

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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**CENTRAL MINNESOTA MAJOR  
CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

YEAR ENDED DECEMBER 31, 2004

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

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CENTRAL MINNESOTA MAJOR  
CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

**Year Ended December 31, 2004**



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

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**CENTRAL MINNESOTA MAJOR CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

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**CENTRAL MINNESOTA MAJOR CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

**ORGANIZATION  
2004**

**Board of Directors**

Robert Raupp, Benton County Attorney  
Kathleen Heaney, Sherburne County Attorney  
Janelle Kendall, Stearns County Attorney  
Jim McMahon, Benton County Sheriff  
Bruce Anderson, Sherburne County Sheriff  
John Sanner, Stearns County Sheriff  
Dennis Ballantine, City of St. Cloud Police Chief  
Jan Ferrel Petersen, City of St. Cloud Attorney  
Michel Wetzel, Morrison County Sheriff  
Conrad Freeberg, Morrison County Attorney

**Chair**

Robert Raupp

**Secretary**

Bruce Anderson

**Treasurer**

John Sanner

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# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Central Minnesota Major Crime  
Investigation Unit

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Central Minnesota Major Crime Investigation Unit (MCIU) as of and for the year ended December 31, 2004, which collectively comprise the MCIU's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the MCIU's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the MCIU as of December 31, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the MCIU adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: September 26, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CENTRAL MINNESOTA MAJOR CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2004  
(Unaudited)**

This section of the annual financial report presents our discussion and analysis of the financial performance during the fiscal year that ended December 31, 2004. The Management's Discussion and Analysis (MD&A) is a new element of required supplementary information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999. Certain comparative information between the current year, 2004, and the prior year, 2003, is required to be presented in the MD&A. However, since this is the first year of implementation of the new reporting model contained in GASB Statement 34, and that Statement permits the omission of prior year data in the year of implementation, the Central Minnesota Major Crime Investigation Unit (MCIU) has elected not to prepare comparative data due to the cost of adjusting prior year's financial statements to the new reporting model.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2004 include the following:

- Government-wide net assets increased by 24.0 percent from the prior year.
- Overall fund-level revenues totaled \$182,717 and were \$62,559 more than expenditures.
- The General Fund's balance increased \$62,559 from the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts--Independent Auditor's Report, required supplementary information, which includes the MD&A (this section), the basic financial statements, and notes to the financial statements. The basic financial statements include the statement of net assets and governmental fund balance sheet and the statement of activities and governmental fund revenues, expenditures, and changes in fund balance.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Figure A-1 summarizes the major features of the MCIU’s financial statements, including the portion of the MCIU’s activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

**Table A-1**  
**Major Features of the MCIU’s**  
**Government-Wide and Fund Financial Statements**

<b>Type of Statements</b>	<b>Government-Wide</b>	<b>Governmental Fund</b>
Scope	Entire government	The activities of the government that are not proprietary or fiduciary
Required financial statements	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

**Government-Wide and Fund Financial Statements**

The financial statements included in this report combine the governmental fund and government-wide activities into two statements.

The General Fund activity includes the MCIU’s basic services, which generally focus on (1) how cash and other financial assets can be readily converted to cash flow in and out, and (2) the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the MCIU’s programs.

The government-wide statements report information about the MCIU as a whole using accounting methods similar to those used by private-sector companies. These statements include all of the assets and liabilities of the MCIU including long-term activity. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**FINANCIAL ANALYSIS OF THE MCIU AS A WHOLE**

Net Assets - the MCIU's net assets were \$235,411 on December 31, 2004.

**Table A-2  
Net Assets**

	<u>2004</u>	<u>2003</u>	<u>Percent Change (%)</u>
<b>Assets</b>			
Cash and pooled investments	\$ 206,544	(1)	(1)
Due from other governments	9,005	(1)	(1)
Capital assets, net of accumulated depreciation	<u>28,759</u>	(1)	(1)
Total Assets	<u>\$ 244,308</u>		
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	<u>\$ 8,897</u>	(1)	(1)
Net assets invested in capital assets	\$ 28,759	(1)	(1)
Unrestricted	<u>206,652</u>	(1)	(1)
Total Net Assets	<u>\$ 235,411</u>		

(1) The MCIU did not restate its 2003 financial statements in this first year of implementation of GASB Statement 34. Comparative information will be provided in future years.

