

# STATE OF MINNESOTA

## Office of the State Auditor



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

---

**MANAGEMENT AND COMPLIANCE REPORT**

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

**YEAR ENDED DECEMBER 31, 2016**

## **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 150 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 650 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@osa.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).

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**Year Ended December 31, 2016**



**Management and Compliance Report**

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

This page was left blank intentionally.

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

TABLE OF CONTENTS

	<u>Page</u>
<b>Dakota County Management and Compliance Report</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	4
Schedule of Findings and Questioned Costs	8
Corrective Action Plan	15
Summary Schedule of Prior Audit Findings	18
Schedule of Expenditures of Federal Awards	21
Notes to the Schedule of Expenditures of Federal Awards	25
<b>Vermillion River Watershed Joint Powers Organization Management and Compliance Report</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26

This page was left blank intentionally.

**DAKOTA COUNTY  
MANAGEMENT AND COMPLIANCE REPORT**

**YEAR ENDED DECEMBER 31, 2016**

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)

## **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***

### Independent Auditor's Report

Board of County Commissioners  
Dakota County  
Hastings, Minnesota

We have audited, 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, 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, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 19, 2017. Our report includes a reference to other auditors who audited the financial statements of the Dakota County Community Development Agency, a discretely presented component unit, for the year ended June 30, 2016, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. We issue a separate Management and Compliance Report for the Vermillion River Watershed Joint Powers Organization. The results of our testing of the Vermillion River Watershed Joint Powers Organization component unit's internal control over financial reporting and on compliance and other matters is reported on separately within this Management and Compliance Report.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Dakota County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002, that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Dakota County's financial statements are free from 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**

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County does not administer any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Dakota County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as item 2015-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

### **Dakota County's Response to Findings**

Dakota County's responses to the internal control and legal compliance findings identified in our audit are described in the Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 19, 2017

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)

## **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

### Independent Auditor's Report

Board of County Commissioners  
Dakota County  
Hastings, Minnesota

### **Report on Compliance for Each Major Federal Program**

We have audited Dakota County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2016. 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.

Dakota County's basic financial statements include the operations of the Dakota County Community Development Agency (CDA) component unit, which expended \$24,040,350 in federal awards during the year ended June 30, 2016, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Dakota County CDA because other auditors were engaged to perform a single audit in accordance with the Uniform Guidance.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Dakota County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

### ***Basis for Qualified Opinion on Medical Assistance Program (CFDA No. 93.778)***

As described in the accompanying Schedule of Findings and Questioned Costs, Dakota County did not comply with requirements regarding CFDA No. 93.778 Medical Assistance Program as described in finding number 2014-002 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

### ***Qualified Opinion on Medical Assistance Program (CFDA No. 93.778)***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Dakota County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Medical Assistance Program for the year ended December 31, 2016.

### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, Dakota County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2016.

### ***Other Matters***

The results of our auditing procedures disclosed an other instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001. Our opinion on each major federal program is not modified with respect to this matter.

Dakota County's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. Dakota County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control Over Compliance**

Management of Dakota County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 to be a significant deficiency.

Dakota County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. Dakota County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We have issued our report thereon dated June 19, 2017, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Dakota County CDA component unit, which was audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dakota County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 19, 2017

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major federal programs: **Unmodified for all major programs, except for Medical Assistance Program, which is qualified.**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal programs are:

Special Supplemental Nutrition Program for Women, Infants, and Children	CFDA No. 10.557
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	CFDA No. 10.561
Community Development Block Grants/Entitlement Grants	CFDA No. 14.218
Home Investment Partnerships Program	CFDA No. 14.239
Foster Care - Title IV-E	CFDA No. 93.658
Medical Assistance Program	CFDA No. 93.778

The threshold for distinguishing between Types A and B programs was \$1,270,394.

Dakota County qualified as a low-risk auditee? **No**

## **II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2013-002

#### Audit Adjustments

**Criteria:** A deficiency in internal control over financial reporting 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 and correct, misstatements of the financial statements on a timely basis.

**Condition:** During our audit, we proposed audit adjustments that resulted in significant changes to Dakota County's financial statements. These adjustments were reviewed and approved by the appropriate staff and are reflected in the financial statements.

