STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

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

FOR THE YEAR ENDED DECEMBER 31, 2009

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 Year Ended December 31, 2009

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
2009

Board	County	Appointment Expires
Chair		
Curt Blumeyer	Lincoln	December 2009
Vice Chair		
Robert Moline	Murray	December 2009
Secretary		
Judy Zwart	Pipestone	December 2009
Members		
Laurie Johansen	Lincoln	December 2009
Scott Riddlemoser	Lyon	December 2009
Mark Goodenow	Lyon	December 2009
Rodney Stensrud	Lyon	December 2009
Jeane Anderson	Murray	December 2009
Marvin Tinklenberg	Pipestone	December 2009
Administrator		
Christopher Sorensen		Indefinite
Director of Nursing		
Cris Gilb		Indefinite
Fiscal/Personnel Officer		
Carol Beck		Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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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 year ended December 31, 2009, 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) 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. Lincoln, Lyon, Murray and Pipestone Public Health Services has not included in the MD&A an analysis of the Health Services' results of operations, including reasons for significant changes from the prior year and important economic factors affecting operating results.

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. 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 9, 2010, 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

August 9, 2010

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, 2009
(Unaudited)

Lincoln, Lyon, Murray and Pipestone (LLMP) Public Health Services' Management's Discussion and Analysis (MD&A) provides an overview of the Health Services' financial activities for the fiscal year ended December 31, 2009. Since this information is designed to focus on the current year's 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. There was no change in tax levy from each county from 2008. Lincoln County remained at $36,666; Lyon County at $220,000; 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

A contract with Lincoln, Lyon, and Murray (LLM) Human Services was signed for administration services at a cost of $5,000 per year. An additional contract with LLM Human Services was signed for business management services to assist with Governmental Accounting Standards Board (GASB) requirements in preparing policies and procedures. This second contract was also at a cost of $5,000 per year.

Three new grants were awarded to LLMP Public Health Services in 2009. PHER I and II grants were to cover the costs of activities for planning, support, and equipment for H1N1 clinics in each of the schools in the four counties as well as public H1N1 clinics in the four counties. H1N1 vaccine was supplied to LLMP Public Health Services at no cost to the agency.

PHER III grant provided funding for operation of H1N1 vaccination clinics.

LLMP Public Health Services received a Statewide Health Improvement Program (SHIP) grant. This grant was to create a supportive infrastructure for health in our communities through strategies that change public policies and build environments and systems for people to make healthier choices. An additional health educator and a dietician were hired to implement grant duties.

Blue Cross/Blue Shield (BC/BS) signed a new agreement with LLMP Public Health Services to bill for those clients who would benefit from a maternal child home visit and have private insurance through BC/BS.

Lyon County agreed to allow LLMP Public Health Services' employees access to its fleet of automobiles for agency travel at a flat fee.

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

	2008	2009	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	$ 1,253,793	$ 1,451,913	$ 198,120	15.8
Capital assets	35,781	6,175	(29,606)	(82.7)
Total Assets	$ 1,289,574	$ 1,458,088	$ 168,514	13.1
Liabilities				
Current liabilities	$ 159,225	$ 212,738	$ 53,513	33.6
Noncurrent liabilities	111,603	138,862	27,259	24.4
Total Liabilities	$ 270,828	$ 351,600	$ 80,772	29.8
Net Assets				
Invested in capital assets	$ 35,781	$ 6,175	$ (29,606)	(82.7)
Unrestricted	982,965	1,100,313	117,348	11.9
Total Net Assets	$ 1,018,746	$ 1,106,488	$ 87,742	8.6

