

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

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

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**CLAY COUNTY
MOORHEAD, 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? **No**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

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:

Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CFDA #14.228
Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for Temporary Assistance for Needy Families State Program - ARRA	CFDA #93.714
Foster Care - Title IV-E Cluster	
Foster Care - Title IV-E	CFDA #93.658
Foster Care - Title IV-E - ARRA	CFDA #93.658

Social Services Block Grant
Medical Assistance Program
Hazard Mitigation Grant

CFDA #93.667
CFDA #93.778
CFDA #97.039

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

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

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

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel within several Clay County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The smaller fee offices generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: 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 internal control point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The size of Clay County and its staffing limits the internal control that management can design and implement into the organization.

Recommendation: We recommend Clay County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed 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

11-1 Network/Application Password Controls

Criteria: County management is responsible for the County's internal controls over their information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls that have been established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

Condition: Clay County recently updated to a new version of the Integrated Financial System (IFS) application software. This application was written as a web based application and may be run on a server or a mainframe system. For an employee of Clay County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The sign-on differs from the sign-on for the IBM AS-400 system, so the mainframe security settings do not apply to the application. Clay County has not updated the network controls for the change to a web based application to ensure password controls are working as intended.

Context: The IFS application is the general ledger for Clay County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year-end, certain accrual information is also recorded in the application. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

Effect: Normal password controls in place in the IBM AS-400 system are not effective for the IFS application, so a review of the IFS application controls and County network controls is imperative to ensure passwords are working as intended.

Cause: Clay County recently updated to a new web based version of the IFS application software. County management was not aware of some of the password implications of this change.

Recommendation: We recommend Clay County management review password controls in place that limit access to the IFS application to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

Clay County management will review IFS application controls and County network controls to ensure passwords controls are appropriate to protect County data.

PREVIOUSLY REPORTED ITEM RESOLVED

Documenting and Monitoring Internal Controls (08-1)

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting.

Resolution

During 2011, Clay County implemented monitoring procedures which include the County's Audit Committee monitoring the documentation and control activities of significant transaction cycles.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

11-2 Supervisory Review Over Income Maintenance DHS 2550/Social Services DHS 2556 Reporting

Programs: Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), Foster Care - Title IV-E (CFDA No. 93.658), and Medical Assistance Program (MA) (CFDA No. 93.778)

Criteria: Instructions for preparing the quarterly DHS 2550 reports are included in DHS bulletin no. 11-32-02, and instructions for preparing the quarterly DHS 2556 are included in bulletin no. 11-32-06. Both bulletins provide that signed copies of the DHS 2550 and DHS 2556 should be maintained for the length of time required by the County's record retention policy or three years, whichever is longer.

Condition: During our testing of controls over TANF, Foster Care, and MA, we noted no documented review process of reporting.

Questioned Costs: None.

Context: The amount of federal administrative reimbursements through the Department of Human Services (DHS) for several programs is determined based on the reporting done through the quarterly Income Maintenance DHS 2550 and Social Services DHS 2556 reports.

Effect: The lack of review of reports increases the risk that reports submitted will not be correct.

Cause: The County does not have a procedure in place to ensure that reports are reviewed and approved.

Recommendation: We recommend Clay County establish a review process for all reports submitted to DHS for reimbursement. The review of reports should be documented, and the documentation should be retained in accordance with the County record retention schedule.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Susan Roll

Corrective Action Planned:

The Director or a Supervisor will spot check and review these reports for reasonableness as due (quarterly), and sign to show approval.

Anticipated Completion Date:

October 31, 2012

11-3 Eligibility Documentation

Program: Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), and Medical Assistance Program (MA) (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 federal programs.

Condition: The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. For 2 of the 25 cases tested for TANF and 2 of the 25 cases tested for MA, case files did not contain copies of birth certificates used to document U.S. citizenship.

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 to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the state maintains the computer systems supporting the eligibility determination process and actually pays the benefits to participants.

Effect: Case files are missing some of the documentation that supports the eligibility for the client to receive benefits.

Cause: Program personnel entering case documentation did not ensure all required documents were obtained and/or retained.

Recommendation: We recommend that the County implement review procedures to provide reasonable assurance that all necessary documentation to support an eligibility determination is obtained and retained. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Mary Luhman-Olsen

Corrective Action Planned:

Supervisor(s) will conduct targeted quarterly case reviews by random sample to ensure mandatory verifications are in case files - the goal is to review 25 cases quarterly. Supervisor(s) will conduct refresher training on mandatory verification for TANF/MA eligibility at a weekly staff meeting semiannually.

Anticipated Completion Date:

By December 31, 2012, the first random sample review of 25 cases will be completed and continue quarterly thereafter. The first refresher training for staff will occur by December 31, 2012, and then semiannually thereafter.

