STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

FOR THE YEARS ENDED
DECEMBER 31, 2006, 2007, AND 2008

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 160 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 730 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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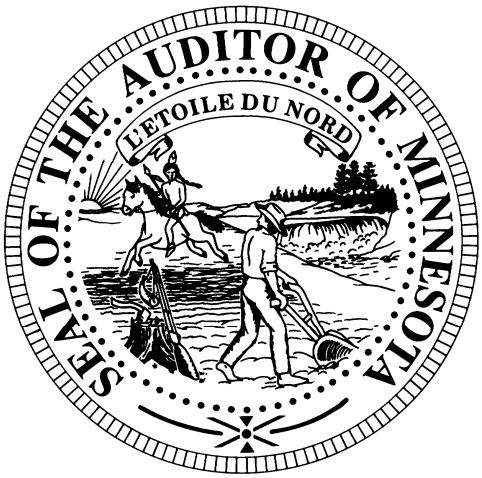
LINCOLN, LYON, MURRAY AND PIPESTONE PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

For the Years Ended
December 31, 2006, 2007, and 2008



Audit Practice Division
Office of the State Auditor
State of Minnesota

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

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Introductory Section

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

ORGANIZATION
2008

Board	County	Appointment Expires
Chair		
Marvin Tinklenberg	Pipestone	December 2009
Vice Chair		
Curt Blumeyer	Lincoln	December 2011
Secretary		
Judy Zwart	Pipestone	December 2010
Members		
David Koster	Lincoln	December 2010
Scott Riddlemoser	Lyon	December 2010
Steve Ritter	Lyon	December 2009
Rodney Stensrud	Lyon	December 2010
Jeane Anderson	Murray	December 2009
Robert Moline	Murray	December 2011
Lincoln, Lyon, Murray and Pipestone Public Health Services		
Administrator (Interim)		
Cris Gilb		August 2008 - Indefinite
Director of Nursing		
Cris Gilb		May 2008 - Indefinite
Fiscal/Personnel Officer		
Carol Beck		Indefinite

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Financial Section

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Health
Lincoln, Lyon, Murray and Pipestone Public Health Services

We have audited the accompanying basic financial statements of Lincoln, Lyon, Murray and Pipestone Public Health Services as of and for the years ended December 31, 2006, 2007, and 2008, as listed in the table of contents. These financial statements are the responsibility of the Health Services' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Lincoln, Lyon, Murray and Pipestone Public Health Services as of December 31, 2006, 2007, and 2008, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Lincoln, Lyon, Murray and Pipestone Public Health Services as of and for the years ended December 31, 2006, 2007, and 2008. The supporting schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Health Services. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2009, on our consideration of Lincoln, Lyon, Murray and Pipestone Public Health Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 14, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006, 2007, AND 2008
(Unaudited)

The Lincoln, Lyon, Murray and Pipestone Public Health Services' Management's Discussion and Analysis (MD&A) provides an overview of the Health Services' financial activities for the fiscal years ended December 31, 2006, 2007, and 2008. Since this information is designed to focus on the current years' activities, resulting changes, and currently known facts, it should be read in conjunction with the Health Services' financial statements.

The Health Services is a joint powers enterprise operation of Lincoln, Lyon, Murray and Pipestone Counties created to provide community health care for the residents of the four-county area. Each of the four counties contributes tax levy dollars to fund public health programs. Since 2005, the only increase in a tax levy has been Lyon County in 2006 from $155,133 to $220,000. Lincoln County remained at $36,666; Murray County at $52,584; and Pipestone County at $55,833. Each of the counties also pays that county's portion of the annual Local Public Health Association's dues.

FINANCIAL HIGHLIGHTS

2006
- managed care and Minnesota Senior Health Options (MSHO) began creating new revenue source;
- participated in School Based Flu Immunization Project for Lyon County; and
- purchased CHAMP computer system upgrade and staff training.

2007
- union contract negotiated for 2007, 2008, and 2009;
- new administration salary structure approved with market slotting guideline;
- increased nursing hours in schools due to student complex health needs;
- Prime West reimbursement for nurse prenatal home contact visits; and
- Pan Flu grant ended.

2008 - initiated payroll cafeteria plan with flex spending accounts;

- several vacant nurse positions filled;

- management changes in positions of Director of Nursing and Administrator;

- Prime West began its own in-house payment system;

- school contracts terminated due to staffing needs in MSHO and other grant programs; and

- participated in incentive program with Blue Plus and UCARE to do blood lead screenings.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The Health Services' basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The financial statements present the Health Services' financial activities and consist of the following:

- The statement of net assets compares the assets and liabilities to give an overall view of the financial health of the Health Services.

- The statement of revenues, expenses, and changes in net assets provides information on an aggregate view of the Health Services' finances. All of the current year's revenues and expenses are taken into account regardless of when the cash was received or paid.

- The statement of cash flows provides sources and uses of cash for the Health Services.

FINANCIAL ANALYSIS

Net Assets

	2005	2006	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	$ 1,112,457	$ 1,278,673	$ 166,216	14.9
Capital assets	25,567	22,346	(3,221)	(12.6)
Total Assets	$ 1,138,024	$ 1,301,019	$ 162,995	14.3
Liabilities				
Current liabilities	$ 133,672	$ 126,617	$ (7,055)	(5.3)
Noncurrent liabilities	98,580	108,044	9,464	9.6
Total Liabilities	$ 232,252	$ 234,661	$ 2,409	1.0
Net Assets				
Invested in capital assets	$ 25,567	$ 22,346	$ (3,221)	(12.6)
Unrestricted	880,205	1,044,012	163,807	18.6
Total Net Assets	$ 905,772	$ 1,066,358	$ 160,586	17.7

Emergency Preparedness and Pan Flu grant money was spent to purchase equipment and computers.

Net Assets

	2006	2007	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	$ 1,278,673	$ 1,285,579	$ 6,906	0.5
Capital assets	22,346	15,508	(6,838)	(30.6)
Total Assets	$ 1,301,019	$ 1,301,087	$ 68	-
Liabilities				
Current liabilities	$ 126,617	$ 195,756	$ 69,139	54.6
Noncurrent liabilities	108,044	107,480	(564)	(0.5)
Total Liabilities	$ 234,661	$ 303,236	$ 68,575	29.2
Net Assets				
Invested in capital assets	$ 22,346	$ 15,508	$ (6,838)	(30.6)
Unrestricted	1,044,012	982,343	(61,669)	(5.9)
Total Net Assets	$ 1,066,358	$ 997,851	$ (68,507)	(6.4)

There were significant salary structure changes after union contract settlement and new administrative market slotting salary guidelines.