Changes in Net Assets

	2008	2009	Increase (Decrease)	Percent Change (%)
Operating revenues				
Charges for services	$ 463,302	$ 474,897	$ 11,595	2.5
Miscellaneous	18,574	32,614	14,040	75.6
Total operating revenues	$ 481,876	$ 507,511	$ 25,635	5.3
Nonoperating revenues				
Intergovernmental	1,178,558	1,364,832	186,274	15.8
Interest income	36,821	24,761	(12,060)	(32.8)
Total Revenues	$ 1,697,255	$ 1,897,104	$ 199,849	11.8
Operating expenses				
Professional services	$ 1,155,291	$ 1,546,791	$ 391,500	33.9
Administration	508,131	218,109	(290,022)	(57.1)
Depreciation	12,938	44,462	31,524	243.7
Total Expenses	$ 1,676,360	$ 1,809,362	$ 133,002	7.9
Change in Net Assets	$ 20,895	$ 87,742	$ 66,847	319.9

CAPITAL ASSETS

Capital Assets
(Net of Depreciation)

	2008	2009	Increase (Decrease)	Percent Change (%)
Machinery, furniture, and equipment	$ 35,781	$ 6,175	$ (29,606)	(82.7)

The significant change in capital assets, net of depreciation, from 2008 to 2009 is primarily due to a change in capitalization threshold that was implemented with a new capital asset policy in 2009.

FUTURE EVENTS

Consistent with last year's audit discussion, we see the continuance of a difficult set of financial circumstances for Public Health Services in Minnesota. For 2009, progress in coordinating health and human services through a service contract has given opportunity for creating administrative savings for the organization and maximizing resources for the recipients of services. As we continue to focus on prevention, emergency preparedness, and basic services, continuity for our consumers will be key in the next few years. We are committed to providing a strong infrastructure for services, even as the difficult economic times continue into the next biennial budget session for 2011/2012.

Also, 2009 was a transition period for LLMP as we began the process of contracting the administration through Lincoln, Lyon, and Murray Human Services. This contract deepened our collaboration with Human Services and began the process of sharing administrative resources to address areas of internal controls and cross-training to moving towards a system where many of the administrative duties can be shared and, in some cases, creating some specialization in the accounting department for Public Health.

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 Christopher Sorensen at the office of Lincoln, Lyon, Murray and Pipestone Public Health Services at 607 West Main Street, Marshall, Minnesota 56258.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2009

Assets		
Current assets		
Cash and pooled investments	$	1,332,725
Petty cash and change funds		100
Accounts receivable		2,117
Due from other governments		114,534
Accrued interest receivable		2,437
Total current assets	**$**	**1,451,913**
Noncurrent assets		
Depreciable capital assets - net		6,175
Total Assets	**$**	**1,458,088**
Liabilities		
Current liabilities		
Accounts payable	$	24,522
Salaries payable		55,306
Due to other governments		6,119
Deferred revenue - unearned		126,791
Total current liabilities	**$**	**212,738**
Noncurrent liabilities		
Compensated absences payable - due within one year		6,485
Compensated absences payable - long-term		132,377
Total Liabilities	**$**	**351,600**
Net Assets		
Invested in capital assets	$	6,175
Unrestricted		1,100,313
Total Net Assets	**$**	**1,106,488**

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

Operating Revenues		
Charges for services	$	474,897
Miscellaneous		32,614
Total Operating Revenues	**$**	**507,511**
Operating Expenses		
Professional services	$	1,546,791
Administrative		218,109
Depreciation		44,462
Total Operating Expenses	**$**	**1,809,362**
Operating Income (Loss)	**$**	**(1,301,851)**
Nonoperating Revenues (Expenses)		
Intergovernmental	$	1,364,832
Interest income		24,761
Total Nonoperating Revenues (Expenses)	**$**	**1,389,593**
Increase (Decrease) in Net Assets	**$**	**87,742**
Net Assets - January 1		**1,018,746**
Net Assets - December 31	**$**	**1,106,488**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Receipts from customers and users	$	540,522
Payments to suppliers		(425,864)
Payments to employees		(1,344,642)
Net cash provided by (used in) operating activities	**$**	**(1,229,984)**
Cash Flows from Noncapital Financing Activities		
Intergovernmental receipts	$	1,054,007
County appropriations		365,083
Net cash provided by (used in) noncapital financing activities	**$**	**1,419,090**
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	**$**	**(18,142)**
Cash Flows from Investing Activities		
Investment income	**$**	**24,602**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**195,566**
Cash and Cash Equivalents at January 1		**1,137,159**
Cash and Cash Equivalents at December 31	**$**	**1,332,725**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(1,301,851)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	44,462
(Increase) decrease in accounts receivable		60,074
(Increase) decrease in due from other governments		(21,254)
Increase (decrease) in accounts payable		4,067
Increase (decrease) in salaries payable		(38,901)
Increase (decrease) in compensated absences payable		21,657
Increase (decrease) in due to other governments		1,762
Total adjustments	**$**	**71,867**
Net Cash Provided by (Used in) Operating Activities	**$**	**(1,229,984)**

