

# STATE OF MINNESOTA

## Office of the State Auditor



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

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MANAGEMENT AND COMPLIANCE REPORT  
FOR

**ST. LOUIS COUNTY**  
**DULUTH, MINNESOTA**

YEAR ENDED DECEMBER 31, 2007

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

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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**ST. LOUIS COUNTY  
DULUTH, MINNESOTA**

**Year Ended December 31, 2007**



**Management and Compliance Report**

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

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**ST. LOUIS COUNTY  
DULUTH, MINNESOTA**

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**ST. LOUIS COUNTY  
DULUTH, MINNESOTA**

**Schedule 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

- A. Our report expresses unqualified opinions on the basic financial statements of St. Louis County.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of St. Louis County and are 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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of St. Louis County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs 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 programs for St. Louis 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 programs are:

HOME Investment Partnership Program	CFDA #14.239
Payments In Lieu of Taxes (PILT)	CFDA #15.226
Public Safety Partnership and Community Policing Grants (COPS)	CFDA #16.710
Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families (TANF)	CFDA #93.558
- H. The threshold for distinguishing between Types A and B programs was \$592,455.
- I. St. Louis County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-10 Departmental Internal Accounting Controls

Due to the limited number of office personnel within the various County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small departmental situations, 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.

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

Client's Response:

*The Auditor's Office will contact the departments involved to assist them in implementing procedures that will help ensure segregation of duties where possible.*

06-2 Time Sheet Approval

During our audit, 40 payroll transactions were selected for testing. One of the tests performed was a review of employee time sheets for proper approval in accordance with County policy. County policy requires that time sheets be signed by both the employee and their direct supervisor. Of the 40 transactions tested, 12 did not have proper signatures. In some cases, one of the signatures was missing, while in others, there were no signatures. Proper review of employee time sheets is designed to provide assurance that employees are being compensated for hours actually worked. By signing time sheets, employees and supervisors are stating that they are in agreement with the hours being reported. Without proper time sheet review, there is the potential for employees to misstate the number of hours worked and be compensated beyond the number of hours that they are entitled to.

We recommend that the County Auditor's Office require departments to submit time sheets in accordance with the County's policy and that time sheets lacking the proper signatures be returned to the departments for employee and supervisor signatures.

**Client's Response:**

*The Auditor's Office will contact all the departments that lacked proper signatures about submitting timesheets in accordance with the County's policy.*

**PREVIOUSLY REPORTED ITEM RESOLVED**

**Audit Adjustments and Restatements (06-1)**

Several material audit adjustments were proposed that resulted in significant changes to St. Louis County's financial statements.

**Resolution**

There were no material audit adjustments made during the current audit period.

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. **MINNESOTA LEGAL COMPLIANCE**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

06-3 **Claim Declaration**

We noted that the County checks did not include the declaration statement provided for in Minn. Stat. § 471.391, subd. 2.

Minn. Stat. § 471.38 requires a signed declaration by the claimant that the claim is just and correct and that no part of it has been paid and allows the declaration to be imprinted on the reverse side of the check. Minn. Stat. § 471.391 specifies the declaration form and includes a provision that specifies the declaration statement that may be imprinted on the reverse side of the check. Upon endorsement, the check satisfies the declaration requirement.

We recommend the County Auditor's Office stamp or have printed on the County check stock the declaration statement specified in Minn. Stat. § 471.391.

Client's Response:

*The County will comply with this recommendation once the current stock of 47,000 has been used. However, we believe this statute is outdated given the way technology has changed procedures for processing checks.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Insufficient Collateral to Secure Deposits (06-4)**

St. Louis County had uncollateralized bank deposits of \$3,324,330 at December 31, 2006.

**Resolution**

St. Louis County's bank deposits were sufficiently collateralized as of December 31, 2007.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-27 Management Information Systems (MIS) Department

Our review of the various MIS Department operations disclosed that its disaster recovery plan has some deficiencies. Items missing from the plan include: off-site storage of the written plan, specific recovery procedures, critical applications/user contingency report, and a formalized alternative site processing agreement. To effectively deal with a disaster affecting computer operations, the County must have a complete, detailed plan in place.

We recommend the MIS Director review the disaster recovery plan and expand it to address the noted deficiencies.

Client's Response:

*The MIS department is actively working on updating their Disaster Recovery Plan. The update to the plan will include work on all of the noted deficiencies.*

C. OTHER ITEM FOR CONSIDERATION

Pollution Remediation Obligations

The Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, becomes effective beginning with the year ending December 31, 2008. This statement addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

GASB Statement 49 may require the accrual of a liability for future expenditures if certain obligating events have occurred. The County should evaluate the possible effect this accounting standard will have, if any, on the County's financial statements.

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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***

Board of County Commissioners  
St. Louis 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 St. Louis County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 24, 2008. 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 St. Louis County's internal control over financial reporting as a basis for designing our auditing procedures 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 preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-10 and 06-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by St. Louis County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe neither of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Louis County's financial statements are free of 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

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, St. Louis 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 06-3.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe this recommendation and information to be of benefit to St. Louis County, and they are reported for that purpose.

