

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

WRIGHT COUNTY
BUFFALO, 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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**WRIGHT COUNTY
BUFFALO, 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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**WRIGHT COUNTY
BUFFALO, MINNESOTA**

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**WRIGHT COUNTY
BUFFALO, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **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 programs are:

Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778

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

Wright 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 2014-001

Segregation of Duties - Departments

Criteria: Management is responsible for establishing and maintaining internal control. 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. 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 Wright 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's Response:

Wright County is aware of the potential risks of not having sufficient staff to segregate all duties. We continue to review processes and strengthen procedures where we can.

Finding 2014-002

Audit Adjustments

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 the County's financial statements. The adjustments were reviewed and approved by the appropriate County staff and are reflected in the financial statements.

Context: The inability to make appropriate accrual adjustments or to detect 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 audit adjustments were recorded for December 31, 2015:

General Fund

- Increased accrued interest receivable and related investment earnings by \$159,652 for the interest earned but not recorded by the County on a certificate of deposit that matured in October 2015.

Road and Bridge Special Revenue Fund

- Increased due from other governments and increased deferred inflows of resources--unavailable revenue by \$473,387 to properly record highway user receivables at year-end for town bridge and bridge bonding allotments. In addition, an entry at the government-wide level was done to eliminate the deferred inflows of resources--unavailable revenue by \$473,387 and recognize operating and capital grant program revenues for highways and streets.

Cause: Procedures were not in place to consider the full extent of all entries needed for financial reporting.

Recommendation: We recommend County staff review the County's financial statement closing procedures, trial balances, and journal entries in detail to ensure that all significant adjustments considered necessary to fairly present the County's financial statements in accordance with generally accepted accounting principles have been made appropriately.

Client's Response:

Wright County continues to prepare and review all supporting documents for the audit. As adjustments are identified attempts to correct that for future reports are completed.

Finding 2014-004

Capital Assets

Criteria: The County is required by generally accepted accounting principles to account for and depreciate its capital assets over their estimated useful lives. The County's capital asset policy establishes a \$5,000 threshold for capitalizing capital assets other than land and sets estimated useful lives by category of asset, which includes infrastructure at 50 years.

Condition: During our audit of capital assets, several discrepancies were identified. Capital asset reports provided included capital assets with no balance, capitalized assets under \$5,000, and infrastructure--bridges being depreciated over 75 years rather than the 50 years established in the County's capital asset policy.

Context: The County purchased new capital asset software in 2016 and implemented it for 2015 financial reporting.

Effect: Additional audit analysis was required, and improperly recorded items resulted in misstated capital assets, accumulated depreciation, and net position.

Cause: The County informed us that they are working with the capital asset software vendor to remedy the problem with the system depreciating infrastructure--bridges at the incorrect useful life. The assets with no balance were a result of assets remaining on the capital asset system after being deleted in previous years.

Recommendation: We recommend the County review internal controls currently in place and design and implement procedures to improve internal controls over the recordkeeping of its capital assets and related depreciation to ensure that its capital asset records are complete and accurately prepared.

Client's Response:

Wright County was in the first year of a new system implementation, and agree with the recommendations from the audit staff. We will be reporting only those assets above \$5,000 and will correct the depreciation rule for bridges to match our policy.

ITEMS ARISING THIS YEAR

Finding 2015-001

Segregation of Duties - Payroll

Criteria: Management is responsible for establishing and maintaining internal control over various accounting cycles, including payroll. Adequate segregation of duties is a key internal control in an organization's accounting system. In the payroll system, changes to the payroll master file and payroll processing should be segregated. However, if that is not practical, changes to the payroll master file should be monitored by someone independent of payroll processing at least monthly.

Condition: During our review of the County's payroll function, we noted that the County Auditor/Treasurer's Office not only processes payroll but also makes changes to the payroll master file for occurrences such as new hires, terminations, promotions, and pay increases. Currently, the processing of payroll and the changes to the payroll master file are done by the same payroll staff.

Context: When staff have access to make maintenance changes to the payroll accounting system and process payroll payments, unauthorized changes or payments could be made to the payroll accounting system.

Effect: When there is limited segregation of duties and monitoring, there is an increased risk that errors or irregularities may occur and not be detected in a timely manner.

