

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2013

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@osa.state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

For the Year Ended December 31, 2013



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

This page was left blank intentionally.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Statement of Net Position	1	7
Statement of Revenues, Expenses, and Changes in Net Position	2	8
Statement of Cash Flows	3	9
Notes to the Financial Statements		10
Management and Compliance Section		
Schedule of Findings and Recommendations		23
Communication of Significant Deficiencies and/or Material Weaknesses in Internal Control Over Financial Reporting and Other Matters		26
Independent Auditor's Report on Minnesota Legal Compliance		28

This page was left blank intentionally.

This page was left blank intentionally.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2013**

	<u>Position</u>	<u>County</u>	<u>Term Expires</u>
Joint Public Health Board			
Jeanne Ennen	Member	Stevens	December 31, 2014
Robert Kopitzke	Member	Stevens	December 31, 2016
Donny Wohlers	Member	Stevens	December 31, 2016
Jerry Deal	Member	Traverse	December 31, 2014
Todd Johnson	Vice Chair	Traverse	December 31, 2014
Dave Salberg	Member	Traverse	December 31, 2016
Todd Schneeberger	Chair	Grant	December 31, 2016
Vernell Wagner	Member	Grant	December 31, 2016
Ronald Woltjer	Member	Grant	December 31, 2014
Joint Public Health Director			
Sandy Tubbs			Indefinite

This page was left blank intentionally.

This page was left blank intentionally.



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

Stevens Traverse Grant Joint Public Health Board
Stevens Traverse Grant Public Health
Morris, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Stevens Traverse Grant Public Health (Health Service) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Health Service's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Health Service's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health Service's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stevens Traverse Grant Public Health as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 14, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(Unaudited)**

Stevens Traverse Grant Public Health's (Health Service) Management's Discussion and Analysis (MD&A) provides an overview of the Health Service's financial activities for the fiscal year ended December 31, 2013. 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 Health Service's financial statements.

The Health Service is a joint powers enterprise operation of Grant, Stevens, and Traverse Counties created to provide community health care for the residents of the tri-county area.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The Health Service's basic financial statements consist of two parts: the financial statements and the 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 financial statements present the Health Service's financial activities and consist of the following:

- The statement of net position compares assets and liabilities to give an overall view of the financial health of the Health Service.
- The statement of revenues, expenses, and changes in net position provides information on an aggregate view of the Health Service's operations. All of the current year's revenues and expenses are taken into account regardless of when the cash was received or paid.
- The statement of cash flows provides sources and uses of cash for the Health Service.

FINANCIAL ANALYSIS

	Net Position			Percent Change (%)
	2013	2012	Increase (Decrease)	
Assets				
Current and other assets	\$ 657,293	\$ 576,621	\$ 80,672	13.99
Capital assets - net of depreciation	14,588	27,967	(13,379)	(47.84)
Total Assets	\$ 671,881	\$ 604,588	\$ 67,293	11.13
Liabilities				
Current liabilities	\$ 95,841	\$ 86,663	\$ 9,178	10.59
Noncurrent liabilities	40,304	41,009	(705)	(1.72)
Total Liabilities	\$ 136,145	\$ 127,672	\$ 8,473	6.64
Net Position				
Net investment in capital assets	\$ 14,588	\$ 27,967	\$ (13,379)	(47.84)
Unrestricted	521,148	448,949	72,199	16.08
Total Net Position	\$ 535,736	\$ 476,916	\$ 58,820	12.33

Changes in Net Position

	2013	2012	Increase (Decrease)	Percent Change (%)
Operating revenues				
Charges for services	\$ 794,267	\$ 814,765	\$ (20,498)	(2.52)
Intergovernmental	615,922	603,412	12,510	2.07
Miscellaneous	22,231	33,792	(11,561)	(34.21)
Total operating revenues	\$ 1,432,420	\$ 1,451,969	\$ (19,549)	(1.35)
Nonoperating revenues				
Interest income	203	207	(4)	(1.93)
Total Revenues	\$ 1,432,623	\$ 1,452,176	\$ (19,553)	(1.35)
Operating expenses				
Personal services	\$ 1,117,131	\$ 1,093,039	\$ 24,092	2.20
Nursing services	86,822	88,797	(1,975)	(2.22)
Contracted services	138,973	152,503	(13,530)	(8.87)
Supplies	17,498	23,424	(5,926)	(25.30)
Depreciation	13,379	21,977	(8,598)	(39.12)
Total Expenses	\$ 1,373,803	\$ 1,379,740	\$ (5,937)	(0.43)
Change in Net Position	\$ 58,820	\$ 72,436	\$ (13,616)	