**Context:** The inability to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. These adjustments were found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

**Effect:** The following misstatements detected as a result of audit procedures were corrected by management:

- In the Highway Fund, accounts payable and construction expenditures were increased by \$1,752,305 to record the expenditures in the proper year.
- In the Capital Projects Fund, accounts payable and capital outlay expenditures were increased by \$216,366 to record the expenditures in the proper year.

**Cause:** Payables were missed due to invoices being paid after the County's cut-off date or being dated in 2017 in the general ledger, or due to a misunderstanding.

**Recommendation:** We recommend the County establish internal controls necessary to determine that all adjusting entries are made to ensure the County's annual financial statements are accurately presented in accordance with generally accepted accounting principles.

**View of Responsible Official:** Concur

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

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2014-002

#### Eligibility Testing

**Program:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778), Award No. 1605MN5ADM, 2016

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

**Condition:** The Minnesota Department of Human Services (DHS) maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to monitor compliance with grant requirements for eligibility, when performing our case file review for eligibility, we noted that not all documentation was available to support participant eligibility. In other circumstances, information was either input incorrectly or not properly updated in MAXIS. The following instances were noted in our sample of 40 cases tested:

- Four instances were found in case files where citizenship was not verified.
- Two instances were found in case files where it could not be determined how the jobs information in MAXIS was calculated based upon the documentation in the case file.
- Three instances were found in case files where income was not verified.

- Thirteen instances were found in case files where assets were not verified and/or updated.
- Three instances were found in case files where documentation of the existence of an asset was found on the application or in the case file, but the asset was not recorded in MAXIS.
- One instance was found in a case file where the application was not date stamped when received.
- One instance was found in a case file where the Social Security number could not be located in the application or in the case file.
- One instance was found in a case file where the applicant had other health insurance available, but documentation of a cost-effective analysis could not be found in the case file.

**Questioned Costs:** Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

**Context:** The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

The State of Minnesota contracts with the County’s Community Services Division to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the Minnesota DHS maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to participants.

**Effect:** The improper input or updating of information into MAXIS and lack of verification or follow-up of eligibility-determining factors increases the risk that a program participant will receive benefits when they are not eligible.

**Cause:** The County informed us that staffing turnover, increases in caseload sizes, and increases in processing time resulted in an increase in technical errors. Approximately half of the County’s financial workers were newly hired within the past two years.

**Recommendation:** We recommend the County implement additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations exists and is properly input or updated in MAXIS and issues are followed up on in a timely manner. In addition, consideration should be given to providing additional training to program personnel.

**View of Responsible Official:** Concur

## ITEM ARISING THIS YEAR

Finding Number 2016-001

### Subrecipient Monitoring

**Programs:** U.S. Department of Housing and Urban Development's Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) and Home Investment Partnerships Program (CFDA No. 14.239)

**Criteria:** Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. Also, the County must comply with the requirements for pass-through entities as identified in Title 2 U.S. *Code of Federal Regulations* § 200.331, such as clearly identifying the award to the subrecipient; evaluating the subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the award; monitoring the activities of the subrecipient; and verifying the subrecipient is audited, if required.

**Condition:** The County does not document its monitoring activities (i.e., on-site visits and phone conversations with its subrecipient); does not perform and document a risk assessment over its subrecipient; and does not document review over the subrecipient's audit, follow-up on its subrecipient's audit findings, or conclusions on monitoring procedures. Also, the CFDA number is not included in subrecipient agreements. Lastly, the County does not have documented policies and procedures for monitoring the Home Investment Partnerships Program.

**Questioned Costs:** None.

**Context:** In 2015, the County hired a Compliance Analyst who reviews the County's policies and procedures, develops formal risk assessments, and performs monitoring procedures.

**Effect:** The County is not meeting federal regulations pertaining to subrecipient monitoring. Also, the County cannot be assured that its subrecipient is administering federal awards in compliance with all of the applicable federal requirements.

**Cause:** The County believes sufficient documentation exists through Board meetings and actions and Board-approved agreements. Also, the County has relied upon the audits performed by the U.S. Department of Housing and Urban Development and its subrecipient's auditors. Since the County employs a Compliance Analyst, the Physical

Development Division was under the impression that the development of risk assessments and the performance of monitoring procedures would be a centralized function in the County's Finance Department. Policies and procedures for the Home Investment Partnerships Program have not been documented due to staffing limitations.

