

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**SHERBURNE COUNTY**  
**ELK RIVER, MINNESOTA**

YEAR ENDED DECEMBER 31, 2004

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

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

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

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

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

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

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

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**SHERBURNE COUNTY  
ELK RIVER, MINNESOTA**

**Year Ended December 31, 2004**



Management and Compliance Report

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

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**SHERBURNE COUNTY  
ELK RIVER, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Schedule of Findings and Questioned Costs	Schedule 1	1
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		5
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		7
Schedule of Expenditures of Federal Awards	Schedule 2	9

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**SHERBURNE COUNTY  
ELK RIVER, MINNESOTA**

**Schedule 1**

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

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

- A. Our report expresses an unqualified opinion on the basic financial statements of Sherburne County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Sherburne County and is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It is not a material weakness.
- C. No instances of noncompliance material to the financial statements of Sherburne 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 Sherburne 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:

Temporary Assistance for Needy Families	CFDA #93.558
Social Services Block Grant Title XX	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Sherburne County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-2 Departmental Internal Accounting Control

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

We understand that the County's management has acknowledged this condition and is taking steps to address this condition when possible. We encourage the County to continue with these efforts.

Client's Response:

*Where possible, departments such as the Sheriff's Department are including additional staff to assist with these duties. The Sheriff's Department is set up with the ability to receipt revenues directly to the IFS accounting system and turn over collections daily. The Extension Department has a system, and numbers its publications and plat books and a log to record those sales for accounting purposes.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

04-1 County Sheriff's Office - Remittance of Proceeds from Commissary Sales

The County Sheriff's Office operates a commissary for prisoners held in the county jail. Prisoners are able to purchase small sundry items while incarcerated. Money received from prisoners for these purchases is held by the Sheriff's Office. Sale proceeds from the prisoners are used to pay vendors for these items. All sales proceeds are currently held by the Sheriff's Office, and payments to vendors are made by the Sheriff's Office from its checking account.

Minn. Stat. §§ 385.05 and 385.07 require the County Treasurer to receive all county funds and deposit them in the depository. Minn. Stat. § 384.13 states that county funds may be paid out only after being approved by the County Board and attested by the County Auditor.

Minn. Stat. § 16A.72(7) provides that receipts from the operation of inmate canteens and vending machines shall be deposited in a social welfare fund for the benefit of the inmates. However, this statute applies to state finance, not to county jails. The law requires state income to be credited to the state General Fund, except for specifically listed items. The Minnesota Department of Corrections (DOC) has confirmed that this provision applies to corrections facilities operated by the DOC; it does not apply to county jails. Commissary proceeds are funds of the County and, pursuant to Minnesota law, must be turned over to the County Auditor/Treasurer.

We recommend that all proceeds from commissary sales be remitted to the County Auditor/Treasurer's Office monthly. We also recommend that all disbursements to commissary vendors be made in compliance with legal requirements and County policy.

Client's Response:

*Staff is working out a resolution that should be forthcoming.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

**Credit Card Policy (03-1)**

Our previous report noted that the County did not have policy for the use of County credit cards. Our review of credit card payments found several deficiencies in the documentation attached to the vouchers.

**Resolution**

Similar conditions with documentation were found in 2004. However, before the end of the year, the County Board approved a credit card policy which, if followed, should address the concerns noted in our finding. Our annual audits will continue to include a review of credit card payments.



# STATE OF MINNESOTA

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PATRICIA ANDERSON  
STATE AUDITOR

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

Board of County Commissioners  
Sherburne County

We have audited the financial statements of Sherburne County as of and for the year ended December 31, 2004, and have issued our report thereon dated May 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sherburne County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sherburne 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, Sherburne County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 04-1.

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

/s/Pat Anderson

PATRICIA ANDERSON  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: May 25, 2005



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PATRICIA ANDERSON  
STATE AUDITOR

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

Board of County Commissioners  
Sherburne County

Compliance

We have audited the compliance of Sherburne 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, 2004. Sherburne 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 Sherburne 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, Sherburne 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, 2004.

### Internal Control Over Compliance

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

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

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of Sherburne County as of and for the year ended December 31, 2004, and have issued our report thereon dated May 25, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: May 25, 2005

**SHERBURNE COUNTY  
ELK RIVER, MINNESOTA**

*Schedule 2*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 199,578
Passed Through Minnesota Department of Human Services Administrative Matching Grant for Food Stamp Program	10.561	7,561
Direct Wildlife Habitat Incentive Program	10.914	12,423
<b>Total U.S. Department of Agriculture</b>		<b>\$ 219,562</b>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Department of Employment and Economic Development Juvenile Accountability Incentive Block Grant	16.523	\$ 5,934
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	28,500
Direct Bulletproof Vest Partnership Program	16.607	7,645
<b>Total U.S. Department of Justice</b>		<b>\$ 42,079</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Central Minnesota Council on Aging Special Programs for the Aging - Title IIIB	93.044	\$ 5,072
Passed Through Minnesota Department of Health Center for Disease Control and Prevention Investigations and Technical Assistance	93.283	100,950
Community Mental Health Services Block Grant	93.958	8,960
Maternal and Child Health Services Block Grant	93.994	57,539

**SHERBURNE COUNTY  
ELK RIVER, MINNESOTA**

*Schedule 2  
(Continued)*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families - Title IV-B	93.556	4,997
Temporary Assistance for Needy Families (TANF)	93.558	249,159
Children's Justice Grants to States	93.643	966
Foster Care Title IV-E	93.658	72,437
Social Services Block Grant Title XX	93.667	255,850
Independent Living	93.674	14,510
Passed Through Minnesota Department of Education Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	376,732
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,147,172</b>
<b>U.S. Department of Homeland Security</b>		
Direct State Domestic Preparedness Equipment Support	97.004	\$ 122,306
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	5,000
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grant	97.042	54,659
<b>Total Homeland Security</b>		<b>\$ 181,965</b>
<b>Total Federal Awards</b>		<b>\$ 1,590,778</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 Sherburne County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.