(Unaudited)

Page 5

During 2013, the Health Service had staffing changes that resulted in a decrease in expenses and revenues. At the end of 2012, upon the retirement of one staff member who was paid at the top of the pay scale, the agency moved another staff member into that position at a lower hourly rate and then hired a part-time replacement to fill the vacant position. This position, Office Support Specialist, had previously been full-time in 2012, but was changed to a part-time position from January 13 to July 13, 2013. The individual filling this part-time position started at the bottom step of the pay grid. Also, the Health Service had a staff nurse who retired in May 2013. This nurse was also at the top of the pay scale for the position. When the Health Service hired a replacement in June 2013, it hired a registered nurse at a lower pay grade. While this new nurse was being trained in, she would not have been generating any case management revenue as the nurse that retired had. This resulted in a loss of revenue for several months in 2013.

CAPITAL ASSET ADMINISTRATION

	Capital Assets (Net of Depreciation)			Percent Change (%)
	2013	2012	Increase (Decrease)	
Furniture, equipment, and vehicles	<u>\$ 14,588</u>	<u>\$ 27,967</u>	<u>\$ (13,379)</u>	(47.84)

ECONOMIC FACTORS

- No notable economic factors to report at this time. There is always a chance of grant funding reductions due to the State of Minnesota budget cutbacks.

CONTACTING THE HEALTH SERVICE’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Health Service’s finances and to show the Health Service’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director, Sandy Tubbs, 10 E. Highway 28, Morris, Minnesota 56267.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

Assets

Current assets

Cash in custody of Stevens County Treasurer	\$ 540,571
Accounts receivable	6,462
Due from other governments	110,260

Total current assets **\$ 657,293**

Capital assets

Furniture and equipment	\$ 123,021
Less: accumulated depreciation	(108,433)

Net capital assets **\$ 14,588**

Total Assets **\$ 671,881**

Liabilities

Current liabilities

Accounts payable	\$ 3,618
Salaries payable	28,137
Compensated absences payable	46,361
Due to other governments	17,725

Total current liabilities **\$ 95,841**

Noncurrent liabilities

Compensated absences payable	40,304
------------------------------	--------

Total Liabilities **\$ 136,145**

Net Position

Net investment in capital assets	\$ 14,588
Unrestricted	521,148

Total Net Position **\$ 535,736**

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013**

Operating Revenues	
Charges for services	<u>\$ 794,267</u>
Intergovernmental	
Minnesota Department of Health	
Community Health Services	\$ 109,310
Family Planning	4,562
Preconception Health	252
Tobacco Free Communities	56
Child and Teen Checkups (CTC) Outreach Program	18,683
State Health Improvement Grant	502
Federal grants	
Immunization Cooperative Agreements	1,950
Special Supplemental Nutrition Program for Women, Infants, and Children	78,516
Family Planning	1,070
Child and Teen Checkups (CTC) Outreach Program	18,684
Universal Newborn Hearing Screening	600
Public Health Emergency Preparedness	42,980
Temporary Assistance for Needy Families	28,905
Maternal and Child Health Services Block Grant to the States	26,344
Local	
Transfers from member counties	<u>283,508</u>
Total intergovernmental	<u>\$ 615,922</u>
Miscellaneous	<u>\$ 22,231</u>
Total Operating Revenues	<u>\$ 1,432,420</u>
Operating Expenses	
Personal services	\$ 1,117,131
Nursing services	86,822
Contracted services	138,973
Supplies	17,498
Depreciation	<u>13,379</u>
Total Operating Expenses	<u>\$ 1,373,803</u>
Operating Income (Loss)	<u>\$ 58,617</u>
Nonoperating Revenues (Expenses)	
Interest income	<u>203</u>
Change in Net Position	<u>\$ 58,820</u>
Net Position - January 1	<u>476,916</u>
Net Position - December 31	<u><u>\$ 535,736</u></u>

The notes to the financial statements are an integral part of this statement.

