

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MEEKER-MCLEOD-SIBLEY
COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA

YEAR ENDED DECEMBER 31, 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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**MEEKER-MCLEOD-SIBLEY
COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

Year Ended December 31, 2008



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

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

ORGANIZATION
2008

Office	Name
Board Members	
McLeod County Commissioners	
Member	Raymond Bayerl
Member	Grant Knutson
Member	Beverly Wangerin
Vice Chair	Kermit Terlinden
Member	Sheldon Nies
Meeker County Commissioners	
Secretary	Amy Wilde
Member	Ron Kutzke
Member	James Swenson
Member	Wally Strand
Member	David Gabrielson
Sibley County Commissioners	
Chair	Harold Pettis
Member	Charles Woehler
Member	Leo Bauer
Member	Leo Anderly
Member	William Pinske
Fiscal Officer	Cindy Schultz
Management Team	
McLeod County Public Health Director	Kathy Nowak
Meeker County Public Health Director	Diane Winter
Sibley County Public Health Director	Allie Freidrichs
Community Health Services Director	Ann Bajari

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Community Health Board
Meeker-McLeod-Sibley Community
Health Services

We have audited the accompanying financial statements of the governmental activities and the General Fund of Meeker-McLeod-Sibley Community Health Services as of and for the year ended December 31, 2008, which collectively comprise the Health Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Health Services' management. Our responsibility is to express opinions 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Meeker-McLeod-Sibley Community Health Services as of December 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Meeker-McLeod-Sibley Community Health Services has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison in Schedule 1 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 opinions on the financial statements that collectively comprise Meeker-McLeod-Sibley Community Health Services' basic financial statements. The supplementary information listed in the table of contents as the other schedule is presented for purposes of additional analysis 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2009, on our consideration of Meeker-McLeod-Sibley Community 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

December 18, 2009

BASIC FINANCIAL STATEMENTS

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND GOVERNMENTAL ACTIVITIES
STATEMENT OF NET ASSETS WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2008**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 117,913	\$ -	\$ 117,913
Due from other governments	280,105	-	280,105
Total Assets	\$ 398,018	\$ -	\$ 398,018
 <u>Liabilities and Fund Balance/Net Assets</u>			
Current liabilities			
Accounts payable	\$ 891	\$ -	\$ 891
Due to other governments	242,238	-	242,238
Total Liabilities	\$ 243,129	\$ -	\$ 243,129
Fund Balance			
Unreserved			
Undesignated	154,889	(154,889)	
Net Assets			
Unrestricted		154,889	154,889
Total Liabilities and Fund Balance/Net Assets	\$ 398,018	\$ -	\$ 398,018

Reconciliation of the General Fund Balance to Net Assets

The Health Services' capital assets have been fully depreciated, and it has no long-term debt; therefore, the modified accrual statements equal the full accrual statements.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE AND GOVERNMENTAL ACTIVITIES
STATEMENT OF ACTIVITIES WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 1,764,588	\$ -	\$ 1,764,588
Gifts and contributions	3,123	-	3,123
Miscellaneous	2,225	-	2,225
Total Revenues	\$ 1,769,936	\$ -	\$ 1,769,936
Expenditures/Expenses			
Intergovernmental			
Health	1,743,249	-	1,743,249
Net Change in Fund Balance/Net Assets	\$ 26,687	\$ -	\$ 26,687
Fund Balance/Net Assets - January 1	128,202	-	128,202
Fund Balance/Net Assets - December 31	\$ 154,889	\$ -	\$ 154,889

Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities

The Health Services' capital assets have been fully depreciated, and it has no long-term debt; therefore, the modified accrual statements equal the full accrual statements.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

1. Summary of Significant Accounting Policies

Meeker-McLeod-Sibley Community Health Services' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 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 issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Health Services are discussed below.

A. Financial Reporting Entity

The Meeker-McLeod-Sibley Community Health Board was established pursuant to Minn. Stat. §§ 145A.09-145A.14 and a joint powers agreement as the Meeker-McLeod-Sibley Health Services Board effective April 1, 1980. This joint powers agreement was revised, effective April 19, 1990, and the Board was renamed the Meeker-McLeod-Sibley Community Health Board. The Community Health Board consists of 15 members, five each from Meeker, McLeod, and Sibley Counties. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services.

McLeod County, in an agent capacity, reports the cash transactions of the Health Services as an agency fund on its annual financial statements.

B. Basic Financial Statements

Basic financial statements include information on Meeker-McLeod-Sibley Community Health Services' activities as a whole and information on the General Fund of the Health Services. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of Meeker-McLeod-Sibley Community Health Services as a whole.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

The governmental activities columns are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The statement of activities demonstrates the degree to which the expenses of Meeker-McLeod-Sibley Community Health Services are offset by revenues.

The balance sheet and statement of revenues, expenditures, and changes in fund balance for the General Fund are presented on the modified accrual basis of accounting and report current financial resources.