Cause: Due to the size of the County, staffing is somewhat limited. In addition, the County Auditor/Treasurer's responsibilities include duties typically performed within a human resources department in larger organizations, making complete segregation of payroll duties difficult.

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the County re-evaluate whether the County Auditor/Treasurer's Office should be making changes to the payroll master file. In addition, to strengthen internal controls, someone independent of the payroll processing function should review payroll edit reports to monitor that changes made to the payroll master file were properly authorized. Documentation of this review should be maintained.

Client's Response:

Wright County implemented a new procedure where edit reports are shared with members in the Coordinator's office. Their review of the edit report will be evidenced by a signature, thereby strengthening the controls over payroll.

Finding 2015-002

Segregation of Duties - Vendor Setup

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual has the ability to both process disbursements and set up new vendors. If segregation of duties is limited due to staff size, procedures should be implemented to include someone independent of the vendor payment process to review, verify, and approve new vendors on a timely basis.

Condition: During our review of the vendor set-up and disbursement process in the Integrated Financial System, we noted that 18 employees had the ability to both process disbursements and set up new vendors.

Context: Departments are provided general ledger reports for review on a monthly basis.

Effect: When adherence to internal control procedures is lax, there is an increased risk errors or irregularities will not be detected in a timely manner.

Cause: The County indicated that, over time, more staff were given access to vendor set-up and the disbursement process than what was originally intended.

Recommendation: We recommend the County re-evaluate whether segregation of duties between disbursements and vendor set-up is possible and assign access rights as applicable. If not, we recommend that procedures be developed to have an employee independent of the vendor payment process review new vendors in a timely manner.

Client's Response:

Wright County is adding a management staff person and will take the appropriate steps to segregate this function to improve controls.

PREVIOUSLY REPORTED ITEM RESOLVED

Financial Reporting Process (2014-003)

As part of the previous audit, management requested the auditors prepare a draft of the financial statements, including the related notes to the financial statements.

Resolution

The County hired an independent CPA firm to compile its financial statements for 2015.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-005

Eligibility Testing

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778); *Award # 1505MNADM, 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: While periodic supervisory case reviews are performed to monitor compliance with grant requirements for eligibility, 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:

- Five case files did not have sufficient verification for assets or the information was incorrectly input into MAXIS.
- Four case files did not have sufficient verification of income or the information was incorrectly input into MAXIS.
- Five case files lacked documentation of availability of other health insurance requirements.
- One case did not have adequate support for citizenship status.

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 Health and 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 the computer system, MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

Effect: The improper input of information into MAXIS and lack of verification or follow-up of eligibility-determining factors increases the risk that a program participant will receive benefits when they are not eligible.

Cause: Program personnel 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 exists and is properly input into MAXIS and issues are followed up on in a timely manner. In addition, consideration should be given to providing further training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Kim Johnson, Financial Services Manager

Corrective Action Planned:

1) Regarding case files that did not have sufficient verification of income and case files that did not have sufficient asset verification, or information was incorrectly input in to MAXIS, the Corrective Action Planned, the position responsible for the activity, and the targeted completion date are:

<i>Description of task/step</i>	<i>Position responsible</i>	<i>Targeted completion date</i>
<i>Conduct FAS case reviews to identify errors in documentation and input error</i>	<i>Financial Assistance Supervisor (FAS)</i>	<i>June 2016 Ongoing/monthly</i>
<i>Conduct peer reviews so errors are identified and Financial Workers work together so information is being interpreted the same</i>	<i>Financial Assistance Supervisor</i>	<i>June 2016 Ongoing/monthly</i>
<i>Bluezone scripts are being used to assist in more consistent information throughout MAXIS</i>	<i>Financial Assistance Supervisor</i>	<i>Ongoing/monthly</i>
<i>Financial Worker (FW) training to target the areas identified by the case reviews</i>	<i>Financial Assistance Supervisor</i>	<i>June 2016 Ongoing/monthly</i>

FW's work in groups of two and complete four to six peer reviews per month. FAS will monitor progress with a minimum of 12 case reviews per month to insure compliance with the income/asset accuracy requirements. In addition the FAS reviews the peer reviews. Supervisors will identify the errors and target Financial Worker training in these areas. Trainings will be provided monthly at unit meeting and will continue over twelve months.