Page 8

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 800,415
Payments to suppliers	(246,975)
Payments to employees	<u>(1,104,976)</u>
Net cash provided by (used in) operating activities	\$ (551,536)
Cash Flows from Noncapital Financing Activities	
Intergovernmental receipts	591,944
Cash Flows from Investing Activities	
Interest received	<u>206</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 40,614
Cash and Cash Equivalents at January 1	<u>499,957</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 540,571</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ 58,617</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 13,379
Intergovernmental revenues	(615,922)
Changes in assets and liabilities	
Accounts receivable	(1,756)
Due from other governments	(14,327)
Accounts payable	2,242
Salaries payable	7,790
Due to other governments	(5,924)
Compensated absences - current	5,070
Compensated absences - long-term	<u>(705)</u>
Total adjustments	<u>\$ (610,153)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (551,536)</u></u>

This page was left blank intentionally.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Summary of Significant Accounting Policies

Stevens Traverse Grant Public Health's (Health Service) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Health Service are discussed below.

A. Financial Reporting Entity

Stevens Traverse Public Health was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective July 1, 1995. Effective July 1, 2004, Grant County Public Health formally joined the organization, resulting in the new entity, Stevens Traverse Grant Public Health. The Stevens Traverse Grant Joint Public Health Board consists of nine members comprising three Commissioners from each of the respective counties.

The primary functions of the Health Service are to prevent illness and to promote efficiency and economy in the delivery of community health services.

The Health Service is not a component unit of any of the three member counties, nor does it have any component units. The Health Service's financial statements will not be included in any member county's financial statements.

Stevens County, as an agent, reports the cash transactions of Stevens Traverse Grant Public Health in an agency fund on its annual financial statements.

Joint Ventures

The Health Service participates in joint ventures which are described in Note 5.B. The Health Service also participates in jointly-governed organizations which are described in Note 5.C.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The Health Service's operations are accounted for as an enterprise fund, with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Enterprise funds are used to account for: (1) operations that provide a service to citizens financed primarily by charging users for that service; and (2) activities where the periodic measurement of net income is considered appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus and Basis of Accounting

Stevens Traverse Grant Public Health's financial statements 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Health Service's policy to use restricted resources first and then unrestricted resources as needed.

D. Budget

The Health Service adopts an annual budget prepared on the accrual basis. The budget is approved by the Stevens Traverse Grant Joint Public Health Board and submitted to all member counties. The County Board of each county represented approves or disapproves its portion of the budget.

E. Assets, Liabilities, and Net Position

1. Assets

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash in custody of the Stevens County Treasurer.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Position

1. Assets (Continued)

Receivables

The Health Service provides services to certain clients covered by various third-party reimbursement programs at varying rates, generally below established charges. Variances from established charges are recorded on the basis of preliminary estimates of the amounts to be received from third parties and adjusted in future periods as final settlements are determined.

Capital Assets and Depreciation

Capital assets, which include furniture, equipment, and vehicles, are reported in the financial statements. Capital assets are defined by the Health Service as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Depreciation is determined using the straight-line method for the estimated useful lives of the assets:

Furniture, equipment, and vehicles	3 - 20 years
------------------------------------	--------------

2. Liabilities

Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Position (Continued)

3. Net Position

Net position is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

F. Revenues and Expenses

1. Operating and Nonoperating Revenues

The Health Service distinguishes operating revenues from nonoperating revenues. Operating revenues generally result from providing services and producing and delivering goods in connection with an activity's principal ongoing operations. Operating revenues include charges for services and intergovernmental operating grants, since they constitute the Health Service's ongoing operations. All revenues not meeting this definition are reported as nonoperating revenues.

