

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**MANAGEMENT AND COMPLIANCE REPORT**

**STEARNS COUNTY**  
**ST. CLOUD, 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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**STEARNS COUNTY  
ST. CLOUD, 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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**STEARNS COUNTY  
ST. CLOUD, MINNESOTA**

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Questioned Costs	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12
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	15
Schedule of Expenditures of Federal Awards	19
Notes to the Schedule of Expenditures of Federal Awards	21

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**STEARNS COUNTY  
ST. CLOUD, MINNESOTA**

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

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report 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? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major federal programs: **Unmodified for all major programs, except for Temporary Assistance for Needy Families, which is qualified.**

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

The major federal programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	CFDA No. 10.561
Temporary Assistance for Needy Families	CFDA No. 93.558
Foster Care - Title IV-E	CFDA No. 93.658
Social Services Block Grant	CFDA No. 93.667

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

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

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1996-006

#### Segregation of Duties

**Criteria:** A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

**Condition:** Several of the County's departments that collect fees lack proper segregation of duties. Offices that do not have sufficient segregation of duties include the Sheriff, Jail, Environmental Services, and Parks. These departments generally have one staff person who is responsible for billing, collecting, recording and depositing receipts, as well as reconciling bank accounts.

**Context:** Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Stearns County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

**Effect:** Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The County informed us that it does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

**Recommendation:** We recommend the County's elected officials and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client Response:

*We are aware of the problems with segregation of duties in certain areas. In many of these areas, we feel it would be cost-prohibitive to implement total segregation (cost vs. benefit). Thereby, other accounting techniques and methods are used to verify the reasonableness of these areas of concern.*

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

ITEMS ARISING THIS YEAR

Finding 2015-001

Eligibility

**Program:** U.S. Department of Health and Human Services' Temporary Assistance for Needy Families (CFDA No. 93.558); Award No. 1502MNTANF, 2015

**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 Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. When performing our case file review for eligibility, we noted that not all documentation was available to support participant eligibility. In other circumstances, information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- One relative care case file did not contain support to establish a family relationship between the adults and children.
- The household makeup of one case file could not be determined due to an incomplete combined application form.
- Four case files had support for income that did not match what was input into MAXIS or was missing the income support.
- Three case files did not have the disqualification questions on the combined application form fully certified by the participant due to missing pages, unanswered questions, or no signature.

The sample size was based on guidance from Chapter 21 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

**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 State of Minnesota contracts with the County's Human Services Department to perform the "intake function" (meeting with the social services client to determine income and categorical eligibility), while the Minnesota Department of Human Services maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

**Effect:** The lack of documentation and the improper input of information into MAXIS increases the risk that participants will receive benefits when they are not eligible.

**Cause:** County program personnel gathering and entering case information into MAXIS did not ensure all required information was input correctly.

**Recommendation:** We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly input into MAXIS and maintained in the case files. Consideration should be given to providing additional training to County program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Janet Goligowski*

Corrective Action Planned:

*The current process for income verification and supporting data is stored in multiple places for the client's record. Our current processes assure that information known to the agency can be utilized to determine income eligibility. We will implement program integrity checks on a random basis to assure staff are following the processes. Additional training on processes for financial workers may be conducted in each unit as needed.*

Anticipated Completion Date:

*Fall 2016*

Finding 2015-002

Subrecipient Monitoring

**Program:** U.S. Department of Health and Human Services' Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558); Award No. 1502MNTANF, 2015

**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. Also, the County must comply with the requirements for pass-through entities as identified in Title 2 U.S. *Code of Federal Regulations* § 200.331, such as to clearly identify the award to the subrecipient; evaluate the subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the award; monitor the activities of the subrecipient; and verify the subrecipient is audited, if required.

**Condition:** The County did not perform any monitoring procedures over its subrecipient for the TANF program during 2015.

**Context:** Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, reviewing the subrecipient's single audit or program specific audit results, and evaluating audit findings and the subrecipient's corrective action plans.

