State of Minnesota

Office of the State Auditor

Julie Blaha
State Auditor

Clay County
Moorhead, Minnesota

Management and Compliance Report

Year Ended December 31, 2023

Clay County
Moorhead, Minnesota

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STATE OF MINNESOTA

Office of the State Auditor

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of County Commissioners
Clay County
Moorhead, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Clay County, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 20, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clay County's internal control over financial reporting 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 our opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A *deficiency in internal control over financial reporting* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting 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. A *significant deficiency* is a deficiency, or a 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001, that we consider to be a significant deficiency.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay 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 financial statements. 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

In connection with our audit, nothing came to our attention that caused us to believe that Clay County failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

Clay County's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Clay County's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* 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/Julie Blaha

Julie Blaha
State Auditor

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

September 20, 2024

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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

Board of County Commissioners
Clay County
Moorhead, Minnesota

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions
We have audited Clay County's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of Clay County's major federal programs for the year ended December 31, 2023. Clay County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on the Medical Assistance Program
In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, Clay County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Medical Assistance Program for the year ended December 31, 2023.

Unmodified Opinion on the Other Major Federal Program
In our opinion, Clay County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2023.

Basis for Qualified and Unmodified Opinions
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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Clay County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of Clay County's compliance with the compliance requirements referred to above.

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Matter Giving Rise to Qualified Opinion on the Medical Assistance Program
As described in the accompanying Schedule of Findings and Questioned Costs, Clay County did not comply with requirements regarding Assistance Listing No. 93.778 Medical Assistance Program as described in finding number 2023-002 for Eligibility.

Compliance with such requirements is necessary, in our opinion, for Clay County to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance
Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Clay County's federal programs.

Auditor's Responsibilities for the Audit of Compliance
Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Clay County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Clay County's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Clay County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and
- obtain an understanding of Clay County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Clay County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Government Auditing Standards requires the auditor to perform limited procedures on Clay County's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. Clay County's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

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 a 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2023-002 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Clay County's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. Clay County's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Julie Blaha

Julie Blaha
State Auditor

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

September 20, 2024

Clay County
Moorhead, Minnesota

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2023

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major federal programs:
- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for major federal programs: **Unmodified, except for the Medicaid Cluster, which is qualified.**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

Identification of major federal programs:

Assistance Listing Number	Name of Federal Program or Cluster
21.027	COVID-19 – Coronavirus State and Local Fiscal Recovery Funds
93.778	Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $750,000.

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

Section II – Financial Statement Findings

2023-001 **Segregation of Duties**
Prior Year Finding Number: 2022-001
Year of Finding Origination: 1996
Type of Finding: Internal Control Over Financial Reporting
Severity of Deficiency: Significant Deficiency

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets,

proper segregation of the record-keeping, custody, and authorization functions should be in place, and, where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

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

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

Cause: The County informed us that collecting fees for services at individual departments provides convenience for their customers. Paying at a single point of collection, such as the Treasurer's office, for services provided in several locations would be inconvenient. The staffing available in several of these smaller offices limits the potential for complete segregation of duties.

Recommendation: We recommend the County Board of Commissioners and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that staff implement the internal control policies and procedures to the extent possible.

View of Responsible Official: Concur

Section III – Federal Award Findings and Questioned Costs

2023-002 **Eligibility**
Prior Year Finding Number: N/A
Year of Finding Origination: 2023
Type of Finding: Internal Control Over Compliance and Compliance
Severity of Deficiency: Material Weakness and Modified Opinion

Federal Agency: U.S. Department of Health and Human Services
Program: 93.778 Medical Assistance Program
Award Number and Year: 2305MN5ADM; 2023

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by Clay County to support the eligibility determination process. In the case files reviewed for eligibility, not all

documentation to support participant eligibility was available or input into MAXIS. The following exceptions were noted in the sample of 40 case files tested:

- Two case files had no application on file with the County, and one case file was missing the signature page of the application.
- In four case files, the documented method used to verify citizenship in MAXIS was different than documented in the case file.
- Four case files had an asset listed in MAXIS that did not match the documentation in the case file.

Questioned Costs: Not applicable. The County administers the program, but the State of Minnesota pays benefits to program participants.

Context: The State of Minnesota and the County split the eligibility determination process. Pursuant to Minnesota statutes, Clay County performs the "intake function" needed for this program, while the state maintains the MAXIS system, which supports the eligibility determination process. Participants receive benefit payments from the state.

The sample size was based on the guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The lack of updated information in MAXIS to document verification of key eligibility-determining factors increases the risk that program participants will receive benefits when they are not eligible.

Cause: Program personnel entering case data into MAXIS did not obtain and/or update the information in the system.

Recommendation: We recommend Clay County implement additional procedures to provide reasonable assurance that all documentation is obtained and properly input or updated in MAXIS.

