

STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CLAY COUNTY
MOORHEAD, MINNESOTA

YEAR ENDED DECEMBER 31, 2018

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 100 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 600 public pension funds; and

Tax Increment Financing – promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

Year Ended December 31, 2018



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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JULIE BLAHA
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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, 2018, 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 23, 2019.

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 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 did identify a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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. 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 the attention of those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 to be a material weakness and item 1996-004 to be a significant deficiency.

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 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 Counties*, 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 Clay County administers no tax increment financing districts.

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 *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as items 2018-003 and 2018-004. 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.

Clay County's Response to Findings

Clay County's responses to the internal control and legal compliance findings identified in our audit are described in the Corrective Action Plan. 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 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/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 23, 2019

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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 THE UNIFORM GUIDANCE

Independent Auditor's Report

Board of County Commissioners
Clay County
Moorhead, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Clay County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *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, 2018. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Clay 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 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). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Basis for Qualified Opinion on Medical Assistance Program (CFDA No. 93.778)

As described in the accompanying Schedule of Findings and Questioned Costs, Clay County did not comply with requirements regarding CFDA No. 93.778, Medical Assistance Program, as described in finding number 2016-002 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Medical Assistance Program (CFDA No. 93.778)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Medical Assistance Program for the year ended December 31, 2018.

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, 2018.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

Clay County's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Clay 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 the Uniform Guidance, 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002, that we consider to be a material weakness, and deficiencies 2017-001 and 2018-002 that we consider to be significant deficiencies.

Clay County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We have issued our report thereon dated September 23, 2019, 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 Clay County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by the Uniform Guidance, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 23, 2019

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

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

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

The major federal programs are:

Child Support Enforcement	CFDA No. 93.563
Medicaid Cluster	CFDA No. 93.778

The threshold for distinguishing between Types A and B programs was \$750,000.

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

**CLAY COUNTY
MOORHEAD, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 1996-004

Segregation of Duties

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

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

Context: This is not unusual in operations the size of Clay County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

Cause: The County informed us that collecting fees for services at a department level provides a convenience for their customers. Fee services are provided in several locations, so having customers paying at a single point of collection, such as the Treasurer's Office, would be very inconvenient. The staffing available in several of these smaller offices limits the potential for complete segregation of duties.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

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

View of Responsible Official: Concur

ITEM ARISING THIS YEAR

Finding Number 2018-001

Prior Period Adjustment

Criteria: 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 of the financial statements on a timely basis. Auditing standards identify one indication of a material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: In preparing their 2018 financial report, Clay County financial staff identified a prior period adjustment that was material to the Jail/Law Enforcement Construction Capital Projects Fund. Accounts payable was decreased by \$2,038,243 to account for contracts payable that were incorrectly reported as accounts payable and contracts payable at December 31, 2017.

Context: The County flagged the payment as an accounts payable in the general ledger system but also included them in their calculation of contracts payable.

Effect: The January 1, 2018, fund balance of the Jail/Law Enforcement Construction Capital Project fund and the net position of the governmental activities were increased by \$2,038,243 to reflect the correct amount.

Cause: The information for preparing the financial statements came from two separate worksheets.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

Recommendation: We recommend that County staff review their financial statement closing procedures to ensure they have accurate and complete information considered necessary to fairly state the County's financial statements in accordance with generally accepted accounting principles.

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2016-002

Eligibility Testing

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award Nos. 1805MN5ADM and 1805MN5MAP, 2018

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 state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, the following exceptions were noted in 19 of 40 case files tested:

- Four instances in which bank accounts were not input correctly into MAXIS, or accounts were not verified.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