- 2) *Regarding case files that did not have documentation of availability of other health insurance, the Corrective Action Planned, the position responsible for the activity, and the targeted completion date are:*

<i>Description of task/step</i>	<i>Position responsible</i>	<i>Targeted completion date</i>
<i>Review the renewal report monthly and verify information is contained in the file at that time. If information is needed, request from client</i>	<i>Financial Assistance Supervisor</i>	<i>Ongoing/monthly June 2016 - May 2017</i>
<i>Provide checklists for Financial Workers to insure they are getting what is needed when cases are transferred in from other counties</i>	<i>Financial Assistance Supervisor</i>	<i>June 2016</i>
<i>Reviewed procedure with staff who has access to the files prior to 2011 so we have gained access to some of the original applications</i>	<i>Financial Assistance Supervisor</i>	<i>May 12, 2016</i>
<i>Request DHS to make changes to the Health Care renewal form so it asks clients if they have other health insurance</i>	<i>Financial Assistance Supervisor</i>	<i>June 2016</i>

FAS will complete case reviews to be sure Financial Workers are using the checklists provided. Contact clients for written verification of other insurance at renewal if not contained in the OnBase file. Follow up with DHS to encourage them to make the change to the Health Care renewal form.

- 3) *Regarding the case file not having documentation as proof of citizenship, the Corrective Action Planned, the position responsible for the activity, and the targeted completion date are:*

<i>Description of task/step</i>	<i>Position responsible</i>	<i>Targeted completion date</i>
<i>Financial Worker will use program specific checklist to insure necessary documentation is in the file at time of application or transfer. The checklist will be provided to all current workers and incorporated in to the training material.</i>	<i>FAS</i>	<i>June 2016 Ongoing</i>
<i>FW training</i>	<i>FAS</i>	<i>June 2016 Ongoing</i>

FAS will add this to their case reviews to insure cases contain the correct verification. If needed FW will contact the client to obtain the correct verifications.

Anticipated Completion Date:

- 1) Training will be provided on an ongoing basis and will start June 2016 and continue through May 2017.*
- 2) This will begin June 2016 and continue through May 2017.*
- 3) FAS will add this to June case reviews. Program checklist will be provided June 2016. Training will be provided ongoing.*

PREVIOUSLY REPORTED ITEM RESOLVED

Eligibility Testing (CFDA No. 10.561) (2014-006)

During the review of the State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, 1 of 40 case files did not have the annual application on file.

Resolution

Per Part 2 of the Office of Management and Budget *Compliance Supplement*, eligibility is not an applicable compliance requirement to the State Administrative Matching Grants for the Supplemental Nutrition Assistance Program.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-007

Individual Ditch System Deficits

Criteria: Drainage system costs are required by Minn. Stat. § 103E.655 to be paid from the ditch system account for which the costs are being incurred. If money is not available in the drainage system account on which the warrant is drawn, this statute allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures. Such loans must be paid back with interest.

Additionally, individual ditch systems should be maintained with a positive fund balance to display solvency. As provided by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

Condition: The County has individual ditch systems with deficit cash balances and deficit fund balances at December 31, 2015.

Context: At December 31, 2015, 28 ditch systems had negative cash balances totaling \$112,039, and 29 ditch systems had deficit fund balances totaling \$86,656.

Effect: The County is not in compliance with Minnesota statutes by having ditch systems with negative cash balances. Ditch systems with negative fund balances indicate that measures have not been taken to ensure that an individual ditch system can meet financial obligations.

Cause: Expenditures have been made for ditch systems with insufficient cash to cover the expenditures. Additional work is scheduled on the ditch systems, and the County prefers to proceed with levying special assessments once a more accurate estimate on the work to be performed can be made.

Recommendation: We recommend the County eliminate the cash deficits by borrowing from eligible funds with surplus cash balances under Minn. Stat. § 103E.655. Individual fund balance deficits should be eliminated by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus cash balance to provide for the repair and maintenance of the ditch systems.

Client's Response:

Wright County recognizes the need and continues to improve on the assessment of ditch systems with deficits.

ITEMS ARISING THIS YEAR

Finding 2015-003

Collateral Assignments

Criteria: Minn. Stat. § 118A.03 states that, “[a]ny collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.” Finally, to be enforceable under federal law (12 U.S.C. § 1823(e)), this written assignment must be approved by the depository’s board of directors or loan committee and must be an official record of the depository.