**Table A-3**  
**Change in Net Assets**  
**For the Fiscal Year Ended December 31, 2004**

	2004	2003	Percent Change (%)
Revenues			
Intergovernmental	\$ 114,166	(1)	(1)
Fines and forfeits	67,468	(1)	(1)
Investment income	1,083	(1)	(1)
<b>Total Revenue</b>	<b>\$ 182,717</b>		
Expenses			
Public safety expenses	137,210	(1)	(1)
<b>Excess Revenue Over Expenses</b>	<b>\$ 45,507</b>	(1)	(1)
Net Assets - January 1, 2004	189,904	(1)	(1)
Net Assets - December 31, 2004	<b>\$ 235,411</b>		

(1) The MCIU did not restate its 2003 financial statements in this first year of implementation of GASB Statement 34. Comparative information will be provided in future years.

### FINANCIAL ANALYSIS OF THE MCIU AT THE FUND LEVEL

The financial performance of the MCIU as a whole is reflected in its governmental fund as well. The General Fund, which is the only governmental fund of the MCIU, includes the primary operations of the MCIU in providing crime investigation to the citizens of Benton, Morrison, Sherburne, and Stearns Counties. As the MCIU completed the year, the General Fund reported a fund balance of \$206,652

The following schedule presents a comparative summary of General Fund revenues:

Function	Year Ended December 31		Change	
	2004	2003	Increase (Decrease)	Percent (%)
Intergovernmental	\$ 114,166	\$ 116,834	\$ (2,668)	(2.34)
Fines and forfeitures	67,468	57,768	9,700	14.38
Gifts and contributions	-	2,700	(2,700)	(100.00)
Miscellaneous	-	1,210	(1,210)	(100.00)
Investment income	1,083	1,137	(54)	(4.99)
<b>Total General Fund Revenues</b>	<b>\$ 182,717</b>	<b>\$ 179,649</b>	<b>\$ 3,068</b>	1.68

The following schedule presents a summary of General Fund expenditures:

**Table A-5  
General Fund Expenditures**

Function	Year Ended December 31		Change	
	2004	2003	Increase (Decrease)	Percent (%)
Public safety	\$ 120,158	\$ 209,071	\$ (88,913)	(74)

**CAPITAL ASSETS AND DEBT**

The MCIU has no debt. The MCIU has \$186,774 invested in capital assets, with accumulated depreciation of \$158,015. No new assets were purchased, and no assets were disposed of in 2004.

**FACTORS BEARING ON THE MCIU'S FUTURE**

The MCIU is somewhat dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that these funds will remain intact. If for some reason the legislature decreases revenues, the agencies involved in the operation of the MCIU would attempt to gain funds either through County budgets or federal and state grants that would aid law enforcement. The MCIU also gains funds through asset seizure during investigations; these funds would also continue to be used to maintain the unit.

**CONTACTING THE MCIU'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and customers, with a general overview of the MCIU's finances and to demonstrate the MCIU's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Sgt. David McLaughlin at 320-259-3795.

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## **BASIC FINANCIAL STATEMENTS**

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**CENTRAL MINNESOTA MAJOR CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 206,544	\$ -	\$ 206,544
Due from other governments	9,005	-	9,005
Capital assets			
Depreciable - net	-	28,759	28,759
<b>Total Assets</b>	<b>\$ 215,549</b>	<b>\$ 28,759</b>	<b>\$ 244,308</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 8,897	\$ -	\$ 8,897
<b><u>Fund Balance/Net Assets</u></b>			
<b>Fund Balance</b>			
Unreserved			
Undesignated	206,652	(206,652)	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 215,549</b>		
<b><u>Net Assets</u></b>			
Invested in capital assets		\$ 28,759	\$ 28,759
Unrestricted		206,652	206,652
<b>Total Net Assets</b>		<b>\$ 235,411</b>	<b>\$ 235,411</b>
<b>Reconciliation of the Governmental Fund Balance to Net Assets</b>			
<b>Fund Balance - Governmental Fund</b>			<b>\$ 206,652</b>
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.			28,759
<b>Net Assets - Governmental Activities</b>			<b>\$ 235,411</b>

