

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

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

FOR THE YEAR ENDED DECEMBER 31, 2004

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CLAY COUNTY  
MOORHEAD, MINNESOTA**

**For the Year Ended December 31, 2004**



**Management and Compliance Report**

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

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**CLAY COUNTY  
MOORHEAD, MINNESOTA**

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**CLAY COUNTY  
MOORHEAD, MINNESOTA**

*Schedule 1*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

- A. Our report expresses an unqualified opinion on the basic financial statements of Clay County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Clay County and is reported in the "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*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Clay County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Clay County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
  - Temporary Assistance for Needy Families (TANF)                      CFDA #93.558
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Clay County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-4 Segregation of Duties

Due to the limited number of office personnel within Clay County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of 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.

Segregation of duties is defined as an arrangement of responsibilities such that the work of one employee is checked by another. Ideally, no single individual should be able to: (1) authorize a transaction, (2) record the transaction in the books of account, and (3) ensure custody of the assets resulting from the transaction. The three elements of a transaction--authorization, recording, and custody--should be separated whenever possible.

Our review of the internal control in the following departments showed one or more weaknesses in the proper segregation of duties: County Recorder, Sheriff, Motor Vehicle, County Extension, Planning and Zoning, Public Health Nurse, and County Landfill.

We recommend that Clay County's management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

**Final Contract Amount (03-1)**

We noted that the final contract amounts presented and approved by the Board on five road construction contracts did not agree with the actual contract amounts paid. The approved amount for each contract was less than the amount actually paid. The differences ranged from \$1,116 to \$78,256 for a total of \$108,542.

**Resolution**

Board-approved amounts for final payments agree with payments made on contracts for all contracts reviewed after our previous report.

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

04-1 Depository Pledge Agreement

Several years ago, Wells Fargo Bank changed its procedures for the assignment and substitution of collateral pledged to secure deposits. The new procedures are described in the depository pledge agreement. This agreement provides that if the aggregate market value of collateral held by the custodian (Federal Reserve Bank of Minneapolis) exceeds the required collateral value (Minn. Stat. § 118A.03, subd. 3), Wells Fargo may withdraw any excess collateral by providing the custodian with a withdrawal notice signed by authorized representatives of Wells Fargo and the County. Additionally, Wells Fargo may substitute eligible securities for any of the collateral held by the custodian at any time by providing the custodian with a substitution notice signed only by an authorized representative of Wells Fargo, provided that the market value of the collateral following such substitution would equal or exceed the required collateral value. Substitutions of securities not of like par value require the County Auditor/Treasurer's written confirmation.

*Schedule 1*  
*(Continued)*

When additional collateral is pledged, Wells Fargo does not provide documentation that the Board of Directors or Loan Committee has approved the pledging of those particular securities. The County Auditor/Treasurer receives only a monthly collateral pledge report from the Federal Reserve Bank of Minneapolis verifying the balance of collateral.

Minn. Stat. § 118A.03, subd. 4, provides any collateral pledged shall be accompanied by a written assignment which states that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. Minn. Stat. § 118A.03, subd. 5, allows the financial institution to withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the governmental entity.

In 2002, the County Treasurer had Wells Fargo perfect all collateral held with Wells Fargo. In addition, the bank had agreed they would follow the requirements of Minn. Stat. § 118A.03; however, the County still only receives the monthly collateral pledge report.

We recommend that the County Auditor/Treasurer obtain documentation from Wells Fargo that shows assignments of additional securities have been approved by the Board of Directors or Loan Committee. We further recommend that the County Auditor/Treasurer obtain notification and confirm the substitution of collateral prior to the substitution.

Client's Response:

*Clay County will require Wells Fargo to follow the requirements of Minn. Stat. § 118A.03. If the requirements are not met, all accounts will be moved to other financial institutions.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

**Public Health Enterprise Fund Net Asset Deficit (97-4)**

The Public Health Enterprise Fund closed the year ended December 31, 2003, with a net asset deficit of \$76,611.

**Resolution**

The Public Health Enterprise Fund closed the year ended December 31, 2004, with a positive net asset balance of \$89,121.

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**STATE OF MINNESOTA**  
**OFFICE OF THE STATE AUDITOR**

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PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of County Commissioners  
Clay County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clay County as of and for the year ended December 31, 2004, and have issued our report thereon dated October 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clay County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition indicated above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clay County's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Clay County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 04-1.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 27, 2005



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PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Clay County

Compliance

We have audited the compliance of Clay County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clay County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Clay County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

### Internal Control Over Compliance

The management of Clay County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of Clay County as of and for the year ended December 31, 2004, and have issued our report thereon dated October 27, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 27, 2005

**CLAY COUNTY  
MOORHEAD, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<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	\$ 139,605
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Food Stamp Program	10.561	35,902
<b>Total U.S. Department of Agriculture</b>		<b>\$ 175,507</b>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 45,169
Crime Victim Assistance Grant	16.575	19,618
Passed Through Minnesota Department of Public Safety and City of Moorhead Byrne Formula Grant Program	16.579	23,380
Direct Byrne Formula Grant Program	16.579	26,807
<b>Total U.S. Department of Justice</b>		<b>\$ 114,974</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Public Transportation for Non-Urbanized Areas	20.509	<b>\$ 33,577</b>
<b>U.S. Department of Environmental Protection Agency</b>		
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	<b>\$ 10,285</b>
<b>U.S. Department of Education</b>		
Passed Through Minnesota Department of Education Special Education Preschool Grants	84.173	\$ 3,324
Special Education Grants for Infants and Families with Disabilities	84.181	50,847
<b>Total U.S. Department of Education</b>		<b>\$ 54,171</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Immunization Grants	93.268	\$ 12,574
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	78,282
Temporary Assistance for Needy Families	93.558	42,676
Maternal and Child Health Services Block Grant	93.994	77,713

**CLAY COUNTY  
MOORHEAD, MINNESOTA**

*Schedule 2*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<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 Projects for Assistance in Transition from Homelessness (PATH)	93.150	62,573
Temporary Assistance for Needy Families	93.558	708,383
Child Care Mandatory and Matching Funds	93.596	51,044
Children's Justice Grants to States	93.643	1,000
Foster Care Title IV-E	93.658	352,795
Social Services Block Grant Title XX	93.667	474,530
Chafee Foster Care Independent Living	93.674	17,281
Prevention/Treatment of Substance Abuse	93.959	76,646
Passed Through Minnesota Supreme Court State Court Promoting Safe and Stable Families	93.556	2,000
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,957,497</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Grant	97.004	\$ 51,082
Hazard Mitigation Grant	97.039	9,126
Emergency Management Performance Grant	97.042	17,685
Direct Cooperating Technical Partners Grant	97.045	251,347
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 329,240</b>
<b>Total Federal Awards</b>		<b>\$ 2,675,251</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Clay County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to revenue recognition principles of modified accrual, expenditures on this schedule do not equal federal revenues reported in the funds.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. Clay County did not pass any federal awards to subrecipients in 2004.