Condition: Two of the County’s depositories have not provided a written assignment for collateral pledged to secure County deposits. In addition, four of the County’s depositories have not provided evidence that the depository’s board of directors or loan committee has approved the written assignments in place.

Context: To secure deposits in excess of the available federal deposit insurance, both depositories have pledged securities from their investment portfolio as collateral. Absent from the pledging documents, however, is a written assignment of the collateral to the County as well as board of director’s resolutions approving the assignments.

Effect: Without an approved written assignment of the pledged collateral, the County does not have a perfected security interest in the pledged collateral. Deposits held in excess of federal deposit insurance are at risk of loss should a depository fail.

Cause: The County has indicated that they could not locate the pledge agreements and board of director’s resolutions and was unaware that the pledging documents were insufficient to obtain a perfected security interest in the pledged collateral.

Recommendation: We recommend the County require that its depositories provide written assignments for all collateral pledged. The assignments should include the statutory language required by Minn. Stat. § 118A.03, subd. 4, and should be approved by each bank’s board of directors or loan committee, with the County receiving documentation of that approval.

Client's Response:

Wright County is currently reviewing all safekeeping records to ensure the perfection of collateral.

Finding 2015-004

Contract Compliance

Criteria: Minn. Stat. § 16C.285 states that for each construction contract in excess of \$50,000, awarded pursuant to a lowest responsible bidder or best value process, the successful contractor must submit verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3.

Condition: During our testing of contracts for compliance with contracting and bid laws, we noted for 3 of the 13 construction contracts tested, the County was unable to provide the signed responsible bidder certification form.

Context: The responsible bidder certification statute is new for 2015.

Effect: Noncompliance with Minn. Stat. § 16C.285.

Cause: County staff was not aware of the requirements of the new statute for all construction contracts over \$50,000 awarded through the lowest bidding process.

Recommendation: We recommend the County obtain the responsible bidder certification on all construction contracts over \$50,000 and bid through the lowest bidder or best value process.

Client's Response:

Wright County will obtain the responsible bidder certification on all construction contracts over \$50,000.

Finding 2015-005

Publication of Summary Budget

Criteria: According to Minn. Stat. § 375.169, a summary budget statement is to be published annually upon adoption of the County budget in a form prescribed by the State Auditor in the County's official newspaper or qualified newspaper of general circulation.

Condition: The County's 2015 budget was not published in the County's official newspaper or qualified newspaper of general circulation.

Context: The publishing of the summary budget statement is handled administratively by the County Auditor/Treasurer's Office.

Effect: The County is not in compliance with Minn. Stat. § 375.169.

Cause: The County informed us that the summary budget statement was not published due to oversight.

Recommendation: We recommend that the County publish a summary budget statement annually in the County's official newspaper, in accordance with Minn. Stat. § 375.169.

Client's Response:

Wright County recognized the requirement to publish the annual budget and have obtained the recommended format from the Office of the State Auditor, and will use that new format to make sure the budget is published in full. For the 2015 budget, the newspaper only referenced the Board resolution number where the budget was set. In previous years, that resolution was expanded for the publication to include the full language.

Finding 2015-006

Driver Awareness Classes

Criteria: As stated in Minn. Stat. § 169.022:

The provisions of [Minn. Stat., ch. 169] shall be applicable and uniform throughout this state and in all political subdivisions and municipalities therein, and no local authority shall enact or enforce any rule or regulation in conflict with the provisions of this chapter unless expressly authorized herein. Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided, that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalty provided for in this chapter for the same offense.

In *State v. Hoben*, 89 N.W.2d 813 (1959), the Minnesota Supreme Court recognized in this language a legislative intent “that the application of its provisions should be uniform throughout the state both as to penalties and procedures.” The Supreme Court concluded: “It would be a strange anomaly for the legislature to define a crime, specify punishment therefore, provide that its application shall be uniform throughout the state, and then permit a municipality to prosecute that crime as a civil offense.”

The Minnesota Attorney General’s Office stated, “[i]n the specific case of traffic offenses, the legislature has plainly preempted the field of enforcement.” December 1, 2003, letter to State Representative Steve Smith (citing Minn. Stat. § 169.022, *Hoben*, and other provisions of Minn. Stat., ch. 169). It noted the strong legislative assertion of state preemption in the area of traffic regulation and concluded that local governments were precluded from creating their own enforcement systems.

