

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

YEAR ENDED DECEMBER 31, 2005

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

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

Year Ended December 31, 2005



**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
2005

<u>Board of Directors</u>	<u>Title</u>
Robert Raupp ¹	Benton County Attorney
Jim McMahon	Benton County Sheriff
Janelle Kendall	Stearns County Attorney
John Sanner ³	Stearns County Sheriff
Dennis Ballantine	City of St. Cloud Police Chief
Jan Ferrel Peterson	City of St. Cloud Attorney
Conrad Freeberg	Morrison County Attorney
Michel Wetzel ²	Morrison County Sheriff
Gaylord Saetre	Todd County Attorney
David Kircher	Todd County Sheriff

¹Chair

²Secretary

³Treasurer

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, 2005, 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, 2005, 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.

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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 23, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2005
(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, 2005. The Management's Discussion and Analysis (MD&A) is an 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, 2005, and the prior year, 2004, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2005 include the following:

- Government-wide net assets decreased by 19.8 percent from the prior year.
- Overall fund level revenues totaled \$170,065 and were \$54,207 less than expenditures.
- The General Fund's fund balance decreased \$54,207 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 Management's Discussion and Analysis (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 statement of governmental fund revenues, expenditures, and changes in fund balance.

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

Figure A-1 summarizes the major features of the Central Minnesota Major Crime Investigation Unit’s (MCIU) 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.

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

Type of Statements	Government-Wide	Governmental Fund
Scope	Entire government	The activities of the government that are not proprietary or fiduciary
Required financial statements	Statement of net assets	Balance sheet
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 governmental, or General Fund, activity includes the MCIU’s basic services that generally focus on: (1) how cash and other financial assets can readily be 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 UNIT AS A WHOLE

Net Assets

The MCIU's net assets were \$188,829 on December 31, 2005.

	Net Assets December 31		Percent (%) Change
	2005	2004	
Assets			
Cash and pooled investments	\$ 155,560	\$ 206,544	(24.7)
Due from other governments	4,419	9,005	(50.9)
Capital assets	36,384	28,759	26.5
Total Assets	\$ 196,363	\$ 244,308	(19.6)
Liabilities			
Current liabilities			
Accounts payable	\$ 7,534	\$ 8,897	(15.3)
Net Assets			
Invested in capital assets	\$ 36,384	\$ 28,759	26.5
Unrestricted	152,445	206,652	(26.2)
Total Net Assets	\$ 188,829	\$ 235,411	(19.8)

Change in Net Assets Governmental Activities for the Fiscal Year Ended December 31

	Change in Net Assets Governmental Activities for the Fiscal Year Ended December 31		Percent (%) Change
	2005	2004	
Revenues			
Intergovernmental	\$ 126,600	\$ 114,166	10.9
Fines and forfeits – public safety	40,656	67,468	(39.7)
Gifts and contributions	500	-	-
Investment income	1,769	1,083	63.3
Miscellaneous	540	-	-
Total Revenues	\$ 170,065	\$ 182,717	6.9
Expenditures			
Public safety	216,647	137,210	57.9
Excess of Revenues Over (Under) Expenditures	\$ (46,582)	\$ 45,507	(202.4)
Net Assets – January 1	235,411	189,904	24.0
Net Assets – December 31	\$ 188,829	\$ 235,411	(19.8)

(Unaudited)

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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 Stearns, Benton, Todd, and Morrison Counties. As the MCIU completed the year, the General Fund reported a fund balance of \$152,445.

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

Function	General Fund Revenues		Change	
	Year Ended December 31		Increase/ (Decrease)	Percent
	2005	2004		
Intergovernmental	\$ 126,600	\$ 114,166	\$ 12,434	10.9
Fines and forfeitures	40,656	67,468	(26,812)	(39.7)
Gifts and contributions	500	-	500	-
Investment income	1,769	1,083	686	63.3
Miscellaneous	540	-	540	-
Total General Fund Revenues	\$ 170,065	\$ 182,717	\$ (12,652)	(6.9)

Total General Fund revenue decreased by \$12,652, or 6.9 percent, from the previous year. Forfeitures, which can change significantly from year to year, decreased \$26,812, fully accounting for the change.

The following schedule presents a summary of General Fund expenditures:

Function	General Fund Expenditures		Change	
	Year Ended December 31		Increase/ (Decrease)	Percent
	2005	2004		
Public Safety	\$ 224,272	\$ 120,158	\$ 104,114	86.6

Total General Fund expenditures increased by \$104,114, or 86.6 percent, from the previous year. During 2005, the MCIU significantly expanded its operations, increasing the number of investigators from five to nine. The MCIU does not employ the investigators assigned to the Unit; they remain employees of their respective governmental entity. However, the operating costs associated with outfitting the additional staff, including equipment purchases and vehicle leases, significantly increased expenditures in 2005 when compared with the previous year.

FACTORS BEARING ON THE UNIT'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 this unit would attempt to gain funds either through County budgets or Federal and State grants that would aid law enforcement. The unit also gains funds through asset seizure during investigations; these funds would also continue to be used to maintain the MCIU.