Net Assets

	2007	2008	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	$ 1,285,579	$ 1,253,793	$ (31,786)	(2.5)
Capital assets	15,508	35,781	20,273	130.7
Total Assets	$ 1,301,087	$ 1,289,574	$ (11,513)	(0.9)
Liabilities				
Current liabilities	$ 195,756	$ 159,225	$ (36,531)	(18.7)
Noncurrent liabilities	107,480	111,603	4,123	3.8
Total Liabilities	$ 303,236	$ 270,828	$ (32,408)	(10.7)
Net Assets				
Invested in capital assets	$ 15,508	$ 35,781	$ 20,273	130.7
Unrestricted	982,343	982,965	622	0.1
Total Net Assets	$ 997,851	$ 1,018,746	$ 20,895	2.1

After a thorough review and inventory of all staff computers and printers, a decision was made to update all computer equipment to the same operating system. Grant money was used where applicable.

Changes in Net Assets

	2005	2006	Increase (Decrease)	Percent Change (%)
Operating revenues				
Charges for services	$ 366,454	$ 456,924	$ 90,470	24.7
Miscellaneous	24,251	38,336	14,085	58.1
Total Operating Revenues	$ 390,705	$ 495,260	$ 104,555	26.8
Nonoperating revenues				
Intergovernmental	935,027	1,095,056	160,029	17.1
Interest income	27,068	43,510	16,442	60.7
Total Revenues	$ 1,352,800	$ 1,633,826	$ 281,026	20.8
Operating expenses				
Professional services	$ 902,556	$ 991,564	$ 89,008	9.9
Administration	345,285	467,910	122,625	35.5
Depreciation	12,485	13,766	1,281	10.3
Total Expenses	$ 1,260,326	$ 1,473,240	$ 212,914	16.9
Change in Net Assets	$ 92,474	$ 160,586	$ 68,112	73.7

Managed care and MSHO brought increased revenue from Prime West, UCARE, and Blue Plus. Certificates of deposit investments earned interest rates at or above five percent.

Changes in Net Assets

	2006	2007	Increase (Decrease)	Percent Change (%)
Operating revenues				
Charges for services	$ 456,924	$ 447,207	$ (9,717)	(2.1)
Miscellaneous	38,336	32,322	(6,014)	(15.7)
Total Operating Revenues	$ 495,260	$ 479,529	$ (15,731)	(3.2)
Nonoperating revenues				
Intergovernmental	1,095,056	1,083,334	(11,722)	(1.1)
Interest income	43,510	53,024	9,514	21.9
Total Revenues	$ 1,633,826	$ 1,615,887	$ (17,939)	(1.1)
Operating expenses				
Professional services	$ 991,564	$ 1,174,500	$ 182,936	18.5
Administration	467,910	497,408	29,498	6.3
Depreciation	13,766	12,486	(1,280)	(9.3)
Total Expenses	$ 1,473,240	$ 1,684,394	$ 211,154	14.3
Change in Net Assets	$ 160,586	$ (68,507)	$ (229,093)	(142.7)

Certificate of deposit investments continued with favorable interest rates. Pan Flu Grant ended. Union contract settled with retroactive pay.

Changes in Net Assets

	2007	2008	Increase (Decrease)	Percent Change (%)
Operating revenues				
Charges for services	$ 447,207	$ 463,302	$ 16,095	3.6
Miscellaneous	32,322	18,574	(13,748)	(42.5)
Total Operating Revenues	$ 479,529	$ 481,876	$ 2,347	0.5
Nonoperating revenues				
Intergovernmental	1,083,334	1,178,558	95,224	8.8
Interest income	53,024	36,821	(16,203)	(30.6)
Total Revenues	$ 1,615,887	$ 1,697,255	$ 81,368	5.0
Operating expenses				
Professional services	$ 1,174,500	$ 1,155,291	$ (19,209)	(1.6)
Administration	497,408	508,131	10,723	2.1
Depreciation	12,486	12,938	452	3.6
Total Expenses	$ 1,684,394	$ 1,676,360	$ (8,034)	0.5
Change in Net Assets	$ (68,507)	$ 20,895	$ 89,402	130.5

School contracts were terminated. Certificate of deposit investments received lower interest rates closer to three percent. Several changes in staffing with hire of several additional nurses and changes in management positions of Director of Nursing and Administrator. Cafeteria payroll plan with flex spending accounts began.

CAPITAL ASSETS

Capital Assets
(Net of Depreciation)

	2005	2006	Increase (Decrease)	Percent Change (%)
Machinery, furniture, and equipment	$ 25,567	$ 22,346	$ (3,221)	(12.6)

Emergency Preparedness and Pan Flu Grant money was used to purchase specialized equipment to be used in a disaster event. Included were Air Mate paper assembly suits and notebook computers with docking stations. Updated computer purchases replaced older equipment at lower cost than previous purchase prices.

	2006	2007	Increase (Decrease)	Percent Change (%)
Machinery, furniture, and equipment	$ 22,346	$ 15,508	$ (6,838)	(30.6)

Environmental revenue was used to purchase a new fluoride electrode, computer, and color laser jet printer.

	2007	2008	Increase (Decrease)	Percent Change (%)
Machinery, furniture, and equipment	$ 15,508	$ 35,781	$ 20,273	130.7

Additions in Information Technology equipment purchased in 2008 have driven up capital assets. Most all computing equipment was turned over during 2008.

FUTURE EVENTS

The Lincoln, Lyon, Murray and Pipestone Public Health Services anticipates a very adverse financial environment over the course of the next several years. Trends toward increased needs from our consumers during a time of economic recession in addition to reduced tax receipts for the State of Minnesota for the next several years will provide a difficult environment for local government agencies like LLMP Public Health Services. Focusing on prevention, emergency preparedness, and basic services in order to achieve continuity for our consumers will be key in the next few years. We are committed to providing a strong infrastructure for services, even in this difficult economic time.

