Entry Approval**

**Summary of Condition:** The County established procedures to have personnel independent of inputting journal entries into the general ledger review journal entries for accuracy and also approve journal entries. Three of the 25 journal entries tested did not have evidence of review and approval.

**Summary of Corrective Action Previously Reported:** The County will have the Human Service Director review all journal entries made by the DHS Accountant. The County will change the procedures to indicate that the DHS Accountant has the ability to make journal entries for DHS.

**Status:** Partially Corrected. In the prior year, the finding related to Human Service journal entries; in the current year, the finding is Auditor/Treasury department related.

Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No   X  

**Finding Number: 2015-002**

**Finding Title: Approval of Disbursements - Activities Allowed and Unallowed, Allowable Costs/Cost Principles**

**Summary of Condition:** During testing of internal control over compliance for Child Support Enforcement (CFDA No. 93.563) and the Medical Assistance Program (CFDA No. 93.778), 19 of 80 disbursements tested did not include evidence to indicate they were reviewed and approved by a supervisor who has oversight responsibility.

**Summary of Corrective Action Previously Reported:** Invoices approved by the Human Service Accountant will be approved (initialed by the DHS Director).

**Status:** Partially Corrected. The finding from the previous year was noted in March of 2016. The procedures changed in May 2016, but staff did not go back and correct any earlier violations.

Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No   X

**Finding Number: 2015-003**  
**Finding Title: Reimbursement Request Review**  
**Medical Assistance Program (CFDA No. 93.778)**

**Summary of Condition:** The Local Collaborative Time Study (LCTS) Cost Schedule (DHS-3220) reimbursement reports did not contain evidence of review and approval by an individual independent of preparation.

**Summary of Corrective Action Previously Reported:** The LCTS Program Supervisor shall sign the cost reports before they are submitted.

**Status:** Fully Corrected. Corrective action was taken.  
Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No  X

**Finding Number: 2015-004**  
**Finding Title: Program Eligibility Intake Function**  
**Medical Assistance Program (CFDA No. 93.778)**

**Summary of Condition:** The State of Minnesota maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. During the review of the Medical Assistance Program, the asset information in the MAXIS system did not match the supporting documentation provided by the client in 4 of the 40 case files tested, and the income information in the MAXIS system did not match the supporting documentation provided by the client in 1 of the 40 case files tested.

**Summary of Corrective Action Previously Reported:** Financial workers will be reminded during monthly staff meetings that information in MAXIS needs to be accurate even when that update does not impact eligibility.

**Status:** Not Corrected. We will slow down when entering case reviews to ensure proper information is entered. The Supervisor will continue to randomly select cases to audit as well as have peer reviews to double check information in the system.

Was corrective action taken significantly different than the action previously reported?  
Yes  X  No \_\_\_\_\_  
In addition to reminding financial workers during monthly staff meetings, supervisors are sampling case files.

**Finding Number: 2015-005**  
**Finding Title: Collateral to Secure Deposits**

**Summary of Condition:** The County had deposits at Wells Federal Bank that were not adequately covered by FDIC coverage on May 31, 2015.

**Summary of Corrective Action Previously Reported:** The County will monitor the account daily during high property tax settlement times.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 1996-005**

**Finding Title: Disaster Recovery Plan**

**Summary of Condition:** Freeborn County has not completed or approved a formal disaster recovery plan, although the County has started a plan.

**Summary of Corrective Action Previously Reported:** We will continue to work on this plan, but with the rapid changes in technology and the changing of key personnel, this will always be a work in process.

**Status:** Not Corrected. Rapid changes in technology and the changing of key personnel requires this document to be updated continuously.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2012-002**

**Finding Title: Ditch Fund Balance Deficits**

**Summary of Condition:** As of December 31, 2015, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

**Summary of Corrective Action Previously Reported:** The County will continue to build a balance for repairs and maintenance as allowed by statute. Minnesota Statutes ch. 103E allows benefitted land owners to petition for an improvement on the ditch. An engineering study and redetermination of benefits must be performed. The County cannot assess these costs until the studies are completed, so we will not have the funds for improvement projects.