11-4 Subrecipient Monitoring

Programs: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CDGB) (CFDA No. 14.228)

Criteria: OMB Circular A-133, Subpart D, § .400(d), identifies responsibilities for pass-through entities that provide federal awards to subrecipients. Included in these responsibilities are: (1) at the time of the award, identifying to the subrecipient the federal award information including the CFDA title and number, award name and number, award year, name of federal agency, and applicable compliance requirements; (2) monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements; and (3) ensuring that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings.

Condition: Clay County passed CDBG funding through to the Clay County Housing and Redevelopment Authority (HRA). However, the County was unable to provide us with sufficient documentation that all necessary monitoring procedures were being applied. The HRA does periodically report to the County Board and is provided a copy of the grant agreement between the Minnesota Department of Employment and Economic Development and Clay County; however, this agreement does not contain all the necessary information as described in OMB Circular A-133, Subpart D, § .400(d). Clay County does not receive grant reports or an audit report from the HRA to ensure that required audits are performed.

Questioned Costs: None.

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

Effect: Clay County has little assurance that the HRA is administering federal awards in compliance with applicable federal requirements.

Cause: The County does not have policies or sufficient procedures in place that addressed all of its responsibilities in relation to subrecipient monitoring.

Recommendation: We recommend the County establish policies and procedures to ensure compliance with subrecipient monitoring requirements.

Corrective Action Plan:

Name of Contact Persons Responsible for Corrective Action:

Brian Berg

Corrective Action Planned:

Clay County will review OMB Circular A-133, Subpart D, § .400 and develop a review process for quarterly reports submitted by subrecipients. Clay County will access subrecipients audit reports and require the subrecipient take corrective action on any audit findings. Clay County will utilize ongoing interactions with subrecipients to evaluate the impact of subrecipient activities on Clay County's ability to comply with federal regulations.

Anticipated Completion Date:

All items are anticipated to be completed by December 31, 2012, and will be maintained on an ongoing basis after that date.

11-5 Allowable Costs/Cost Principles and Reporting - Temporary Assistance for Needy Families - Home Visiting Program

Programs: Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558)

Criteria: The "Basic Guidelines" section of OMB Circular A-87 provides that costs should be determined in accordance with generally accepted accounting principles unless otherwise provided within the Circular. Amounts reported for reimbursement should be accurate and agree with the accounting records.

Condition: During our testing of quarterly reports submitted to the Minnesota Department of Health for the TANF Home Visiting Program, we noted the supporting documentation for the amounts reported as program and administrative expenses include nurse salaries, mileage, travel, office rent, and expenses for home visiting services. The expenses related to nurse salaries, travel, and office rent tied to expenses posted to the County's general ledger. The expense for providing home visiting services is based on a rate of \$112 per visit and mileage at a rate of 55 cents per mile. We were able to recalculate from the records the amount reported for these expenses by taking the number of visits and miles time the rates. These expenses, however, could not be traced to costs posted to the general ledger. In addition, the County could not provide documentation of a cost basis for the rates used or if these rates were approved by the Minnesota Department of Health. Since we could not verify how the rates used relate to expenses for home visits or if this method of reporting was approved by the Minnesota Department of Health, we could not determine if these expenses reported are acceptable.

Questioned Costs: \$70,784.

Context: The TANF Home Visiting Program provides non-medical home visits designed to foster healthy families by improving pregnancy outcomes, promoting school readiness, preventing child abuse and neglect and promoting self-sufficiency for children and families. The County also serves clients that are covered by third party insurance providers for home visiting services. The rate used was established based on the highest rate of reimbursement for the third party insurance providers and was approved by the County Board. County financial staff stated that they have more expenses for providing the home visiting services than revenues received, so other expenses could be reported in place of the expenses based on the \$112 rate per visit and 55 cents per mile.

Effect: We could not substantiate expenses reported for home visiting services for the TANF Home Visiting Program, resulting in questioned costs of \$70,784.

Cause: Quarterly reports submitted to the Minnesota Department of Health for the TANF Home Visiting Program include expenses based on a \$112 rate per visit and 55 cents per mile for home visiting services provided. These expenses cannot be traced to expenses posted to the general ledger, and the cost basis for the rates used could not be verified as allowable.

Recommendation: We recommend Clay County work with the Minnesota Department of Health to determine if the reported expenses based on the rates noted above are allowable for the TANF Home Visiting Program.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Kathy McKay, Mary Frahm, Becki Upton

Corrective Action Planned:

Clay County Public Health will use actual expenses coded to the home visiting programs and reduce that amount by all revenue received in those programs including insurance reimbursements, other grants, and any miscellaneous revenue. Clay County Public Health consistently has expenses over revenue in the home visiting programs.

Anticipated Completion Date:

This process will be implemented immediately and will be reflected in the 2012 TANF report documentation.

