

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

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 160 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 730 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

Year Ended December 31, 2007



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

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2007

Community Health Board	Position	County
Todd Schneeberger	Chair	Grant
Vacant*	Member	Grant
Jeanne Olson	Member	Pope
Larry Kittelson	Member	Pope
Don Munsterman	Member	Stevens
Paul Watzke	Vice Chair	Stevens
Jerry M. Deal	Member	Traverse
Gerald Kaus	Member	Traverse

Advisory Committee	Position	County
Deb Hengel	Member	Grant
Vacant*	Member	Grant
Jeanne Olson	Member	Pope
Cody Rogahn	Member	Pope
Paul Watzke	Member	Stevens
Karla Van Moorlehem	Chair	Stevens
Cheri Rikimoto	Vice Chair	Traverse
Gerald Kaus	Member	Traverse

Co-Administrators

Betty Windom-Kirsch, Stevens Traverse Public Health

Sharon Braaten, Pope County Public Health

Fiscal Officer

Karen Folkens

*Craig Rupp, who was the other Grant County commissioner on the Board, died in a hunting accident in November 2007. His position was not filled until 2008.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Community Health Board
Mid-State Community Health Services

We have audited the accompanying financial statements of the governmental activities and the General Fund of Mid-State Community Health Services as of and for the year ended December 31, 2007, which collectively comprise Mid-State Community Health Services' basic financial statements. These financial statements are the responsibility of Mid-State Community Health Services' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Mid-State Community Health Services as of December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 9, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007
(Unaudited)

Mid-State Community Health Services' (Mid-State) Management's Discussion and Analysis (MD&A) provides an overview of Mid-State's financial activities for the fiscal year ended December 31, 2007. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

Mid-State is a joint powers enterprise operation of Grant, Pope, Stevens, and Traverse Counties, created with the intention to distribute grants received by other governments to the Public Health programs of the counties in the joint powers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Mid-State's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The first statement is presented in a single column. Because Mid-State Community Health Services had no capital assets, long-term liabilities, or revenue deferred as unavailable at December 31, 2007, the balance sheet presented on the modified accrual basis of accounting is the same as the statement of net assets presented on a full accrual basis of accounting.

The first column of the second statement presents governmental fund data. This column focuses on how money flows in and out and the balance left at year-end available for spending. It is reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. This column provides a detailed short-term view of Mid-State's operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We reconcile the relationship (or differences) between the General Fund and governmental activities (reported in the third column) in the center column of the statement.

The third column of the second statement presents the governmental activities Statement of Activities, which provides information about the activities of Mid-State as a whole and presents a longer-term view of its finances. This column tells how services were financed in the short term as well as what remains for future spending. This column includes all of the assets and liabilities of Mid-State. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

FINANCIAL ANALYSIS

Net Assets				
	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Assets				
Current and other assets	\$ 253,449	\$ 275,323	\$ (21,874)	(7.94)
Liabilities				
Current liabilities	<u>130,460</u>	<u>171,813</u>	<u>(41,353)</u>	(24.07)
Net Assets				
Unrestricted	<u>\$ 122,989</u>	<u>\$ 103,510</u>	<u>\$ 19,479</u>	18.82

The increase in total net assets is due to excess revenues over expenditures in the amount of \$27,617, offset by a reduction in deferred revenue unavailable from 2006 to 2007 in the amount of \$8,138.

Changes in Net Assets				
	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Revenues				
Intergovernmental	\$ 696,490	\$ 738,659	\$ (42,169)	(5.71)
Miscellaneous	<u>28,359</u>	<u>54,120</u>	<u>(25,761)</u>	(47.60)
Total Revenues	<u>\$ 724,849</u>	<u>\$ 792,779</u>	<u>\$ (67,930)</u>	(8.57)
Expenses				
General government	\$ 35,700	\$ 35,053	\$ 647	1.85
Intergovernmental	669,670	753,663	(83,993)	(11.14)
Miscellaneous	<u>-</u>	<u>6,689</u>	<u>(6,689)</u>	(100.00)
Total Expenses	<u>\$ 705,370</u>	<u>\$ 795,405</u>	<u>\$ (90,035)</u>	(11.32)
Change in Net Assets	<u>\$ 19,479</u>	<u>\$ (2,626)</u>	<u>\$ 22,105</u>	841.77

The change in net assets is due mainly to a decrease in administrative costs, caused by a decline in the amount of administrative costs allowed by various grants.