**Effect:** The County is not meeting federal requirements pertaining to subrecipient monitoring. Without performing monitoring procedures, the County cannot be assured that its subrecipient is in compliance with federal requirements over federal awards.

**Cause:** Prior to 2015, the County considered its subrecipient to be a contractor not requiring subrecipient monitoring.

**Recommendation:** We recommend the County evaluate all new contractors to determine if the County should consider them to be a contractor or a subrecipient. In addition, we recommend the County develop subrecipient monitoring procedures that are in compliance with Title 2 U.S. *Code of Federal Regulations* §§ 200.303 and 200.331.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Dona Pederson & Janet Goligowski*

Corrective Action Planned:

*To date, we review the following quarterly reports: Work Participation Rates, Self-Sufficiency Indexes, DHS Audit program reviews on TANF, MFIP and ES. Based on this review, we have confidence the sub-recipient is performing as expected.*

*The department has been working on a grant monitoring policy and procedure and this process is scheduled to be implemented September 2016. The process includes such things as determination of sub-recipient, financial monitoring, and evaluation of risk.*

Anticipated Completion Date:

*September 2016*

PREVIOUSLY REPORTED ITEM RESOLVED

**Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting - Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557) (2014-001)**

The County's Public Health Department uses the Public Health Documentation (PH-Doc) system to track staff time by program. During the previous audit, reported hours from PH-Doc were used to support salary expenditures reported on the monthly requests for reimbursement submitted to the Minnesota Department of Health. The time entered into PH-Doc by Public Health staff was not approved by supervisors, nor was it compared and reconciled to the County's payroll system or general ledger.

**Resolution**

All salary-related expenditures reported on the monthly requests for reimbursement submitted to the Minnesota Department of Health are now reconciled to the payroll system, which is approved each pay period, and the general ledger during the preparation of the report.

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### A. MINNESOTA LEGAL COMPLIANCE

###### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-003

###### Contract Compliance

**Criteria:** Pursuant to Minn. Stat. §§ 471.345, subd. 3, and 375.21, contracts estimated to exceed \$100,000 must be made using sealed bids solicited by public notice by advertising for bids in a qualified legal newspaper of the County or through the alternative dissemination of bids and requests as provided by Minn. Stat. § 331A.03. In addition, all contracts should be executed in writing in accordance with Minn. Stat. § 375.21, subd. 1, and include a notice to the prime contractor to pay subcontractors within ten days of receipt of payment in accordance with Minn. Stat. § 471.425, subd. 4a.

**Condition:** During 2015, the County's Purchasing Department solicited for bids on three separate projects that were subject to the state's contracting and bidding laws. We noted the following issues during our testing:

- A request for bids for the Courts Facility roof replacement project was published on the County's website from March 19, 2015, to March 31, 2015. However, the County only published in the official newspaper, as part of the County Board minutes, on March 31, 2015, the same day as the bid opening.
- A request for bids for the Administration Center roof top units was published on the County's website from March 19, 2015, to March 31, 2015. However, the County only published in the official newspaper, as part of the County Board minutes, on March 31, 2015, the same day as the bid opening. This contract totaled \$554,280; we were not provided with a signed contract, only a purchase order.
- Although the project for the Rose Park safe room was originally estimated to be under \$100,000, the County chose to use the formal bidding process and awarded the bid to the low bidder in the amount of \$129,900. The request for bids was only advertised on the County's website and not in the official newspaper. In addition, the contract was not approved by the County Board nor was there a signed contract in place.

- None of the bid specifications or contracts for the three projects mentioned above included notification from the County to the prime contractor to pay any subcontractors within ten days of receipt of payment from the County, or pay interest at the rate of 1.5 percent per month.

**Context:** The County's bid specifications for the Administration Center roof top units and the Rose Park safe room require that, within ten days after notification in writing of the owner's intent to award the contract, the accepted bidder will be required to enter into a contract with the owner on Standard Form of Agreement between Owner and Contractor (Document A101).

