

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

MARTIN COUNTY
FAIRMONT, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

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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**MARTIN COUNTY
FAIRMONT, MINNESOTA**

Year Ended December 31, 2017



Management and Compliance Report

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

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**MARTIN COUNTY
FAIRMONT, MINNESOTA**

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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
Martin County
Fairmont, 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 Martin County, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Martin 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 Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and an item that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2017-001 to be a material weakness and item 2017-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Martin 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 the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Martin County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Recommendations as items 2017-003 and 2017-004. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Martin County's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 18, 2018

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**MARTIN COUNTY
FAIRMONT, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

ITEMS ARISING THIS YEAR

Finding Number 2017-001

Audit Adjustment

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards 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: A material audit adjustment was identified that resulted in significant changes to the County's financial statements. This adjustment was reviewed and approved by the appropriate County staff and is properly reflected in the financial statements.

Context: The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. This adjustment was found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

Effect: The Ditch Special Revenue Fund maintenance expenditures and contracts payable increased by \$679,978 for ditch work completed in 2017.

Cause: Lack of sufficient review of the contracts payable balance for financial statement presentation.

Recommendation: We recommend that the County continue to review procedures over financial reporting to ensure financial statements are materially stated.

View of Responsible Official: Acknowledge

Finding Number 2017-002

Credit Card - Itemized Receipts

Criteria: The County's credit card policy requires that all credit card purchases be supported by itemized receipts.

Condition: Three of the ten credit card claims tested were missing itemized receipts showing the detail for the meals included on each of the claims.

Context: The charges were for meals purchased during overnight training events. In each instance, a charge receipt was provided to support the total charged, but it did not include any detail. Rather than obtain an itemized receipt from the vendor, the employee making the charge wrote the details of the purchase on the charge receipt.

Effect: The County is paying claims without the itemized receipts as required in the County's credit card policy.

Cause: The County's review and approval procedures did not ensure compliance with the County credit card policy.

Recommendation: We recommend the County develop additional review and approval procedures for credit card purchases to ensure all purchases are made in accordance with County policy.

View of Responsible Official: Acknowledge

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

Finding Number 2017-003

Insufficient Collateral

Criteria: Government entities are required by Minn. Stat. § 118A.03, subd. 3, to obtain collateral to secure deposits to the extent funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount on deposit, unless the collateral is an irrevocable letter of credit issued by Federal Home Loan Banks, which requires an amount at least equal to the amount on deposit.

Condition: At December 31, 2017, Martin County had deposits at Profinium Bank that were not adequately covered by collateral.

Context: Deposits in excess of collateral were \$153,703 on December 31, 2017.

Effect: In the event of bank default, Martin County may not have been able to recover the portion of funds for which there was no collateral.

Cause: Martin County was not monitoring deposits to verify they are properly collateralized.

Recommendation: We recommend Martin County establish procedures to monitor all deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

View of Responsible Official: Acknowledge

Finding Number 2017-004

Contract Compliance

Criteria: Minnesota Statute § 471.345 defines a contract to include an agreement for the repair or maintenance of real or personal property and requires all contracts over \$100,000 be let on sealed bids. Minnesota Statute § 375.21, subd. 1, requires all contracts be executed in writing.

Condition: The County had a vendor do repairs and replace parts on an elevator for which it paid \$128,817. The County did not request sealed bids for this work, and a signed contract with the vendor was not obtained.

Context: The County had a service contract with the vendor for general maintenance on the elevator. The vendor recommended the repairs and replacement of parts for general safety and to keep the elevator up to code. The repairs and parts were not covered by the service contract.

Effect: The County was not in compliance with contracting and bidding requirements. Without completing the proper contracting and bidding processes, the County may have not received the best price for the repairs.

Cause: The County did not have procedures in place to ensure contracts over \$100,000 complied with Minnesota statutes.

Recommendation: We recommend the County establish procedures to ensure all contracts comply with applicable statutes.

View of Responsible Official: Acknowledge

III. PREVIOUSLY REPORTED ITEM RESOLVED

2006-001 Noncomplying Investments

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**REPRESENTATION OF MARTIN COUNTY
FAIRMONT, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017**

Finding Number: 2017-001
Finding Title: Audit Adjustment

Name of Contact Persons Responsible for Corrective Action:

James Forshee, Auditor/Treasurer
Jessica Korte, Accountant

Corrective Action Planned:

We will complete a more thorough check of the contracts payable and match them up with the contracts approved at the Board meetings to ensure the appropriate amount is reported on the financial statements.

Anticipated Completion Date:

December 18, 2018

Finding Number: 2017-002
Finding Title: Credit Card - Itemized Receipts

Name of Contact Persons Responsible for Corrective Action:

James Forshee, Auditor/Treasurer
Jody Hemann, Account Tech II

Corrective Action Planned:

An email will be sent out to all employees giving an example of what a detailed receipt is versus a summary receipt, along with notice that the County will no longer be paying or reimbursing individuals for meals that are not turned in with the proper detailed receipt. If individuals charge meals on the card that don't have the proper detailed receipt turned in with the credit card payment, the individual has to pay back the funds if they can't get a detailed receipt, and the County card will no longer be able to be used to purchase meals.

Anticipated Completion Date:
October 30, 2018

Finding Number: 2017-003
Finding Title: Insufficient Collateral

Name of Contact Persons Responsible for Corrective Action:
James Forshee, Auditor/Treasurer
Jessica Korte, Accountant

Corrective Action Planned:
This issue had been resolved since the finding. The County has in place a software that tracks all investments from all brokers. This investment was purchased before this software was put in place in between two different brokers.

Anticipated Completion Date:
January 1, 2018

Finding Number: 2017-004
Finding Title: Contract Compliance

Name of Contact Persons Responsible for Corrective Action:
Scott Higgins, Coordinator

Corrective Action Planned:
Contract guidelines and statutes relating to contracts payable will be reviewed with all departments to ensure that the proper procedures are followed when entering into contracts.

Anticipated Completion Date:
January 9, 2019

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**REPRESENTATION OF MARTIN COUNTY
FAIRMONT, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Finding Number: 2016-001
Finding Title: Noncomplying Investments

Summary of Condition: Martin County held negotiable certificates of deposit (CDs) in excess of Federal Deposit Insurance Corporation (FDIC) coverage for the depository.

Summary of Corrective Action Previously Reported: Martin County received access to a program through a broker that will allow the investments to be tracked from all brokerage firms with which the County has investments. This program also puts restrictions on purchasing any new investments that would put the County at credit risk. Martin County sold the noncompliant investment, and will use the tracking program to make sure no investments are purchased in the future that exceed FDIC coverage.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X