Budgetary Highlights

The Mid-State Community Health Services Board did not make any budgetary amendments/revisions in 2007.

Budgeted revenues exceeded actual revenues by \$30,156, primarily due to the recognition of miscellaneous revenue for the administrative portion of grants.

Budgeted expenditures exceeded actual expenditures by \$2,539 due to over/under spending on various grants.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- The State of Minnesota's finances have been declining, which could result in the cutback of various grants.
- Stevens County's unemployment rate continues to be one of the lowest in the state.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Mid-State's finances and to show Mid-State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrator, Sharon Braaten, 211 E. Minnesota Avenue, Glenwood, Minnesota 56344.

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BASIC FINANCIAL STATEMENTS

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

Assets

Cash and pooled investments	\$ 146,200
Accounts receivable	3,251
Due from other governments	<u>103,998</u>
Total Assets	<u><u>\$ 253,449</u></u>

Liabilities and Fund Balance/Net Assets

Liabilities	
Accounts payable	\$ 5,893
Due to other governments	124,363
Deferred revenue - unearned	<u>204</u>
Total Liabilities	\$ 130,460
Fund Balance/Net Assets	
Unreserved/unrestricted	<u>122,989</u>
Total Liabilities and Fund Balance/Net Assets	<u><u>\$ 253,449</u></u>

Mid-State Community Health Services has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Balance Sheet of the General Fund is the same as the Statement of Net Assets of the Governmental Activities.

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 696,490	\$ -	\$ 696,490
Miscellaneous	28,359	-	28,359
Total Revenues	\$ 724,849	\$ -	\$ 724,849
Expenditures/Expenses			
Current			
General government	\$ 27,562	\$ 8,138	\$ 35,700
Intergovernmental			
Community Health Services Grant	\$ 154,639	\$ -	\$ 154,639
Maternal and Child Health	49,029	-	49,029
Women, Infants, and Children Food Program	143,298	-	143,298
Family Planning Grant	81,443	-	81,443
TANF Home Visiting Grant	30,205	-	30,205
Educate Now and Babies Later (ENABL) Grant	28,573	-	28,573
Public Health Preparedness Grant	110,025	-	110,025
CTC Outreach Program	63,835	-	63,835
Seat Belt Safety Program	7,913	-	7,913
Immunization Grant	506	-	506
Coaching Series Program	204	-	204
Total intergovernmental services	\$ 669,670	\$ -	\$ 669,670
Total Expenditures/Expenses	\$ 697,232	\$ 8,138	\$ 705,370
Change in Fund Balance/Net Assets	\$ 27,617	\$ (8,138)	\$ 19,479
Fund Balance/Net Assets - January 1	95,372	8,138	103,510
Fund Balance/Net Assets - December 31	\$ 122,989	\$ -	\$ 122,989
Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities			
Net Change in Fund Balance			\$ 27,617
Under the modified accrual basis, receivables not available for expenditures are deferred. In the statements of activities, those revenues are recognized when earned. The adjustment to revenues is the increase or decrease in revenues deferred as unavailable.			(8,138)
Net Change in Net Assets of Governmental Activities			\$ 19,479

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

EXHIBIT 3

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 694,693	\$ 694,693	\$ 696,490	\$ 1,797
Miscellaneous	-	-	28,359	28,359
Total Revenues	\$ 694,693	\$ 694,693	\$ 724,849	\$ 30,156
Expenditures				
Current				
General government				
Accounting and auditing	\$ 6,000	\$ 6,000	\$ 4,506	\$ 1,494
Administrative services and charges	38,460	38,460	23,056	15,404
Medical consultant services	600	600	-	600
Total general government	\$ 45,060	\$ 45,060	\$ 27,562	\$ 17,498
Intergovernmental				
Community Health Services Grant	\$ 145,077	\$ 145,077	\$ 154,639	\$ (9,562)
Maternal and Child Health Women, Infants, and Children Food Program	44,165	44,165	49,029	(4,864)
Family Planning Grant	127,320	127,320	143,298	(15,978)
TANF Home Visiting Grant	88,366	88,366	81,443	6,923
Educate Now and Babies Later (ENABL) Grant	42,427	42,427	30,205	12,222
Public Health Preparedness Grant	28,985	28,985	28,573	412
CTC Outreach Program	107,815	107,815	110,025	(2,210)
Seat Belt Safety Program	65,478	65,478	63,835	1,643
Immunization Grant	-	-	7,913	(7,913)
Coaching Series Program	-	-	506	(506)
	-	-	204	(204)
Total intergovernmental	\$ 649,633	\$ 649,633	\$ 669,670	\$ (20,037)
Total Expenditures	\$ 694,693	\$ 694,693	\$ 697,232	\$ (2,539)
Net Change in Fund Balance	\$ -	\$ -	\$ 27,617	\$ 27,617
Fund Balance - January 1	95,372	95,372	95,372	-
Fund Balance - December 31	\$ 95,372	\$ 95,372	\$ 122,989	\$ 27,617