In addition to the financial challenges of the next several years, we have the likelihood that local government entities are going to continue to collaborate and merge processes in order to maximize resources and maintain services delivery systems for our citizens. The Health Services will be challenged to keep a focus on emergency preparedness and will likely need to respond to more public health emergencies and/or challenges in the near future. As resources continue to be marginalized, systems we work with become less able to recover from issues and circumstances once self-corrected without need for intervention.

Because of the additional needs in our service area, it is likely LLMP Public Health Services will continue to expand our network of partners and coordinate services with new providers in the coming months and years.

CONTACTING THE HEALTH SERVICES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Health Services' finances and to show the Health Services' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the office of Lincoln, Lyon, Murray and Pipestone Public Health Services at 607 West Main Street, Marshall, Minnesota 56258.

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BASIC FINANCIAL STATEMENTS

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

EXHIBIT 1

STATEMENTS OF NET ASSETS
DECEMBER 31, 2006, 2007, AND 2008

	2006	2007	2008
Assets			
Current assets			
Cash and cash equivalents	$ 1,165,826	$ 1,122,028	$ 1,137,159
Petty cash and change funds	100	100	100
Accounts receivable	75,111	65,955	62,191
Due from other governments	31,711	91,571	49,564
Accrued interest receivable	5,925	5,925	4,779
Total current assets	**$ 1,278,673**	**$ 1,285,579**	**$ 1,253,793**
Noncurrent assets			
Depreciable capital assets - net	22,346	15,508	35,781
Total Assets	**$ 1,301,019**	**$ 1,301,087**	**$ 1,289,574**
Liabilities			
Current liabilities			
Accounts payable	$ 20,304	$ 22,951	$ 20,455
Salaries payable	57,555	91,942	94,207
Due to other governments	1,792	1,991	4,357
Deferred revenue	44,298	74,394	34,604
Total current liabilities	**$ 123,949**	**$ 191,278**	**$ 153,623**
Noncurrent liabilities			
Compensated absences payable - due within one year	$ 2,668	$ 4,478	$ 5,602
Compensated absences payable - long-term	108,044	107,480	111,603
Total noncurrent liabilities	**$ 110,712**	**$ 111,958**	**$ 117,205**
Total Liabilities	**$ 234,661**	**$ 303,236**	**$ 270,828**
Net Assets			
Invested in capital assets	$ 22,346	$ 15,508	$ 35,781
Unrestricted	1,044,012	982,343	982,965
Total Net Assets	**$ 1,066,358**	**$ 997,851**	**$ 1,018,746**

The notes to the financial statements are an integral part of this statement.

LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

EXHIBIT 2

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007, AND 2008

	2006	2007	2008
Operating Revenues			
Charges for services	$ 456,924	$ 447,207	$ 463,302
Miscellaneous	38,336	32,322	18,574
Total Operating Revenues	**$ 495,260**	**$ 479,529**	**$ 481,876**
Operating Expenses			
Professional services	$ 991,564	$ 1,174,500	$ 1,155,291
Administrative	467,910	497,408	508,131
Depreciation	13,766	12,486	12,938
Total Operating Expenses	**$ 1,473,240**	**$ 1,684,394**	**$ 1,676,360**
Operating Income (Loss)	**$ (977,980)**	**$ (1,204,865)**	**$ (1,194,484)**
Nonoperating Revenues (Expenses)			
Intergovernmental	$ 1,095,056	$ 1,083,334	$ 1,178,558
Interest income	43,510	53,024	36,821
Total Nonoperating Revenues (Expenses)	**$ 1,138,566**	**$ 1,136,358**	**$ 1,215,379**
Increase (Decrease) in Net Assets	**$ 160,586**	**$ (68,507)**	**$ 20,895**
Net Assets - January 1	**905,772**	**1,066,358**	**997,851**
Net Assets - December 31	**$ 1,066,358**	**$ 997,851**	**$ 1,018,746**

The notes to the financial statements are an integral part of this statement.

LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

EXHIBIT 3

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007, AND 2008
Increase (Decrease) in Cash and Cash Equivalents

	2006	2007	2008
Cash Flows from Operating Activities			
Receipts from customers and users	$ 467,301	$ 488,741	$ 479,584
Payments to suppliers	(462,968)	(492,507)	(508,659)
Payments to employees	(962,747)	(1,140,978)	(1,147,345)
Net cash provided by (used in) operating activities	**$ (958,414)**	**$ (1,144,744)**	**$ (1,176,420)**
Cash Flows from Noncapital Financing Activities			
Intergovernmental receipts	**$** 717,218	**$** 681,052	**$** 819,234
County appropriations	370,039	372,518	367,561
Net cash provided by (used in) noncapital financing activities	**$ 1,087,257**	**$ 1,053,570**	**$ 1,186,795**
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	**$ (10,545)**	**$ (5,648)**	**$ (33,211)**
Cash Flows from Investing Activities			
Investment income	**$ 40,688**	**$ 53,024**	**$ 37,967**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 158,986**	**$ (43,798)**	**$ 15,131**
Cash and Cash Equivalents at January 1	**1,006,840**	**1,165,826**	**1,122,028**
Cash and Cash Equivalents at December 31	**$ 1,165,826**	**$ 1,122,028**	**$ 1,137,159**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	**$ (977,980)**	**$ (1,204,865)**	**$ (1,194,484)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	$ 13,766	$ 12,486	$ 12,938
(Increase) decrease in accounts receivable	(30,056)	9,156	(2,256)
(Increase) decrease in due from other governments	(381)	-	-
(Increase) decrease in prepaid items	15,434	-	-
Increase (decrease) in accounts payable	5,202	2,647	(2,496)
Increase (decrease) in salaries payable	4,108	34,387	2,265
Increase (decrease) in compensated absences payable	10,945	1,246	5,247
Increase (decrease) in due to other governments	548	199	2,366
Total adjustments	**$ 19,566**	**$ 60,121**	**$ 18,064**
Net Cash Provided by (Used in) Operating Activities	**$ (958,414)**	**$ (1,144,744)**	**$ (1,176,420)**

Noncash capital and related financing:
Lincoln, Lyon, Murray and Pipestone Public Health Services disposed of $5,110 of fully depreciated assets in 2006, $3,140 of fully depreciated assets in 2007, and $32,979 of fully depreciated assets in 2008.

