

# 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, 2006**

## **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.

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 Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

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

**Year Ended December 31, 2006**



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

This page was left blank intentionally.

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

**TABLE OF CONTENTS**

	<u>Reference</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Statement of Net Assets and Governmental Fund Balance Sheet	Exhibit 1	9
Statement of Activities and Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance	Exhibit 2	10
Notes to the Financial Statements		11
<b>Management and Compliance Section</b>		
Schedule of Findings and Recommendations		17
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		19

This page was left blank intentionally.



This page was left blank intentionally.

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

ORGANIZATION  
2006

<u>Board of Directors</u>	<u>Title</u>
Robert Raupp <sup>1</sup>	Benton County Attorney
Jim McMahon	Benton County Sheriff
Janelle Kendall	Stearns County Attorney
John Sanner <sup>3</sup>	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	Morrison County Sheriff
Gaylord Saetre	Todd County Attorney
David Kircher <sup>2</sup>	Todd County Sheriff

<sup>1</sup>Chair

<sup>2</sup>Secretary

<sup>3</sup>Treasurer

This page was left blank intentionally.



This page was left blank intentionally.



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, 2006, 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, 2006, 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

March 6, 2008

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

This page was left blank intentionally.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006  
(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, 2006. 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, 2006, and the prior year, 2005, is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2006 include the following:

- Government-wide net assets decreased by 28.5 percent from the prior year.
- Overall fund level revenues totaled \$309,742 and were \$53,893 less than expenditures.
- The General Fund's fund balance decreased \$53,893 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**

<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	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 that 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 UNIT AS A WHOLE

### Governmental Activities

The MCIU's net assets were \$134,983 on December 31, 2006.

	<b>Net Assets</b>		Percent (%) Change
	2006	2005	
<b>Assets</b>			
Cash and pooled investments	\$ 115,640	\$ 155,560	(25.7)
Due from other governments	44,009	4,419	895.9
Capital assets	36,431	36,384	0.1
<b>Total Assets</b>	<b>\$ 196,080</b>	<b>\$ 196,363</b>	<b>(0.1)</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 41,359	\$ 7,534	449.0
Unresolved forfeitures payable	19,738	-	100.0
<b>Total Liabilities</b>	<b>\$ 61,097</b>	<b>\$ 7,534</b>	<b>711.0</b>
<b>Net Assets</b>			
Invested in capital assets	\$ 36,431	\$ 36,384	0.1
Unrestricted	98,552	152,445	(35.4)
<b>Total Net Assets</b>	<b>\$ 134,983</b>	<b>\$ 188,829</b>	<b>(28.5)</b>

### Change in Net Assets For the Year Ended December 31

	2006		2005		Percent (%) Change
	2006	2005	2006	2005	
<b>Revenues</b>					
Intergovernmental	\$ 272,046	\$ 126,600	126,600	126,600	114.9
Fines and forfeits - public safety	33,479	40,656	40,656	40,656	(17.7)
Gifts and contributions	950	500	500	500	90.0
Investment income	2,337	1,769	1,769	1,769	32.1
Miscellaneous	930	540	540	540	72.2
<b>Total Revenues</b>	<b>\$ 309,742</b>	<b>\$ 170,065</b>	<b>170,065</b>	<b>170,065</b>	<b>82.1</b>
<b>Expenditures</b>					
Public safety	363,588	216,647	216,647	216,647	67.8
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (53,846)</b>	<b>\$ (46,582)</b>	<b>(46,582)</b>	<b>(46,582)</b>	<b>(15.6)</b>
Net Assets - January 1	188,829	235,411	235,411	235,411	(19.8)
<b>Net Assets - December 31</b>	<b>\$ 134,983</b>	<b>\$ 188,829</b>	<b>188,829</b>	<b>188,829</b>	<b>(28.5)</b>

## 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 \$98,552.

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

Function	Year Ended December 31		Change	
	2006	2005	Increase (Decrease)	Percent (%)
	Intergovernmental	\$ 272,046	\$ 126,600	\$ 145,446
Fines and forfeitures	33,479	40,656	(7,177)	(17.7)
Gifts and contributions	950	500	450	90.0
Investment income	2,337	1,769	568	32.1
Miscellaneous	930	540	390	72.2
<b>Total General Fund Revenues</b>	<b>\$ 309,742</b>	<b>\$ 170,065</b>	<b>\$ 139,677</b>	<b>82.1</b>

Total General Fund revenue increased by \$139,677, or 82.1 percent, from the previous year. Added funds made available from the state and federal government accounted for the increase in revenues.

The following schedule presents a summary of General Fund expenditures:

Function	Year Ended December 31		Change	
	2006	2005	Increase (Decrease)	Percent (%)
	Public Safety	\$ 363,635	\$ 224,272	\$ 139,363

Total General Fund expenditures increased by \$139,363, or 62.1 percent, from the previous year. During 2006, the MCIU has continued to significantly expand its operations. During the year, the number of investigators increased from nine to fourteen. 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 2006 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.

This page was left blank intentionally.

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.