C. Measurement Focus and Basis of Accounting

The government-wide 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Meeker-McLeod-Sibley Community Health Services considers all revenues as available if collected within 90 days after the end of the current period. Charges for services are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred.

D. Assets, Liabilities, and Net Assets or Equity

1. Due From/To Other Governments

Amounts represent receivables and payables related to grants from other federal, state, and local governments for the program administration.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Capital Assets

Capital assets are recorded in the governmental activities column in the statement of net assets. Meeker-McLeod-Sibley Community Health Services defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets of Meeker-McLeod-Sibley Community Health Services are depreciated using the straight-line method over an estimated five-year useful life.

3. Fund Equity

In the General Fund column of the financial statements, the Health Services reports fund balance. The unreserved, undesignated fund balance account indicates the portion of equity which is available for budgeting and expending in future periods.

4. Budgetary Information

The Health Services adopts estimated revenue and expenditure budgets for the General Fund on the modified accrual basis. The legal level of budgetary control is the function level. Appropriations and encumbrances lapse at year-end. The budgets may be amended or modified at any time by the Community Health Board.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments

Cash is on deposit with McLeod County. Cash transactions are administered by the McLeod County Treasurer who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash in financial institutions designated by the County Board. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral, a requirement with which the County was in compliance at December 31, 2008.

2. Receivables

The Health Services did not have any receivables scheduled to be collected beyond one year as of December 31, 2008.

3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office equipment	\$ 8,460	\$ -	\$ -	\$ 8,460
Less: accumulated depreciation for				
Office equipment	8,460	-	-	8,460
Total Capital Assets Depreciated, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

3. Summary of Significant Contingencies and Other Items

A. Risk Management

Meeker-McLeod-Sibley Community Health Services is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters. The Health Services has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover its property and casualty liabilities. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

3. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Property and Casualty Division of MCIT is self-sustaining, and the Health Services pays an annual premium to cover current and future losses. The 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. Claims and Litigation

Meeker-McLeod-Sibley Community Health Services, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Health Services' attorney estimates that the potential claims against the Health Services resulting from such litigation not covered by insurance would not materially affect the financial statements of the Health Services.

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REQUIRED SUPPLEMENTARY INFORMATION

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 1,775,638	\$ 1,775,638	\$ 1,764,588	\$ (11,050)
Gifts and contributions	-	-	3,123	3,123
Miscellaneous	-	-	2,225	2,225
Total Revenues	<u>\$ 1,775,638</u>	<u>\$ 1,775,638</u>	<u>\$ 1,769,936</u>	<u>\$ (5,702)</u>
Expenditures				
Intergovernmental - Health				
CHS Grant	\$ 290,497	\$ 290,497	\$ 310,635	\$ (20,138)
State Asthma Grant	-	-	7,646	(7,646)
Centers for Disease Control and Prevention	110,075	110,075	101,680	8,395
WIC	332,868	332,868	366,149	(33,281)
MCH Grant	83,058	83,058	70,588	12,470
FPSP Grant	86,000	86,000	57,487	28,513
Tobacco-Free Communities	300,000	300,000	265,877	34,123
Immunization Grants	-	-	2,500	(2,500)
Healthy Communities Activities	6,000	6,000	5,182	818
State Indoor Radon Grant	-	-	3,031	(3,031)
Home Visiting TANF	95,015	95,015	58,426	36,589
Drug-Free Communities DOJ	100,000	100,000	102,005	(2,005)
Fetal Alcohol Program	217,000	217,000	237,254	(20,254)
Child and Teen Checkups MA	155,125	155,125	154,789	336
Total Expenditures	<u>\$ 1,775,638</u>	<u>\$ 1,775,638</u>	<u>\$ 1,743,249</u>	<u>\$ 32,389</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,687</u>	<u>\$ 26,687</u>
Fund Balance - January 1	<u>128,202</u>	<u>128,202</u>	<u>128,202</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 128,202</u>	<u>\$ 128,202</u>	<u>\$ 154,889</u>	<u>\$ 26,687</u>

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008**

Budgetary Information

Meeker-McLeod-Sibley Community Health Services adopts estimated revenue and expenditure budgets for the General Fund on the modified accrual basis. The legal level of budgetary control is the function level. Appropriations and encumbrances lapse at year-end. The budgets may be amended or modified at any time by the Community Health Board.