The notes to the financial statements are an integral part of this statement.

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006, 2007, AND 2008

1. Summary of Significant Accounting Policies

The Lincoln, Lyon, Murray and Pipestone Public Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the years ended December 31, 2006, 2007, and 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Board of Health has the option to apply FASB pronouncements issued after that date, the Board has chosen not to do so. The more significant accounting policies established in GAAP and used by the Board are discussed below.

A. Financial Reporting Entity

Lincoln, Lyon, Murray and Pipestone Public Health Services was established August 1, 1978, with Murray County joining August 1, 1979; it is an organized agency having the powers, duties, and privileges granted by Minn. Stat. § 145A.09, et seq., and the Joint Powers Law, Minn. Stat. § 471.59. The Health Services is composed of a nine-member board: two County Commissioners representing the largest county, one County Commissioner from each of the other participating counties, and four lay members.

The primary activities of the Health Services are to protect and promote the health of the general population within the counties by emphasizing the prevention of disease, injury, disability, and preventable death through the promotion of effective coordination and use of community resources, and by extending health services into the community.

B. Basis of Presentation

The Health Services is organized and presented as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private enterprises, where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The Health Services' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. Budgetary Data

The Health Services adopts an annual budget prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. This budget is approved by the Health Services Board.

E. Assets, Liabilities, and Net Assets

1. Assets

Investments

The Health Services' investments are stated at fair value.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include all cash and deposits, except petty cash and change funds.

Accounts Receivable

Accounts receivable are not reduced by an allowance for uncollectible accounts.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Expenses are recorded during the benefiting period.

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets

1. Assets (Continued)

Capital Assets

Capital assets consist of furniture and fixtures with an initial cost of $300 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Depreciation on the assets is calculated on a straight-line basis over five years.

2. Liabilities

Compensated Absences

The Health Services' personnel policy provides that its employees earn a certain amount of vacation and sick leave each year dependent upon years of service. Employees may accumulate vacation leave to a maximum of 224 hours. Sick leave for non-union employees may be accumulated to a maximum of 800 hours; however, severance benefits shall be based on a maximum of 500 hours. Sick leave for union employees may be accumulated to a maximum of 500 hours with an exception for hours accumulated as of May 22, 1995. The personnel policy also provides that employees may earn compensatory time. Compensatory time in excess of 20 hours at month-end must be reduced to 20 hours or less by the last day of the following month.

Compensatory time exceeding 20 hours that is carried over but not taken during the following month will be paid to the employee at his or her normal rate of pay.

Deferred Revenue

Deferred revenue consists of federal, state, and local grants received by the Health Services but not yet earned.

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets (Continued)

3. Net Assets

Invested in capital assets represents the accumulated value of the capital assets of the Health Services.

Unrestricted net assets represent the accumulated earnings of the Health Services.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Revenues and Expenses

1. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange and exchange-like transactions are recognized as revenue when the exchange occurs.

Operating revenues consist primarily of charges for services and are recorded as revenue when the service is provided.

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the Health Services perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

1. Summary of Significant Accounting Policies

F. Revenues and Expenses

1. Revenues (Continued)

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Investment income is recognized as revenue when earned.

2. Expenses

Expenses, including compensated absences, are recognized when they are incurred.

2. Stewardship, Compliance, and Accountability

Budget

Below is a summary of the budgeted and actual amounts for the years ended December 31, 2006, 2007, and 2008:

	2006		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	$ 395,075	$ 495,260	$ 100,185
Operating Expenses	1,479,856	1,473,240	6,616
Operating Income (Loss)	$ (1,084,781)	$ (977,980)	$ 106,801
Nonoperating Revenues	1,084,781	1,138,566	53,785
Net Income (Loss)	$ -	$ 160,586	$ 160,586

2. Stewardship, Compliance, and Accountability

Budget (Continued)

	2007		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	$ 431,750	$ 479,529	$ 47,779
Operating Expenses	1,550,097	1,684,394	(134,297)
Operating Income (Loss)	$ (1,118,347)	$ (1,204,865)	$ (86,518)
Nonoperating Revenues	1,117,747	1,136,358	18,611
Net Income (Loss)	$ (600)	$ (68,507)	$ (67,907)

	2008		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	$ 354,893	$ 481,876	$ 126,983
Operating Expenses	1,627,891	1,676,360	(48,469)
Operating Income (Loss)	$ (1,272,998)	$ (1,194,484)	$ 78,514
Nonoperating Revenues	1,272,998	1,215,379	(57,619)
Net Income (Loss)	$ -	$ 20,895	$ 20,895

3. Detailed Notes

A. Assets

1. Deposits and Investments

Reconciliation of the Health Services' total cash as reported in the basic financial statements to deposits, cash on hand, and investments follows:

	2006	2007	2008
Petty cash and change funds	$ 100	$ 100	$ 100
Checking	465,826	322,028	337,159
Certificates of deposit	700,000	800,000	800,000
Total Deposits and Investments	$ 1,165,926	$ 1,122,128	$ 1,137,259

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Health Services to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires all Health Services' deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

3. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Health Services' deposits may not be returned to it. The Health Services does not have a deposit policy for custodial credit risk. As of December 31, 2006, 2007, and 2008, the Health Services' deposits were not exposed to custodial credit risk.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the Health Services:

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less, and;

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the years ended December 31, 2006, 2007, and 2008, the Health Services had no investments. The Health Services does not have additional policies for investment risks, described below, beyond complying with the requirements of Minnesota statutes.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Health Services' investment in a single issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

3. Detailed Notes

A. Assets (Continued)

2. Due From Other Governments

	2006	2007	2008
Local grants	$ 2,478	$ -	$ 2,479
Federal grants	29,233	91,571	47,085
Total Due From Other Governments	$ 31,711	$ 91,571	$ 49,564

The Health Services did not have any amounts due from other governments scheduled to be collected beyond one year.