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

**EXHIBIT 1**

**STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2006**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 115,640	\$ -	\$ 115,640
Due from other governments	44,009	-	44,009
Capital assets			
Depreciable - net	-	36,431	36,431
<b>Total Assets</b>	<b>\$ 159,649</b>	<b>\$ 36,431</b>	<b>\$ 196,080</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 41,359	\$ -	\$ 41,359
Unresolved forfeitures payable	19,738	-	19,738
<b>Total Liabilities</b>	<b>\$ 61,097</b>	<b>\$ -</b>	<b>\$ 61,097</b>
<b><u>Fund Balance/Net Assets</u></b>			
<b>Fund Balance</b>			
Unreserved			
Undesignated	98,552	(98,552)	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 159,649</b>	<b>\$ (98,552)</b>	
<b>Net Assets</b>			
Invested in capital assets		\$ 36,431	\$ 36,431
Unrestricted		98,552	98,552
<b>Total Net Assets</b>		<b>\$ 134,983</b>	<b>\$ 134,983</b>
<b>Reconciliation of the Governmental Fund Balance to Net Assets</b>			
<b>Fund Balance - Governmental Fund</b>			<b>\$ 98,552</b>
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.			36,431
<b>Net Assets - Governmental Activities</b>			<b>\$ 134,983</b>

**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, 2006**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 272,046	\$ -	\$ 272,046
Fines and forfeitures	33,479	-	33,479
Gifts and contributions	950	-	950
Investment income	2,337	-	2,337
Miscellaneous	930	-	930
	<b>\$ 309,742</b>	<b>\$ -</b>	<b>\$ 309,742</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Public safety	363,635	(47)	363,588
	<b>\$ (53,893)</b>	<b>\$ 47</b>	<b>\$ (53,846)</b>
<b>Net Change in Fund Balance/Net Assets</b>			
	<b>152,445</b>	<b>36,384</b>	<b>188,829</b>
<b>Fund Balance/Net Assets - January 1</b>			
	<b>\$ 98,552</b>	<b>\$ 36,431</b>	<b>\$ 134,983</b>

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

**Net Change in Fund Balance** **\$ (53,893)**

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	\$ 18,038	
Depreciation	(17,991)	47

**Change in Net Assets of Governmental Activities** **\$ (53,846)**

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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

---

---

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, 2006. 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. The MCIU has established a Board of Directors, which has general supervision over the MCIU's activities. The MCIU added a Gang Investigation Unit to the Drug Task Force during 2006.

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 as available if collected within 60 days after the end of the current period.

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

---

1. Summary of Significant Accounting Policies

D. Measurement Focus and Basis of Accounting (Continued)

Charges for services and interest are considered susceptible to accrual. 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 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 five-year useful life.

2. Unresolved Forfeitures Payable

The MCIU receives forfeitures throughout the year for the various cases worked on. The courts ultimately decide the amount of the forfeitures each governmental unit involved is entitled to. The balance reported as unresolved forfeitures payable are forfeitures received that have not been assigned by the courts. A portion of these forfeitures will be assigned to the MCIU, and they will be reported as revenue at that time.

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

---

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Fund Equity

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

4. Budgetary Information

The MCIU maintains four accounts: the grant account used to account for the MCIU's Drug Control and Systems Improvement Formula Grant; the operating account used to pay training expenses for detectives who are not narcotics officers; the federal forfeiture account used to account for the federal drug forfeiture monies received by the MCIU; and a program income account 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, federal forfeiture, and program income 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 standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

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

---

2. Detailed Notes on all Funds

A. Deposits (Continued)

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, 2006, the bank balance of the MCIU's deposits totaled \$110,656 and was not exposed to custodial credit risk.

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, 2006.

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Office furniture and equipment	\$ 127,226	\$ 18,038	\$ -	\$ 145,264
Machinery and automotive	20,530	-	-	20,530
Total capital assets depreciated	\$ 147,756	\$ 18,038	\$ -	\$ 165,794
Less: accumulated depreciation for				
Office furniture and equipment	\$ 90,842	\$ 17,991	\$ -	\$ 108,833
Machinery and automotive	20,530	-	-	20,530
Total accumulated depreciation	\$ 111,372	\$ 17,991	\$ -	\$ 129,363
Total Capital Assets Depreciated, Net	\$ 36,384	\$ 47	\$ -	\$ 36,431

Depreciation expense was charged to public safety expenditures in the amount of \$17,991.

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

---

2. Detailed Notes on all Funds (Continued)

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.



This page was left blank intentionally.

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

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

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**ITEMS ARISING THIS YEAR**

**06-1 Preparation of Financial Statements**

The Central Minnesota Major Crime Investigation Unit (MCIU) is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the MCIU's management. Financial statement preparation in accordance with GAAP requires internal control over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate financial statements, including the related notes to the financial statements.

The MCIU has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, the MCIU has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the MCIU's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the MCIU's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation and reporting of financial statements in accordance with GAAP.

We recommend the MCIU obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the MCIU still intends to have staff from the Office of the State Auditor assist in preparation, then at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand and approve the MCIU's financial statements, including notes. As an alternative, the MCIU could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

*The MCIU Board will take this matter under advisement and will work with the auditors when compiling these reports in the future.*

06-2 Audit Adjustments

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 of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that should be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls even if management subsequently corrects the misstatement.

During our audit, we identified a material adjustment to accounts payable of \$41,359.

The proposed audit adjustment was reviewed and approved by the appropriate staff and is reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend the MCIU establish internal procedures for determining all necessary entries to convert the general ledger, which is recorded on the cash basis, to the modified accrual basis (governmental fund statements), and identify those entries necessary to convert the financial statements to the accrual basis (governmental activity statements), in accordance with GAAP.

Client's Response:

*In the future, all information regarding accounts payable, including obligations accrued at the time of the audit, will be made available to the auditors. This should provide a more accurate review of the funds being audited.*



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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND 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, 2006, and have issued our report thereon dated March 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 MCIU'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 MCIU's financial statements that is more than inconsequential will not be prevented or detected by the MCIU's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 06-1 and 06-2 to be significant deficiencies 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 the MCIU'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 disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe neither of the significant deficiencies described above is a material weakness.

### 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 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 has 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.

The MCIU's written responses to the significant deficiencies identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and others within the MCIU 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

March 6, 2008