View of Responsible Official: Concur

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Representation of Clay County
Moorhead, Minnesota

Corrective Action Plan
For the Year Ended December 31, 2023

Finding Number: 2023-001
Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Lori Johnson, County Auditor-Treasurer

Corrective Action Planned:

Clay County is aware of the lack of segregation of duties in some of the smaller departments and has implemented oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

Anticipated Completion Date:

December 2024

Finding Number: 2023-002
Finding Title: Eligibility
Program: Medical Assistance Program (AL No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Quinn Jaeger, Director and Karen Syverson, Supervisor

Corrective Action Planned:

To address the findings from the recent audit, Clay County Social Services will take both immediate and long-term corrective actions. First, the case files identified with discrepancies will be reviewed in detail, and necessary corrections will be made to ensure that the documentation in both the case files and the MAXIS system aligns with program requirements. Requests for case file numbers have already been submitted to the MA team lead to identify the cases needing correction. This will include re-verification of asset amounts, we will match MAXIS's citizenship status with the appropriate documentation within the case file. In addition, one-on-one reviews will be conducted with the staff responsible for administering the affected cases. During these reviews, case-specific feedback will be provided, detailing the nature of the errors and explaining corrective actions to prevent recurrence.

For long-term preventative measures, Clay County will implement a more comprehensive and mandatory training program for all staff involved in eligibility determination. This training will focus on key areas such as proper documentation for citizenship, asset verification, and data entry protocols to reduce human errors in MAXIS. We will continue conducting periodic case file audits with increased

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frequency to detect errors early and provide timely feedback to staff. Audit results will be shared with the entire team to promote learning from errors and reinforce best practices in documentation and data entry.

Anticipated Completion Date:

The cases found in error will be corrected by November 15, 2024. Case file reviews will continue monthly.

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Representation of Clay County
Moorhead, Minnesota

Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2023

Finding Number: 2022-001
Year of Finding Origination: 1996
Finding Title: Segregation of Duties
Program: N/A

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

Summary of Corrective Action Previously Reported: Clay County is aware of the lack of segregation of duties in some of the smaller departments and has implemented oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

Status: Not Corrected. Clay County is aware of the lack of segregation of duties in some of the smaller departments and has implemented oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

Finding Number: 2022-002
Year of Finding Origination: 2022
Finding Title: Eligibility
Program: Temporary Assistance for Needy Families (AL No. 93.558)

Summary of Condition: The Minnesota Department of Human Services (DHS) maintains the computer system, MAXIS, which is used by Clay County to support the eligibility determination process. In the case files reviewed for eligibility, not all documentation was available, updated, or input correctly to support participant eligibility. The following exceptions were noted in the sample of 40 MAXIS case files tested:

- one case file did not have documentation to support a parent relationship,
- two cases had differences between documentation supporting asset amounts in the case file and amounts input into MAXIS, and
- two case files had differences between what was noted in MAXIS as support and actual support in the case files for citizenship.

Summary of Corrective Action Previously Reported: All five cases found to have errors are being reviewed and will be corrected as appropriate. All case errors will be reviewed with staff who are

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involved in administering this program. Case file reviews will continue to occur, and any errors found will continue to be reviewed with staff and training provided.

Status: Not Corrected. Despite the previous corrective actions, these issues occurred again due to gaps in the case documentation review process and failure to follow up on discrepancies promptly, which led to errors in data entry being missed and not corrected in a timely manner. Differences between physical documentation and what is input into MAXIS indicate ongoing challenges in ensuring data accuracy during manual entry. Case-specific feedback will be provided, detailing the nature of the error and why it occurred, as well as corrective actions required to prevent recurrence. Our case review processes may not be fully capturing or addressing all issues, indicating the need for enhanced review protocols.

Finding Number: 2022-003
Year of Finding Origination: 2022
Finding Title: Suspension and Debarment
Program: COVID-19 Coronavirus State and Local Fiscal Recovery Funds (AL No. 21.027)

Summary of Condition: For three covered transactions tested, the verification for suspended or debarred vendors was not performed before entering into the covered transaction.

Summary of Corrective Action Previously Reported: For vendor payments using federal funds: if payment is over $25,000 the deputy auditor – accounts payable will complete an individual "Entity" search at the Federal SAM-System for Awards Management to verify vendor is not debarred, suspended, or otherwise excluded from conducting business with the County. The results of each search will be saved in a separate folder maintained by the deputy auditor - accounts payable. Each payment, using federal funds, will be coded with report code "A" and at the end of each quarter a report will be ran and if a vendor is approaching or has reached $25,000, and entity search will be conducted in the same manner as noted above. Verification will be done on an annual basis.

Status: Fully Corrected. Corrective action was taken.