**Recommendation:** We recommend the County Finance Department work with departments that pass funds through to subrecipients to set responsibilities on completing risk assessments and monitoring procedures over federal programs, as well as creating and maintaining proper documentation to meet the requirements of federal programs. For both the Community Development Block Grants/Entitlement Grants and Home Investment Partnerships Program, specifically, this would include documenting the monitoring procedures performed (such as on-site visits, review of the subrecipient's audit findings) and any related follow-up or findings, and performing and documenting a risk assessment of subrecipients. Also, we recommend the County include applicable CFDA numbers in its subrecipient agreements. Lastly, we recommend the County develop and document policies and procedures for monitoring the Home Investment Partnerships Program.

**View of Responsible Official:** Acknowledged

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### MINNESOTA LEGAL COMPLIANCE

##### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-003

##### Withholding Affidavit for Contractors (Form IC-134)

**Criteria:** Minnesota Statute § 270C.66 states that, before making final settlement with any contractor under a contract requiring the employment of employees for wages by the contractor and by subcontractors, the County is required to obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92.

**Condition:** During 2016, the County made final payment to four contractors for contracts involving the employment of individuals for wages by the contractor. Of these, final payment was made on one contract before Form IC-134, which certifies withholding compliance, was received from this contractor and approved by the Minnesota Department of Revenue.

**Context:** Instances were noted where final payments were made on contracts before Form IC-134 was received from contractors and approved by the Minnesota Department of Revenue during our 2013, 2014, and 2015 audits as well.

**Effect:** Noncompliance with Minn. Stat. § 270C.66.

**Cause:** The County informed us that the Form IC-134 was not obtained by mistake.

**Recommendation:** We recommend the County obtain the required IC-134 Withholding Affidavit Form before final payment is made to contractors and subcontractors on all contracts requiring the employment of employees for wages.

**View of Responsible Official:** Concur

## V. PREVIOUSLY REPORTED ITEMS RESOLVED

2014-001 Capital Assets Adjustment  
2015-001 Library Disbursement Approvals  
2015-002 Journal Entries

This page was left blank intentionally.

**REPRESENTATION OF DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 2013-002**

**Finding Title: Audit Adjustments**

Name of Contact Person Responsible for Corrective Action:

Pamela Davis

Corrective Action Planned:

The County currently communicates notices to departments with regard to year-end adjustments and cut-off dates for prior year entries. We run weekly reports to identify items that need to be considered for the prior year, and compare with staff that monitors programs and monthly activity. Recently, we have also communicated (by email and telephone) to department staff and supervisors the need to carefully review dates on invoices received, and have recommended the use of date stamps to help monitor dates for timely payments.

We are also engaging our analysts in periodic meetings to share information across departments and divisions applicable to ledger recordings. Additionally we will expand on consultations with staff at year end to inquire about work-in-progress, review invoices, receipts and outstanding items to ensure proper coding and timely application of data to the various financial management systems.

Anticipated Completion Date:

July 2017

**Finding Number: 2014-002**  
**Finding Title: Eligibility Testing**  
**Program: Medical Assistance Program (CFDA No. 93.778)**

Name of Contact Person Responsible for Corrective Action:

Tiffinie Miller

Corrective Action Planned:

Managers and staff have implemented a new income calculation tool and require that income calculations be documented as well as required audit findings and corrective action steps to be discussed at each supervisor's next unit meeting. Staff will be informed and retrained that all grouped documents received will need to be individually date stamped; not just the first document received in a mailing, other health insurance policies should be reviewed annually for CEHI, exempted assets will be verified, and on the importance of updating changes even if it does not impact the eligibility.

Anticipated Completion Date:

July 2017

**Finding Number: 2016-001**  
**Finding Title: Subrecipient Monitoring**  
**Program: Community Development Block Grants/Entitlement Grants (CFDA No. 14.218)**  
**and Home Investment Partnerships Program (CFDA No. 14.239)**

Name of Contact Person Responsible for Corrective Action:

Erin Stwora and Kathy Trombly-Ferrin

Corrective Action Planned:

County staff will be meeting to review appropriate language for Joint Powers Agreements and update internal program procedures to include types of documentation needed to illustrate the County's monitoring process for both the CDBG and Home programs.

Also, County staff will develop a risk assessment of the subrecipient (CDA) and implement a process for reviews over the subrecipient's audits and/or audit findings.

A checklist of duties and requirements for monitoring and documenting subrecipient activity will be developed to ensure that steps are being followed, and to demonstrate reasonable assurance that the County and the subrecipient are in compliance with federal awards.

