

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**PINE COUNTY**  
**PINE CITY, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2011

## **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.

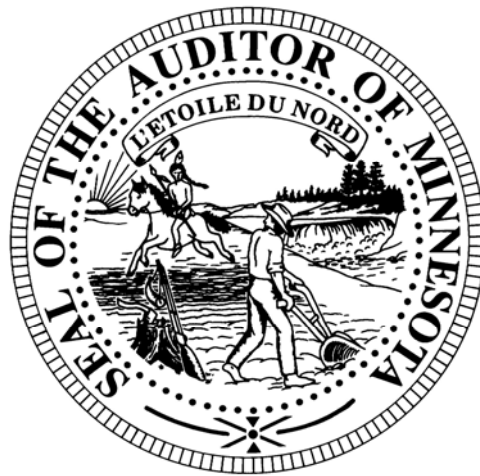
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**PINE COUNTY  
PINE CITY, MINNESOTA**

**For the Year Ended December 31, 2011**



**Management and Compliance Report**

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

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**PINE COUNTY  
PINE CITY, MINNESOTA**

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**PINE COUNTY  
PINE CITY, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

**Financial Statements**

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- 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 programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	CFDA #10.561
Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families (TANF) Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for TANF State Program - ARRA	CFDA #93.714
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

Pine 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

##### 96-4 Departmental Internal Accounting Controls

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

**Condition:** Two of the County's departments have processes that lack segregation of duties. The accounts payable process in the Auditor's Office has one staff person responsible for setting up new vendors, entering the vouchers into the accounting system, reconciling the vouchers entered to the check run, and printing and stamping the signatures on the checks. The payroll process in the Administrator's Office allows one staff person to input data, process the payroll transactions, make changes to the master files, review and adjust time reports, set up direct deposit authorizations, and print and stamp signatures on checks.

**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 Pine 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 internal control 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 does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

**Recommendation:** We recommend that the County's elected officials and management be aware of the lack of segregation of duties 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:

*Pine County is aware of this condition and sends monthly account activity reports for review by department heads.*



## 06-2 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. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable probability that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we identified material adjustments that resulted in significant changes to some of the County's financial statements. The financial statements were compiled by an outside consultant and were reviewed by County staff.

**Context:** The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** Material audit adjustments were necessary to adjust the following:

- increased federal highway planning and construction revenues in the Road and Bridge Special Revenue Fund to record current year's due from other governmental units for \$313,539. This adjustment also affected the government-wide financial statements.
- increased revenues and increased expenditures for state aid allotments in the Road and Bridge Special Revenue Fund to record an entry that credited an expenditure account instead of revenue account for \$1,972,373. This adjustment also affected the government-wide financial statements.

**Cause:** There was a misunderstanding between the County staff and the consultant during the preparation of the financial statements. The consultant completed a compilation. The County staff thought this would also include account analysis which it did not.

**Recommendation:** We recommend the County's staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made. The County staff should also discuss the scope of services with the consultant to obtain an understanding of what is completed.

### Client's Response:

*Pine County implemented a schedule for personnel involved with the Federal and State Grants that is monitored by the Chief Deputy Auditor. For the 2011 audit period, Pine County enlisted the services of an accounting firm. Due to the newness of the firm's understanding of Pine County grants and funds, there was some miscommunication which has been addressed for future audits.*

## 06-5 Computer Risk Management

**Criteria:** The County's management is responsible for establishing and maintaining effective internal control over financial reporting.

**Condition:** The County has internal controls in place for its computer system. However, the County has not developed a formal plan to identify and manage risks associated with its computer system.

**Context:** The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

**Effect:** Weaknesses in internal control could go undetected which could affect the County's ability to detect misstatements in the financial statements.

**Cause:** The County has not had the staffing resources available to complete the risk assessment process.

**Recommendation:** We recommend the County management implement procedures to document the significant internal controls related to its computer system. We also recommend a formal plan be developed that calls for assessing and monitoring significant internal controls on a regular basis, no less than annually. The assessment of risks should be documented and procedures implemented to address those risks found. Monitoring procedures should be documented to show the results of the review, changes required, and who performed the work.

### Client's Response:

*Pine County continues to work toward a Computer Risk Management plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems.*

## ITEM ARISING THIS YEAR

### 11-1 Property and Evidence Room Procedures

**Criteria:** Law enforcement agencies should have policies and procedures for the proper handling and disposition of property and evidence.

**Condition:** The Pine County Sheriff's Department does not have documented policies and procedures for its property and evidence room.

**Context:** Property and evidence rooms must provide for the security and storage of evidence. They must preserve the integrity of the evidence for further analysis and document the chain of custody for court proceedings. They must also determine when and how to dispose of the items in custody.