Noncash Investing, Capital, and Financing Activities

Lincoln, Lyon, Murray and Pipestone Public Health Services disposed of $14,019 of capital assets with accumulated depreciation of $10,581 in 2009.

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 YEAR ENDED DECEMBER 31, 2009

1. Summary of Significant Accounting Policies

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 year ended December 31, 2009. 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 $1,500 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, net of depreciation.

         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 year ended December 31, 2009:

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	$ 424,507	$ 507,511	$ 83,004
Operating Expenses	1,809,137	1,809,362	225
Operating Income (Loss)	$ (1,384,630)	$ (1,301,851)	$ 82,779
Nonoperating Revenues	1,383,430	1,389,593	6,163
Net Income (Loss)	$ (1,200)	$ 87,742	$ 88,942

3. Detailed Notes

A. Assets

1. Deposits and Investments

Reconciliation of the Health Services' total cash and investments to the basic financial statements follows:

Cash and pooled investments	$ 1,332,725
Petty cash and change funds	100
Total Cash and Investments	$ 1,332,825

The following table presents the County's cash and deposit balances at December 31, 2009:

Petty cash and change funds	$ 100
Checking	429,300
Certificates of deposit	903,425
Total Cash and Investments	$ 1,332,825

During the year ended December 31, 2009, the Health Services had no investments other than CDs.

a. Deposits

The Health Services is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The Health Services is required by Minn. Stat. § 118A.03 to protect deposits with 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.

3. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and 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.

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, 2009, the Health Services’ deposits were not exposed to custodial credit risk.

b. Investments

The Health Services may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

(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. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(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;

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

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 in the possession of an outside party. It is the Health Services' policy to minimize this risk by permitting brokers to hold investments only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the Lincoln, Lyon, Murray and Pipestone Public Health Services' custodian. On December 31, 2009, the Health Services' investments were not exposed to custodial credit risk.

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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. It is the Health Services' policy to minimize this risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security of issuer will be minimized.

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. The Health Services' policy is to minimize this risk by: (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and (2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Health Services' cash requirements.

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. The Health Services' investment policy does not address this risk.

2. Receivables

The Health Services did not have any receivables scheduled to be collected beyond one year.

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance January 1, 2009	Increase	Decrease	Adjustment	Ending Balance December 31, 2009
Capital assets depreciated					
Machinery, furniture, and equipment	$ 154,811	$ 18,142	$ 14,019	$ (103,294)	$ 55,640
Less: accumulated depreciation for					
Machinery, furniture, and equipment	119,030	4,237	10,581	(63,221)	49,465
Total Capital Assets Depreciated, Net	$ 35,781	$ 13,905	$ 3,438	$ (40,073)	$ 6,175

In 2009, the Health Services changed the capitalization threshold for reporting purposes from $300 to $1,500. As a result, total capital assets were decreased by $103,294, and accumulated depreciation was decreased by $63,221, as shown in the adjustment column above.