**Effect:** The County is not in compliance with Minnesota statutes regarding contracting and bidding.

**Cause:** The County did not follow the proper statutory guidelines regarding contracting and bidding. We were provided with purchase orders in lieu of signed contracts and website publications in lieu of affidavits of publication from the official newspaper.

**Recommendation:** We recommend the County Purchasing Department be informed of, and provided with, the statutory requirements to ensure compliance with the applicable contracting and bidding statutes for all future contracts. Adequate documentation of compliance should be maintained in the files.

Client's Response:

*The County took steps following the 2014 audit to add a layer of review to all contracts. This additional control did not take place until October 30, 2015, which was months after the aforementioned projects. The current Contract Review Checklist, if in place at the time, would have caught each of the issues listed above.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Depository Pledge Agreements (2014-002)**

During our previous audit, Stearns County could not provide depository pledge agreements for three of the four securities pledged by United Banker's Bank for deposits held at Liberty Savings Bank at year-end.

**Resolution**

During 2015, the appropriate pledge agreements were obtained for all securities pledged by United Banker's Bank for deposits held at Liberty Savings Bank.

B. OTHER MATTER

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2013-001

Eligibility

**Program:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award Nos. 1505MN5ADM and 1605MN5ADM, 2015

**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 Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility.

During our testing of a sample of 15 case files, we noted three instances where asset or income documentation did not adequately support all participant eligibility requirements and/or match the information in MAXIS.

**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 State of Minnesota contracts with the County's Human Services Department to perform the "intake function" (meeting with the social services client to determine income and categorical eligibility), while the Minnesota Department of Human Services maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

**Effect:** Inadequate documentation and the improper input of information into MAXIS increases the risk that participants will receive benefits when they are not eligible.

**Cause:** County program personnel gathering and entering case information into MAXIS did not ensure all required information was input correctly.

**Recommendation:** We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is properly input into MAXIS and maintained in the case files. Consideration should be given to providing additional training to County program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Janet Goligowski, Division Director - Gateway Services Stearns County  
Human Services  
janet.goligowski@co.stearns.mn.us  
320-656-6202*

Corrective Action Planned:

*Firstly, in October 2014, Stearns County implemented case reviews as indicated in the 2013 Corrective Action Plan. We continue to do ongoing case reviews. Upon completion of reviews, supervisors are required to provide both individual training and unit training as well as immediate action on the case findings.*

*Stearns County HS management team conducts monthly training sessions, individual training and mentor-facilitated training to assure staff are familiarized with the often quick and numerous changes.*

*2016: We continue to conduct on-going reviews; DHS conducts off-site reviews as well. Results of both reviews are used for immediate case correction, unit training, individual training and technical training.*

*Secondly, due to inherent limitations during 2013 through 2014 with the federal Healthcare expansion rules, DHS issued directions to counties waiving some required case verifications and documentation. For cases going forward, DHS continues to issue ongoing directions to counties to reconcile document requirements. We anticipate that as DHS' eligibility systems and expansion rules stabilize counties will receive further directions on how to handle cases without waiving program requirements. Stearns County HS management team conducts monthly training sessions, individual training and mentor-facilitated training to assure staff are familiarized with the often quick and numerous changes.*

2016: The system of record has not stabilized; counties continue to receive direction from DHS as to how-to's on case workarounds, identifying challenges to closing records, unique id's, program integrity, and reporting requirements. As MAXIS conversion begins October 2016 through October 2017 more cases will go into METS while highly complex cases remain in MAXIS. Stearns County Quality Assurance Team--Case Reviews conducts ongoing full case reviews to identify technical and eligibility errors, provides mentor training and unit training.

In addition, in July 2015, an internal Quality Assurances-Audit team has been established to facilitate ongoing real-time case reviews specifically targeting healthcare cases for additional analysis of errors, and then earmarking training and case corrections.