- One instance in which the documentation of citizenship in MAXIS was an immigration card; however, the case file notes indicated the individual had become a citizen, but the case file did not contain documentation that citizenship was verified. For this individual, there was also a Direct Express debit card listed in MAXIS, but not documented or verified in the case file.
- One instance of an irrevocable burial account listed in MAXIS that was not verified with the funeral home.
- One instance of a checking account where the balance in MAXIS matched the amount verified, but required a spenddown. Only a portion of the spenddown was verified.
- Three instances in which insurance policies were listed in MAXIS, but the case files had no documentation or verification of the insurance policies.
- One instance of a Direct Express debit card listed in MAXIS in 2018; however, the case file had no documentation this was verified until 2019.
- One instance in which a mobile home was listed as an asset in MAXIS at a value above the asset limit if it was not the recipient's residence; however, other information in MAXIS indicated the residence was an apartment. Case file notes indicated the recipient had moved to an apartment, but there was no documentation or verification of what happened to the mobile home.
- Two instances of bank accounts listed in the case file that were not listed in MAXIS.
- Four instances in which MAXIS listed income from Supplemental Security Income (SSI) which was verified; however, there was no indication or verification of a bank account or Direct Express debit card for the SSI deposits.
- One instance of insurance listed in MAXIS; however, the case file indicated it had expired. This case file also listed a bank account not listed in MAXIS.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

- One instance in which MAXIS listed income from SSI which was verified; however, there was no indication or verification of a bank account or Direct Express debit card for the SSI deposits. Also, the vehicle listed in MAXIS did not match the unverified vehicle listed in the case file. MAXIS listed other income, but the amount listed in MAXIS did not match the amount verified in the case file.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

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

The State of Minnesota contracts with the Social Services Department to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the state maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to participants.

Effect: The lack of documented verification of information input into MAXIS increases the risk that a program participant will receive benefits when they are not eligible.

Cause: County program personnel responsible for entering case information into MAXIS did not ensure all required information was verified or updated properly.

Recommendation: We recommend the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is obtained and properly updated in MAXIS. In addition, consideration should be given to providing additional training to program personnel.

View of Responsible Official: Acknowledged

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Finding Number 2017-001

Procurement, Suspension, and Debarment

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 1805MN5ADM, 2018

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Federal regulations provided in Title 2 U.S. *Code of Federal Regulations* § 200.318(i) state that the non-federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Contract files must contain support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified (2 CFR sections 200.319 and 200.320(f) and 48 CFR section 52.244-5). Non-federal entities must follow further federal guidance over full and open competition as provided in Title 2 U.S. *Code of Federal Regulations* § 200.319, and verifying debarment, suspension, and exclusions as provided in Title 2 U.S. *Code of Federal Regulations* §§ 180.300, 200.213, and 200.318(h).

Condition: Of five procurement transactions over \$3,000 tested, including two that were over \$25,000 and one over \$100,000, the following items were noted:

- Two small purchases, tested did not have written documentation to support the rationale for the method of procurement, basis of contractor selection, and documentation of full and open competition.
- All three covered transactions did not have verification of whether vendors were debarred, suspended, or otherwise excluded.

Questioned Costs: None.

Context: The County has adopted policies to comply with federal regulations including policies that specify retaining the necessary documentation to demonstrate compliance with federal regulations. In addition, the County has started verifying whether vendors were debarred, suspended, or otherwise excluded for new vendors, but have not done this for vendors they have a history of doing business with in the past.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

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

Effect: The County is not in compliance with federal regulations.

Cause: The County was not clear on how this requirement was to be performed in order to comply with the Uniform Guidance.

Recommendation: We recommend the County maintain procurement files that include the rationale for the method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price. The support for the rationale to limit competition in cases where competition is limited and the justification for the limitation should also be documented. We further recommend the County verify and document vendors are not debarred or suspended or that other exclusions apply through the Minnesota Department of Administration's Suspended/Debarred Vendor Report and the Federal System for Award Management (SAM) site.

View of Responsible Official: Concur

ITEM ARISING THIS YEAR

Finding Number 2018-002

Department of Human Services DHS-2556 Reporting

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778); Award No. 1805MN5ADM, 2018

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 award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

The Minnesota Department of Human Services Instructions for Completing the Social Service Fund Report, Form DHS-2556 Bulletin #17-32-17, provides that Contracted Services for Clients (Public Aid Assistance) includes all amounts paid to companies or individuals who are not on the county payroll, who provide service to or for their clients.