3. Capital Assets

Capital asset activity for the years ended December 31, 2006, 2007, and 2008, was as follows:

	Beginning Balance January 1, 2006	Increase	Decrease	Ending Balance December 31, 2006
Capital assets depreciated				
Machinery, furniture, and equipment	$ 146,636	$ 10,545	$ 5,110	$ 152,071
Less: accumulated depreciation for				
Machinery, furniture, and equipment	121,069	13,766	5,110	129,725
Total Capital Assets Depreciated, Net	$ 25,567	$ (3,221)	$ -	$ 22,346

	Beginning Balance January 1, 2007	Increase	Decrease	Ending Balance December 31, 2007
Capital assets depreciated				
Machinery, furniture, and equipment	$ 152,071	$ 5,648	$ 3,140	$ 154,579
Less: accumulated depreciation for				
Machinery, furniture, and equipment	129,725	12,486	3,140	139,071
Total Capital Assets Depreciated, Net	$ 22,346	$ (6,838)	$ -	$ 15,508

3. Detailed Notes

A. Assets

3. Capital Assets (Continued)

	Beginning Balance January 1, 2008	Increase	Decrease	Ending Balance December 31, 2008
Capital assets depreciated				
Machinery, furniture, and equipment	$ 154,579	$ 33,211	$ 32,979	$ 154,811
Less: accumulated depreciation for				
Machinery, furniture, and equipment	139,071	12,938	32,979	119,030
Total Capital Assets Depreciated, Net	$ 15,508	$ 20,273	$ -	$ 35,781

B. Liabilities

Deferred Revenue

Deferred revenue consists of federal, state, or local grants received but not yet earned. Deferred revenue at December 31, 2006, 2007, and 2008, was:

	2006	2007	2008
Grants for			
Emergency Preparedness	$ 22,027	$ 58,917	$ 21,135
Maternal and Child Health	22,271	15,477	13,469
Total Deferred Revenue	$ 44,298	$ 74,394	$ 34,604

3. Detailed Notes

B. Liabilities (Continued)

Long-Term Liabilities

Following is a summary of changes in long-term liabilities for the years ended December 31, 2006, 2007, and 2008.

	Beginning Balance January 1, 2006	Additions	Reductions	Ending Balance December 31, 2006	Due Within One Year
Compensated absences	$ 99,767	$ 10,945	$ -	$ 110,712	$ 2,668

	Beginning Balance January 1, 2007	Additions	Reductions	Ending Balance December 31, 2007	Due Within One Year
Compensated absences	$ 110,712	$ 1,246	$ -	$ 111,958	$ 4,478

	Beginning Balance January 1, 2008	Additions	Reductions	Ending Balance December 31, 2008	Due Within One Year
Compensated absences	$ 111,958	$ 5,247	$ -	$ 117,205	$ 5,602

4. Pension Plans - Defined Benefit

A. Plan Description

All full-time and certain part-time employees of Lincoln, Lyon, Murray and Pipestone Public Health Services are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

4. Pension Plans - Defined Benefit

A. Plan Description (Continued)

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced social security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

4. Pension Plans - Defined Benefit (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The Health Services makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased to 5.75 percent in 2007 and 6.00 percent in 2008.

The Health Services is required to contribute the following percentages of annual covered payroll in 2006 through 2009:

	2006	2007	2008	2009
Public Employees Retirement Fund				
Basic Plan members	11.78%	11.78%	11.78%	11.78%
Coordinated Plan members	6.00	6.25	6.50	6.75

The Health Services' contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund were:

	2008	2007	2006
Public Employees Retirement Fund	$ 64,234	$ 61,410	$ 47,235

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The Health Services is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Health Services carries commercial insurance. The Health Services has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The Health Services is a member of both

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, the Health Services carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $390,000, $400,000, $410,000, and $430,000 per claim in 2006, 2007, 2008, and 2009, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health Services in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the Health Services pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the Health Services in a method and amount to be determined by MCIT.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the Health Services expects such amounts, if any, to be immaterial.

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SUPPORTING SCHEDULE

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

Schedule 1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007, AND 2008

	2006	2007	2008
Payments			
Local			
County appropriations	**$ 370,039**	**$ 370,040**	**$ 370,040**
Grants			
State			
Minnesota Department of Health	$ 250,124	$ 250,124	$ 247,876
Miscellaneous boards	1,963	1,703	1,707
Total State	**$ 252,087**	**$ 251,827**	**$ 249,583**
Federal			
Department of			
Agriculture	$ 211,045	$ 234,368	$ 246,416
Education	1,945	78	-
Health and Human Services	252,576	221,647	311,544
Environmental Protection Agency	7,364	5,374	975
Total Federal	**$ 472,930**	**$ 461,467**	**$ 558,935**
Total State and Federal Grants	**$ 725,017**	**$ 713,294**	**$ 808,518**
Total Intergovernmental Revenue	**$ 1,095,056**	**$ 1,083,334**	**$ 1,178,558**

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Management and Compliance Section

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

Schedule 2

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses an unqualified opinion on the basic financial statements of Lincoln, Lyon, Murray and Pipestone Public Health Services.

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Lincoln, Lyon, Murray and Pipestone Public Health Services and are reported in the "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.*" One of the significant deficiencies is a material weakness.

C. No instances of noncompliance material to the financial statements of Lincoln, Lyon, Murray and Pipestone Public Health Services were disclosed during the audit.

D. A significant deficiency relating to the audit of the major federal award programs is 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." The significant deficiency is not a material weakness.

E. The Auditor's Report on Compliance for the major federal award programs for Lincoln, Lyon, Murray and Pipestone Public Health Services 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:

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	CFDA #10.557
Maternal and Child Health Block Grant	CFDA #93.994

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

I. Lincoln, Lyon, Murray and Pipestone Public Health Services was determined not to be a low-risk auditee.

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

08-1 Internal Control/Segregation of Duties

Management and the Board of Lincoln, Lyon, Murray and Pipestone Public Health Services are responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Health Services and its staffing limits the internal control that management and the Board can design and implement into the organization. Management and the Board should be aware that the segregation of duties is not adequate from an internal control point of view.

The Health Services also does not have adequate cross-training in areas such as processing payroll, tracking capital assets, monitoring investments, and maintaining the general ledger. Cross-training allows a second person to perform the job when the employee primarily responsible for the job is on leave or otherwise unavailable. Having a second person perform the job duties from time to time also provides a method of detecting errors and/or irregularities created by the person primarily responsible for those duties. Finally, cross-training provides continuity during periods of employee transitions. Cross-training brings advantages from both a management and an accounting point of view.