CONTACTING THE UNIT'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, 2005**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 155,560	\$ -	\$ 155,560
Due from other governments	4,419	-	4,419
Capital assets			
Depreciable - net	-	36,384	36,384
Total Assets	\$ 159,979	\$ 36,384	\$ 196,363
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 7,534	\$ -	\$ 7,534
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	152,445	(152,445)	
Total Liabilities and Fund Balance	\$ 159,979		
<u>Net Assets</u>			
Invested in capital assets		\$ 36,384	\$ 36,384
Unrestricted		152,445	152,445
Total Net Assets		\$ 188,829	\$ 188,829
Reconciliation of the Governmental Fund Balance to Net Assets			
Fund Balance - Governmental Fund			\$ 152,445
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.			36,384
Net Assets - Governmental Activities			\$ 188,829

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES AND
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Intergovernmental	\$ 126,600	\$ -	\$ 126,600
Fines and forfeitures	40,656	-	40,656
Gifts and contributions	500	-	500
Investment income	1,769	-	1,769
Miscellaneous	540	-	540
	\$ 170,065	\$ -	\$ 170,065
Expenditures/Expenses			
Current			
Public safety	224,272	(7,625)	216,647
Net Change in Fund Balance/Net Assets	\$ (54,207)	\$ 7,625	\$ (46,582)
Fund Balance/Net Assets - January 1	206,652	28,759	235,411
Fund Balance/Net Assets - December 31	\$ 152,445	\$ 36,384	\$ 188,829

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

Net Change in Fund Balance **\$ (54,207)**

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. The adjustment is the net of the current year additions, deletions, and depreciation expense.

Capital asset additions	\$ 29,061	
Net book value of assets disposed of	(2,451)	
Depreciation	(18,985)	7,625

Change in Net Assets of Governmental Activities **\$ (46,582)**

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Summary of Significant Accounting Policies

The Central Minnesota Major Crime Investigation Unit's (MCIU) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. 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.

A. Organization

1. General

Benton, Morrison, Todd, 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 participating counties by drawing upon the resources of the member units of government. Sherburne County began the year as a member of the MCIU but withdrew in February 2005. Todd County joined the MCIU in May 2005. The MCIU has established a board of directors, which has general supervision over the MCIU's activities.

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.

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

1. Summary of Significant Accounting Policies (Continued)

B. Financial Reporting Entity

The MCIU is a separate entity independent of the city and counties that 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.

D. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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.

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

1. Summary of Significant Accounting Policies

D. Measurement Focus and Basis of Accounting (Continued)

Expenditures are recorded when the related fund liability is incurred, except compensated absences, which are recognized as expenditures to the extent that they have matured.

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. Assets, Liabilities, and Net Assets or Equity

1. Capital Assets

Capital assets are recorded in the governmental activities column in the statement of net assets. 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.

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.

3. 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

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

3. Budgetary Information (Continued)

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.

2. Detailed Notes on all Funds

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. Minn. Stat. § 118A.03 requires that all MCIU deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard 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 - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the MCIU's deposits may not be returned to it. The MCIU does not have a deposit policy for custodial credit risk. As of December 31, 2005, the bank balance of the MCIU's deposits totaled \$149,338 and was not exposed to custodial credit risk.

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

2. Detailed Notes on all Funds (Continued)

B. Receivables

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

C. Capital Assets

The following is a summary of changes in capital assets for the year ended December 31, 2005.

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Office furniture and equipment	\$ 166,244	\$ 29,061	\$ 68,079	\$ 127,226
Machinery and automotive	20,530	-	-	20,530
Total capital assets depreciated	<u>\$ 186,774</u>	<u>\$ 29,061</u>	<u>\$ 68,079</u>	<u>\$ 147,756</u>
Less: accumulated depreciation for				
Office furniture and equipment	\$ 137,485	\$ 18,985	\$ 65,628	\$ 90,842
Machinery and automotive	20,530	-	-	20,530
Total accumulated depreciation	<u>\$ 158,015</u>	<u>\$ 18,985</u>	<u>\$ 65,628</u>	<u>\$ 111,372</u>
Total Capital Assets Depreciated, Net	<u><u>\$ 28,759</u></u>	<u><u>\$ 10,076</u></u>	<u><u>\$ 2,451</u></u>	<u><u>\$ 36,384</u></u>

Depreciation expense was charged to public safety expenditures in the amount of \$18,985.

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.

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

2. Detailed Notes on all Funds (Continued)

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, 2005**

INTERNAL CONTROLS

PREVIOUSLY REPORTED ITEM RESOLVED

Capital Asset Records (04-1)

Controls over the recording of capital asset additions and deletions needed to be improved. The MCIU did not keep a complete and accurate listing of capital assets.

Resolution

During 2005, the MCIU took a physical inventory and updated its capital asset records.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors
Central Minnesota Major Crime Investigation Unit

We have audited the 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, 2005, and have issued our report thereon dated October 23, 2006.

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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 23, 2006