B. Liabilities

Deferred Revenue - Unearned

Deferred revenue - unearned consists of federal, state, or local grants received but not yet earned. Deferred revenue at December 31, 2009, was:

Grants for	
Centers for Disease Control and Prevention Investigations and Technical Assistance	$ 2,040
Maternal and Child Health Services Block Grant	8,669
Public Health Emergency Preparedness	47,883
Statewide Health Improvement Plan (Minnesota Department of Health)	68,199
Total Deferred Revenue	$ 126,791

3. Detailed Notes

B. Liabilities (Continued)

Long-Term Liabilities

Following is a summary of changes in long-term liabilities for the year ended December 31, 2009.

	Beginning Balance January 1, 2009	Additions	Reductions	Ending Balance December 31, 2009	Due Within One Year
Compensated absences	$ 117,205	$ 21,657	$ -	$ 138,862	$ 6,485

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.

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.

4. Pension Plans - Defined Benefit

A. Plan Description (Continued)

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. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. 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 are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

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

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75

The Health Services' contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund were:

	2009	2008	2007
Public Employees Retirement Fund	$ 69,445	$ 64,234	$ 61,410

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 Intergovernmental Trust (MCIT), formerly Minnesota Counties

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

Insurance Trust. The Health Services is a member of both 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 $430,000 per claim in 2009 and $450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Human 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.

The Southwest/West Central Service Cooperative is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the Health Services and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

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.

6. Subsequent Events

In June 2010, Lincoln, Lyon, Murray, and Pipestone Counties approved a joint powers agreement creating the Southwest Health and Human Services agency and terminating the joint powers agreements for Lincoln, Lyon, and Murray Human Services (LLM HS) and Lincoln, Lyon, Murray and Pipestone Public Health Services. Dissolution of LLM HS and the Health Services is effective December 31, 2010, although the agreement recognizes that both LLM HS and the Health Services shall continue to exist after dissolution as long as necessary to conclude the affairs of the agencies.

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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 FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

Payments		
Local		
County appropriations	**$**	**365,083**
Grants		
State		
Minnesota Department of Health	**$**	**292,422**
Federal		
Department of		
Agriculture	$	278,881
Health and Human Services		426,914
Environmental Protection Agency		1,532
Total federal	**$**	**707,327**
Total state and federal grants	**$**	**999,749**
Total Intergovernmental Revenue	**$**	**1,364,832**

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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, 2009

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. 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 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. A finding relative to a major federal award program for Lincoln, Lyon, Murray and Pipestone Public Health Services was reported as required by 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
Temporary Assistance for Needy Families (TANF)	CFDA #93.558

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

I. Lincoln, Lyon, Murray and Pipestone Public Health Services was not 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

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.

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

The Health Services also does not have adequate cross-training in areas such as 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 transition. Cross-training brings advantages from both a management and an accounting point of view.

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:

Lincoln, Lyon, Murray and Pipestone Public Health (LLMP) will continue to fine tune internal controls, segregation of duties, policy/procedure documentation, fraud identification, and management oversight to ensure the integrity and reliability of the financial information in the accounting system.

ITEMS ARISING THIS YEAR

09-1 Monitoring Internal Controls

The Health Services' management is responsible for monitoring its internal controls. Monitoring involves assessing the quality of performance over time. Monitoring should occur during normal operations and includes reviews, comparisons, reconciliations, and other actions people take in performing their duties.

An essential element of monitoring controls also includes performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for members of the Health Services' Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, staffing vacancies, updates to information systems, or changes to services being provided.

Our audit procedures detected areas and responsibilities performed by the Health Services' staff with little or no monitoring by management or other staff members. Some areas with minimal or no monitoring include:

- ensuring securities are properly collateralized at all times as required by Minn. Stat. § 118A.03;
- tracking interest received and receivable on investments;
- reviewing bank reconciliations;
- adding and deleting items to and from capital assets;
- reviewing receipts issued; and
- reviewing identified receivables.

We recommend that a formal plan be developed that calls for assessing and monitoring the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

Lincoln, Lyon, Murray and Pipestone Public Health (LLMP) will develop a formal plan that calls for assessing and monitoring internal controls on a regular basis.