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OTHER SCHEDULE

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

Schedule 2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2008**

Grants

State

Minnesota Department of Health	\$ 915,118
Human Services	<u>63,251</u>
Total State	<u>\$ 978,369</u>

Federal

Department of Agriculture

Special Supplemental Nutrition Program (WIC)	\$ 367,654
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Environmental Protection Agency

State Indoor Radon Grant	3,031
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Department of Health and Human Services

Drug-Free Communities Support Program Grant	75,000
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Centers for Disease Control and Prevention	89,012
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TANF Home Visiting	88,401
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Child and Teen Checkups MA	77,563
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Immunization Grant	2,500
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Maternal and Child Health Services Block Grant	<u>83,058</u>
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Total Federal	<u>\$ 786,219</u>
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Total Intergovernmental Revenue	<u><u>\$ 1,764,588</u></u>
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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

Schedule 3

**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 Meeker-McLeod-Sibley Community Health Services.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of Meeker-McLeod-Sibley Community Health Services and is 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*." The significant deficiency was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Meeker-McLeod-Sibley Community Health Services were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Meeker-McLeod-Sibley Community 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 program is:
 - Special Supplemental Food Program for
Women, Infants, and Children
 - CFDA #10.557
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Meeker-McLeod-Sibley Community Health Services was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-1 Monitoring of Internal Controls

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over 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. McLeod County, the fiscal agent for Meeker-McLeod-Sibley Community Health Services (CHS), performs all of the accounting functions for the CHS under its own internal control structure, including the preparation of the financial statements and related notes. The CHS Director is provided with monthly account activity reports and reviews the reports to determine that transactions have been properly recorded; however, there is no assurance obtained from McLeod County that its internal controls have been monitored and all of the CHS's transactions are accounted for and recorded properly. As recommended in the prior audit, the CHS Director reviewed the draft copy of the annual financial statements prior to submission to the auditors.

We recommend that the CHS Director continue to monitor the recorded transactions. In addition, the CHS Director should obtain assurance from McLeod County that internal controls have been monitored and all of the CHS's transactions are accounted for and recorded properly. We also recommend that the CHS Director begin to monitor the financial statement preparation process, including a final review of the statements and notes before they are submitted to the auditors.

Client's Response:

The CHS Director will continue to monitor recorded transactions and will monitor the financial statement preparation process, including a review of the statements and notes before they are submitted to the auditors. The CHS Director will obtain a letter of assurance from McLeod County that internal controls have been monitored and all CHS transactions are accounted for and recorded properly.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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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*

Community Health Board
Meeker-McLeod-Sibley Community
Health Services

We have audited the financial statements of the governmental activities and the General Fund of Meeker-McLeod-Sibley Community Health Services as of and for the year ended December 31, 2008, and have issued our report thereon dated December 18, 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 Meeker-McLeod-Sibley Community 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 controls 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or 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 the 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, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Meeker-McLeod-Sibley Community 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, except that we did not test for deposits and investments and

claims and disbursements because these categories were tested at McLeod County, and contracting and bidding and public indebtedness because neither of these categories applied to the Meeker-McLeod-Sibley Community Health Services.

The results of our tests indicate that, for the items tested, Meeker-McLeod-Sibley Community Health Services complied with the material terms and conditions of applicable legal provisions.

Meeker-McLeod-Sibley Community Health Services' written response to the significant deficiency identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the Health Services' response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Community Health Board, management, others within Meeker-McLeod-Sibley Community 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

December 18, 2009

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REBECCA OTTO
STATE AUDITOR

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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

Community Health Board
Meeker-McLeod-Sibley Community
Health Services

Compliance

We have audited the compliance of Meeker-McLeod-Sibley Community 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 its major federal program as of and for the year ended December 31, 2008. Meeker-McLeod-Sibley Community Health Services' major federal program is 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 its major federal program 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 Meeker-McLeod-Sibley Community 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, Meeker-McLeod-Sibley Community Health Services complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Meeker-McLeod-Sibley Community 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.

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.

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 Meeker-McLeod-Sibley Community Health Services' internal control.

Our consideration of the internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and the General Fund of Meeker-McLeod-Sibley Community Health Services as of and for the year ended December 31, 2008, and have issued our report thereon dated December 18, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Meeker-McLeod-Sibley Community Health Services' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of

additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Community Health Board, management and others within the Community 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

December 18, 2009

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES
HUTCHINSON, MINNESOTA**

Schedule 4

**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	Passed Through to Subrecipients
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program (WIC)	10.557	\$ 367,654	\$ 367,654
U.S. Environmental Protection Agency			
Passed Through Minnesota Department of Health State Indoor Radon Grant	66.032	\$ 3,031	\$ 3,031
U.S. Department of Health and Human Services			
Direct			
Drug-Free Communities Support Program Grant	93.276	\$ 75,000	\$ 75,000
Passed Through Minnesota Department of Health			
Immunization Grant	93.268	2,500	2,500
Center for Disease Control and Prevention Block Grant	93.283	89,012	89,012
Temporary Assistance for Needy Families (TANF)	93.558	88,401	88,401
Maternal and Child Health Services Block Grant	93.994	83,058	83,058
Passed Through Minnesota Department of Human Services			
Medical Assistance Program	93.778	<u>77,563</u>	<u>77,563</u>
Total U.S. Department of Health and Human Services		\$ 415,534	\$ 415,534
Total Federal Awards		\$ 786,219	\$ 786,219

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 Meeker-McLeod-Sibley Community 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 modified accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.