**CENTRAL MINNESOTA MAJOR CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES AND  
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General Fund	Reconciliation	Governmental Activities
<b>Revenues</b>			
Intergovernmental	\$ 114,166	\$ -	\$ 114,166
Fines and forfeitures	67,468	-	67,468
Investment income	1,083	-	1,083
	<b>\$ 182,717</b>	<b>\$ -</b>	<b>\$ 182,717</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Public safety	120,158	17,052	137,210
	<b>\$ 62,559</b>	<b>\$ (17,052)</b>	<b>\$ 45,507</b>
<b>Net Change in Fund Balance/Net Assets</b>			
	<b>\$ 144,093</b>	<b>45,811</b>	<b>189,904</b>
<b>Fund Balance/Net Assets - January 1</b>			
	<b>\$ 206,652</b>	<b>\$ 28,759</b>	<b>\$ 235,411</b>

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

<b>Net Change in Fund Balance</b>	<b>\$ 62,559</b>
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. There were no capital expenditures, so the adjustment is the depreciation expense for the current period.	(17,052)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 45,507</b>

**CENTRAL MINNESOTA MAJOR CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

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1. Summary of Significant Accounting Policies

The Central Minnesota Major Crime Investigation Unit (MCIU) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the MCIU are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the MCIU's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the MCIU's activities.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The MCIU has elected to implement all provisions of the statement in the current year.

A. Organization

1. General

Benton, Morrison, Sherburne, and Stearns Counties and the City of St. Cloud have formed a joint powers investigative unit. This unit, established in 1979, was formed to assist in major case investigations within the three-county area by drawing upon the resources of the member units of government. The MCIU has established a Board of Directors, which has general supervision over the MCIU's activities.

**CENTRAL MINNESOTA MAJOR CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Organization (Continued)

2. Board of Directors

The Board consists of ten members. Those ten members are the sheriff and the attorney of each member county and the Police Chief and City Attorney of the City of St. Cloud, or their designees.

The Board elects a chair, a secretary, and a treasurer from its members. These officers serve a one-year term of office and may serve more than one term.

The Board has adopted bylaws and operating rules as it has deemed necessary.

B. Financial Reporting Entity

The MCIU is a separate entity independent of the city and counties, which formed it. In accordance with generally accepted accounting principles, the MCIU's financial statements are not included in any member's financial statements. No single member retains control over the operations or is financially accountable for the MCIU.

C. Basic Financial Statements

Basic financial statements include information on the MCIU's activities as a whole and information on the individual fund of the MCIU. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the Exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the MCIU as a whole.

The governmental activities columns are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The MCIU's net assets are reported in two parts: invested in capital assets, net of related debt, and unrestricted net assets. The statement of activities demonstrates the degree to which the expenses of the MCIU are offset by revenues.

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

**CENTRAL MINNESOTA MAJOR CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting

The governmental activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund columns are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The MCIU considers all revenues to be available if collected within 60 days after the end of the current period. Charges for services and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred.

When both restricted and unrestricted resources are available for use, it is the MCIU's policy to use restricted resources first, and then unrestricted resources as they are needed.

E. Budgetary Information

The MCIU maintains five accounts: the grant account, which is used to account for the MCIU's Drug Control and Systems Improvement Formula Grant; the operating account, which is used to pay training expenses for detectives that are not narcotics officers; the federal forfeiture account, which is used to account for the federal drug forfeiture monies received by the MCIU; and two program income accounts, which are used to account for state drug forfeitures and restitution monies received by the MCIU. An annual budget is adopted for the grant account. The MCIU does not adopt budgets for the activity in the operating, cash management, and restitution accounts.

F. Assets, Liabilities, and Net Assets or Equity

1. Capital Assets

Capital assets are recorded in the assets column in the financial statements. The MCIU defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CENTRAL MINNESOTA MAJOR CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

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1. Summary of Significant Accounting Policies

F. Assets, Liabilities, and Net Assets or Equity

1. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the MCIU are depreciated using the straight-line method over an estimated 5-year useful life.