Condition: The Wright County Attorney has established a Driver Awareness Class option in lieu of issuance or court filing of a state uniform traffic ticket. The Wright County Attorney and the Wright County Sheriff have collaborated to establish general criteria setting out the traffic offenses and persons eligible and, at the discretion of the Sheriff’s Deputies, may offer first-time adult traffic violators the option of attending the Drive Wright driver awareness class in lieu of a citation. At the discretion of the Wright County Attorney’s Office, it may directly offer first-time juvenile traffic violators the option of attending the Teen Drive Wright class. The courses are two hours long and cost \$75. Fees for the classes are remitted to the Wright County Attorney’s Office. Most of the fees collected are distributed to two non-profit organizations which teach the classes and handle registration. Remaining fees are used for safe driving-related literature and activities.

Context: In the December 1, 2003, letter to State Representative Steve Smith, the Minnesota Attorney General specifically addressed the issue of a driver improvement course or clinic in lieu of a ticket or other penalty. After reviewing the state law, the Attorney General concluded: “All such programs, however, require that a *trial court* make the determination as to whether attendance at such a [driver’s] clinic is appropriate. We are aware of no express authority for local officials to create a *pretrial* diversion program.” (Emphasis is that of the Attorney General.)

The Minnesota Supreme Court has stated, “[a]s a creature of the state deriving its sovereignty from the state, the county should play a leadership role in carrying out legislative policy.” *Kasich v. Clearwater County*, 289 N.W. 2d 148, 152 (Minn. 1980), quoting *County of Freeborn v. Bryson*, 243 N.W. 2d 316, 321 (Minn. 1976).

In January 2014, a judge in the Minnesota Third Judicial District issued a permanent injunction against a similar driver diversion program operated by another Minnesota county. The judge, like the Minnesota Attorney General, concluded that the driver diversion program was not authorized under Minnesota law. The involved county has discontinued its program and has not appealed the decision.

Effect: The County's Drive Wright and Teen Drive Wright driver awareness classes are unauthorized and in violation of Minn. Stat. § 169.022.

Cause: The County Attorney believes operating the driver awareness programs are of benefit to the community as a whole.

Recommendation: We recommend the County comply with Minn. Stat. ch. 169 by not offering a driver awareness class in lieu of issuance or court filing of a state uniform traffic ticket.

Client's Response:

Wright County respectfully disagrees with the State Auditor's Opinion regarding our Drive Wright Diversion Program.

Drive Wright does not pre-empt enforcement of Chapter 169. We will continue to enforce through prosecution and law enforcement Chapter 169. Wright County is not in violation of Minn. Stat. § 169.022 because we do not mandate or prohibit any conduct other than that provided in statute or ordinance. Therefore our program does not constitute a traffic regulation.

Drive Wright citations cannot be construed as administrative citations pursuant to Minn. Stat. § 169.999 because offenders who do not attend the course will have their citations filed in District Court.

*The Wabasha County District Court case on driver diversion programs did not specifically address Drive Wright and we believe that case is limited to its facts and does not apply to Drive Wright. Bad facts make bad law. Drive Wright is not similar to the Wabasha County program. Unlike Wabasha County, Drive Wright is operated through the County Attorney and not the County Sheriff; Drive Wright only gives one chance to attend our program; with Drive Wright **NO MONEY** is used to supplement the County Attorney or County Sheriff operational budgets; Drive Wright contracts with two 501(c) non-profit organizations; and Drive Wright doesn't just teach two hour class but utilizes a "Team Approach" to reach thousands of our citizens by partnering with Safe Communities and MEADA to educate the public on safe driving and many prevention campaigns including drug/alcohol awareness, underage drinking and social host liability, DWI, distracted driving, texting, seatbelt challenge, stop tailgating and parent/teen driver education courses. Wright County has been dismissed out of Wabasha County case.*

Drive Wright is a lawful exercise of law enforcement and prosecutorial discretion. Prosecutorial discretion is inherent in separation of powers (Minn. Constitution, Article 3, Sec 1). Prosecutors have always had the discretion on whether or not to charge someone with a crime. Wright County could find no law or court ruling that specifically prohibits the exercise of discretion by law enforcement or prosecution.