St. Louis County's written responses to the significant deficiencies, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within St. Louis County, 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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 24, 2008

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## **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  
St. Louis County

### Compliance

We have audited the compliance of St. Louis 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 each of its major federal programs for the year ended December 31, 2007. St. Louis County's major federal programs are 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 each of its major federal programs 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 St. Louis 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, St. Louis County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

### Internal Control Over Compliance

The management of St. Louis 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, 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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by St. Louis County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of St. Louis County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 24, 2008. Our audit was performed for the purpose of forming opinions on St. Louis 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 others within the County, 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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 24, 2008

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**ST. LOUIS COUNTY  
DULUTH, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Agriculture</b>				
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		\$ 586,983	\$ -
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561		120,976	-
Passed Through Minnesota Department of Finance Schools and Roads - Grants to States	10.665		124,990	-
Superior National Forest Lands	10.668		510,000	-
<b>Total U.S. Department of Agriculture</b>			<b>\$ 1,342,949</b>	<b>\$ -</b>
<b>U.S. Department of Commerce</b>				
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration	11.419		<b>\$ 50,257</b>	<b>\$ -</b>
<b>U.S. Department of Housing and Urban Development</b>				
Direct				
Community Development Block Grants - Entitlement Grants	14.218		\$ 2,601,039	\$ 2,110,350
Emergency Shelter Grants Program	14.231		112,843	-
HOME Investment Partnership Program	14.239		706,935	617,755
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 3,420,817</b>	<b>\$ 2,728,105</b>
<b>U.S. Department of the Interior</b>				
Direct				
Payments in Lieu of Taxes	15.226		<b>\$ 697,178</b>	<b>\$ -</b>
<b>U.S. Department of Justice</b>				
Direct				
Bulletproof Vest Partnership Program	16.607		\$ 1,057	\$ -
Public Safety Partnership and Community Policing Grants	16.710		678,881	-
Passed Through Minnesota Department of Public Safety				
Byrne Formula Grant Program	16.579		5,000	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738		109,801	-
<b>Total U.S. Department of Justice</b>			<b>\$ 794,739</b>	<b>\$ -</b>

**ST. LOUIS COUNTY  
DULUTH, MINNESOTA**

**Schedule 2**  
**(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Transportation</b>				
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205		\$ 4,589,551	\$ -
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600		18,960	-
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		893	-
			<u>\$ 4,609,404</u>	<u>\$ -</u>
<b>U.S. Elections Assistance Commission</b>				
Passed Through Secretary of State Help Americans Vote Act Grant	90.401		<u>\$ 54,928</u>	<u>\$ -</u>
<b>U.S. Department of Health and Human Services</b>				
Passed Through Arrowhead Regional Development Commission Special Programs for the Aging - Title III - Nutrition Services	93.045		\$ 105,473	\$ -
Passed Through Minnesota Department of Human Services Projects for Assistance in Transition from Homelessness	93.150		65,658	-
Promoting Safe and Stable Families	93.556		209,768	-
Temporary Assistance for Needy Families (TANF)	93.558		3,445,491	-
Child Care and Development Cluster Child Care and Development Block Grant	93.575		154,789	-
Child Care Mandatory and Matching Funds	93.596		90,630	-
Child Welfare Services - State Grants	93.645		58,796	-
Foster Care Title IV-E	93.658		417,601	-
Social Services Block Grant	93.667		1,817,656	-
Chafee Foster Care Independence Program	93.674		14,669	-
Block Grants for Community Mental Health Services	93.958		46,071	-
Passed Through Carlton, Cook, Lake, and St. Louis Community Health Board Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	H12-A80408	171,657	-
Temporary Assistance for Needy Families (TANF)	93.558		260,071	-
Maternal and Child Health Services Block Grant to States	93.994		247,541	-
			<u>\$ 7,105,871</u>	<u>\$ -</u>

**ST. LOUIS COUNTY  
DULUTH, MINNESOTA**

*Schedule 2*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Homeland Security</b>				
Passed Through Minnesota Department of Natural Resources				
Boating Safety	97.012		\$ 39,524	\$ -
Passed Through Minnesota Department of Public Safety				
Emergency Management Assistance Grant	97.042		46,299	-
Homeland Security Grant Program	97.067	SHSP-00540 LETPP-00498	1,586,518	-
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 1,672,341</b>	<b>\$ -</b>
<b>Total Federal Awards</b>			<b>\$ 19,748,484</b>	<b>\$ 2,728,105</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 St. Louis County. The County's reporting entity is defined in Note 1 to the financial statements.
- (2) The expenditures on this schedule are on the basis of accounting used by the individual funds of the County. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis. Due to timing differences in revenue recognition under the modified accrual basis, expenditures on this schedule do not equal federal revenues reported in the financial statements. In 2007, \$1,310,619 of current year federal expenditure reimbursements were not recognized as revenues because they were not received within the period of availability. In addition, \$54,928 of federal revenues received in the prior year for CFDA #90.401 that had not yet been spent were included in current year federal expenditures.
- (3) Pass-through grant numbers are provided if available.