PREVIOUSLY REPORTED ITEM RESOLVED

**Davis-Bacon Act, (CFDA #20.205 - Highway Planning and Construction)
(10-1)**

The Davis-Bacon Act (23 U.S.C. 113) requires contractors and subcontractors performing work on federal contracts in excess of \$2,000 pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits listed in the contract's wage determination class. In 2010, we noted that contract language did not provide that the contractor pay federal prevailing wages for services on a project funded with federal funds.

Resolution

During 2011, we noted no instances of noncompliance with the Davis-Bacon Act as prescribed by 23 U.S.C. 113.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

11-6 Withholding Affidavit for Contractors (IC-134)

Criteria: Referring to the withholding of income taxes by the contractor or subcontractor, Minn. Stat. § 270C.66 states that, “[n]o . . . political or governmental subdivision of the state shall make final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors until satisfactory showing is made that said contractor or subcontractor has complied with the provisions of section 290.92.”

Condition: Two separate contracts were let with Grant’s Mechanical in 2011 for work on the Jail plumbing project and the twin cell cooling tower at the heating plant. Final payment was made on both of these contracts before a Form IC-134, which requires employee withholdings, was received from the contractor and approved by the Minnesota Department of Revenue. The contracts involved the employment of individuals for wages by the contractor.

Context: Final payments were made on the projects on March 14, 2012, and May 23, 2012.

Effect: Noncompliance with Minn. Stat. § 270C.66.

Cause: The building maintenance supervisor was not aware that Form IC-134 should be submitted before final payment is made to contractors.

Recommendation: We recommend the County officials involved in the contracting process be informed of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

Client’s Response:

Clay County will not make final settlement with any contractor until Form IC-134 is received and approved by the Minnesota Department of Revenue.

PREVIOUSLY REPORTED ITEM RESOLVED

Bidding (10-2)

As provided by Minn. Stat. § 471.345, when a contract is estimated to go over \$100,000, the contract needs to be let on sealed bids. As provided by Minn. Stat. § 375.21, the contract should be made by a county board only after advertising for bids or proposals in a qualified legal newspaper, and the notice should state the time and place of awarding the contract. In 2010, we noted an instance where Clay County entered into a contract exceeding \$100,000 that was not based on sealed bids solicited by public notice.

Resolution

During 2011, all contracts exceeding \$100,000 were let on sealed bids in accordance with Minn. Stat. § 375.21.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-1 Road and Bridge Deficit Fund Balance

Criteria: Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance.

Condition: As of December 31, 2011, the assets in the County's Road and Bridge Special Revenue Fund did not exceed liabilities, resulting in a deficit fund balance amount.

Context: As of December 31, 2011, the Road and Bridge Special Revenue Fund had a deficit fund balance of \$2,301,140, which is a decrease from the \$2,341,721 deficit reported in the prior year.

Effect: A fund with a deficit fund balance is, in effect, borrowing from County funds with positive fund balances.

Cause: The County did not levy sufficient taxes nor transfer sufficient funds to cover the expenditures in the Road and Bridge Special Revenue Fund.

Recommendation: We recommend that the County monitor fund balances and eliminate the deficit fund balances by increasing revenues or appropriating sufficient funds to cover expenditures.

Client's Response:

Clay County will monitor the past and present practice of advancing state aid funds along with all other Road and Bridge expenditures to try to stay within acceptable and recommended fund balance requirements.

PREVIOUSLY REPORTED ITEM RESOLVED

Payment of Annual Street Allotments (10-3)

Clay County and the City of Moorhead entered into a Memorandum of Understanding dated April 25, 2005, which provides cost sharing for road maintenance/reconstruction and debt service costs. Through this Memorandum of Understanding, the County is obligated to pay the City an annual allotment for the City's share of those costs. The request for the 2009 allotment was dated February 19, 2012, and the request for the 2010 allotment was dated February 17, 2011. Payment for the two years was made on June 15, 2011.

Resolution

The County has evaluated its procedures for meeting their allotment obligations. The request for the 2011 allotment was dated February 29, 2012, and payment was made on March 17, 2012.

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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
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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 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 Clay County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Clay 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 96-4 and 11-1 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay 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 Clay County has no tax increment financing districts.

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 11-6.

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.

Clay County's written responses to the internal control, legal compliance, 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 Clay 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 27, 2012

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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
Clay County

Compliance

We have audited Clay 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. Clay 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 of the County's compliance with those requirements.

As described in item 11-5 in the accompanying Schedule of Findings and Questioned Costs, Clay County did not comply with requirements regarding reporting that are applicable to its Temporary Assistance for Needy Families - Home Visiting Program. Compliance with such requirements is necessary, in our opinion, for Clay County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Clay County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

The results of our auditing procedures also disclosed an other instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 11-4.

Internal Control Over Compliance

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 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-5 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 11-2 through 11-4 to be significant deficiencies.