That same inherent prosecutorial discretion justifies prosecution diversion programs for petty misdemeanor violations. Minn. Stat. § 169.132 “The decision to offer or agree to a continuance of a criminal prosecution is an exercise of prosecutorial discretion resting solely with the prosecuting attorney.” Minn. Rules of Criminal Procedure 27.05 comment section “Pre-trial diversion does not preclude the prosecutor and defendant from agreeing to diversion of a case without court approval if charges are not pending before the court.”

Minnesota Court of Appeals in In re JRM, 653 NW2d 2017, 211 (Minn. App 2002) stated diversion involves a deal between the prosecutor and the offender where the prosecutor either dismisses the charges or does not bring any charges on the condition that the offender successfully completes a diversion program. This agreement doesn’t require offender to admit in court or after trial to an offense. In fact, primary purpose of the “pre-trial diversion” program is to avoid court and trial all together.

Minnesota Court of Appeals in State v. Strok, 786 NW2d 297, 302 (Minn. App 2010) stated the legislature has declared that the decision to offer or agree to a continuance of a criminal prosecution is an exercise of prosecutorial discretion resting solely with the prosecuting attorney. (Appellate Court cited 609.132).

Prosecutors can have misdemeanor, gross misdemeanor and felony diversion programs (Minn. Stat. §§ 388.24 and 401.065).

Based on all of the above, taking a position that prosecutors cannot operate petty misdemeanor diversion programs appears disingenuous.

Wright County respectfully disagrees with the opinion of the Office of the State Auditor with regard to the legality of Drive Wright.

Auditor’s Reply:

As stated by both the Minnesota Third Judicial District and the Minnesota Attorney General’s Office, the state has preempted the field of traffic enforcement through Chapter 169 of the Minnesota Statutes. Local governments are precluded from creating their own traffic enforcement systems inconsistent with those prescribed by statute. The suggested prosecutorial discretion justification has been rejected previously by both the Third Judicial District and the Attorney General’s Office.

The driver awareness classes are neither authorized administrative citation programs nor authorized driver improvement clinics. We recommend the County comply with Minn. Stat. ch. 169 by not offering a driver awareness class in lieu of issuance or court filing of a state uniform traffic ticket.

PREVIOUSLY REPORTED ITEM RESOLVED

Prompt Payment of Invoices (2014-008)

Payment of invoices was not being made within 35 days of the completed delivery of goods or services or the receipt of the invoice, whichever is later, in accordance with Minn. Stat. § 471.425.

Resolution

Results from testing of current year payments indicated that the County was in compliance with Minn. Stat. § 471.425.



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
Wright County
Buffalo, 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 Wright 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 May 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wright 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 2014-001, 2014-002, 2014-004, 2015-001, and 2015-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wright County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because no tax increment financing districts are administered by the County.

In connection with our audit, nothing came to our attention that caused us to believe that Wright 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 items 2014-007, 2015-003, 2015-004, 2015-005, and 2015-006. 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.

Wright County's Response to Findings

Wright County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not 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

May 20, 2016

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

Independent Auditor's Report

Board of County Commissioners
Wright County
Buffalo, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Wright 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. Wright 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 Wright 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 Wright 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, Wright County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

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 2014-005. Our opinion on each major federal program is not modified with respect to this matter.

Wright County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Wright 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 Wright 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 a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2014-005, that we consider to be a significant deficiency.

Wright County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Wright 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 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 Wright County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We have issued our report thereon dated May 20, 2016, 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 Wright 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

