

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CHISAGO COUNTY
CENTER CITY, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2014

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 700 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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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

For the Year Ended December 31, 2014



Management and Compliance Report

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

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **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? **No**
- Significant deficiencies identified? **Yes**

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	CFDA #10.561
Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

Chisago County qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-003

Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

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

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend the County's elected officials and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

The County is aware of this concern and continues to work with organizational units which collect fees to address specific considerations within limited staffing and resources constraints.

Finding 2007-001

Assessing and Monitoring Internal Controls

Criteria: The County's management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition: A risk assessment of existing controls over significant functions of the accounting system used to produce financial information has not been completed.

Context: The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

Effect: Weaknesses in internal control could go undetected, which could affect the County's ability to detect material misstatements in the financial statements.

Cause: The County has not had the staffing resources available to complete the risk assessment process.

Recommendation: We recommend County management implement procedures to document the significant internal controls in its accounting system. We also recommend a formal plan be developed that calls for assessing and monitoring significant internal controls on a regular basis, no less than annually. The assessment of risks should be documented and procedures implemented to address those risks found. Monitoring procedures should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

The County is aware of the recommendation to implement procedures, conduct, and document an annual risk assessment of existing controls over significant functions of the accounting system used to produce financial information. Currently undertaken periodically, as time and resources allow, the County agrees, in part, with the Auditor's determination of cause as "the County has not had the staffing resources available to [fully] complete the risk assessment process."

ITEM ARISING THIS YEAR

Finding 2014-001

Audit Adjustments

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 define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

Context: The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustments were reviewed and approved by the appropriate Chisago County staff and are reflected in the financial statements:

General Fund

- Taxes receivable increased \$790,668, undistributed cash in the agency funds increased \$273,120, tax revenue increased \$377,233, and unavailable revenue increased \$686,555 to record taxes receivable at year-end.
- The expenditures and the other financing sources increased by \$929,495 to record a capital lease entered into during the year.
- Reclassifications of \$931,817 between revenue types corrected mapping issues between the general ledger and the working trial balance.
- Transfers in and out of \$2,487,600 were eliminated within the General Fund. For reporting purposes, four funds on the general ledger system combine to create the General Fund. Transactions between these funds need to be eliminated.

Road and Bridge Special Revenue Fund

- Due from other governments and revenues increased \$234,934 for additional receivables identified.
- Inventory increased \$259,168 to record the change in inventory from the prior year balance to the current year balance.
- Contracts payable and expenditures of \$191,819 were added to record the year-end balance.

Human Services Special Revenue Fund

- Due from other governments and revenues decreased \$400,757 to reverse the prior year balance.
- Due from other governments and revenues increased \$693,222 for additional receivables identified.

County Capital Projects Fund

- Due from other governments decreased and expenditures increased \$165,036 to correct an item coded to the wrong account.

Governmental Activities

- The beginning balance for deferred charges on bond refunding of \$2,217,805 was added.
- The capital asset balance increased and expenditures decreased \$24,318,786 to adjust capital assets to the County's year-end balance.

Cause: The staff person that completed the financial report in previous years left the employment of the County. The staff given the responsibility of preparing the report for 2014 was not familiar with the details of how the general ledger system functioned and did not have knowledge of the financial reporting requirements for governmental entities. In addition, no monitoring or oversight process was set up by the County to ensure proper recording of the year's financial activities.

Recommendation: We recommend County staff involved in preparing the financial report receive training on both the general ledger system and on the requirements of governmental financial reporting. We also recommend the County develop procedures to provide monitoring and oversight of the financial reporting process.

Client's Response:

Chisago County takes seriously the need for both timely and accurate financial reporting. A transition in staffing in the County Auditor's Office contributed to the challenges in preparing and completing financial statements for the 2014 Annual Report. The County agrees, in general, with the Auditor's recommendations and intends to pursue appropriate additional staff training on both the general ledger system and on the requirements of governmental financial reporting, as well as development of procedures for the provision of additional monitoring and oversight of the financial reporting process.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2012-001

Eligibility

Programs: U.S. Department of Health and Human Services' Temporary Assistance for Needy Families (CFDA No. 93.558) and Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs. These controls should include a review process for case files to ensure the intake function related to eligibility requirements is met.

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. During our review of the Medical Assistance Program, we noted the following exceptions in 4 of the 40 case files we selected for testing:

- For one case file, there was no documentation of citizen verification.
- For three case files, sufficient asset verification was not received or was not updated correctly in MAXIS.

During our review of Temporary Assistance for Needy Families, we noted the following exceptions in 3 of 40 case files we selected for testing:

- For one case file, income verification for an annual review was not documented.
- For one case file, the fraud questions on the program application were not completed.
- For one case, the work sanction was not resolved in MAXIS timely, resulting in a client being sanctioned unnecessarily for two additional months.

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

Context: The State of Minnesota contracts with the County Health and Human Services Department 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 proper documentation and follow-up of issues and not updating MAXIS increases the risk that clients will receive benefits when they are not eligible.

Cause: Program personnel entering case information into MAXIS did not ensure all required information was obtained, maintained in the case files, and updated in MAXIS.