**Status:** Partially Corrected. Not enough time yet to build the reserves up to an adequate level.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Passed through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	12-700-00073	\$ 248,205
Passed through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	241,033
Passed through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP)	10.572	Not Provided	<u>512</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>\$ 489,750</u></b>
<b>U.S. Department of Justice</b>			
Direct			
State Criminal Alien Assistance Program	16.606		\$ 7,537
Bulletproof Vest Partnership Program	16.607		397
Passed through Minnesota Department of Public Safety Crime Victim Assistance Grant	16.575	Not provided	<u>114,705</u>
<b>Total U.S. Department of Justice</b>			<b><u>\$ 122,639</u></b>
<b>U.S. Department of Transportation</b>			
Passed through Minnesota Department of Transportation Highway Planning and Construction	20.205	00024	<b><u>\$ 1,065,881</u></b>
<b>U.S. Department of Education</b>			
Passed through Minnesota Department of Employment and Economic Development Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	Not Provided	\$ 105
Passed through Albert Lea School District No. 241 Special Education - Grants for Infants and Families	84.181	Not Provided	<u>1,450</u>
<b>Total U.S. Department of Education</b>			<b><u>\$ 1,555</u></b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

(Continued)

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services</b>			
Passed through Minnesota Department of Health			
Public Health Emergency Preparedness	93.069	12-700-00073	\$ 49,003
Universal Newborn Hearing Screening	93.251	12-700-00073	450
Immunization Cooperative Agreements	93.268	12-700-00073	3,085
Temporary Assistance for Needy Families	93.558	12-700-00073	33,199
(Total Temporary Assistance for Needy Families 93.558 \$437,102)			
Money Follows the Person Rebalancing Demonstration	93.791	12-700-00073	4,319
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00073	41,258
Passed through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	1601MNRCSMA	10,639
Temporary Assistance for Needy Families	93.558	1602MNTANF	403,903
(Total Temporary Assistance for Needy Families 93.558 \$437,102)			
Child Support Enforcement	93.563	1604MNCST	527,795
Refugee and Entrant Assistance - State-Administered Programs	93.566	1601MNRCSMA	574
Child Care and Development Block Grant	93.575	G1601MNCDDF	10,637
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPRG	14,513
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	5,960
Foster Care - Title IV-E	93.658	1601MNFOSR	232,891
Social Services Block Grant	93.667	1601MNSOSR	198,252
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	3,962
Medical Assistance Program	93.778	05-1605MN5ADM	1,212,089
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 2,752,529</b>
<b>U.S. Social Security Administration</b>			
Passed through Minnesota Department of Human Services			
Social Security - Disability Insurance	96.001	Not Provided	\$ 525
<b>U.S. Department of Homeland Security</b>			
Passed through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	047-99047-01	\$ 216,887
Emergency Management Performance Grants	97.042	Not Provided	19,000
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 235,887</b>
<b>Total Federal Awards</b>			<b>\$ 4,668,766</b>

Freeborn County did not pass any federal awards through to subrecipients during the year ended December 31, 2016.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Freeborn 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 Freeborn County under programs of the federal government for the year ended December 31, 2016. The information in the 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) from the Office of Management and Budget (OMB). Because the schedule presents only a selected portion of the operations of Freeborn County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Freeborn 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, either 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. Freeborn County has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	4,744,538
Unavailable in 2015, recognized as revenue in 2016		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)		(52,303)
Temporary Assistance for Needy Families (CFDA #93.558)		(160,445)
Child Support Enforcement (CFDA #93.563)		(73,679)
Refugee and Entrant Assistance - State-Administered Programs (CFDA #93.566)		(50)
Foster Care - Title IV-E (CFDA #93.658)		(28,645)
Medical Assistance Program (CFDA #93.778)		(174,365)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		(196,931)
Collaborative grants (receipted into agency fund)		
Foster Care - Title IV-E (CFDA #93.658)		36,485
Medical Assistance Program (CFDA #93.778)		85,880
Grants received more than 45 days after year-end, unavailable in 2016		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)		30,462
Promoting Safe and Stable Families (CFDA #93.556)		1,296
Temporary Assistance for Needy Families (CFDA #93.558)		96,380
Child Support Enforcement (CFDA #93.563)		21,087
Stephanie Tubbs Jones Child Welfare Services Program (CFDA #93.645)		854
Chaffee Foster Care Independence Program (CFDA #93.674)		2,427
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		335,775
		335,775
Expenditures per Schedule of Expenditures of Federal Awards	\$	4,668,766