2. Fund Equity

The unreserved, undesignated fund balance account indicates the portion of equity, which is available for budgeting and expending in future periods.

2. Detailed Notes

A. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the MCIU to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all MCIU deposits be covered by insurance, surety bond, or collateral.

At December 31, 2004, MCIU bank deposits were \$204,879. The carrying value of these deposits on the MCIU's books was \$206,544.

Following is a summary of the bank deposits covered by insurance and collateral at December 31, 2004.

Covered Deposits	
Collateralized with securities held by the MCIU or its agent in the MCIU's name	<u>\$ 204,879</u>

B. Receivables

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

**CENTRAL MINNESOTA MAJOR CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

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2. Detailed Notes (Continued)

C. Capital Assets

The following is a summary of changes in capital assets for the year ended December 31, 2004:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 166,244	\$ -	\$ -	\$ 166,244
Machinery and automotive	20,530	-	-	20,530
Total capital assets depreciated	\$ 186,774	\$ -	\$ -	\$ 186,774
Less: accumulated depreciation for				
Office furniture and equipment	\$ 120,433	\$ 17,052	\$ -	\$ 137,485
Machinery and automotive	20,530	-	-	20,530
Total accumulated depreciation	\$ 140,963	\$ 17,052	\$ -	\$ 158,015
Total Capital Assets Depreciated, net	\$ 45,811	\$ (17,052)	\$ -	\$ 28,759

Depreciation expense was charged to the Public Safety function in the amount of \$17,052.

D. Risk Management

The MCIU is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. For all risks, the MCIU relies upon the insurance coverage of the participants in the joint venture. There have been no significant reductions in insurance from the previous year. The amount of settlements did not exceed insurance coverage for each of the past three years.

E. Contingencies

The expenditures under the federal grant are subject to audit by federal and state agencies. To the extent that these agencies may disallow expenditures claimed, a liability to the MCIU could result.

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**CENTRAL MINNESOTA MAJOR CRIME INVESTIGATION UNIT  
ST. CLOUD, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**I. INTERNAL CONTROLS**

ITEM ARISING THIS YEAR

04-1 Capital Asset Records

Controls over the recording of capital asset additions and deletions need to be improved. Our testing of the capital asset system disclosed that the Central Minnesota Major Crime Investigation Unit (MCIU) does not keep a complete and accurate listing of capital assets. In addition, Governmental Accounting Standards Board (GASB) Statement 34 requires governments to include capital assets on the statement of net assets and to report depreciation expense for those assets on the statement of activities.

To comply with GASB Statement 34, the MCIU must establish accounting policies for capital assets including capitalization thresholds and useful lives.

We recommend that the MCIU develop and maintain a complete capital asset listing. A centralized process should be created to ensure that the individual responsible for maintaining capital asset records is notified when capital assets are added or deleted. A physical inventory of capital assets should be performed annually to verify the accuracy of the records. We also recommend that the MCIU establish formal policies and procedures for accounting and reporting the capital assets.

Client's Response:

*To improve the consistency of capital asset controls, the MCIU Board of Directors has directed the Drug Task Force/Gang Strike Force team leader (Commander) to assume direct control over the maintenance of a complete capital asset listing. The Commander will ensure that assets are added to or deleted from the capital asset list in an appropriate and timely manner. The Commander will also be responsible for conducting an annual physical inventory of all assets owned by the MCIU, the Drug Task Force and the Gang Strike Force.*

*The MCIU Board of Directors has adopted a capital assets policy including a capitalization threshold and depreciation schedule.*

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# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Board of Directors  
Central Minnesota Major Crime  
Investigation Unit

We have audited the basic financial statements of the Central Minnesota Major Crime Investigation Unit (MCIU) as of and for the year ended December 31, 2004, and have issued our report thereon dated September 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

#### Internal Control Over Financial Reporting

The management of the MCIU is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the MCIU's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial

reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the MCIU's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

### 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 five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding since those transactions are handled by Stearns County. In addition, we did not test for compliance in public indebtedness because the MCIU carries no long-term debt.

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

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: September 26, 2005