

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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MANAGEMENT AND COMPLIANCE REPORT FOR

**DAKOTA COUNTY**  
**HASTINGS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2006

## **Description of the Office of the State Auditor**

The mission of the State Auditor's Office 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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**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**Year Ended December 31, 2006**



**Management and Compliance Report**

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

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**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

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**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**Schedule 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unqualified opinion on the financial statements of Dakota County.
- B. No matters involving internal control over financial reporting were 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*."
- C. No instances of noncompliance material to the financial statements of Dakota County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs 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 programs for Dakota County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- |   |              |
|---|--------------|
| Help America Vote Act Requirements Payments | CFDA #90.401 |
| Child Care and Development Block Grant      | CFDA #93.575 |
| Urban Areas Security Initiative             | CFDA #97.008 |
| Homeland Security Grant Program             | CFDA #97.067 |
- H. The threshold for distinguishing between Types A and B programs was \$909,457.
- I. Dakota County 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 RESOLVED

**Sheriff's Office (05-1)**

The inmate trust account was not reconciled to the bank account in a timely manner. Blank check stock was not adequately secured to prevent unauthorized use. Accounting duties over the checking accounts were not adequately segregated.

**Resolution**

The client is conducting daily reconciliations for the inmate trust account. Blank check stock is stored in a locked area with only limited authorized staff having access. Accounting functions have been adequately segregated within the Sheriff's Office.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

**Canteen Operations - Recording Receipts and Disbursements (05-2)**

The County was not recording the canteen sales commissions from the Sheriff's Office in the General Fund.

**Resolution**

Sales commissions earned through the canteen operations are now recorded in the Sheriff's accounts in the General Fund.

OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Dakota County, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2007 and 2008, respectively.

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REBECCA OTTO  
STATE AUDITOR

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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 County Commissioners  
Dakota County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Dakota County as of and for the year ended December 31, 2006, and have issued our report thereon dated June 19, 2007. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Dakota County Community Development Agency, as described in our report on Dakota County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dakota County's 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 Dakota County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Dakota County's internal control over financial reporting.

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 Dakota County's 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 County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

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 Dakota County's 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dakota County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Dakota County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration on Other Postemployment Benefits. We believe that information to be of benefit to Dakota County, and it is reported for that purpose.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Dakota County, 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

June 19, 2007

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# STATE OF MINNESOTA

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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 County Commissioners  
Dakota County

#### Compliance

We have audited the compliance of Dakota County 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, 2006. Dakota County's 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 Dakota County's management. Our responsibility is to express an opinion on Dakota County's compliance based on our audit.

Dakota County's financial statements include the operations of the Dakota County Community Development Agency component unit, which expended \$20,901,584 in federal awards during the year ended June 30, 2006, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Community Development Agency because the Community Development Agency had a separate Single Audit in accordance with OMB Circular A-133.

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 Dakota County's 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 Dakota County's compliance with those requirements.

In our opinion, Dakota County 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, 2006.

### Internal Control Over Compliance

The management of Dakota County 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 Dakota County's 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 County's 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 County's 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 County's 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 the County's 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Dakota County as of and for the year ended December 31, 2006, and have issued our report thereon dated June 19, 2007. Our report was modified to include a reference to other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Dakota County's 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 Board of County Commissioners, management, others within Dakota County, 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