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

1. Summary of Significant Accounting Policies

Mid-State Community Health Services' (Mid-State) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by Mid-State are discussed below.

A. Financial Reporting Entity

Mid-State was established January 1, 1983, by a joint powers agreement among Grant, Pope, Stevens, and Traverse Counties. The agreement was established to secure more efficient health care services for the mutual benefit of each of the joint participants. The joint powers agreement remains in force until any single county notifies the State Board of Health and the other parties of its intentions to withdraw, at least one year before the beginning of the calendar year in which it takes effect.

Control is vested in Mid-State's Board. The Board consists of eight members, two from each county. Each member of the Board is appointed by the County Commissioners of the county they represent. Members of the Board serve an annual term, with no more than three consecutive terms.

The financial activities of Mid-State are accounted for in an agency fund by Stevens County. The employees who administer the activities of Mid-State are considered to be employees of Stevens Traverse Grant Public Health.

Mid-State is a joint venture independent of the counties that formed it. Each county has an ongoing responsibility to provide funding for the operating costs of the Board and Advisory Committee. The funding is allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board and its Advisory Committees. In addition, administrative operating costs are allocated proportionately, with total subsidy funds available to each member county.

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The financial statements combine fund level financial statements (General Fund column) and government-wide financial statements (governmental activities column). These statements include the overall financial activities of Mid-State.

The government-wide columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Mid-State's net assets are reported as unrestricted net assets.

Mid-State reports one governmental fund. The General Fund is Mid-State's primary operating fund. It accounts for all the financial resources of the organization.

C. Measurement Focus and Basis of Accounting

The governmental activities columns are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund columns (General Fund) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Mid-State considers all revenues to be available if collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recognized as expenditures to the extent that they have matured. When both restricted and unrestricted resources are available for use, it is Mid-State's policy to use restricted resources first and then unrestricted resources as needed.

Intra-fund transactions have not been eliminated in the financial statements. Eliminations have not been presented so that expenditures for each of the grants are reported in their entirety.

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets

1. Assets

Due From/To Other Governments

Amounts represent receivables and payables related to grants from other federal, state, and local governments for program administration.

Capital Assets and Depreciation

Capital assets are reported in the governmental activities column in the government-wide financial statements. Mid-State has adopted Stevens County's capitalization policy, which defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Currently, Mid-State has no capital assets that meet the threshold for capitalization.

2. Liabilities

Deferred Revenue

Mid-State's fund and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

2. Detailed Notes on Accounts

A. Assets

Cash Deposits

As of December 31, 2007, Mid-State had \$146,200 on deposit with Stevens County. Cash transactions are administered by the Stevens County Auditor/Treasurer, who is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit cash in financial institutions designated by the County Board. All funds of Stevens County are pooled. Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. Minnesota statutes require that all county deposits be covered by insurance, surety bond, or collateral, a requirement with which the County was in compliance at December 31, 2007.

Receivables

Receivables as of December 31, 2007, are as follows:

Accounts	\$ 3,251
Due from other governments	<u>103,998</u>
Total	<u>\$ 107,249</u>

Mid-State did not have any receivables scheduled to be collected beyond one year.

B. Liabilities

Deferred Revenue

Deferred revenue - unearned of \$204 in connection with the Temporary Assistance for Needy Families (TANF) Home Visits grant was available but not earned in the current period and is reported in the General Fund.

**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

3. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The attorney for Mid-State estimates that potential claims against Mid-State resulting from litigation would not materially affect the financial statements.