2. Expenses

Stevens Traverse Grant Public Health recognizes expenses, including compensated absences, when incurred. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments

As of December 31, 2013, the Health Service had \$540,571 on deposit with Stevens County. Cash transactions are administered by the Stevens County Auditor/Treasurer, who is authorized by Minn. Stat. §§ 118A.02, 118A.04, and 118A.05 to deposit cash in financial institutions and invest in certain types of investments designated by the County Board. All cash and investment funds of Stevens County are pooled.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. Stevens County does not have a policy on custodial credit risk. At December 31, 2013, \$1,691,263 of repurchase agreements and \$1,462,168 of government securities were exposed to custodial credit risk because they were held by the counterparty; a portion thereof belongs to Stevens Traverse Grant Public Health and is exposed to custodial credit risk.

2. Receivables

Receivables as of December 31, 2013, are as follows:

Accounts	\$ 6,462
Due from other governments	<u>110,260</u>
Total	<u>\$ 116,722</u>

Stevens Traverse Grant Public Health did not have any receivables scheduled to be collected beyond one year.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

3. Capital Assets

A summary of the changes in capital asset accounts for the year ended December 31, 2013, is:

	Balance January 1, 2013	Depreciation Expense	Additions	Deletions	Balance December 31, 2013
Capital assets depreciated					
Furniture, equipment, and vehicles	\$ 123,021	\$ -	\$ -	\$ -	\$ 123,021
Less: accumulated depreciation	(95,054)	(13,379)	-	-	(108,433)
Net Capital Assets	<u>\$ 27,967</u>	<u>\$ (13,379)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,588</u>

B. Liabilities

Long-Term Liabilities

The following is a summary of the changes in long-term liabilities of Stevens Traverse Grant Public Health.

Compensated absences payable - January 1	\$ 82,300
Change in compensated absences	<u>4,365</u>
Compensated absences payable - December 31	<u>\$ 86,665</u>
Due within one year	<u>\$ 46,361</u>

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of Stevens Traverse Grant Public Health are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The Health Service makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

Stevens Traverse Grant Public Health is required to contribute the following percentages of annual covered payroll in 2013:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25

Stevens Traverse Grant Public Health's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund were:

<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 59,315	\$ 59,284	\$ 62,112

These contribution amounts are equal to the contractually required contribution rates for each year as set by state statute.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

4. Risk Management

Stevens Traverse Grant Public Health is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, the Health Service is a member of the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The Health Service is a member of both the MCIT Worker's Compensation and Property Casualty Divisions. The Health Service retains risk for the deductible portions of the 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 in excess of insurance coverage for any of the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$470,000 per claim in 2013 and \$480,000 per claim in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Stevens Traverse Grant Public Health in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and Stevens Traverse Grant Public Health pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess Stevens Traverse Grant Public Health in a method and amount to be determined by MCIT.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although Stevens Traverse Grant Public Health expects such amounts, if any, to be immaterial.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items (Continued)

B. Joint Ventures

Prime West Health System

The Prime West Central County-Based Purchasing Initiative (since renamed Prime West Health System) was established in December 1998 by a joint powers agreement among Stevens, Traverse, Grant, and ten other counties, under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

Control of the Prime West Health System is vested in a Joint Powers Board composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Douglas County acts as fiscal agent for the Prime West Health System and reports the cash transactions as an investment trust fund on its financial statements. Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services. Stevens Traverse Grant Public Health did not contribute any funds in 2013.

Complete financial information can be obtained from:

Prime West Health System
2209 Jefferson Street
Suite 101
Alexandria, Minnesota 56308

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Horizon Community Health Board

Pope County and Stevens Traverse Grant Public Health entered into a joint powers agreement creating and operating the Mid-State Community Health Services, pursuant to Minn. Stat. § 471.59 (following a budget approved by the four-county Board).

Mid-State Community Health Services was renamed to Horizon Community Health Board when Douglas County was added as a member on January 1, 2011. The budget is now approved by the five-county Board.