May 20, 2016

**WRIGHT COUNTY
BUFFALO, MINNESOTA**

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	15152MN10152514	\$ 505,011	\$ -
U.S. Department of Interior				
Direct National Wildlife Refuge Fund	15.659	N/A	\$ 10,069	\$ -
U.S. Department of Justice				
Direct State Criminal Alien Assistance Program	16.606	HO218-MN-AP	\$ 11,726	\$ -
Passed through Minnesota Department of Public Safety Juvenile Accountability Block Grants	16.523	A-JABGSP-2014- WRIGHTCS-00002	<u>23,037</u>	<u>-</u>
Total U.S. Department of Justice			\$ 34,763	\$ -
U.S. Department of Transportation				
Passed through Minnesota Department of Transportation Highway Planning and Construction	20.205	8611229	\$ (500)	\$ -
Highway Planning and Construction	20.205	8612277	5,510	-
Highway Planning and Construction	20.205	H120006	4,201	-
Highway Planning and Construction	20.205	8614183	176,413	-
Highway Planning and Construction	20.205	8613189	50,668	-
(Total expenditures for Highway Planning and Construction \$236,292)				
Passed through Minnesota Department of Public Safety Highway Safety Cluster				
State and Community Highway Safety	20.600	A-ENFRC15-2015- WRIGHTSD-00041	5,452	699
National Priority Safety Programs (Total expenditures for Highway Safety Cluster \$14,596)	20.616	A-ENFRC15-2015- WRIGHTSD-00041	9,144	1,470
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC15-2015- WRIGHTSD-00041	<u>19,759</u>	<u>2,742</u>
Total U.S. Department of Transportation			\$ 270,647	\$ 4,911
U.S. Department of Education				
Passed through Minnesota Department of Health Special Education - Grants for Infants and Families	84.181	12-700-00103	\$ 3,255	\$ -

**WRIGHT COUNTY
BUFFALO, MINNESOTA**

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Passed through Minnesota Department of Health				
Public Health Emergency Preparedness Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.069	U9OTP000529	\$ 90,073	\$ -
Universal Newborn Hearing Screening	93.074	U9OTP000529	3,672	-
Immunization Cooperative Agreements	93.251	12-700-00103	2,825	-
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.268	IP-150302CONT16	4,040	-
Temporary Assistance for Needy Families	93.314	12-700-00103	600	-
(Total Temporary Assistance for Needy Families 93.558 \$557,913)	93.558	12-700-00103	112,028	-
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00103	84,324	-
Passed through Minnesota Department of Human Services				
Promoting Safe and Stable Families	93.556	1401MNFPS	21,717	-
Temporary Assistance for Needy Families	93.558	1502MNTANF	445,885	312,371
(Total Temporary Assistance for Needy Families 93.558 \$557,913)				
Child Support Enforcement	93.563	1504MN4005	1,519,360	-
Refugee and Entrant Assistance - State-Administered Programs	93.566	1501MNRCA	697	-
Child Care and Development Block Grant	93.575	G1501MNCCDF	36,252	-
Community-Based Child Abuse Prevention Grants	93.590	1302MNFPG	42,834	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	9,724	-
Foster Care - Title IV-E	93.658	1501MNFOS	696,413	-
Social Services Block Grant	93.667	1501MNSOS	532,887	-
Chafee Foster Care Independence Program	93.674	1401MN1420	4,635	-
Children's Health Insurance Program	93.767	1405MN5021	238	-
Medical Assistance Program	93.778	1505MNADM	2,151,861	-
(Total Medical Assistance Program 93.778 \$2,155,312)				
Passed through Stearns County				
Medical Assistance Program	93.778	Not Provided	3,451	-
(Total Medical Assistance Program 93.778 \$2,155,312)				
Total U.S. Department of Health and Human Services			\$ 5,763,516	\$ 312,371

**WRIGHT COUNTY
BUFFALO, MINNESOTA**

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

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Passed through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	R29G4CGSFY15	\$ 7,322	\$ -
Passed through Minnesota Department of Public Safety				
Hazard Mitigation Grant	97.039	A-HMGP-DR4113- WRIGHTCO-0005	12,792	-
Emergency Management Performance Grants	97.042	A-EMPG-2015- WRIGHTC-00090	<u>53,061</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>\$ 73,175</u>	<u>\$ -</u>
Total Federal Awards			<u>\$ 6,660,436</u>	<u>\$ 317,282</u>

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**WRIGHT COUNTY
BUFFALO, MINNESOTA**

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Wright 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 Wright 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 Wright County, it is not intended to and does not present the financial position or changes in net position of Wright 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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Wright County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 6,640,220
Grants received more than 60 days after year-end, unavailable in 2015	
Child Support Enforcement	78,000
Grants unavailable in 2014, recognized as revenue in 2015	
Child Care and Development Block Grant	(2,958)
Emergency Management Performance Grants	<u>(54,826)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 6,660,436</u>