Management and the Board are responsible for the accuracy and completeness of all financial records and related information. Also, management and the Board are responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals in the general ledger; initiate, authorize, record, and process journal entries in the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for organizations the size of Lincoln, Lyon, Murray and Pipestone Public Health Services. These decisions were based on the availability of the Health Services' staff and the cost benefit of using our expertise.

During our audit, we proposed adjustments to convert the Health Services' financial records to the financial statements as reported. These adjustments were recorded to correct the classifications of various intergovernmental revenues; to report a receivable and revenue for a federal grant for 2007; and to account for deferred revenue, capital asset purchases and disposals, depreciation expenses, and net assets for invested in capital assets.

We recommend the Health Services be mindful that limited staffing causes inherent risks in safeguarding the Health Services' assets and the proper reporting of its financial activity. We recommend the Health Services continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls. We also recommend the Health Services' management cross-train employees so back-up personnel are available for all necessary functions.

Client's Response:

LLMP Public Health Services will examine all areas specified in the findings. LLMP Public Health Services will provide cross-training to staff on multiple areas of the accounting and financial processes for LLMP including payroll, financial statements, accounting cycles, notes, and other key processes to ensure agency operational competencies. Further, LLMP Public Health Services will address internal control weaknesses and segregation of duties to ensure detection of errors, prevent fraud, and maintain compliance with all accounting measures.

08-2 Accounting Policies and Procedures Manual

Health Services' management is responsible for the Health Services' internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting.

All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the Health Services' internal control system.

Written policies and procedures should exist to set forth requirements to account for such matters as:

- receipt and deposit of funds;
- cash and investment activities;
- investment practices and restrictions;
- collections on accounts, including when to involve a collection agency;
- purchases of goods and services;
- contracting practices;
- authorizing credit cards or establishing charge accounts at local businesses;
- approval and payment of bills;
- accounting for payroll activities;
- accounting for capital assets [capitalization process (including disposal of assets), related depreciation, and the redetermination of useful lives];
- physical counts of capital assets and inventory items;
- creating, approving, and amending budgets;
- upgrades to software;
- access to applications and the network;
- creating, changing, and updating passwords;
- data back-ups; and
- annual financial reporting practices.

These policies should be designed to help detect and deter fraud and include procedures for monitoring the internal controls. Written policies and procedures should exist to ensure the Health Services' practices are followed as intended by management. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

A formalized manual will also enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, improve compliance with established policies, and provide a standard for management to monitor compliance against. It helps to prevent deterioration of key elements in the Health Services' internal control system and to avoid circumvention of the Health Services' policies.

Management should periodically evaluate its policies and procedures to assess whether internal controls that have been established 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.

We recommend the Health Services establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the Health Services Board to emphasize its importance and authority. We recommend the policies and procedures manual document significant internal controls in the accounting system, including a risk assessment and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

LLMP Public Health Services will establish an accounting and policy and procedure manual that provides documentation of procedures, employees' roles and responsibilities, and provide the purpose of control-related procedures to increase employee understanding and support of controls. Once prepared, the LLMP Board will review and approve.

08-3 Adding New Vendors to the Accounting System

The Health Services does not have any procedures for reviewing new vendors added to the accounts payable system or determining if the new vendors added are legitimate vendors.

Periodically a report called "Vendors Added List by Number" should be printed and reviewed by someone independent of the accounts payable system. That person should document the review by signing off on the report.

Also, when invoices are submitted for vendors that have not previously done business with the Health Services, some procedures should be required to verify whether the vendor is legitimate. Procedures could include looking up the vendor in the phone book or on the internet or requiring the company to send information about its business. Periodically, the vendor listing should be reviewed for old, unused vendors, and those vendors should be removed from the system.

Client's Response:

LLMP Public Health Services will establish an internal control for regular monitoring and verification of vendors added to the LLMP accounting system.

08-4 Controls Over the Accounting System Journal Entry Function

The Health Services limits access to the accounting system journal entry function to one employee. Some journal entries made to the accounting system are not reviewed or approved by anyone.

The ability to make journal entries on the accounting system is a powerful function because it allows those employees to make changes to the system.

We recommend a procedure be established to require review and approval of all journal entries by someone other than the person making the journal entries. The person reviewing should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form or a printed copy of the journal entry could be made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry form to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the accounting system that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report. Review of this report would be to ensure that no journal entries have been made that have not been submitted for review and approval.

Client's Response:

LLMP Public Health Services will establish a procedure to require and review all journal entries by a separate person not doing the journal entry. The process will require a trained individual who understands journal entries to review and verify the entry. The verification will require the reviewing individual to sign and date when the review was completed.

08-5 Capital Assets Policies and Procedures

For financial reporting and asset management purposes, the Health Services is required to keep records of its capital assets. The Health Services maintains its capital assets records on an Excel spreadsheet by year and office/function. Capital asset additions and deletions are periodically entered into the spreadsheet by the Administrative Assistant. The Administrative Assistant stated she had not been informed of assets that were no longer in use over the period of the audit, and no process is in place to verify all new assets have been added to the listing.

We recommend the Health Services Board establish a capital assets policy to define the Health Services' accounting policies over capital assets. The Board should also establish policies and procedures to identify capital asset additions and deletions. Departments and offices should report capital asset additions and deletions to the person maintaining the capital assets records at least annually. A physical inventory of capital assets should be performed periodically. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every four years. Some critical capital assets may need more frequent accounting.

Client's Response:

LLMP Public Health Services Board will establish a capital assets policy.

08-6 Segregation of Duties - Payroll

During our review of the Health Services' payroll function, we noted only one person has access to the payroll system. That individual processes payroll and has the ability to change pay rates and add new employees. No controls exist to verify the correct pay rates were in the payroll system for all employees, that pay rates were updated for authorized reasons, or that any payroll information changes were reviewed by other Health Services' personnel. Without improved internal controls, employees could be receiving incorrect pay or employees could be added or deleted from the system without being noticed.

We recommend that the Health Services' management implement oversight procedures to ensure any changes made to an employee's payroll information are correct, are made for authorized purposes, and are reviewed by someone other than the person making the change.

Client's Response:

LLMP Public Health Services will add additional controls in processing payroll so that there is segregation of duties and that more than one staff person reviews all payroll changes and processing.

