

# 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, 2008

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

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**Year Ended December 31, 2008**



**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, 2008**

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

- A. Our report expresses unqualified opinions on the basic financial statements of Dakota County.
- B. A deficiency involving internal control was disclosed by the audit of the financial statements of Dakota County and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It was not a material weakness.
- 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:

Women, Infants, and Children	CFDA #10.557
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	CFDA #10.561
Community Development Block Grant	CFDA #14.218
HOME Investments Partnerships Program	CFDA #14.239
Temporary Assistance for Needy Families	CFDA #93.558
Child Support Enforcement Title IV-D	CFDA #93.563
Child Care Development Block Grant	CFDA #93.575
Medical Assistance	CFDA #93.778

- H. The threshold for distinguishing between Types A and B programs was \$1,357,774.
- 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 NOT RESOLVED

07-1 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County 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, updates to information systems, or changes to services being provided.

The following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items); and
- expenditure/expense processing.

The County has documentation on most of these areas. However, each department's accounting procedures that document internal controls is kept in the individual department's computer files. In order for the Financial Services staff to perform periodic risk assessments of the County's internal controls, they would have to contact each department to get the current documentation.

We recommend that County management centralize the documentation of the significant internal controls in its accounting system and then perform and document a County-wide assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

*The county has centralized the documentation of all cash receipting processes with the PSR staff person responsible for cash audits, and an annual process for updating and reviewing cash receipting processes is in place. We agree on the need for the county to develop a more comprehensive and integrated approach to assessing and managing internal control risks. In order to develop and implement a more systematic approach to internal controls in general, the county has been developing a plan to conduct an assessment of our internal control risk environment and appropriate management and policy responses. We will accelerate this effort in 2009 to develop a specific, prioritized implementation plan.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Audit Adjustment (07-2)**

An audit adjustment was made for the reclassification of net assets between restricted for debt service and unrestricted to report the unspent bond proceeds in the same category as the bonds payable they relate to for \$31,788,119.

**Resolution**

No audit adjustment was necessary to correct the 2008 financial statements.

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

None.

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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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 25, 2009. 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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

Dakota County's written response to the significant deficiency identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's response and accordingly, we express no opinion on it.

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 25, 2009

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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, 2008. 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 the County's management. Our responsibility is to express an opinion on the 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 \$19,622,474 in federal awards during the year ended June 30, 2008, 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 it 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 the 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, 2008.

#### 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 the 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 Dakota 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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 25, 2009. Our report was modified to include a reference to other auditors. Our audit was performed for the purpose of forming opinions on 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 and others within the 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 25, 2009

*/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, 2008**

<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>			
Direct			
Farm and Ranch Lands Protection Program	10.913	\$ 397,438	\$ -
Passed Through Minnesota Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	934,701	-
Passed Through Minnesota Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	14,543	-
National School Lunch Program	10.555	19,803	-
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	<u>1,781,122</u>	<u>-</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 3,147,607</u></b>	<b><u>\$ -</u></b>
<b>U.S. Department of Housing and Urban Development</b>			
Direct			
Community Development Block Grant	14.218	\$ 1,580,620	\$ 1,580,620
Supportive Housing Demonstrative Program	14.235	411,502	-
HOME Investment Partnerships Program	14.239	<u>726,352</u>	<u>726,352</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<b><u>\$ 2,718,474</u></b>	<b><u>\$ 2,306,972</u></b>
<b>U.S. Department of Justice</b>			
Passed Through Minnesota Department of Public Safety			
Juvenile Accountability Incentive Block Grant	16.523	\$ 96,623	\$ -
Direct			
Public Safety Partnership and Community Policing Grant	16.710	1,419	-
State Criminal Alien Assistance Program (SCAAP)	16.606	49,283	-
Byrne Formula Grant Program	16.579	<u>110,596</u>	<u>-</u>
<b>Total U.S. Department of Justice</b>		<b><u>\$ 257,921</u></b>	<b><u>\$ -</u></b>

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

*Schedule 2*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<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 Labor</b>			
Passed Through Minnesota Department of Employment and Economic Development			
Unemployment Insurance - Grants to States WIA Cluster	17.225	\$ 9,423	\$ -
WIA Adult Program	17.258	189,790	-
WIA Youth Activities	17.259	340,055	-
WIA Dislocated Workers	17.260	875,792	-
<b>Total U.S. Department of Labor</b>		<b>\$ 1,415,060</b>	<b>\$ -</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	\$ 9,602,606	\$ -
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	8,453	-
Passed Through Minnesota Department of Public Safety			
State and Community Highway Safety	20.600	3,587	-
Passed Through Metropolitan Council			
Federal Transit Capital Assistance Grant	20.500	486,159	-
<b>Total U.S. Department of Transportation</b>		<b>\$ 10,100,805</b>	<b>\$ -</b>
<b>U.S. National Foundation on Arts and Humanities</b>			
Passed through Minnesota Department of Education			
Grants to States	45.310	\$ 16,701	\$ -
<b>U.S. Environmental Protection Agency</b>			
Passed through Minnesota Pollution Control Agency			
Nonpoint Source Implementation Grants	66.460	\$ 129,946	\$ -
<b>U.S. Department of Education</b>			
Direct			
Special Education - Grants for Infants and Families with Disabilities	84.181	\$ 103,388	\$ -

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

*Schedule 2*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<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</b>			
Passed Through Minnesota Department of Health			
Immunization Research, Demonstration, Public Information and Education - Training and Clinical Skills Improvement Projects	93.185	\$ 45,809	\$ -
Immunization Grants	93.268	25,000	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	559,486	-
Temporary Assistance for Needy Families (TANF)	93.558	325,367	-
Refugee and Entrant Assistance	93.576	8,002	-
State Children's Insurance Program	93.767	1,239	-
Maternal and Child Health Services Block Grant	93.994	284,420	-
Passed Through Minnesota Department of Human Services			
Family Preservation and Support Services	93.556	201,707	-
Temporary Assistance for Needy Families	93.558	2,847,134	-
Child Support Enforcement Title IV-D	93.563	7,529,773	-
Refugee and Entrance Assistance - State-Administered Programs	93.566	1,712	-
Block Grant - Child Care and Development	93.575	5,598,344	-
Community-Based Child Abuse Prevention Grant	93.590	59,399	-
Foster Care Title IV-E	93.658	1,291,506	-
Social Services Block Grant Title XX	93.667	1,418,611	-
Chafee Foster Care Independence Program	93.674	86,815	-
Medical Assistance Program	93.778	5,613,524	-
Block Grant for Community Mental Health Services	93.958	279,110	-
Block Grant for Prevention and Treatment of Substance Abuse	93.959	51,626	-
Direct			
Transitional Living for Homeless Youth	93.550	104,652	-
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 26,333,236</b>	<b>\$ -</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety			
Boating Safety Financial Assistance	97.012	\$ 12,130	\$ -
Homeland Security Grant Program	97.067	1,023,870	-
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 1,036,000</b>	<b>\$ -</b>
<b>Total Federal Awards</b>		<b>\$ 45,259,138</b>	<b>\$ 2,306,972</b>

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**Schedule 2**  
***(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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 1 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.