

# STATE OF MINNESOTA

## Office of the State Auditor



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

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MANAGEMENT AND COMPLIANCE REPORT FOR

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2014

## **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 150 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 700 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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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**For the Year Ended December 31, 2014**



**Management and Compliance Report**

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

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**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

**Financial Statements**

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

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

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:

Highway Planning and Construction	CFDA #20.205
Child Support Enforcement	CFDA #93.563

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

Freeborn County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2007-004

Segregation of Duties - Payroll

**Criteria:** Controls should be designed to provide segregation of incompatible duties. The input, processing, and disbursing function should be segregated.

**Condition:** The County has a lack of segregation of duties between input, processing, and disbursing in the payroll function. The County has established a procedure to have personnel independent of the payroll payment process review information input into the payroll system. The Highway Department is not always performing this review or the review is not being completed in a timely manner.

**Context:** The employee who enters information from the time sheets into the payroll system is also the individual who is making changes and adding new employees to the system.

**Effect:** When established internal control procedures are not followed, there is an increased risk errors or irregularities will not be detected in a timely manner.

**Cause:** The County indicated in most cases the review was being performed but was not documented. In other cases, the review was not performed due to the staff members' work load not allowing time for the review.

**Recommendation:** We recommend the County's elected officials and management be aware of the lack segregation of duties in the payroll accounting function. We also recommend the County perform and document oversight procedures used to monitor information input into the payroll system in a timely manner.

Client's Response:

*Highway Department Payroll is prepared and interfaced via the RT Vision Payroll Time System by a Highway Technician. The IT Department processes the input with Paymate Payroll System and generates a Payroll Register. The Payroll Register for the Highway Department will be saved into the Payroll file within the Highway Department's Accounting subdirectory. IT Payroll personnel has been given rights to this folder. Notification that the Payroll Register is complete and ready for review is sent out from IT to the Highway Technician and Highway Accountant. The Highway Accountant will*



*review the document and 'Save As' a new document with the time and date stamp on the Register and the file name saved with the reviewer's initials added to the file name. In the event that the Highway Accountant is unavailable, the Highway Engineer will review. All reviews will be completed in a timely matter as other duties allow, but no later than prior to the next disbursement of payroll so any corrections could be made within a reasonable time frame.*

Finding 2009-002

Information Technology Policies and Procedures

**Criteria:** All major policies and procedures related to the information technology systems should be documented so employees are aware of the County's policies and procedures relating to security, operations development, risk assessment of the systems, and email encryption methods.

**Condition:** The County does not have documented information technology systems policies and procedures in place to address the following: information security, operation development, risk assessment of the systems, and email encryption methods.

**Context:** There may not be consistent application of procedures without documented information technology systems policies and procedures.

**Effect:** The County could be more vulnerable to loss or destruction of data without documented information technology systems policies and procedures.

**Cause:** In the prior audit, the County indicated administration did not realize the importance of information technology systems policies and procedures. During 2014, the County security committee was in the process of creating information technology policies and procedures.

**Recommendation:** We recommend the County Information Technology Department establish and document policies and procedures relating to the information technology systems specifically relating to information security, operations development, risk assessment of systems, and email encryption methods. The County should also ensure County staff have policies and procedures and are aware of their responsibility to comply with them.

Client's Response:

*During 2015, the County has followed the recommendations of the assessment done on the security of the County's information technology systems. The County has passed several policies and procedures relating to this and will continue to pass additional policies and procedures when deemed necessary.*

Finding 2010-001

Access to Accounting Systems

**Criteria:** Internal controls should be designed to provide for adequate segregation of duties among those who are administering information technology security and those processing accounting transactions.

**Condition:** The information Technology Department personnel have user access to the payroll accounting system.

**Context:** User access to the accounting system should be limited to those whose job positions are to process accounting transactions.

**Effect:** The current condition provides the opportunity for Information Technology Department personnel to make unauthorized entries to the payroll accounting data file.

**Cause:** The County indicated the AS400 administrator is the only employee qualified to enter payroll into the accounting system.

**Recommendation:** We recommend administration of the information technology security duties be segregated from processing payroll accounting transactions duties.

Client's Response:

*In August 2014, the County removed the administration function from the IT employee and assigned the function to the IT Director. The Auditor/Treasurer's staff review and document the payroll information for any of the IT staff that works with the payroll system, and only the Auditor/Treasurer selected staff can approve the electronic funds transfers for the payment of payroll.*

Finding 2011-001

Audit Adjustment

**Criteria:** A deficiency in internal controls 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 function, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we proposed an audit adjustment which resulted in a material change to Freeborn County's financial statements. This adjustment was reviewed and approved by the appropriate staff and is reflected in the financial statements.

**Context:** The inability to make all necessary accrual adjustments or to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** An audit adjustment was made to the Ditch Special Revenue Fund to increase unavailable revenue by \$409,997 and decrease intergovernmental revenue to record additional deferred inflows of resources.