Control is vested in Horizon's Board, which consists of 11 members comprised of 8 County Commissioners and 3 community representatives. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

Financing is provided by state and federal grants and contributions from the member parties. Pope County, in an agent capacity, reports the cash transactions of the Horizon Community Health Board as an agency fund on its financial statements. During 2013, Stevens Traverse Grant Public Health did not contribute any funds to the Horizon Community Health Board.

Complete financial statements for the Horizon Community Health Board can be obtained from:

Horizon Community Health Board
211 East Minnesota Avenue, Suite 100
Glenwood, Minnesota 56344

C. Jointly-Governed Organizations

Stevens County Family Services Collaborative

The Stevens County Family Services Collaborative was established in 1997 under the authority of Minn. Stat. § 124D.23. The Collaborative includes Stevens County, Independent School District 771, Stevens Traverse Grant Public Health, the Stevens Community Medical Center, and Rural Minnesota CEP, Inc. The purpose of the Collaborative is to provide coordinated family services and to commit resources to an integrated fund.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Stevens County Family Services Collaborative (Continued)

Control of the Stevens County Family Services Collaborative is vested in a Board of Directors, which is composed of one member appointed by each member party. The persons so appointed also appoint two consumer representatives by a majority vote of the Board.

In the event of withdrawal from the Stevens County Family Services Collaborative, the withdrawing party shall give a 90-day notice. The withdrawing party shall not be entitled to a refund of monies contributed to the Collaborative prior to the effective date of withdrawal. The Board shall continue to exist if the Collaborative is terminated for the limited purpose of discharging the Board's debts and liabilities, settling its affairs, and disposing of its property, if any.

Financing is provided by state and federal grants and contributions from its member parties. Stevens County, in an agent capacity, reports the cash transactions of the Stevens County Family Services Collaborative as an agency fund on its financial statements. During 2013, Stevens Traverse Grant Public Health did not contribute any funds to the Collaborative.

Traverse County Connections

Traverse County Connections was established in 1999 under the authority of Minn. Stat. §§ 124D.23 and 245.491. Traverse County Connections was formed as a children's mental health and family services collaborative for the purpose of providing coordinated children and family services and to create an integrated system of services for children and families with multiple and special needs. This collaborative includes Traverse County Social Services, Stevens Traverse Grant Public Health, Wheaton Public Schools, Browns Valley Public Schools, Traverse County Court Services, the Life Center, West Central Minnesota Community Action, and Prairie Community Services.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Traverse County Connections (Continued)

Control of Traverse County Connections is vested in a collaborative governing board and an Executive Committee. The Board is composed of one member and an alternate from each agency involved, except for Prairie Community Services. The Board has revenue authority and approves the annual budget. The Executive Committee comprises a representative from each agency and a parent nominated from the area. The Executive Committee has design and policy oversight authority as well as authority over expenditures.

In the event of withdrawal from Traverse County Connections, the withdrawing party shall give a 180-day notice. The withdrawing party shall not be entitled to a refund of monies contributed to the collaborative prior to the effective date of withdrawal. The Board shall continue to exist if the collaborative is terminated for the limited purpose of discharging the collaborative's debts and liabilities, settling its affairs, and disposing of integrated fund assets, if any.

Financing is provided by state and federal grants and contributions from the member parties. Traverse County, in an agent capacity, reports the cash transactions of Traverse County Connections as an agency fund on its financial statements. During 2013, Stevens Traverse Grant Public Health did not contribute any funds to Traverse County Connections.

D. Subsequent Event

Three county public health departments (Pope County Public Health, Douglas County Public Health, and Stevens Traverse Grant Public Health) will form the Horizon Public Health organization, and Pope County will no longer be Horizon Public Health's fiscal agent. Grant County passed a resolution supporting the integration of the three public health departments into Horizon Public Health and pledged its participation and commitment to the integration on March 4, 2014. Stevens and Traverse Counties passed similar resolutions on March 18, 2014. A joint powers agreement between the five partner counties will be signed and effective January 1, 2015.

This page was left blank intentionally.

This page was left blank intentionally.

