

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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MANAGEMENT AND COMPLIANCE REPORT  
PREPARED AS A RESULT OF THE AUDIT OF

**CLAY COUNTY**  
**MOORHEAD, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2005

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CLAY COUNTY  
MOORHEAD, MINNESOTA**

**For the Year Ended December 31, 2005**



**Management and Compliance Report**

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

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**CLAY COUNTY  
MOORHEAD, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Schedule of Findings and Questioned Costs	Schedule 1	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>		7
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		10
Schedule of Expenditures of Federal Awards	Schedule 2	12

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**CLAY COUNTY  
MOORHEAD, MINNESOTA**

*Schedule 1*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

- A. Our report expresses an unqualified opinion on the basic financial statements of Clay County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of Clay County and are reported in the "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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Clay County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Clay County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Foster Care – Title IV-E	CFDA #93.658
Social Services Block Grant – Title XX	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Clay County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-4 Segregation of Duties

Due to the limited number of office personnel within Clay 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 Clay 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.

Segregation of duties is defined as an arrangement of responsibilities such that the work of one employee is checked by another. Ideally, no single individual should be able to: (1) authorize a transaction, (2) record the transaction in the books of account, and (3) ensure custody of the assets resulting from the transaction. The three elements of a transaction--authorization, recording, and custody--should be separated whenever possible.

Our review of the internal control in the following departments showed one or more weaknesses in the proper segregation of duties: County Recorder, Sheriff, Motor Vehicle, County Extension, Planning and Zoning, Public Health Nurse, and County Landfill.

We recommend that Clay County's management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

Client's Response:

*Clay County is aware of the lack of segregation of duties in some of the smaller departments and has implemented oversight procedures to ensure that internal control policies and procedures are being implemented by staff.*

ITEM ARISING THIS YEAR

05-1 Untimely Receipt and Deposit of Social Services Miscellaneous Collections

The County is not receipting its Social Services miscellaneous collections in a timely manner. Each collection is entered daily in a worksheet, but the money is turned over to the Treasurer's Office only on the last working day of each month. The cash is kept in a locked filing cabinet until receipts are prepared and the money is deposited with the Treasurer's Office. Most monthly receipts for these collections were over \$25,000.

Internal control over the receipting process could be improved by implementing the following procedures. Receipts should be written as money is collected, rather than periodically writing receipts for funds that have been collected over a period of time. Receipts should be deposited with the County Treasurer on a timely basis.

We recommend the County review its internal control procedures over the Social Services miscellaneous collections and make any necessary changes to ensure that all collections are receipted and deposited on a timely basis.

Client's Response:

*Procedures are in place so that Social Services miscellaneous collections are being recorded daily and deposited weekly.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Depository Pledge Agreement

Several years ago, Wells Fargo Bank changed its procedures for the assignment and substitution of collateral pledged to secure deposits. The new procedures are described in the depository pledge agreement. This agreement provides that if the aggregate market value of collateral held by the custodian (Federal Reserve Bank of Minneapolis) exceeds the required collateral value (Minn. Stat. § 118A.03, subd. 3), Wells Fargo may withdraw any excess collateral by providing the custodian with a withdrawal notice signed by authorized representatives of Wells Fargo and the County. Additionally, Wells Fargo may substitute eligible securities for any of the collateral held by the custodian at any time by providing the custodian with a substitution notice signed only by an authorized representative of Wells Fargo, provided that the market value of the collateral following such substitution would equal or exceed the required collateral value. Substitutions of securities not of like par value require the County Auditor/Treasurer's written confirmation.

The County Auditor/Treasurer does not receive notification of the substitution prior to substitution as required by Minn. Stat. § 118A.03, subd. 5. The County Auditor/Treasurer receives only a monthly collateral pledge report from the Federal Reserve Bank of Minneapolis verifying the balance of collateral.

We recommend that the County Auditor/Treasurer obtain notification for the substitution of collateral prior to the substitution.