Condition: Expenditures for volunteer drivers were incorrectly reported as Services and Charges rather than Contracted Services for Clients (Public Aid Assistance) on the Social Services DHS-2556 quarterly reports that were submitted for 2018.

Questioned Costs: None.

Context: The Minnesota Department of Human Services Instructions for Completing the Social Service Fund Report, Form DHS-2556 Bulletin #17-32-17 provides that items posted to County Financial Accounting and Reporting Standards (COFARS) object codes 6000 through 6099 should be reported as Contracted Services for Clients (Public Aid Assistance) and that items posted to COFARS object codes 6200 through 6299 and 6300 through 6399 should be reported as Services and Charges. The amount reported as Contracted Services for Clients (Public Aid Assistance) is subtracted from the Total Expenditures reported in the calculation of the Total SSTS Federal Expense Claim – Cost Pool amount reported.

Effect: Expenditures for volunteer drivers in the amount of \$82,203 were not included in Contracted Services for Clients (Public Aid Assistance) and was not subtracted from the Total Expenditures reported in the calculation of the Total SSTS Federal Expense Claim – Cost Pool amount reported.

Cause: Expenditures for volunteer drivers were posted to COFARS object code 6337 in the County's general ledger.

Recommendation: We recommend that expenditures for volunteer drivers be posted to the proper COFARS object code within the Public Aid Assistance object codes of 6000 through 6099. We further recommend the County contact the Minnesota Department of Human Services to determine if they should submit revised reports for 2018.

View of Responsible Official: Acknowledged

**CLAY COUNTY
MOORHEAD, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

Finding Number 2018-003

Electronic Funds Transfer Policy

Criteria: The County Board is required by Minn. Stat. §§ 471.381, subd. 3, and 385.071 to establish policies and procedures for investment and expenditure transactions via electronic funds transfers, that include the policy controls required by Minn. Stat. § 471.38, subd. 3a.

Condition: The County Board has established a County Investment Policy which includes a section on electronic funds transfers that references Minn. Stat. § 385.071 and authorizes the County Auditor-Treasurer to use electronic transfers for investment purchases and contractual payments to vendors; however, the policy does not include the policy controls required by Minn. Stat. § 471.38, subd. 3a.

Context: The County Auditor-Treasurer utilizes electronic funds transfers for various transactions such as paying sales tax, payroll tax, mortgage deed tax, or to transfer money to and from investments. The County Auditor-Treasurer noted that she follows the procedures provided in Minn. Stat. § 471.38, subd. 3a, but does not have them addressed in a formal policy.

Effect: The County is not in compliance with Minn. Stat. §§ 471.381, subd. 3, 385.071, and 471.38, subd. 3a.

Cause: The County has a section in its County Investment Policy that references Minn. Stat. § 385.071, which allows electronic transfers for investment purchases and contractual payments to vendors; however, the current policy does not address the policy controls provided in Minn. Stat. § 471.38, subd. 3a.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

Recommendation: We recommend the County Board establish written policies and procedures for electronic funds transfers as required by Minn. Stat. §§ 471.381, subd. 3, 385.071, and 471.38, subd. 3a.

View of Responsible Official: Acknowledged

Finding Number 2018-004

Publication of Board Minutes

Criteria: Pursuant to Minn. Stat. § 375.12, within 30 days of each meeting, the County Board must have the official proceedings of its sessions or a summary published in a qualified newspaper of general circulation in the County.

Condition: We reviewed the affidavits of publication related to the publishing of a summary of County Board minutes for 2018 and found that not all of the summaries were published in the County's official newspaper within the 30-day requirement.

Context: Of the 12 published summaries reviewed, six were not published within the 30-day requirement.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: We were informed that the newspaper has a publishing deadline that does not always coincide with the date the Board approves the minutes of the past meeting.

Recommendation: We recommend the County publish its summaries of the County Board minutes in compliance with Minn. Stat. § 375.12.

