

Waseca County

Report on Federal Awards

December 31, 2021

Waseca County

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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 and Minnesota Legal Compliance**

Independent Auditors' Report

To the County Board of Commissioners of
Waseca County

We have audited, in accordance with the 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 Waseca County, (the County) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 28, 2022. Our report includes a reference to other auditors who audited the financial statements of the Minnesota Prairie County Alliance and the South Country Health Alliance, in which Waseca County has equity interests, as described in our report on the County's financial statements. The financial statements of South Country Health Alliance were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with South Country Health Alliance or that are reported on separately by those auditors who audited the financial statements of the Minnesota Prairie County Alliance.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) as a basis for designing 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control 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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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. Section 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our audit considered all the listed categories, except that we did not test the provisions for tax increment financing because the County does not have any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Waseca 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.

The County's Response to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the County's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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



Minneapolis, Minnesota
September 28, 2022

**Report on Compliance
for the Major Federal Program;
Report on Internal Control Over Compliance; and
Report on the Schedule of Expenditures of
Federal Awards Required by the Uniform Guidance**

Independent Auditors' Report

To the County Board of Commissioners of
Waseca County

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Waseca County's (the County) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2021. The County's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the County's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal controls over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the County's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the County's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 a 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 attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

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 the County as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated September 28, 2022, 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 the basic financial statements. Our report includes a reference to other auditors who audited the financial statements of the Minnesota Prairie County Alliance and the South Country Health Alliance, in which Waseca County has equity interests, as described in our report on the County's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Baker Tilly US, LLP

Minneapolis, Minnesota
September 28, 2022

Waseca County

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Grantor Agency / Program Title	Assistance Listing Number (ALN)	Pass Through Agency	Pass-Through Agency Identifying Number	Federal Expenditures
U.S. Department of Agriculture				
WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	MN Dept. of Health	Unknown	\$ 120,788
WIC Grants to States (WGS)	10.578	MN Dept. of Health	Unknown	<u>15,314</u>
Total U.S. Department of Agriculture				<u>136,102</u>
U.S. Department of Justice				
Drug Court Discretionary Grant Program	16.585	N/A	N/A	<u>23,425</u>
U.S. Department of Transportation				
Highway Planning and Construction Cluster				
COVID-19 Highway Planning and Construction	20.205	MN Dept. of Transportation	Unknown	14,500
Highway Planning and Construction	20.205	MN Dept. of Transportation	Unknown	<u>118,663</u>
Total ALN 20.205 / Highway Planning and Construction Cluster				<u>133,163</u>
Total U.S. Department of Transportation				<u>133,163</u>
U.S. Department of Treasury				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	N/A	<u>447,836</u>
U.S. Department of Education				
Special Education - Grants for Infants and Families	84.181	MN Dept. of Health	Unknown	<u>2,100</u>
U.S. Department of Health and Human Services				
Public Health Emergency Preparedness	93.069	MN Dept. of Health	Unknown	42,854
COVID-19 Immunization Cooperative Agreements	93.268	MN Dept. of Health	Unknown	62,782
COVID-19 Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	MN Dept. of Health	Unknown	57,032
Temporary Assistance for Needy Families	93.558	MN Dept. of Health	Unknown	20,210
Maternal and Child Health Services Block Grant to the States	93.994	MN Dept. of Health	Unknown	<u>25,069</u>
Total U.S. Department of Health and Human Services				<u>207,947</u>
U.S. Department of Homeland Security				
Emergency Management Performance Grants	97.042	MN Dept. of Public Safety	F-EMPG-2020-WASECACO-3430	<u>19,289</u>
Total federal programs				<u>\$ 969,862</u>

See notes to schedule of expenditures of federal awards

Waseca County

Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Waseca County under programs of the federal government for the year ended December 31, 2021. 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 Waseca County, it is not intended to and does not present the financial position, changes in net position or cash flows of Waseca County.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

The underlying accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred.

3. Indirect Cost Rate

Waseca County has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Waseca County

Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 X yes

 no

Significant deficiency(ies) identified?

 yes

 X none reported

Noncompliance material to financial statements noted?

 yes

 X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 yes

 X no

Significant deficiency(ies) identified?

 yes

 X none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?

 yes

 X no

Auditee qualified as low-risk auditee?

 yes

 X no

Dollar threshold used to distinguish between Type A and Type B programs:

 \$750,000

Identification of major federal programs:

Assistance Listing Number

Name of Federal Program or Cluster

21.027

COVID-19 Coronavirus State and Local Fiscal Recovery Funds

Waseca County

Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section II - Financial Statement Findings Required to be Reported in Accordance With Government Auditing Standards

Finding 2021-001: Internal Control Over Financial Reporting

Repeat of Prior Year Finding 2020-001

Criteria: According to Statement on Auditing Standards (SAS) AU-C Section 315, County staff should present the auditor with a set of complete financial statements (including the schedule of expenditures of federal awards) in such a condition that the auditor is not able to identify any material changes as a result of the audit. The County should also present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of the audit procedures.

Condition: The County relies on its external auditors to draft the financial statements (including the schedule of expenditures of federal awards) and there were material journal entries made to the County's records.

Cause: Due to its size, the County has chosen to have the auditors prepare its annual financial statements.

Effect: Because of the lack of controls over year-end financial reporting, your financial statements may not contain all of the required disclosures and account balances. In addition, material errors could go undetected.

Recommendation: The County's management should consider whether it is cost effective to hire additional staff and/or arrange for significant additional training so that the County can draft its own materially correct financial statements.

Views of Responsible Officials: The County has improved in this area and will continue to develop a training plan and timeline for having County staff record material year-end adjustments and will review the financial statements for accuracy.

Finding 2021-002: Internal Control Environment

Repeat of Prior Year Finding 2020-002

Criteria: According to Statement on Auditing Standards (SAS) AU-C Section 315, a system of internal control should be in place to achieve a higher level of reliability that errors or irregularities in your processes would be discovered by your staff and to provide reasonable assurance that individuals have access to only one phase of the accounting process.

Condition: There is a lack of controls over payroll, receipting and monthly and year-end accounting transaction cycles due to a lack segregation of duties in the accounting functions.

Cause: Due to its size, the County does not have an adequate number of employees needed to implement the controls over these transaction cycles.

Effect: Because of the lack of internal controls, it is less likely that errors or irregularities would be discovered internally. Because of the lack of segregation of duties, the accounting records may be misstated.

Recommendation: Most of the key controls lacking for these transaction cycles are not possible to cure without adding a significant number of staff. The County board should continue to rely on their direct knowledge of the County's operations and day-to-day contact with employees to control and safeguard assets. The County board should also continue to make a reasonable effort to be knowledgeable about the County's key transaction cycles.

Views of Responsible Officials: The County is aware of the lack of controls over the payroll, receipting and monthly and year-end accounting functions. In an organization the size of Waseca County, it is difficult to maintain the ideal segregation of duties. We will continue to develop additional internal controls and procedures to properly safeguard the County's assets.

Waseca County

Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section III - Federal Findings and Questioned Costs

None noted.

Section IV - Minnesota Legal Compliance Findings

None noted.