08-7 Monitoring Investments and Collateral

Our inquiry of Health Services' personnel found no processes in place to monitor investments or to ensure securities are properly collateralized. Investments and collateral should be monitored so the deposits in designated depositories are fully protected as required by Minn. Stat. § 118A.03 at all times.

We recommend that a formal plan be developed that calls for the monitoring of investments and collateral on a regular basis. The monitoring activity should also be documented to show the results of the review and who performed the work.

Client's Response:

LLMP Public Health Services will establish a formal plan to monitor investments and collateral on a regular basis.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

08-8 Reporting Deficiencies (CFDA #10.557)

We noted a general lack of segregation of duties over the grant reporting process for the Women, Infants, and Children (WIC) program. The Fiscal Officer prepares and submits the monthly reports, which are not reviewed by any other party. The monthly report for

February 2008 did not recognize the receipt of funds for January 2008, resulting in all remaining reports for the fiscal year showing an additional $19,066 receivable from the WIC program when the monies had already been received.

In addition, we noted some reports were not submitted to the Minnesota Department of Health in a timely manner. The May 2008 report was not submitted until July 9, and the June 2008 report was not submitted until July 29. The Minnesota Operations Manual issued by the Minnesota Department of Health states monthly reports should be submitted by the 20th day of the month following the reporting period.

We recommend that management establish procedures to adequately segregate the duties surrounding the WIC reporting process. If this is not feasible due to the limited staff size, we recommend that management be aware of the weakness and, if possible, implement other procedures to minimize the risk in this area. We also recommend monthly reports be reviewed by management and submitted within the period required by the Minnesota Department of Health.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

Fiscal Officer, Carol Beck

Action Planned:

LLMP Public Health Services will establish an internal control process to adequately segregate the reporting process of the WIC-required reports and submissions. Management will also develop a control to ensure the timely submission of reporting and other required documents.

Completion Date:

May 2009.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

05-1 Notice Required to Collect Collateral Upon Default by Bank

The Depository Pledge Agreements with Minnwest Bank and Wells Fargo Bank generally state that, in the event of default by the bank, the agency is required to give written notice of at least three business days so the bank has time to cure the default.

Minn. Stat. § 118A.03, subd. 4, states: "The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged."

We recommend that the Health Services review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

Client's Response:

LLMP Public Health Services will review Minn. Stat. § 118A 03, subd. 4, and ensure that the agency's security agreements are consistent with the referenced statute.

05-2 Depository Pledge Agreement

The Health Services does not have a Depository Pledge Agreement with the State Bank of Taunton.

We recommend that the Health Services execute a security agreement with the State Bank of Taunton that is consistent with the language of Minn. Stat. § 118A.03.

Client's Response:

LLMP Public Health Services will execute a security agreement with the State Bank of Taunton that is compliant with Minn. Stat. § 118A.03.

05-3 No Perfected Interest in Collateral Assignments

The Health Services did not have documentation demonstrating that it had a perfected security interest in pledged collateral with the State Bank of Taunton. In a Federal Court decision, the Court ruled that if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable. Minn. Stat. § 118A.03, subd. 3, requires the Health Services to obtain an assignment of pledged collateral equal to "at least ten percent more than the amount on deposit at the close of the financial institution's banking day," in excess of federal deposit insurance.

The Health Services is not complying with the collateral requirement unless it obtains an enforceable assignment of pledged collateral. To obtain an enforceable assignment under federal law (12 U.S.C. § 1823(e)), the Health Services must obtain a written assignment of collateral, which is approved by the depository bank's Board of Directors or loan committee and is thereafter a continuous official record of the bank.

We recommend that the Health Services obtain the documentation from the State Bank of Taunton indicating it has perfected a security interest in pledged collateral.

Client's Response:

LLMP Public Health Services will obtain the appropriate documentation from the State Bank of Taunton indicating it has perfected a security interest in the pledged collateral.

ITEM ARISING THIS YEAR

08-9 Travel Claims for Mileage

While reviewing travel claims submitted to the Health Services Board, we noted that the claims submitted for mileage are not signed by the employee to meet the requirements of Minn. Stat. § 471.38, subd. 1. The necessary language is included on the claim for invoices to be paid, but the form is not signed by the employees, as the Fiscal Officer transfers mileage claimed from the CHAMP software program to the claim form.

Minn. Stat. § 471.38, subd. 1, provides that where claims can be itemized in the ordinary course of business, the Board shall audit and allow the claim only after it has been reduced to writing and a declaration has been signed "to the effect that such account, claim, or demand is just and correct and that no part of it has been paid."

We recommend that the Health Services follow Minn. Stat. § 471.38 and only allow claims to be paid that have the proper itemization and a signed declaration of just claims.

Client's Response:

LLMP Public Health Services will follow Minn. Stat. § 471.38 to ensure that all claims to be paid have the proper itemization including a signed statement of just claims.

PREVIOUSLY REPORTED ITEM RESOLVED

Broker's Statement (05-4)

The Health Services did not obtain a broker's statement from Primevest Financial Services before transacting business with them as required by Minn. Stat. § 118A.04, subd. 9(c).

Resolution

The Health Services invested with local banks when the investments with the broker matured.

B. MANAGEMENT PRACTICES

ITEMS ARISING THIS YEAR

08-10 Disaster Recovery and Business Continuity Plans

Lincoln, Lyon, Murray and Pipestone Public Health Services does not have disaster recovery and business continuity plans that would direct its response if a disaster or major computer breakdown were to occur. The Health Services would need to continue to provide services to residents after a disaster and during a major computer breakdown. Services that need to be addressed include the

continuance of several important applications processed by its computer system, including the preparation of payroll and the recording of receipts and disbursements.

Disaster recovery and business continuity plans should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;

- a description of the responsibilities of each member of the recovery team and of all other Health Services employees;

- a plan of how the Health Services will continue operations until normal operations are re-established--this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;

- a list of materials the Health Services needs to continue operations and how they would be obtained;

- hardware configurations and minimum equipment requirements;

- information relative to off-site back-up storage facilities;

- a list of vendor contracts;

- identification of what space should be used; and

- a schedule for developing and periodically reviewing and updating the plans.

We recommend the Health Services develop and implement disaster recovery and business continuity plans. The Board should approve the formal plans. A copy should be stored at an off-site facility and with the leader of each recovery team. All Health Services employees should detail the steps to be taken to continue operations in the event of a disaster. We also recommend the Health Services periodically determine if the alternative computer system is compatible with the Health Services' system and test the disaster recovery plan.