View of Responsible Official: Acknowledged

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COUNTY AUDITOR
LORI J. JOHNSON
Office Telephone: (218) 299-5006
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REPRESENTATION OF CLAY COUNTY
MOORHEAD, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 1996-004
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:

N/A

Finding Number: 2018-001
Finding Title: Prior Period Adjustment

Name of Contact Person Responsible for Corrective Action:
Stacey Deelstra, Financial Manager

Corrective Action Planned:

County Auditor-Treasurer will review trial balances and variances for reasonableness.

Anticipated Completion Date:

2019 Financials

Finding Number: 2016-002
Finding Title: Eligibility Testing
Program: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Persons Responsible for Corrective Action:

Rhonda Porter, Director
Larry Young, Financial Services Supervisor
Eligibility Workers

Corrective Action Planned:

1. All of the audit findings and case errors will be reviewed with the Eligibility Workers and strategies will be developed with the Supervisor and Eligibility Workers to eliminate errors from occurring in the future.
2. Quarterly case reviews will continue to be done and any errors will be addressed with all Eligibility Workers for correction and training purposes.
3. Workload demands will be assessed as to whether additional staff resources are needed to address processing errors.

Anticipated Completion Date:

1. This will be ongoing however by Dec. 31, 2019 we will identify additional strategies and determine if additional staffing resources are necessary.

Finding Number: 2017-001
Finding Title: Procurement, Suspension, and Debarment
Program: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Persons Responsible for Corrective Action:

Rhonda Porter, Director
Diane Kluck, Office Support Supervisor
Auditor's and Other County Personnel

Corrective Action Planned:

Clay County Social Services will follow federal regulations, Clay County Procurement Policy for contractor selection and documentation of full and open competition as well as checking vendors to assure they are not debarred, suspended or otherwise excluded.

Anticipated Completion Date:

By October 31, 2019 all current contracted vendors will be checked to assure they are not debarred, suspended or otherwise excluded. This initial check will be done via SAMS.GOV. This check will be done annually at contract renewal and documentation will be maintained.

Effective October 1, 2019, Clay County Social Services will develop a protocol for assuring contractor selection and full and open competition is occurring for all required purchases or contracts.

Finding Number: 2018-002

Finding Title: Department of Human Services DHS-2556 Reporting

Program: Medical Assistance Program (CFDA No. 93.778)

Name of Contact Persons Responsible for Corrective Action:

Rhonda Porter, Director

Susan Roll, Fiscal Supervisor

Corrective Action Planned:

All volunteer driver reimbursements will be included in Contracted Services for Clients and will be posted to the proper COFARS object code.

Anticipated Completion Date:

Volunteer driver reimbursements going back to January 2019 will be corrected and posted to the proper COFARS object code. Going forward, proper COFARS object codes will be used.

Finding Number: 2018-003

Finding Title: Electronic Funds Transfer Policy

Name of Contact Persons Responsible for Corrective Action:

Lori Johnson, County Auditor-Treasurer

Corrective Action Planned:

County will update current policy to include the policy controls required by Minn. Stat. 471.38, subd. 3a.

Anticipated Completion Date:

12/31/19

Finding Number: 2018-004

Finding Title: Publication of Board Minutes

Name of Contact Persons Responsible for Corrective Action:

Steve Larson, County Administrator

Corrective Action Planned:

Will monitor the publishing of the summary of County Board minutes, so that they are in compliance with Minn. Stat. 375.12, so they are published within the 30-day requirement.

Anticipated Completion Date:

9/30/19



**REPRESENTATION OF CLAY COUNTY
MOORHEAD, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Finding Number: 1996-004
Finding Title: Segregation of Duties**

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 where it is not feasible to have multiple employees handling financial duties.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

**Finding Number: 2016-002
Finding Title: Eligibility Testing
Program: Medicaid Cluster (CFDA No. 93.778)**

Summary of Condition: The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all assets or income were verified or correctly entered into MAXIS to support participant eligibility.

Summary of Corrective Action Previously Reported: We have reviewed the deficiencies found in the recent MA testing. The deficiencies will be reviewed with staff and strategies discussed as to assure that all required verifications and documentation is complete for each application. We will continue to strive for internal case reviews and provide training to staff as needed.