09-2 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we proposed audit adjustments, which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

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

We recommend that the Health Services modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

Lincoln, Lyon, Murray and Pipestone Public Health (LLMP) will review mapping in IFS, work to reduce the number/amount of audit adjustments, and establish controls so that any errors are detected in a timely manner.

PREVIOUSLY REPORTED ITEMS RESOLVED

Accounting Policies and Procedures Manual (08-2)

The Health Services did not have a comprehensive Accounting Policies and Procedures Manual.

Resolution

The Health Services' Board approved an Accounting Policies and Procedures Manual in July 2010.

Adding New Vendors to the Accounting System (08-3)

The Health Services did not have procedures for reviewing new vendors added to the accounts payable system.

Resolution

A report called "Vendors Added List by Number" is printed quarterly and reviewed by the Administrator, who is independent of the accounts payable system. The Administrator documents the review by signing off on the report.

Controls Over the Accounting System Journal Entry Function (08-4)

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

Resolution

The Health Services has implemented procedures that include approval of all journal entries.

Capital Asset Policies and Procedures (08-5)

The Health Services did not have a capital assets policy to define the Health Services' accounting policies over capital assets.

Resolution

The Health Services' Board approved a capital assets policy in October 2009.

Segregation of Duties - Payroll (08-6)

During our review of the Health Services' payroll function, we noted only one person had access to the payroll system. That individual processes payroll and has the ability to change pay rates and add new employees. No controls existed to verify that 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.

Resolution

During 2010, employees of Lincoln, Lyon, and Murray Human Services began processing payroll for the Health Services. Review and back-up procedures have been added to the payroll process.

Monitoring Investments and Collateral (08-7)

Our inquiry of Health Services' personnel found no processes in place to monitor investments or to ensure securities are properly collateralized.

Resolution

This finding was combined and included with finding 09-1.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

09-3 Advance Received and Unallowable Costs (CFDA #93.558)

Questioned Costs: $10,000

During the audit of the Temporary Assistance for Needy Families (TANF) program, we noted that $10,000 was paid as a contract for service to Lincoln, Lyon, and Murray Human Services on an advance basis. TANF funds are granted on a reimbursement basis and, according to the cash management compliance requirements of Part 3 of Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, "When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government." The Health Services was not aware that contracting funds on an advance basis did not comply with the cash management requirement of OMB Circular A-133, and internal controls in place did not prevent the monies from being advanced and used for ineligible purposes. The funds were used for services that were unallowable activities, resulting in the repayment of $10,000 to the Minnesota Department of Health during 2010.

We recommend the Health Services work with the Minnesota Department of Health to ensure all costs reported are on a reimbursement basis, as required, and are allowable for the TANF program. In addition, the Health Services should become familiar with the specific requirements for contracting services with another entity. We further recommend the Health Services implement internal control policies and procedures to ensure federal award program expenditures are in accordance with OMB Circular A-133.

Corrective Action Plan:

Contact Persons Responsible for Corrective Action:

Christopher Sorensen and Cris Gilb

Action Planned:

Meetings were held with all affected parties to resolve the matter. Lincoln, Lyon, and Murray Human Services (LLMHS) returned the $10,000 to Lincoln, Lyon, Murray and Pipestone Public Health (LLMP) who then returned the dollars to the Minnesota Department of Health (MDH) in July 2010. LLMP will not disburse dollars without clear guidance and service agreements. The service agreements will detail terms of use and timeframes for disbursement and reporting.

Completion Date:

July 2010

PREVIOUSLY REPORTED ITEM RESOLVED

Reporting Deficiencies (CFDA#10.557) (08-8)
The Fiscal Officer prepares and submits the required monthly reports, which were not reviewed by any other party. In addition, we noted some reports were not submitted to the Minnesota Department of Health in a timely manner.

Resolution
Control procedures were implemented that include review of monthly reports by the Director of Nursing and the Administrator. Reports were submitted timely in 2009.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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

The Depository Pledge Agreements with 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. During 2009, the Health Services resolved the issue previously reported with Minnwest Bank, which previously did not have appropriate language in its Depository Pledge Agreement.