**Effect:** Without policies and procedures, evidence may be mishandled or may be disposed of improperly.

**Cause:** Previous staff worked for the County for many years and were aware of procedures used to document the processing of evidence. They didn't feel the policies needed to be in writing.

**Recommendation:** The Pine County Sheriff's Department should develop and document policies and procedures for the proper handling and disposition of property and evidence in its control.

Client's Response:

*Beginning in 2011, the Pine County Sheriff's Office adopted the State Auditors "Best Practices Review: Property and Evidence Room Policies and Procedures Manuals," and made the following changes:*

*Physical security to the property room was improved through the installation of high security locks, and video surveillance. Access to the property room was limited to the County Sheriff, Chief Deputy, Primary and Secondary Evidence Technicians. A new recordkeeping system was started in late 2011, all old evidence stored in the unused county jail is being reviewed and processed for final disposition. All active evidence is being consolidated into the main PCSO property room, all historic evidence is being repackaged, cataloged and will be stored in the PCSO annex located in the Pine County Court House Archive. Cash evidence is segregated in a safe, inside the main PSCO property room. This safe requires a key and combination to open, no employee has access to both. Pending forfeitures are deposited into a pending forfeiture account maintained by the County Auditor. Large amounts of old case contraband (narcotics and illegal firearms) are being reviewed and processed for destruction. Work continues to improve and insure proper handling of property and evidence in the custody of the Pine County Sheriff's Department.*

## PREVIOUSLY REPORTED ITEMS RESOLVED

### **Preparation of Financial Statements (06-1)**

Pine County had relied on its independent external auditors to assist in the preparation of the basic statements, including notes to the financial statements, as part of its external financial reporting process.

### **Resolution**

The County has hired an outside consultant to assist in preparing its basic financial statements.

### **Payroll Internal Controls (09-1)**

Tests of internal control over payroll detected instances in which employees' time sheets lacked supervisory approval.

### **Resolution**

Time sheets now have supervisory approval documented.

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

### ITEMS ARISING THIS YEAR

#### 11-2 Eligibility Testing

**Program:** Temporary Assistance for Needy Families (CFDA No. 93.558) and Medical Assistance Program (CFDA No. 93.778)

**Criteria:** OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

**Condition:** The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. Periodic supervisory case reviews are not being performed to provide reasonable assurance of compliance with grant requirements for eligibility. Not all documentation was available to support participant eligibility. The following instances were noted in our sample of 80 cases tested:

- in one case file, the 2012 application form was not completed, and
- in one case file, the application form was not time stamped.

**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 Social Services Department to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the state maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

**Effect:** The lack of case file reviews increases the risk that a client will receive benefits when he or she is not eligible.

**Cause:** The County is relying on the State of Minnesota to spot check the files.

**Recommendation:** We recommend that the County implement procedures for periodic supervisor case file reviews.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Russ Baron*

Corrective Action Planned:

*The Financial Assistant Supervisor will perform at least a semi-annual review on a group of cases for eligibility testing looking specifically for application completion and time stamping.*

Anticipated Completion Date:

*Effective immediately.*

11-3 Reporting - Review Process

**Program:** State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA No. 10.561), Temporary Assistance for Needy Families (CFDA No. 93.558) and Medical Assistance Program (CFDA No. 93.778)

**Criteria:** Standard internal control procedures should include a review and approval process for reports to ensure the reports submitted to the State of Minnesota are accurate and meet reporting requirements.

**Condition:** During our testing of controls over reporting for the County’s Health and Human Services Department, we did not find a documented review process of reports submitted to the Minnesota Department of Human Services (DHS) by a supervisory-level individual independent of the individual who prepares the reports.

**Questioned Costs:** None.

**Context:** The County reports expenditures incurred for administering the grants to DHS on a quarterly basis. These reports include the Income Maintenance Quarterly Expense Report (DHS 2550), Social Service Fund Quarterly Expense Report (DHS 2556), and the Medical Access Report for MN-ITS.

**Effect:** The lack of periodic review of reports by a supervisory level individual increases the risk that reports submitted will not be correct.

**Cause:** The County does not have adequate procedures in place to ensure that reports submitted are reviewed.

**Recommendation:** We recommend the County document supervisory review of the quarterly reports submitted to the Minnesota Department of Human Services to ensure the reports are accurate and meet reporting requirements.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Russ Baron*

Corrective Action Planned:

*Pine County understands the Federal government's need for verifications and will provide documentation of additional supervisory review.*

Anticipated Completion Date:

*Effective immediately.*

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

**Insufficient Collateral (10-1)**

The County had deposits that were not adequately covered by collateral as required by Minn. Stat. § 118A.03.