Recommendation: We recommend the County continue periodic supervisory case file reviews for the Medical Assistance Program and of Temporary Assistance for Needy Families. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Bruce A. Messelt, Chisago County Administrator

Corrective Action Planned:

Chisago County's Health and Human Services Department is aware of the issue raised regarding OMB Circular A-133 § .300(b) and the establishment of internal control over federal programs to provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations and contracts, specifically as it relates to U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778). With the assistance of the Minnesota Department of Human Services, Chisago County has developed written procedures for monitoring of and compliance with OMB Circular A-133 § .300(b), conducted employee training regarding such, and implemented formal case reviews and supervisory protocols. Based upon the identified 2013 audit findings, Chisago County has undertaken the following additional specific corrective action(s):

- *On a monthly basis, sampled 40 cases (20 per department location)*
- *Based on sample results, identified individual or group needs and conducted additional training, utilizing structured guidance and/or individualized mentoring*
- *Solicited and documented as part of its written procedures additional policy clarifications, where needed, from the State Department of Human Services*
- *Reviewed monthly sampling results with the Department's Income Maintenance Quality Assurance Team*

Based upon progress made during 2014 and documented in the 2014 audit, the County will continue with the above corrective action plan, as stated.

Anticipated Completion Date:

December 31, 2015

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2013-001

Driver Awareness Class

Criteria: As stated in Minn. Stat. § 169.022:

The provisions of [Minn. Stat., ch. 169] shall be applicable and uniform throughout this state and in all political subdivisions and municipalities therein, and no local authority shall enact or enforce any rule or regulation in conflict with the provisions of this chapter unless expressly authorized herein. Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided, that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalty provided for in this chapter for the same offense.

In *State v. Hoben*, 89 N.W.2d 813 (1959), the Minnesota Supreme Court recognized in this language a legislative intent “that the application of its provisions should be uniform throughout the state both as to penalties and procedures.” The Supreme Court concluded: “It would be a strange anomaly for the legislature to define a crime, specify punishment therefore, provide that its application shall be uniform throughout the state, and then permit a municipality to prosecute that crime as a civil offense.”

The Minnesota Attorney General’s Office stated “[i]n the specific case of traffic offenses, the legislature has plainly preempted the field of enforcement.” December 1, 2003, letter to State Representative Steve Smith (citing Minn. Stat. § 169.022, *Hoben*, and other provisions of Minn. Stat., ch. 169). It noted the strong legislative assertion of state preemption in the area of traffic regulation, and concluded that local governments were precluded from creating their own enforcement systems.

Condition: Chisago County has established a Driver Awareness Class option in lieu of issuance or court filing of a state uniform traffic ticket. Sheriff’s Deputies have the discretion to offer traffic violators the option of attending the Driver Awareness Class in lieu of a citation. The course is two hours long and costs \$75, which is payable to the Chisago County Sheriff.

Context: In the December 1, 2003, letter to State Representative Steve Smith, the Minnesota Attorney General specifically addressed the issue of a driver improvement course or clinic in lieu of a ticket or other penalty. After reviewing the state law, the Attorney General concluded: “All such programs, however, require that a *trial court* make the determination as to whether attendance at such a [driver’s] clinic is appropriate. We are aware of no express authority for local officials to create a *pretrial* diversion program.” (Emphasis is that of the Attorney General.)

The Minnesota Supreme Court has stated, “[a]s a creature of the state deriving its sovereignty from the state, the county should play a leadership role in carrying out legislative policy.” *Kasch v. Clearwater County*, 289 N.W. 2d 148, 152 (Minn. 1980), *quoting County of Freeborn v. Bryson*, 243 N.W. 2d 316, 321 (Minn. 1976).

In January of 2014, a judge in the Minnesota Third Judicial District issued a permanent injunction against a similar driver diversion program operated by another Minnesota county. The judge, like the Minnesota Attorney General, concluded that the driver diversion program was not authorized under Minnesota law. The involved county has discontinued its program and has not appealed the decision.

Effect: The County’s Driver Awareness Class is unauthorized and in violation of Minn. Stat. § 169.022.

Cause: After talking with the County Attorney, the County Sheriff decided to continue the program until the state Legislature rules on the issue in the next session.

Recommendation: We recommend the County comply with Minn. Stat. ch. 169, by not offering a Driver Awareness Class in lieu of issuance or court filing of a state uniform traffic ticket.

Client’s Response:

The County is aware of this concern but respectfully disagrees with the analysis of the Office of the State Auditor with regard to the Chisago County Sheriff’s Office’s Driving Awareness Program.

The auditor has opined that Minnesota Statute §169.022 prohibits a local law enforcement agency from affording drivers the opportunity to attend a Driver Awareness Program as an alternative to facing a conviction for identified non-serious traffic offenses. However, Minnesota’s traffic code is not prescriptive and does not mandate the manner in which law enforcement carries out its

enforcement of the traffic code. The discretion of law enforcement as to how enforcement efforts are carried out is central to the law enforcement function and is well-recognized by Minnesota courts. The Chisago County Sheriff's Office's Driver Awareness Program is based upon this principal of enforcement discretion.