Status: Not Corrected. Clay County Social Services continues to strive for quarterly case reviews for each worker on a MAXIS health care case to identify any eligibility determination discrepancies. When errors are found, information is brought to all the staff for training purposes. We continue to send all new staff to legacy health care training. This is an area we will continue to work on and evaluate whether there are other corrective actions we can implement in this area.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2017-001

Finding Title: Procurement, Suspension, and Debarment

Program: Medicaid Cluster (CFDA No. 93.778)

Summary of Condition: For the four procurement transactions tested that were over the \$25,000 threshold, there was no verification performed by the County to determine whether vendors were debarred, suspended, or otherwise excluded.

Summary of Corrective Action Previously Reported: The County Social Service agency has implemented a Compliance Reporting Policy, effective 4/3/17, to assure contracted entities are not excluded health care providers via state and federal data lists. For contracted providers, the check will be done at initial contract agreement and monthly thereafter. Additional checks may be completed if deemed necessary. Verifications of checks completed will be maintained in personnel or contract files.

The County will also implement a procedure to check the Sam.gov database for vendor debarment/suspension before setting up a new vendor.

The County will also implement a procedure to check the Sam.gov database for vendor debarment/suspension and comparing it to vendors paid from federally-funded grants on an annual basis.

Status: Partially Corrected. We are now looking up each new vendor in Sam.gov database for vendor debarment/suspension before payment is made. We looked into implementing a procedure to check Sam.gov database to compare it to vendors paid from federally-funded grants on an annual basis, but it was too cumbersome. We will check with other counties for examples on how this can be completed efficiently. Social Services has a policy that does include checking the Sam.gov for contracted providers for purchase of Social Services. We had not done this at initial contract agreement so will get caught up with this for 2019 and all new contracts for 2020 and going forward.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through Minnesota Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	Not Provided	\$ 28,373	\$ -
National School Lunch Program	10.555	Not Provided	51,239	-
Passed Through Partnership4Health Community Health Board				
Special Supplemental Nutrition Program for Women, Infants, and Children				
	10.557	32573	295,795	-
Passed Through Minnesota Department of Human Services				
SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	182MN101S2514	511,469	-
Total U.S. Department of Agriculture			\$ 886,876	\$ -
U.S. Department of Justice				
Direct				
Edward Byrne Memorial Justice Assistance Grant Program				
(Total Edward Byrne Memorial Justice Assistance Grant Program 16.579 \$68,681)	16.579		\$ 32,681	\$ -
Bulletproof Vest Partnership Program	16.607		3,428	-
Passed Through Minnesota Department of Public Safety				
Crime Victim Assistance				
	16.575	A-CVS-2018-CLAYAO- 00124	33,833	-
Passed Through City of Moorhead, Minnesota				
Edward Byrne Memorial Justice Assistance Grant Program				
(Total Edward Byrne Memorial Justice Assistance Grant Program 16.579 \$68,681)	16.579	A-VCET-2017- MOORHDPD-00009	36,000	-
Total U.S. Department of Justice			\$ 105,942	\$ -
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	1030014	\$ 334,117	\$ -
Passed Through Minnesota Department of Natural Resources				
Recreational Trails Program				
	20.219	0020-17-1B	75,000	75,000
Passed Through City of Moorhead, Minnesota				
Highway Safety Cluster				
State and Community Highway Safety	20.600	A-ENFRC18-2018- MOORHDPD-00041	1,554	-
National Priority Safety Programs	20.616	A-ENFRC18-2018- MOORHDPD-00041	6,760	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC18-2018- MOORHDPD-00041	2,645	-
Total U.S. Department of Transportation			\$ 420,076	\$ 75,000

