

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**MANAGEMENT AND COMPLIANCE REPORT**

**PINE COUNTY**  
**PINE CITY, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2016**

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

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for approximately 650 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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**PINE COUNTY  
PINE CITY, MINNESOTA**

**Year Ended December 31, 2016**



**Management and Compliance Report**

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

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**PINE COUNTY  
PINE CITY, MINNESOTA**

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
Pine County  
Pine City, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 31, 2017.

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

In planning and performing our audit of the financial statements, we considered Pine 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.

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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pine 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 Pine County administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Pine County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. 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.



## **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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

July 31, 2017

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REBECCA OTTO  
STATE AUDITOR

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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  
Pine County  
Pine City, Minnesota

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

We have audited Pine 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, 2016. Pine 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 Pine 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 Pine County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

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

As described in the accompanying Schedule of Findings and Questioned Costs, Pine County did not comply with requirements regarding CFDA No. 93.778 Medical Assistance Program as described in finding number 2016-001 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, Pine 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, 2016.

***Unmodified Opinion on the Other Major Federal Program***

In our opinion, Pine 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, 2016.

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

**Report on Internal Control Over Compliance**

Management of Pine 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 to be a material weakness.

Pine County's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. Pine County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pine County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We have issued our report thereon dated July 31, 2017, 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 Pine County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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.

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

July 31, 2017

**PINE COUNTY  
PINE CITY, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

**Financial Statements**

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

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for major federal programs: **Unmodified for all major programs, except for Medical Assistance Program, 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:

State Administrative Matching Grants for the	
Supplemental Nutrition Assistance Program	CFDA No. 10.561
Medical Assistance Program	CFDA No. 93.778

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

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

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

None.

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

ITEM ARISING THIS YEAR

Finding Number 2016-001

Eligibility

**Program:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 05-1605MN5ADM, 2016

**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 awards.

**Condition:** The Minnesota Department of Human Services (DHS) maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. When performing our case file review for eligibility, we noted that not all documentation was available to support participant eligibility. In other circumstances, information was not updated in MAXIS. The following instances were noted in our sample of 40 cases tested:

- Fifteen instances were found in case files where items were not verified with outside sources and/or were not entered in MAXIS.

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



**Effect:** The lack of updated information in MAXIS and verification of eligibility-determining factors increases the risk that a program participant will receive benefits when they are not eligible.

**Cause:** County program personnel entering case information into the MAXIS system did not ensure all required information was obtained, verified, maintained in the case files, or updated in the MAXIS system.

**Recommendation:** We recommend the County implement additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations exist and is properly input or updated in MAXIS and issues are followed up on in a timely manner. In addition, consideration should be given to providing additional training to program personnel.

**View of Responsible Official:** Concur

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**REPRESENTATION OF PINE COUNTY  
PINE CITY, MINNESOTA**

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 2016-001**

**Finding Title: Eligibility**

**Program: Medical Assistance Program (CFDA No. 93.778)**

Name of Contact Person Responsible for Corrective Action:

Peggy Brackenbury, Financial Assistance Supervisor II

Corrective Action Planned:

After learning of the audit findings, the information was reviewed by Supervisor Peggy Brackenbury. On July 25, 2017, Peggy Brackenbury met with her staff members and explained the information that was learned through the audit and, with her team, reviewed the information that needed to be verified and entered into MAXIS on medical assistance cases. Over the course of the next year, two medical assistance files will be audited every quarter by Supervisor Brackenbury to ensure compliance with the requirements. Copies of the file reviews will be maintained. This will ensure adequate progress is being made and that the agency is in compliance with all requirements of the medical assistance program.

Anticipated Completion Date:

July 31, 2018

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**PINE COUNTY  
PINE CITY, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	16162MN- 101S2514	\$ 245,461
SNAP	10.561	16162MN- 127Q7503	19,373
SNAP (Total SNAP 10.561 \$264,996)	10.561	16162MN- 101S2520	162
<b>Total U.S. Department of Agriculture</b>			<b>\$ 264,996</b>
<b>U.S. Department of the Interior</b>			
Direct			
Payments in Lieu of Taxes	15.226	N/A	<b>\$ 5,330</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	G-1601MNFSS	\$ 11,230
Temporary Assistance for Needy Families	93.558	1601MNTANF	361,615
Child Support Enforcement	93.563	1604MNCSES	61,552
Child Support Enforcement (Total Child Support Enforcement 93.563 \$715,229)	93.563	1604MNCES	653,677
Refugee and Entrant Assistance - State-Administered Programs	93.566	1601MNCMA	204
Child Care and Development Block Grant	93.575	G1601MNCCDF	6,762
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFPRG	11,849
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	6,190
Foster Care - Title IV-E	93.658	1601MNFST	176,676
Social Services Block Grant	93.667	16-01MNSOSR	185,105
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	4,018
Medical Assistance Program	93.778	05-1605MN5ADM	857,911
Medical Assistance Program (Total Medical Assistance Program 93.778 \$874,850)	93.778	05-1605MN5MAP	16,939
Block Grant for Community Mental Health Services	93.958	SM010027-16	2,339
Block Grants for Prevention and Treatment of Substance Abuse	93.959	TI010027-15	33,995
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 2,390,062</b>

**PINE COUNTY  
PINE CITY, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>			
Passed through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	A-HMGP-DR4131- PINECO-0009	\$ 1,912
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	EMPG-2016- PINECO-2061	<u>19,296</u>
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 21,208</b>
<b>Total Federal Awards</b>			<b>\$ 2,681,596</b>

Pine County did not pass any federal awards through to subrecipients in 2016.

**PINE COUNTY  
PINE CITY, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Pine 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 Pine County under programs of the federal government for the year ended December 31, 2016. 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 Pine County, it is not intended to and does not present the financial position and changes in net position of Pine 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. Pine County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,661,162
Grants received more than 60 days after year-end, unavailable in 2016	
Temporary Assistance for Needy Families (CFDA No. 93.558)	1,138
Emergency Management Performance Grants (CFDA No. 97.042)	<u>19,296</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 2,681,596</u>