**STEVENS TRAVERSE GRANT PUBLIC HEALTH
MORRIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013**

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2006-001

Segregation of Duties

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: Stevens Traverse Grant Public Health (Health Service) lacks proper segregation of duties. The Health Service has a limited number of individuals who are responsible for billing, collecting, recording, and depositing receipts.

Context: Due to the limited number of office personnel within Stevens Traverse Grant Public Health, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Stevens Traverse Grant Public Health; however, the Health Service's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect Stevens Traverse Grant Public Health'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: Stevens Traverse Grant Public Health informed us that it does not have the economic resources needed to hire additional qualified accounting staff in order to adequately segregate assigned accounting functions.

Recommendation: We recommend the Stevens Traverse Grant Joint Public Health Board and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

The Stevens Traverse Grant Joint Public Health Board and management are aware of the issue regarding lack of segregation of duties in the agency due to our limited staffing capabilities. Management has implemented many oversight procedures to monitor the duties of the accounting staff. All receipts/deposits and warrants/checks are entered by a staff accountant and then reviewed by the Financial Manager before they are processed. We also have created a receipt log in which the Administrative Assistant enters any incoming money, and then a separate staff accountant prepares and processes the deposit (with the Financial Manager review).

Finding 2007-001

Documenting and Monitoring Internal Controls

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Joint Public Health Board, management, and for external financial reporting.

Condition: Although Stevens Traverse Grant Public Health may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place. During 2012, Stevens Traverse Grant Public Health initiated a process for assessing risks by establishing a committee that meets on an annual basis to discuss internal controls and the processes used when receipting and disbursing funds. A Stevens Traverse Grant Public Health agency accounting manual was also created that details processes in the accounting area of the Health Service.

Context: Risk assessment is intended to determine if the internal controls that have been 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 Stevens Traverse Grant Public Health's ability to detect material misstatements in the financial statements.

Cause: Stevens Traverse Grant Public Health informed us that it does not have the staffing resources available to complete the risk assessment process.

Recommendation: We recommend Stevens Traverse Grant Public Health's management continue the process to document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize those risks. At a minimum, the following significant internal control areas should be documented: cash and investment

activities, capital assets, major funding sources, expenditure/expense processing, and payroll and related liabilities processing. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

Stevens Traverse Grant Public Health's management will identify all possible risks and the controls that are in place to reduce those risks. The STG internal control committee (consisting of various STG staff) will meet annually to discuss these risks and controls and review all processes and procedures to minimize those risks. We also plan to enhance the STG accounting manual to clearly list all processes and procedures and identify the risks and controls within these policies and procedures.

This page was left blank intentionally.



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)

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Stevens Traverse Grant Joint Public Health Board
Stevens Traverse Grant Public Health
Morris, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of Stevens Traverse Grant Public Health (Health Service) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Health Service's basic financial statements, and have issued our report thereon dated November 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stevens Traverse Grant Public Health's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Service's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Service's internal control.

A deficiency in internal control 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, such that there is a reasonable possibility that a material misstatement of the Health Service's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify

deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Those significant deficiencies are reported in the Schedule of Findings and Recommendations as items 2006-001 and 2007-001.

Stevens Traverse Grant Public Health's Response to Findings

Stevens Traverse Grant Public Health's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Health Service's responses and, accordingly, we express no opinion on them.

Purpose of This Report

This communication is intended solely for the information and use of management, the Stevens Traverse Grant Joint Public Health Board, and others within the Health Service, 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

November 14, 2014



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 ON MINNESOTA LEGAL COMPLIANCE

Stevens Traverse Grant Joint Public Health Board
Stevens Traverse Grant Public Health
Morris, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of Stevens Traverse Grant Public Health (Health Service) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Health Service's basic financial statements and have issued our report thereon dated November 14, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Health Service's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding and public indebtedness because the Health Service had no contracts or public debt during the year.

In connection with our audit, nothing came to our attention that caused us to believe that Stevens Traverse Grant Public Health failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Health Service's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of the Stevens Traverse Grant Joint Public Health Board and management of Stevens Traverse Grant Public Health and the State Auditor 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

November 14, 2014

Page 28