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Education				
Passed Through Partnership4Health Community Health Board Special Education – Grants for Infants and Families	84.181	87630	\$ 2,263	\$ -
U.S. Department of Health and Human Services				
Passed Through National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	MRCSG101005-04-00	\$ 943	\$ -
Passed Through Partnership4Health Community Health Board Public Health Emergency Preparedness	93.069	127897	95,182	-
Food and Drug Administration – Research	93.103	G-T-1710-05923	729	-
Universal Newborn Hearing Screening	93.251	H61MC00035	450	-
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in part by Prevention and Public Health Funds TANF Cluster	93.539	58583	850	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$913,521)	93.558	127394	89,720	-
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757	1 U58DP005452-01	404,910	-
Maternal and Child Health Services Block Grant to the States	93.994	86860	72,746	-
Passed Through Polk-Norman-Mahnomen Community Health Board Maternal, Infant, and Early Childhood Home Visiting Cluster Maternal, Infant, and Early Childhood Home Visiting Grant Program	93.870	12-700-00106	64,582	-
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families TANF Cluster	93.556	G-1701MNFPS	21,150	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$913,521)	93.558	1801MNTANF	823,801	-
Child Support Enforcement	93.563	1804MNCSES	197,596	-
Child Support Enforcement (Total Child Support Enforcement \$1,167,330)	93.563	1804MNCES	969,734	-
CCDF Cluster				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	G10801MNCDF	24,594	-
Community-Based Child Abuse Prevention Grants	93.590	G-1702MNFPRPG	5,840	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1701MNCWSS	14,623	-
Foster Care – Title IV-E	93.658	1801MNFOS	975,186	-
Social Services Block Grant	93.667	G-1801MNSOSR	405,216	-
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	G-1801MNCILP	12,500	-
Children's Health Insurance Program	93.767	1805MNSR21	500	-

**CLAY COUNTY
MOORHEAD, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Human Services (Continued)				
Medicaid Cluster				
Medical Assistance Program	93.778	1805MN5ADM	2,125,889	-
Medical Assistance Program	93.778	1805MN5MAP	19,884	-
(Total Medical Assistance Program 93.778 \$2,145,773)				
Opioid STR	93.788	130490	92,692	-
Total U.S. Department of Health and Human Services			\$ 6,419,317	\$ -
U.S. Department of Homeland Security				
Passed Through Minnesota Department of Public Safety				
Emergency Management Performance Grants	97.042	F-EMPG-2018- CLAYCO-2796	\$ 34,361	\$ -
Passed Through Northwest Regional Development Commission				
Homeland Security Grant Program	97.067	A-DECN-SHSP-2017- NWECEB-006	22,619	-
Total U.S. Department of Homeland Security			\$ 56,980	\$ -
Total Federal Awards			\$ 7,891,454	\$ 75,000
Totals by Cluster				
Total expenditures for Child Nutrition Cluster			\$ 79,612	
Total expenditures for SNAP Cluster			511,469	
Total expenditures for Highway Planning and Construction Cluster			409,117	
Total expenditures for Highway Safety Cluster			8,314	
Total expenditures for TANF Cluster			913,521	
Total expenditures for Maternal, Infant, and Early Childhood Home Visiting Cluster			64,582	
Total expenditures for CCDF Cluster			24,594	
Total expenditures for Medicaid Cluster			2,145,773	

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**CLAY COUNTY
MOORHEAD, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Clay County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Clay County under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of Clay County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Clay County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Clay County has elected to not use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**CLAY COUNTY
MOORHEAD, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 7,581,973
Grants received more than 60 days after year-end, deferred in 2018	
Highway Planning and Construction	334,117
Promoting Safe and Stable Families	13,210
Temporary Assistance for Needy Families	238,249
Community-Based Child Abuse Prevention Grants	1,460
Stephanie Tubbs Jones Child Welfare Services Program	8,878
John H. Chafee Foster Care Program for Successful Transition to Adulthood	3,125
Deferred in 2017, recognized as revenue in 2018	
Promoting Safe and Stable Families	(2,060)
Temporary Assistance for Needy Families	(241,551)
Community-Based Child Abuse Prevention Grants	(1,937)
Stephanie Tubbs Jones Child Welfare Services Program	(1,585)
Child Support Enforcement	(39,300)
John H. Chafee Foster Care Program for Successful Transition to Adulthood	(3,125)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 7,891,454</u>