Anticipated Completion Date:

Monthly trainings for four units. December 2015

2016: Completed and is on-going within program areas

Ongoing case reviews since 2014

2016: Yearly full case reviews and bi-annual SNAP reviews conducted. Supervisors follow up with individual case corrections, individual training and unit training as identified.

QA-Audit team meets quarterly effective July 2015, 2016: On-going

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REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

### Independent Auditor's Report

Board of County Commissioners  
Stearns County  
St. Cloud, 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 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, 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 September 15, 2016. Our report includes a reference to other auditors who audited the financial statements of the Housing and Redevelopment Authority (HRA) of Stearns County, the discretely presented component unit, for the year ended June 30, 2015, as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

In planning and performing our audit of the financial statements, we considered Stearns 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 1996-006, that we consider to be a significant deficiency.

### **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 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 as the cities administer the tax increment financing in Stearns County.

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 *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as item 2014-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

### **Other Matters**

Also included in the Schedule of Findings and Questioned Costs is an unresolved other matter described as item 2013-001.

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

Stearns County's responses to the internal control and legal compliance findings and to the other matter identified in our audit have been included in the Schedule of Findings and Questioned Costs. 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

September 15, 2016

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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  
Stearns County  
St. Cloud, Minnesota

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

We have audited Stearns 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. 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.

Stearns County's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Stearns County component unit, which expended \$1,085,968 in federal awards during the year ended June 30, 2015, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA of Stearns County because it had a separate single audit in accordance with the Uniform Guidance.

#### ***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 Stearns 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 Stearns 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.

***Basis for Qualified Opinion on Temporary Assistance for Needy Families (CFDA No. 93.558)***

As described in the accompanying Schedule of Findings and Questioned Costs, Stearns County did not comply with requirements regarding CFDA No. 93.558, Temporary Assistance for Needy Families, as described in finding number 2015-002 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

***Qualified Opinion on Temporary Assistance for Needy Families (CFDA No. 93.558)***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Stearns County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Temporary Assistance for Needy Families program for the year ended December 31, 2015.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, Stearns 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 other major federal programs identified in the Summary of the Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2015.

***Other Matters***

The results of our auditing procedures disclosed an other 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 2015-001. Our opinion on each major federal program is not modified with respect to this matter.

Stearns County's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Stearns County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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

Management of Stearns 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be a material weakness and 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 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 to be a significant deficiency.

Stearns County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Stearns County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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

We have audited 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, 2015, including the Housing and Redevelopment Authority (HRA) of Stearns County as of and for the year ended June 30, 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 September 15, 2016, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the HRA of Stearns County, which was audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stearns 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

September 15, 2016

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

**STEARNS COUNTY  
ST. CLOUD, MINNESOTA**

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

<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>Passed Through to Subrecipients</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	12-700-00098	\$ 668,185	\$ -
Passed through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	15152MN101S2514	641,626	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) (Total SNAP 10.561 \$1,125,435)	10.561	16162MN101S2514	483,809	-
<b>Total U.S. Department of Agriculture</b>			<b>\$ 1,793,620</b>	<b>\$ -</b>
<b>U.S. Department of Justice</b>				
Direct				
Justice Systems Response to Families	16.021		\$ 11,082	\$ -
State Criminal Alien Assistance Program	16.606		28,180	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738		42,940	13,072
Passed through Minnesota Department of Public Safety Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	T2-2014- STEARNS-0006	19,930	-
<b>Total U.S. Department of Justice</b>			<b>\$ 102,132</b>	<b>\$ 13,072</b>
<b>U.S. Department of Transportation</b>				
Passed through Minnesota Department of Transportation Highway Planning and Construction	20.205	99973	\$ 1,305,576	\$ -
Passed through City of St. Cloud, Minnesota State and Community Highway Safety	20.600	9200-3104	15,919	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	Not provided	41,002	-
<b>Total U.S. Department of Transportation</b>			<b>\$ 1,362,497</b>	<b>\$ -</b>
<b>U.S. Department of Health and Human Services</b>				
Direct				
Food and Drug Administration - Research	93.103		\$ 53,666	\$ -
Passed through Minnesota Department of Health Public Health Emergency Preparedness	93.069	65505	90,192	-
Universal Newborn Hearing Screening	93.251	Not provided	5,025	-
Immunization Cooperative Agreements	93.268	12-700-00059	29,123	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	57444	710,990	-
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds	93.539	Not provided	16,883	-