Client's Response:

LLMP Public Health Services will establish a disaster recovery and business continuity plan that is passed by the Board of LLMP Public Health Services. LLMP Public Health Services will also ensure staff are aware of procedural requirements for the continuation of services in the event of a disaster.

08-11 Investment Policy

The Health Services does not have an approved investment policy. A written policy should exist to ensure the Health Services' practices are followed as intended by the Board. The documentation should describe permissible investments and address items such as custodial credit risk, interest rate risk, and concentration of credit risk, as required by GASB Statement 40.

We recommend the Health Services adopt an investment policy with provisions that protect, to the greatest extent possible, its investments and address disclosures required by GASB Statement 40.

Client's Response:

The LLMP Public Health Services Board will adopt an investment policy that protects that agency's investments and complies with the requirements of GASB Statement 40.

08-12 Document Retention

The Health Services' copy of the 2007 grant report and supporting documentation for the Maternal and Child Health program was not available during the audit, as an employee took the documents home and did not return the information to the Health Services upon termination. Documents related to the Health Services' business should be retained pursuant to Minnesota law.

Minn. Stat. § 15.17 requires all officers and public entities to "make and preserve all records necessary to a full and accurate knowledge of their official activities." In addition, pursuant to Minn. Stat. §§ 15.17 and 138.17, government records may be destroyed only pursuant to an approved record retention schedule adopted by the governing board or a properly approved Application for the Disposal of Records.

We recommend that the Health Services implement procedures to ensure that the Health Services' grant reports and other documents will be retained in accordance with Minn. Stat. §§ 15.17 and 138.17.

Client's Response:

LLMP Public Health Services will establish procedures to ensure that agency reports and documents will be retained in accordance with Minnesota State Law.

PREVIOUSLY REPORTED ITEM RESOLVED

Grant Accounting (05-5)

Expenditures claimed on grant reports could not be supported and did not match the correct amounts as required by the grant agreement. Carryovers of prior year funds were not reported on subsequent year grant reports, and the Health Services did not provide the correct amount of matching funds.

Resolution

The Health Services worked with the Minnesota Department of Health to correctly report grant expenditures, carryovers, and matching funds.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when

accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

In 2008, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both revocable and irrevocable OPEB trusts;

- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and

- it also permits local governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the Health Services' Board will need to address in order to comply with GASB Statement 45 are:

- determine if employees are provided OPEB;

- if OPEB are being provided, the Health Services' Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;

- if OPEB are being provided, and the Health Services' Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Health Services' Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;

- if an OPEB trust will be established, the Health Services will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and

- in order to determine annual costs and liabilities that need to be recognized, the Health Services' Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to Lincoln, Lyon, Murray and Pipestone Public Health Services for the year ended December 31, 2009.

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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*

Board of Health
Lincoln, Lyon, Murray and Pipestone Public Health Services

We have audited the financial statements of Lincoln, Lyon, Murray and Pipestone Public Health Services as of and for the years ended December 31, 2006, 2007, and 2008, and have issued our report thereon dated August 14, 2009. 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 Lincoln, Lyon, Murray and Pipestone Public Health Services' internal control over financial reporting as a basis for designing our auditing procedures 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 Health Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Services' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Health Services' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Health Services' financial statements that is more than inconsequential will not be prevented or detected by the Health Services' internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 08-1 through 08-7 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lincoln, Lyon, Murray and Pipestone Public Health Services' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln, Lyon, Murray and Pipestone Public Health Services' 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, Lincoln, Lyon, Murray and Pipestone Public Health Services complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 05-1 to 05-3 and 08-9.

Also included in the Schedule of Findings and Questioned Costs are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to Lincoln, Lyon, Murray and Pipestone Public Health Services, and they are reported for that purpose.

Lincoln, Lyon, Murray and Pipestone Public Health Services' written responses to the significant deficiencies, material weakness, legal compliance findings, and management practices comments identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the Health Services' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Health, management, others within the Health Services, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 14, 2009

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

Board of Health
Lincoln, Lyon, Murray and Pipestone Public Health Services

Compliance

We have audited the compliance of Lincoln, Lyon, Murray and Pipestone Public Health Services 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, 2008. Lincoln, Lyon, Murray and Pipestone Public Health Services' 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 Health Services' management. Our responsibility is to express an opinion on the Health Services' 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 Lincoln, Lyon, Murray and Pipestone Public Health Services' 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 Health Services' compliance with those requirements.

In our opinion, Lincoln, Lyon, Murray and Pipestone Public Health Services 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, 2008.

Internal Control Over Compliance

The management of Lincoln, Lyon, Murray and Pipestone Public Health Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Health Services' 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, 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 Health Services' internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Health Services' ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Health Services' internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 08-8 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Lincoln, Lyon, Murray and Pipestone Public Health Services' internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Lincoln, Lyon, Murray and Pipestone Public Health Services as of and for the year ended December 31, 2008, and have issued our report thereon dated August 14, 2009. Our audit was performed for the purpose of forming an opinion on the Health Services' 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 Health, management and others within the Health Services, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 14, 2009

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LINCOLN, LYON, MURRAY AND PIPESTONE
PUBLIC HEALTH SERVICES
MARSHALL, MINNESOTA

Schedule 3

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

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	**$ 246,416**
U.S. Environmental Protection Agency		
Passed Through Minnesota Department of Health		
State Indoor Radon Grant	66.032	**$ 975**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health		
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	$ 3,960
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	146,572
Temporary Assistance for Needy Families (TANF)	93.558	50,144
Maternal and Child Health Services Block Grant	93.994	74,152
Passed Through Minnesota Department of Human Services		
Medical Assistance Program	93.778	36,716
Total U.S. Department of Health and Human Services		**$ 311,544**
Total Federal Awards		**$ 558,935**

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 Lincoln, Lyon, Murray and Pipestone Public Health Services. The Health Services' reporting entity is defined in Note 1 to the financial statements.

2. The expenditures on this schedule are on the accrual basis of accounting.

3. During 2008, the Health Services did not pass any federal money to subrecipients.

4. Pass-through grant numbers were not assigned by the pass-through agencies.