**Cause:** The County indicated the error was made due to timing issues. The audit was scheduled to begin March 1, 2015. The County recognizes revenues as soon as they are measurable and available. The County considered revenues available if collected within 60 days after year-end. Therefore, the period of availability ended one day prior to the start date of the audit.

**Recommendation:** We recommend the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements.

Client's Response:

*The County Board approved a change in revenue recognition from 60 days to 45 days effective for Fiscal Year 2015. The Finance Manager will work with the Auditors to make sure there is ample time to record the revenue prior to the preparation of the trial balances for the Auditors to work with. We feel our internal controls are in place and designed to prevent, or detect and correct, misstatements in the financial statements. We feel this is a timing error and that going to 45-day revenue recognition should give us the proper time to review and detect these errors prior to the Auditors getting these trial balances.*

Finding 2013-001

Workstation Security

**Criteria:** Controls in place over operations should be designed to properly protect both data and programs from unauthorized access.

**Condition:** The County did not require employees to lock access to their workstations when unattended. Some workstations' security settings were not set to properly protect data and programs from unauthorized access.

**Context:** When a computer is left unattended while still logged on, someone may make changes to data or programs they may not be authorized to make. Such changes would appear to have been made by the person logged in. Several workstation settings could be changed to strengthen the security controls in place over operations.

**Effect:** The County's financial data and programs are vulnerable to unauthorized access.

**Cause:** The County indicated a written workstation policy needs to be created.

**Recommendation:** We recommend the County strengthen its controls over workstation settings to protect both data and programs from unauthorized access.

Client's Response:

*On October 21, 2014, the County Board passed a policy requiring employees to lock their workstations when not in view of their workstations.*

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

#### ITEM ARISING THIS YEAR

Finding 2014-001

#### Reporting Compliance Requirements

**Programs:** U.S. Department of Health and Human Services' Child Support Enforcement (CFDA No. 93.563)

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** The Minnesota Department of Human Services issues instructions (DHS Bulletin #14-32-01) for preparing the Income Maintenance quarterly expense reports (Form DHS-2550). These instructions indicate expenditures reported in Section A (Income Maintenance Random Moment Time Study (IMRMS) Expenditures) are direct costs associated with staff required to participate in the random moment time study. Quarterly salaries of time study participants must be reported. Salaries of individuals who should have been participants but were not included in the quarter's random moment sample should not be included. The salaries of those not included in the IMRMS are to be reported in Section E (Income Maintenance Overhead Expenditures).

**Condition:** The County reported salaries and fringe expenditures on Form DHS-2550 Section E for employees who were listed on the random moment study (IMRMS). These employees should have been reported in Section A of the DHS-2550 report.

**Questioned Costs:** Cannot be determined.

**Context:** Form DHS-2550 is used by the State of Minnesota Department of Human Services to reimburse the County federal awards, including Child Support Enforcement.

**Effect:** The County incorrectly reported \$53,982 of salaries and fringe expenditures in the first and third quarters in 2014 on Form DHS-2550 Section A and Section E. This was projected to a total of \$107,964 for 2014.

**Cause:** The IMRMS coordinator indicated two employees were listed on the random moment time study because they both have access to production in MAXIS. The Social Service Accountant indicated these two employees' salary and fringe expenditures were reported in the administrative section (E) of the DHS-2550 report because they are supervisors.

**Recommendation:** We recommend the County report employees who have been listed as IMRMS (random moment time study) participants in Section A of Form DHS-2550. Those employees not listed on the IMRMS should be reported in Section E of Form DHS-2550.

Corrective Action Plan:

Name of Contact Person Responsible for Correction Action:

*Alan Olson, Freeborn County Social Services Accounting Supervisor,  
507-377-5429*

Corrective Action Planned:

*Two supervisors will be coded Random Moment Study (RMS) staff instead of Administration staff. The Social Services Accounting Supervisor will get a printout of the RMS staff from the Freeborn County RMS Coordinator on a quarterly basis. The Social Service Accounting Supervisor will verify that wages of staff on the RMS listing are recorded as RMS costs.*

Anticipated Completion Date:

*June 15, 2015*

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### A. MANAGEMENT PRACTICES

###### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-005

###### Disaster Recovery Plan

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

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan as to how the County will continue operations until normal operations are re-established;
- a list of materials the County needs to continue operations and how they will be obtained;
- identification of the space to be used; and
- a schedule for developing and periodically reviewing and updating the plan.

**Condition:** Freeborn County has not completed or approved a formal disaster recovery plan, although the County has started a plan.

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

**Effect:** In the event a disaster occurred, the County could experience a delay in reporting of financial services to the public.