**STEARNS COUNTY  
ST. CLOUD, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(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>Passed Through to Subrecipients</b>
<b>U.S. Department of Health and Human Services</b>				
Passed through Minnesota Department of Health (Continued)				
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$1,746,860)	93.558	2015G996115	176,463	-
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00098	145,039	-
Passed through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	1511MNFPCV	24,428	24,428
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$1,746,860)	93.558	1502MNTANF	1,570,397	1,207,277
Child Support Enforcement	93.563	1504MNCSES	1,377,178	-
Child Support Enforcement (Total Child Support Enforcement 93.563 \$2,158,957)	93.563	1604MNCEST	781,779	-
Refugee and Entrant Assistance - State Administered Programs	93.566	1501MNRCA	9,082	-
Refugee and Entrant Assistance - State Administered Programs (Total Refugee and Entrant Assistance - State Administered Programs 93.566 \$18,410)	93.566	1601MNRCA	9,328	-
Child Care and Development Block Grant	93.575	1501MNCCDF	97,089	-
Community-Based Child Abuse Prevention Grants	93.590	1502MNFPRG	8,765	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1501MNCWSS	19,383	-
Foster Care - Title IV-E	93.658	1501MNFOST	772,770	-
Social Services Block Grant	93.667	1501MNSOSR	752,790	-
Chafee Foster Care Independence Program	93.674	1501MNCILP	7,453	-
Children's Health Insurance Program	93.767	1605MN5021	311	-
Medical Assistance Program	93.778	1505MN5ADM	1,583,609	1,726
Medical Assistance Program	93.778	1605MN5ADM	1,329,044	-
Medical Assistance Program	93.778	1505MN5MAP	43,239	-
Medical Assistance Program (Total Medical Assistance Program 93.778 \$2,965,382)	93.778	1605MN5MAP	9,490	-
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 9,623,516</b>	<b>\$ 1,233,431</b>
<b>U.S. Department of Homeland Security</b>				
Passed through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	3000045063	\$ 6,160	\$ -
Passed through Minnesota Department of Public Safety				
Hazard Mitigation Grant	97.039	HMGP-DR4113- STEARNSCO-0007	51,442	-
Emergency Management Performance Grants	97.042	EMPG-2014- STEARNSCO-0080	60,497	-
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 118,099</b>	<b>\$ -</b>
<b>Total Federal Awards</b>			<b>\$ 12,999,864</b>	<b>\$ 1,246,503</b>

**STEARNS COUNTY  
ST. CLOUD, MINNESOTA**

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

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Stearns County. The County's reporting entity is defined in Note 1 to the financial statements. Stearns County's financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Stearns County component unit, which expended \$1,085,968 in federal awards during the year ended June 30, 2015. Those expenditures are not included in the County's Schedule of Expenditures of Federal Awards because the HRA of Stearns County had a separate single audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Stearns 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 Stearns County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Stearns 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. Stearns County has elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**STEARNS COUNTY  
ST. CLOUD, MINNESOTA**

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4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 13,174,796
Grants received more than 60 days after year-end, unavailable in 2015	
Community-Based Child Abuse Prevention Grants	24
Child Support Enforcement	83,100
Hazard Mitigation Grant	1,950
Unavailable in 2014, recognized as revenue in 2015	
Public Health Emergency Preparedness	(24,135)
Temporary Assistance for Needy Families	(3,457)
Child Care and Development Block Grant	(8,802)
Hazard Mitigation Grant	(223,612)
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Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 12,999,864</u>