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 the security agreement with Wells Fargo Bank to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

<u>Client's Response</u>:

Lincoln, Lyon, Murray and Pipestone Public Health (LLMP) will review the security agreement with Wells Fargo Bank to ensure that it is consistent with Minn. Stat. § 118A.03, subd. 4.

<u>PREVIOUSLY REPORTED ITEMS RESOLVED</u>

Depository Pledge Agreement (05-2)

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

Resolution

The Health Services obtained Agreements for Custody of Pledged Securities for the securities pledged as collateral by the State Bank of Taunton.

No Perfected Interest in Collateral Assignments (05-3)

The Health Services did not have documentation from the State Bank of Taunton indicating it had a perfected security interest in pledged collateral.

Resolution

During the current audit, the Health Services provided documentation from the State Bank of Taunton indicating it had a perfected security interest in pledged collateral.

Travel Claims for Mileage (08-9)

In the prior audit, we noted that the claims submitted for mileage were not signed by the employee to meet the requirements of Minn. Stat. § 471.38, subd. 1.

Resolution

Testing completed during the current audit revealed that travel claims now include a statement meeting the requirements of Minn. Stat. § 471.38, subd. 1, and that claims are signed by employees.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS RESOLVED

Disaster Recovery and Business Continuity Plans (08-10)
The Health Services did not have a disaster recovery and business continuity plan that would direct its response if a disaster or major computer breakdown were to occur.

Resolution
The Health Services' Board approved a disaster recovery plan in November 2009.

Investment Policy (08-11)
The Health Services did not have an approved investment policy to describe permissible investments and address items such as custodial credit risk, interest rate risk, and concentration of credit risk, as required by Governmental Accounting Standards Board Statement 40.

Resolution
The Health Services' Board approved an investment policy in August 2009.

Document Retention (08-12)
The Health Services' copy of the 2007 grant report and supporting documentation for the Maternal and Child Health program was not available during the prior audit, as an employee took the documents home and did not return the information to the Health Services upon termination.

Resolution
All grant reports requested were available during the audit. The Health Services' Administrator addressed the previous issue to all Health Services' staff.

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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 basic financial statements of Lincoln, Lyon, Murray and Pipestone Public Health Services as of and for the year ended December 31, 2009, and have issued our report thereon dated August 9, 2010. 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 an opinion 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Health Services' financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 09-2 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 08-1 and 09-1 to be significant deficiencies.

<u>Compliance and Other Matters</u>

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*.

<u>Minnesota Legal Compliance</u>

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 item 05-1.

Lincoln, Lyon, Murray and Pipestone Public Health Services' written responses to the internal control and legal compliance findings 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

August 9, 2010

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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, 2009. 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, 2009.

Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health Services' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 09-3. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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, 2009, and have issued our report thereon dated August 9, 2010. 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.

Lincoln, Lyon, Murray and Pipestone Public Health Services' corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Health Services' corrective action plan and, accordingly, we express no opinion on it.

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 9, 2010

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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, 2009

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	**$ 278,881**
U.S. Environmental Protection Agency		
Passed Through Minnesota Department of Health		
State Indoor Radon Grants	66.032	**$ 1,532**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	$ 87,980
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	93,725
Temporary Assistance for Needy Families	93.558	115,184
Maternal and Child Health Services Block Grant to the States	93.994	75,485
Passed Through Minnesota Department of Human Services		
Medical Assistance Program	93.778	54,540
Total U.S. Department of Health and Human Services		**$ 426,914**
Total Federal Awards		**$ 707,327**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities 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. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lincoln, Lyon, Murray and Pipestone Public Health Services under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Lincoln, Lyon, Murray and Pipestone Public Health Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Lincoln, Lyon, Murray and Pipestone Public Health Services.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the full accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Subrecipients

During 2009, Lincoln, Lyon, Murray and Pipestone Public Health Services did not pass any federal money to subrecipients.