Client's Response:

*Clay County will continue to work with Wells Fargo so that the Auditor/Treasurer receives notification for the substitution of collateral prior to the substitution.*

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, like what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

**Schedule 1**  
***(Continued)***

If applicable for Clay County, GASB Statements 43 and 45 would be implemented for years ending December 31, 2007 and 2008, respectively.



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PATRICIA ANDERSON  
STATE AUDITOR

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

Board of County Commissioners  
Clay County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clay County as of and for the year ended December 31, 2005, and have issued our report thereon dated October 6, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clay County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 96-4 and 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions indicated above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay County's financial statements are free of material misstatements, 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Clay County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 04-1.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 6, 2006

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PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Clay County

Compliance

We have audited the compliance of Clay County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Clay 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. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Clay County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

### Internal Control Over Compliance

The management of Clay County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clay County as of and for the year ended December 31, 2005, and have issued our report thereon dated October 6, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 6, 2006

**CLAY COUNTY  
MOORHEAD, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Federal Grantor Pass Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Education		
School Breakfast Program	10.553	\$ 10,860
National School Lunch Program	10.555	21,526
Passed Through Minnesota Department of Health		
Special Supplemental Nutrition Program for Woman, Infants, and Children	10.557	143,395
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Food Stamp Program	10.561	25,249
<b>Total U.S. Department of Agriculture</b>		<b>\$ 201,030</b>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Incentive Block Grant	16.523	\$ 17,413
Crime Victim Assistance Grant	16.575	14,362
Local Law Enforcement Block Grant	16.592	9,058
Enforcing Underage Drinking Laws Program	16.727	3,880
Passed Through Minnesota Department of Public Safety		
Byrne Formula Grant Program	16.579	69,559
Passed Through Minnesota Department of Public Safety and City of Moorhead		
Byrne Formula Grant Program	16.579	25,184
Direct		
Byrne Formula Grant Program	16.579	22,864
<b>Total U.S. Department of Justice</b>		<b>\$ 162,320</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 641,681
Federal Transit Metro Planning Grant	20.505	3,905
Public Transportation for Non-Urbanized Areas	20.509	50,010
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	5,557
Safety Incentives for Seat Belt Use	20.604	1,867
<b>Total U.S. Department of Transportation</b>		<b>\$ 703,020</b>
<b>U.S. Department of Education</b>		
Passed Through Minnesota Department of Education		
Special Education Grants for Infants and Families with Disabilities	84.181	\$ 69,126

**CLAY COUNTY  
MOORHEAD, MINNESOTA**

**Schedule 2**  
**(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Federal Grantor Pass Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health		
Immunizations Grants	93.268	\$ 2,600
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	50,746
Temporary Assistance for Needy Families (TANF)	93.558	46,006
Maternal and Child Health Services Block Grant	93.994	77,740
Passed Through Minnesota Department of Human Services		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	34,890
Promoting Safe and Stable Families	93.556	26,618
Temporary Assistance for Needy Families (TANF)	93.558	760,804
Child Care Mandatory and Matching Funds	93.596	68,071
Alternative Response (4B1)	93.645	7,909
Foster Care Title IV-E	93.658	329,101
Social Services Block Grant Title XX	93.667	383,842
Chafee Foster Care Independent Living	93.674	17,480
Community Mental Health Services Block Grant	93.958	22,980
Prevention/treatment of Substance Abuse	93.959	87,996
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,916,783</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Grant	97.004	\$ 217,930
Public Assistance Grants	97.036	70,620
Hazard Mitigation Grant	97.039	6,961
Homeland Security Grant Program	97.067	16,984
Direct		
Cooperating Technical Partners Grant	97.045	47,140
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 359,635</b>
<b>Total Federal Awards</b>		<b>\$ 3,411,914</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Clay County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to the revenue recognition principles of modified accrual, expenditures on this schedule do not equal federal revenues reported in the funds.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. Clay County did not pass any federal awards to subrecipients in 2005.