**Resolution**

County deposits are now adequately covered by collateral.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-11 Information Systems Department Review

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

- a detailed list of recovery procedures,
- a timeline of when procedures will take place,
- identification of disaster recovery team,
- a list of emergency telephone numbers,
- responsibilities of the disaster recovery team,
- hardware configuration and minimum equipment requirements,
- a master operations schedule and critical job schedule,
- a list of forms or supplies necessary,
- an organizational chart and director of personnel,
- information relative to off-site back-up storage facilities, and
- any agreements regarding back-up processing sites.

**Condition:** Our review of the data processing policies and procedures noted that the County has an alternative site processing agreement but does not have formal written procedures for continued operations in the event of a disaster or major computer failure.

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

**Effect:** In the event of a disaster, the County could experience delays in processing of important applications.

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

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

Client's Response:

*Pine County has a Technology Committee that covers all of the County's technology needs. The County continues to address a Disaster Recovery Plan and will be setting timeframes for the implementation of all things listed. System backups are currently stored at the Pine Government Center and it is believed that is sufficient to allow for any disaster.*





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***

Board of County Commissioners  
Pine County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 21, 2012. 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

Management of Pine County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Pine County'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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness, and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-2 to be a material weakness.

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 attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-4, 06-5, and 11-1 to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pine County's financial statements are free of 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

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 Political Subdivisions*, 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 Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because that provision did not apply.

The results of our tests indicate that for the items tested, Pine County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

Pine County's written responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Pine County, 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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 21, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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# STATE OF MINNESOTA

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### **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Pine County

#### Compliance

We have audited Pine County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Pine 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 Pine 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 of the County's compliance with those requirements.

In our opinion, Pine County complied, in all material respects, with the 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, 2011.

### Internal Control Over Compliance

Management of Pine 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 11-2 and 11-3. 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 attention by those charged with governance.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County as of and for the year ended December 31, 2011, and have issued our report thereon dated September 21, 2012. Our audit was performed for the purpose of forming opinions on Pine County's financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures

of Federal Awards (SEFA) 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. 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. The SEFA 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 financial statements or to the 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.

Pine County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management and others within the County, 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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 21, 2012

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**PINE COUNTY  
PINE CITY, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<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 Kanabec Pine Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 97,226
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>201,026</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 298,252</u></b>
<b>U.S. Department of Commerce</b>		
Passed Through Minnesota Department of Public Safety Applied Meteorological Research	11.468	\$ 34,072
Public Safety Interoperable Communications Grant Program	11.555	<u>32,790</u>
<b>Total U.S. Department of Commerce</b>		<b><u>\$ 66,862</u></b>
<b>U.S. Department of Housing and Urban Development</b>		
Passed Through Minnesota Department of Commerce Community Development Block Grants/Entitlement Grants	14.228	<b><u>\$ 168,484</u></b>
<b>U.S. Department of Justice</b>		
Direct		
Edward Byrne Memorial Justice Assistance Grant Program/Grants to to Units of Local Government - ARRA	16.804	\$ 25,702
Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program - ARRA	16.810	<u>72,122</u>
<b>Total U.S. Department of Justice</b>		<b><u>\$ 97,824</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 313,539
Passed Through Kanabec County, Minnesota Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	3,251
Passed Through Minnesota Department of Public Safety Safety Belt Performance Grants	20.609	<u>10,002</u>
<b>Total U.S. Department of Transportation</b>		<b><u>\$ 326,792</u></b>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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**PINE COUNTY  
PINE CITY, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

(Continued)

<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 Kanabec Pine Community Health Services		
Public Health Emergency Preparedness	93.069	\$ 14,026
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	31,498
Maternal and Child Health Services Block Grant to the States	93.994	36,698
Temporary Assistance for Needy Families (TANF) Cluster		
Passed Through Minnesota Department of Health		
Temporary Assistance for Needy Families	93.558	10,086
Passed Through Minnesota Department of Human Services		
Temporary Assistance for Needy Families	93.558	430,088
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	26,994
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	16,569
Child Support Enforcement	93.563	598,360
Child Care and Development Fund Cluster		
Child Care and Development Block Grant	93.575	5,400
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	12,306
Stephanie Tubbs Jones Child Welfare Services Programs	93.645	1,236
Foster Care Title IV-E	93.658	51,984
Social Services Block Grant	93.667	195,649
Chafee Foster Care Independence Program	93.674	5,900
Children's Health Insurance Program	93.767	116
Medical Assistance Program	93.778	835,389
Block Grant for Community Mental Health Services	93.958	2,305
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 2,274,604</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 10,802
<b>Total Federal Awards</b>		<b>\$ 3,243,620</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Pine 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 Pine County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Pine County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pine 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 the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity-identifying numbers are presented where available.

4. Clusters

Clusters of programs are grouping of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families Cluster	\$	467,168
Child Care and Development Fund Cluster		17,706

5. Subrecipients

Of the expenditures presented in the schedule, Pine County did not provide any federal awards to subrecipients.

**PINE COUNTY  
PINE CITY, MINNESOTA**

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6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.