June 19, 2007

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Minnesota Department of Health			
School Breakfast Program	10.553	\$ 17,863	\$ -
National School Lunch Program	10.555	24,426	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	1,283,626	-
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for Food Stamp Program	10.561	51,617	-
<b>Total U.S. Department of Agriculture</b>		<b>\$ 1,377,532</b>	<b>\$ -</b>
<b>U.S. Department of Housing and Urban Development</b>			
Direct			
Community Development Block Grant	14.218	\$ 2,318,330	\$ 2,318,330
Supportive Housing Demonstrative Program	14.235	396,815	-
HOME Investment Partnerships Program	14.239	1,244,672	1,244,672
<b>Total U.S. Department of Housing and Urban Development</b>		<b>\$ 3,959,817</b>	<b>\$ 3,563,002</b>
<b>U.S. Department of Justice</b>			
Passed Through Minnesota Department of Public Safety			
Juvenile Accountability Incentive Block Grant	16.523	\$ 138,472	\$ -
Crime Victim Assistance	16.575	9,777	-
Byrne Formula Grant Program	16.579	100,170	-
Edward Byrne Memorial Justice Assistance	16.738	68,000	-
<b>Total U.S. Department of Justice</b>		<b>\$ 316,419</b>	<b>\$ -</b>
<b>U.S. Department of Labor</b>			
Passed Through Minnesota Department of Employment and Economic Development			
Senior Community Service Employment Program (SCSEP)	17.235	\$ 110,542	\$ -
WIA Adult Program	17.258	124,527	-
WIA Youth Activities	17.259	126,502	-
WIA Dislocated Workers	17.260	406,065	-
<b>Total U.S. Department of Labor</b>		<b>\$ 767,636</b>	<b>\$ -</b>

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

*Schedule 2*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 4,156,975	\$ -
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	51,115	-
Alcohol Traffic Safety and Drunk Driving	20.601	<u>7,201</u>	<u>-</u>
<b>Total U.S. Department of Transportation</b>		<b><u>\$ 4,215,291</u></b>	<b><u>\$ -</u></b>
<b>U.S. Environmental Protection Agency</b>			
Direct Regional Wetland Program Development Grants	66.461	<b><u>\$ 34,997</u></b>	<b><u>\$ -</u></b>
<b>U.S. Department of Energy</b>			
Direct State Energy Program	81.041	<b><u>\$ 50,937</u></b>	<b><u>\$ -</u></b>
<b>U.S. Department of Education</b>			
Direct Special Education - Grants for Infants and Families with Disabilities	84.181	<b><u>\$ 104,063</u></b>	<b><u>\$ -</u></b>
<b>U.S. Election Assistance Commission</b>			
Passed through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	<b><u>\$ 780,221</u></b>	<b><u>\$ -</u></b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Health Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	\$ 10,000	\$ -
Projects for Assistance in Transition from Homelessness (PATH)	93.150	20,953	-
Immunization Research, Demonstration, Public Information and Education - Training and Clinical Skills Improvement Projects	93.185	47,934	-
Immunization Grants	93.268	17,380	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	655,088	-
Temporary Assistance for Needy Families (TANF)	93.558	166,862	-
Refugee and Entrant Assistance	93.576	8,338	-
Maternal and Child Health Services Block Grant	93.994	286,967	-

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

*Schedule 2*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Health and Human Services (Continued)</b>			
Passed Through Minnesota Department of Human Services			
Family Preservation and Support Services	93.556	236,806	-
Temporary Assistance for Needy Families	93.558	1,630,918	-
Block Grant - Child Care and Development	93.575	7,445,401	-
Foster Care Title IV-E	93.658	592,697	-
Social Services Block Grant Title XX	93.667	1,435,526	-
Chafee Foster Care Independence Program	93.674	62,348	-
Medical Assistance Program	93.778	135,299	-
Block Grant for Community Mental Health Services	93.958	33,391	-
Block Grant for Prevention and Treatment of Substance Abuse	93.959	154,215	-
Direct			
Transitional Living for Homeless Youth	93.550	180,982	-
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 13,121,105</b>	<b>\$ -</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety			
State Domestic Preparedness Equipment Support Program	97.004	\$ 103,788	\$ -
Homeland Security Preparedness Technical Assistance Program	97.007	141,428	-
Urban Areas Security Initiative	97.008	1,680,445	-
Boating Safety Financial Assistance	97.012	10,000	-
Homeland Security Grant Program	97.067	3,651,555	-
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 5,587,216</b>	<b>\$ -</b>
<b>Total Federal Awards</b>		<b>\$ 30,315,234</b>	<b>\$ 3,563,002</b>

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 Dakota County. The County's reporting entity is defined in Note I to the basic 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.