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

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

Client's Response:

*We will continue to work on this plan, but with the rapid changes in technology and the changing of key personnel, this will always be a work in process.*

Finding 2012-002

Ditch Fund Balance Deficits

**Criteria:** Each ditch benefits specific landowners; therefore, each individual ditch should have adequate resources to meet its financial obligations. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

**Condition:** As of December 31, 2014, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

**Context:** Three of the 62 individual ditch systems had deficit fund balances as of December 31, 2014, totaling \$22,622; which is a decrease from the \$511,259 deficit reported in the prior year.

**Effect:** Ditch systems with deficits indicate measures have not been taken to ensure an individual ditch system can meet financial obligations.

**Cause:** The County indicated deficits were due to the ditch levies not being sufficient to cover costs.

**Recommendation:** We recommend the County eliminate the ditch deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd.1, which permits the accumulation of a surplus balance to provide for the repair and maintenance of a ditch system.

Client's Response:

*The County will continue to build a balance for repairs and maintenance as allowed by Statute. Minnesota Statute § 103E allows benefitted land owners to petition for an improvement on the ditch. An engineering study and redetermination of benefits must be performed. The County cannot assess these costs until the studies are completed, so we will not have the funds for improvement projects.*

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Freeborn County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by the employers to report the net pension liability and deferred outflows/inflows of resources.





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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***

### Independent Auditor's Report

Board of County Commissioners  
Freeborn County  
Albert Lea, Minnesota

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 26, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Freeborn County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2011-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2007-004, 2009-002, 2010-001, and 2013-001 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Freeborn County's financial statements are free from 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**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Freeborn County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Freeborn County 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 County's noncompliance with the above referenced provisions.

## **Other Matters**

Also included in the Schedule of Findings and Questioned Costs are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to the County, and they are reported for that purpose.

## **Freeborn County's Response to Findings**

Freeborn County's responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 26, 2015

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## **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

### Independent Auditor's Report

Board of County Commissioners  
Freeborn County  
Albert Lea, Minnesota

### **Report on Compliance for Each Major Federal Program**

We have audited Freeborn 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 the County's major federal programs for the year ended December 31, 2014. Freeborn County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Freeborn County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Freeborn 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

### ***Opinion on Each Major Federal Program***

In our opinion, Freeborn County complied, in all material respects, with the types of 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, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001. Our opinion on this major federal program is not modified with respect to this matter.

Freeborn County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Freeborn County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response

### **Report on Internal Control Over Compliance**

Management of Freeborn County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of

compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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 the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We have issued our report thereon dated June 26, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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. Such information 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 information 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 26, 2015

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 224,262
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	255,226
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP)	10.572	700
<b>Total U.S. Department of Agriculture</b>		<b>\$ 480,188</b>
<b>U.S. Department of Justice</b>		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 11,488
Bulletproof Vest Partnership Program	16.607	2,176
<b>Total U.S. Department of Justice</b>		<b>\$ 13,664</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	<b>\$ 2,636,139</b>
<b>U.S. Department of Education</b>		
Passed Through Albert Lea School District #241 Special Education - Grants for Infants and Families	84.181	<b>\$ 2,289</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	\$ 19,007
Universal Newborn Hearing Screening	93.251	750
Immunization Cooperative Agreements	93.268	3,646
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$474,451)	93.558	55,140
Money Follows the Person Rebalancing Demonstration	93.791	3,514
Maternal and Child Health Services Block Grant to the States	93.994	32,719

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Continued)**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	5,973
Temporary Assistance for Needy Families	93.558	419,311
(Total Temporary Assistance for Needy Families 93.558 \$474,451)		
Child Support Enforcement	93.563	541,256
Refugee and Entrant Assistance - State Administered Programs	93.566	1,396
Child Care and Development Block Grant	93.575	15,818
Stephanie Tubbs Jones Child Welfare Services Program	93.645	3,937
Foster Care - Title IV-E	93.658	134,696
Social Services Block Grant	93.667	183,921
Chafee Foster Care Independence Program	93.674	2,389
Children's Health Insurance Program	93.767	124
Medical Assistance Program	93.778	836,865
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 2,260,462</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 4,576
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	641,552
Emergency Management Performance Grants	97.042	24,188
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 670,316</b>
<b>Total Federal Awards</b>		<b>\$ 6,063,058</b>

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Freeborn 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 Freeborn County under programs of the federal government for the year ended December 31, 2014. The information in the 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 Freeborn County, it is not intended to and does not present the financial position or changes in net position of Freeborn County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on a 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.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 6,273,390
Unavailable in 2013, recognized as revenue in 2014	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)	(43,855)
Temporary Assistance for Needy Families (CFDA #93.558)	(91,306)
Child Support Enforcement (CFDA #93.563)	(76,604)
Child Care and Development Block Grant (CFDA #93.575)	(1,671)
Foster Care Title IV-E (CFDA #93.658)	(15,305)
Medical Assistance Program (CFDA #93.778)	(123,972)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	(160,078)
Grants received more than 60 days after year-end, unavailable in 2014	
Highway Planning and Construction (CFDA #20.205)	20,027
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	<u>282,432</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 6,063,058</u>

5. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2014.