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, 2011, and have issued our report thereon dated September 27, 2012. Our audit was performed for the purpose of forming opinions on Clay 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 taken as whole.

Clay 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 Clay 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 27, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Education		
Child Nutrition Cluster		
School Breakfast Program	10.553	\$ 11,528
National School Lunch Program	10.555	19,307
Passed Through Minnesota Department of Health		
Community Health Services		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	232,669
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	<u>347,528</u>
Total U.S. Department of Agriculture		<u>\$ 611,032</u>
U.S. Department of Commerce		
Passed Through the Department of Public Safety and the Headwaters Regional Development Commission		
Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 12,461</u>
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development		
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14.228	<u>\$ 99,494</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Block Grants	16.523	\$ 18,843
Passed Through Minnesota Department of Public Safety		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	69,457
Passed Through Minnesota Department of Public Safety and City of Moorhead		
Edward Byrne Memorial Formula Grant Program	16.579	26,700
Direct		
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	16.528	65,274
Edward Byrne Memorial Formula Grant Program	16.579	<u>38,169</u>
Total U.S. Department of Justice		<u>\$ 218,443</u>

**CLAY COUNTY
MOORHEAD, MINNESOTA**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 272,775
Passed Through Minnesota Department of Public Safety Highway Safety Cluster Safety Belt Performance Grants	20.609	5,461
Passed Through Minnesota Department of Public Safety and City of Moorhead Highway Safety Cluster State and Community Highway Safety	20.600	292
Occupant Protection Incentive Grants	20.602	3,415
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>1,834</u>
Total U.S. Department of Transportation		\$ <u>283,777</u>
U.S. Department of Education		
Passed Through Minnesota Department of Employment and Economic Development Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	<u>\$ 17</u>
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	<u>\$ 5,904</u>
U.S. Department of Health and Human Services		
Passed Through National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	\$ 2,325
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	89,773
Immunization Cooperative Agreements	93.268	2,440
The Affordable Care Act: Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	706
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	10,803
PPHF 2012 National Public Health Improvement Initiative	93.507	4,500
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families (TANF)	93.558	95,320
Block Grants for Prevention and Treatment of Substance Abuse	93.959	98,622
Maternal and Child Health Services Block Grant	93.994	71,650

**CLAY COUNTY
MOORHEAD, MINNESOTA**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	57,527
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families (TANF)	93.558	774,447
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	24,133
Child Support Enforcement	93.563	948,383
Child Care and Development Fund Cluster		
Child Care Development Block Grant	93.575	19,855
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	31,756
Stephanie Tubbs Jones Child Welfare Services Program	93.645	30,777
Foster Care Title IV-E Cluster		
Foster Care - Title IV-E	93.658	369,316
Foster Care - Title IV-E - ARRA	93.658	4,459
Social Services Block Grant	93.667	377,680
Chafee Foster Care Independence Program	93.674	12,993
Children's Health Insurance Program	93.767	187
Medical Assistance Program	93.778	1,143,072
Block Grants for Community Mental Health Services	93.958	185,776
		<u>185,776</u>
Total U.S. Department of Health and Human Services		\$ 4,356,500
U.S. Social Security Administration		
Passed Through Minnesota Department of Employment and Economic Development		
Social Security - Disability Insurance	96.001	\$ 25
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 445,611
Hazard Mitigation Grant	97.039	428,043
Emergency Management Performance Grants	97.042	7,188
Passed Through Minnesota Department of Public Safety and the Northwest Regional Development Commission		
Homeland Security Grant Program	97.067	1,815
		<u>1,815</u>
Total U.S. Department of Homeland Security		\$ 882,657
Total Federal Awards		\$ 6,470,310

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Clay 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 Clay 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 Clay County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Clay 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 grant numbers were not assigned by the pass-through agencies.

4. Clusters

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

Child Nutrition Cluster	\$ 30,835
Highway Safety Cluster	9,168
Temporary Assistance for Needy Families (TANF) Cluster	893,900
Child Care and Development Fund Cluster	51,611
Foster Care Title IV-E Cluster	373,775

**CLAY COUNTY
MOORHEAD, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	6,237,643
Grants received in 2006, recognized in 2010		
Help America Vote Act Requirements Payments (CFDA #90.401)		5,904
Grants received more than 60 days after year-end, deferred in 2011		
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		445,611
Deferred in 2010, recognized as revenue in 2011		
Highway Planning and Construction (CFDA #20.205)		(206,589)
Public Transportation for Non-Urbanized Areas (CFDA #20.509)		(11,851)
Employee Benefits Security Administration - ARRA (CFDA #17.151)		(408)
		(408)
Expenditures Per Schedule of Expenditures of Federal Awards	\$	6,470,310

6. Subrecipients

Of the expenditures presented in the schedule, Clay County provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	\$ 99,494

7. 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.