The State Auditor's Findings and Recommendations also reference a January 2014 Order by Judge James A. Fabian of the Third Judicial District regarding a civil suit brought by citizens in Wabasha County objecting to a Wabasha County program (Beverly Snow et. al. vs. Wabasha County et. al.; Court File 79-CV-14-223). While the Court enjoined the Wabasha County program from continuing, that court did not decide any issues related to the Chisago County program and lacks jurisdiction to impact Chisago County.

To date, no suit has been brought in Chisago County objecting to the Chisago County Sheriff's Office's Driver Awareness Program. Any order issued in Wabasha District Court is limited to the facts litigated there in that county and has no legal implications for Chisago County's Driver Awareness Program.

In summary, Chisago County intends to fully comply with any law or ruling which specifically prohibits the Chisago County's Sheriff's Office's Driver Awareness Program. Until such, Chisago County intends to continue to provide a positive educational opportunity for drivers to improve public safety.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Chisago County’s financial statements is an accounting estimate of the proportionate share of PERA’s unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



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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
Chisago County
Center 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Chisago County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 25, 2015. Our report includes a reference to other auditors who audited the financial statements of the Chisago County Housing and Redevelopment Authority Economic Development Authority, the discretely presented component unit, as described in our report on Chisago County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chisago 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 identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

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 attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-003 and 2007-001 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chisago 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 Political Subdivisions*, 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 the County administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Chisago County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2013-001. 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.

Other Matters

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and it is reported for that purpose.

Chisago County's Response to Findings

Chisago County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. 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 Political Subdivisions* 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

June 25, 2015

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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 OMB CIRCULAR A-133

Independent Auditor's Report

Board of County Commissioners
Chisago County
Center City, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Chisago County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 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, 2014. Chisago 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 the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Chisago 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 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 Chisago 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.

Opinion on Each Major Federal Program

In our opinion, Chisago County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Chisago 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 OMB Circular A-133, 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 not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2012-001, that we consider to be a significant deficiency.

Chisago County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Chisago 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 OMB Circular A-133

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Chisago County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We have issued our report thereon dated June 25, 2015, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Chisago County Housing and Redevelopment Authority Economic Development Authority, which was audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 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. The 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

June 25, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 158,723
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>387,639</u>
Total U.S. Department of Agriculture		<u>\$ 546,362</u>
U.S. Department of Justice		
Direct State Criminal Alien Assistance Program	16.606	<u>\$ 414</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 276,261
Passed Through Isanti County, Minnesota Formula Grants for Rural Areas	20.509	42,375
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	21,095
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>7,203</u>
Total U.S. Department of Transportation		<u>\$ 346,934</u>
U.S. Environmental Protection Agency		
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grant	66.460	<u>\$ 22,173</u>

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Public Health Emergency Preparedness	93.069	\$ 57,163
Promoting Safe and Stable Families	93.556	7,068
Temporary Assistance for Needy Families	93.558	579,789
(Total Temporary Assistance for Needy Families 93.558 \$625,183)		
Child Support Enforcement	93.563	696,224
Refugee and Entrant Assistance - State Administered Programs	93.566	1,515
Child Care and Development Block Grant	93.575	18,532
Stephanie Tubbs Jones Child Welfare Services Program	93.645	4,659
Foster Care Title IV-E	93.658	146,996
Social Services Block Grant	93.667	242,520
Child Abuse and Neglect - State Grants	93.669	2,611
Chafee Foster Care Independence Program	93.674	523
Children's Health Insurance Program	93.767	204
Medical Assistance Program	93.778	1,191,366
Passed Through Minnesota Department of Health		
Immunization Cooperative Grants	93.268	3,000
PPHF National Public Health Improvement Initiative	93.507	2,000
Temporary Assistance for Needy Families	93.558	45,394
(Total Temporary Assistance for Needy Families 93.558 \$625,183)		
Maternal and Child Health Services Block Grant to the States	93.994	33,549
Total U.S. Department of Health and Human Services		\$ 3,033,113
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 10,241
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	31,203
Homeland Security Grant Program	97.067	61,190
Total U.S. Department of Homeland Security		\$ 102,634
Total Federal Awards		\$ 4,051,630

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Chisago County under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Chisago County, it is not intended to and does not present the financial position or changes in net position of Chisago 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 cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. There are no clusters for 2014.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 4,563,208
Unavailable revenue in 2014, grants received more than 60 days after year-end	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)	1,031
Temporary Assistance for Needy Families (CFDA #93.558)	900
Child Care and Development Block Grant (CFDA #93.575)	869
Unavailable revenue in 2013, recognized as revenue in 2014	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)	(72,399)
Formula Grants for Rural Areas (CFDA #20.509)	(116,028)
Temporary Assistance for Needy Families (CFDA #93.558)	(101,793)
Child Support Enforcement (CFDA #93.563)	(115,922)
Child Care and Development Block Grant (CFDA #93.575)	(1,327)
Medical Assistance Program (CFDA #93.778)	(106,909)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 4,051,630

6. Subrecipients

Of the expenditures presented in the schedule, Chisago County did not provide any federal awards to subrecipients.