B. Risk Management

Mid-State is exposed to various risks of loss related to torts and errors and omissions or natural disasters. To cover these risks, Mid-State is a member of the Minnesota Counties Insurance Trust (MCIT), a public entity risk pool, and carries commercial insurance. Mid-State retains the risk for the deductible portions of its insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements that exceeded insurance coverage for the past three years.

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**MID-STATE COMMUNITY HEALTH SERVICES
MORRIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of Mid-State Community Health Services and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. Mid-State Community Health Services has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of Mid-State Community Health Services. This decision was based on the availability of Mid-State's staff and the cost benefit of using our expertise.

We recommend the Mid-State Community Health Services Board be mindful that limited staffing causes inherent risks in safeguarding the agency's assets and the proper reporting of its financial activity.

Client's Response:

The Mid-State Community Health Services Board and Mid-State Management will continue to be aware of the inherent risks limited staffing creates relative to safeguarding the agency's assets and the reporting of financial activity. Mid-State Management will continue to monitor and use best fiscal practices to decrease this risk. Beginning in January 2009, Mid-State adopted the following system utilizing checks and balances from Mid-State Administrative staff and County Auditor staff:

The fiscal officer of the Mid-State Administrative Agency prepares the vouchers/invoices for payment. The Mid-State CHS Administrator approves all disbursements. Personnel in the Auditor's Office of the Mid-State Administrative County process the disbursements assuring payment has not previously been made. Additionally, they contact the Mid-State Management regarding any questionable requests for disbursement. Documentation supporting the request for disbursement is maintained as part of the Mid-State fiscal file. Disbursements correlate either with the Mid-State CHS Administrative budget approved by the Mid-State Community Health Services Board, or with the grant payment schedule developed by the Mid-State CHS Administrator. A revenues and expenditures report is maintained and reviewed with the Mid-State Community Health Services Board.

ITEM ARISING THIS YEAR

07-1 Disbursements Approval

One basic objective of internal control is to provide a means for the prevention or detection of the payment of erroneous or false claims. Responsibilities should be separated among employees so that a single individual is not able to authorize a transaction, record the transaction in accounts, and gain custody of the asset resulting from the transaction. If it is not possible to segregate these functions to the desired level, management's review and approval of transactions is a mitigating control offsetting the internal control weakness resulting from limited segregation of duties.

The responsibility for approving disbursement transactions lies with the Mid-State Community Health Services' management. We noted in our review that claims for payment were not always being approved by the Administrator. This duty was sometimes delegated to the fiscal officer. This creates an internal control weakness over management's review and approval of these transactions. Management approval of payment of claims is an important preventive and detective internal control where staffing limitations do not always allow for a desirable level of segregation of duties.

We recommend that the Mid-State Community Health Services Board review its current agreement with the Administrator and clarify the responsibilities of the position to include review and approval of claims presented for payment to ensure all of the entity's disbursements are proper.

Client's Response:

The "Summary of Position Responsibilities" of the Mid-State CHS Administrator was reviewed. The fiscal responsibilities indicated are general in nature. A specific statement regarding the responsibility of the Mid-State CHS Administrator to review and approve claims presented for payment will be presented to the Mid-State CHS Board for their consideration at their March 2009 meeting.

Mid-State CHS Administrative Management has implemented the procedure of Administrator review and approval of claims presented. This began the last quarter of 2008.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Community Health Board
Mid-State Community Health Services

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and the General Fund of Mid-State Community Health Services (Mid-State) as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Mid-State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mid-State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mid-State's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mid-State's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Mid-State's financial statements that is more than inconsequential will not be prevented or detected by Mid-State's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Mid-State's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 06-1 and 07-1 to be significant deficiencies in internal control over financial reporting.

Minnesota Legal Compliance

We have audited the financial statements of the governmental activities and the General Fund of Mid-State Community Health Services as of and for the year ended December 31, 2007, which collectively comprise Mid-State's basic financial statements. 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, except that we did not test for compliance in contracting and bidding and public indebtedness because Mid-State did not do any contracting in 2007 and has no debt.

The results of our tests indicate that, for the items tested, Mid-State Community Health Services complied with the material terms and conditions of applicable legal provisions.

Mid-State Community Health Services' written responses to the significant deficiencies identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit Mid-State's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mid-State Community Health Board, management, and others within Mid-State Community Health Services and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 9, 2009