Anticipated Completion Date:

September 2017

**Finding Number: 2015-003**

**Finding Title: Withholding Affidavits for Contractors (Form IC-134)**

Name of Contact Person Responsible for Corrective Action:

Erin Stwora

Corrective Action Planned:

The County is conducting a Process Improvement Project to ensure that the IC-134 certificates accompany the final payment of a construction contract. This process is already underway and will be completed as soon as possible. The outcome of the project will include procedures that will be shared with all staff involved with the payment of construction contracts.

Anticipated Completion Date:

August 2017

This page was left blank intentionally.

**REPRESENTATION OF DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 2013-002**

**Finding Title: Audit Adjustments**

**Summary of Condition:** During the 2015 audit, audit adjustments were proposed that resulted in significant changes to Dakota County's financial statements. These adjustments were reviewed and approved by the appropriate staff and were reflected in the financial statements.

**Summary of Corrective Action Previously Reported:** The County uses a manual checklist and a system of internal controls to complete the close of the County's general ledger and annual financial statement audit entries. We exercise our best efforts in communicating with external departments on expectations, policies and deadlines however, it is not unusual to discover a missing piece of information during the audit period that may require a restatement of the financial reports.

**Status:** Partially Corrected. Audit adjustments made in prior year(s) have differed each year, and although we try to resolve them in the following year, and thoroughly review a checklist of items, circumstances arise that we are not always aware of until after the trial balances are completed. We have begun a review of specific fund activity and will resolve redundant transactions, as well as take a proactive approach to managing data in the County's operating system through regular meetings with staff. We also provide periodic memos to departments throughout the County as reminders of our policies and procedures to promote timely and accurate reporting.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No   X  

**Finding Number: 2014-001**

**Finding Title: Capital Assets Adjustment**

**Summary of Condition:** During the 2015 audit of the Byllesby Dam Enterprise Fund, material structural rehabilitation, gate refurbishment, and turbine upgrade expenses were identified that were not capitalized as construction in progress.

**Summary of Corrective Action Previously Reported:** We have included specific staff in regular meetings with departments to collect and update data for on-going projects throughout the year in order to balance out year-end workloads and stay informed on significant transactions.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2014-002**

**Finding Title: Eligibility Testing**

**Program: Medical Assistance Program (CFDA No. 93.778)**

**Summary of Condition:** During the 2015 audit, out of a sample of 15 case files, 1 did not have current documentation to support an asset.

**Summary of Corrective Action Previously Reported:** During mid-year 2016, the County's departmental staff reviewed procedures around case management and documentation at regular unit meetings. The County continues to update the Bluezone Scripts and have mandated Financial Workers' use of CaseNote scripts for intake and eligibility reviews.

**Status:** Partially Corrected. As noted above, we have provided additional training, communication and updated our procedures. We will continue to examine our procedures and documentation to correct this condition.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2015-001**

**Finding Title: Library Disbursement Approvals**

**Summary of Condition:** During the 2015 audit, out of a sample of 25 disbursements, of which 12 were library disbursements, the approved materials list could not be found for 8 disbursements. In addition, 1 disbursement was ordered prior to November 2014, when an approval process was not in place.

**Summary of Corrective Action Previously Reported:** The Library management and staff have updated an "approved" materials list as well as the list of personnel involved in the workflow approval process for disbursements. Copies of requests and approvals will be recorded and filed for retention purposes.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2015-002**  
**Finding Title: Journal Entries**

**Summary of Condition:** During the 2015 audit, out of a sample of 25 journal entries, 14 did not have a “JE Request Form” and, therefore, there was no documentation supporting that those journal entries were authorized by a supervisor/manager.

**Summary of Corrective Action Previously Reported:** County staff has revised the language in the journal entry procedures manual to incorporate various instances for general ledger adjustments and appropriate examples of backup documentation that will meet our needs and ensure that we are complying with our written processes.

**Status:** Fully Corrected. Corrective action was taken.  
Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No   X  

**Finding Number: 2015-003**  
**Finding Title: Withholding Affidavit for Contractors (Form IC-134)**

**Summary of Condition:** During the 2015 audit, the County made final payment to five contractors for contracts involving the employment of individuals for wages by the contractor. Of these, final payment was made on one contract before Form IC-134, which certifies withholding compliance, was received from this contractor and approved by the Minnesota Department of Revenue.

**Status:** Partially Corrected. The County continues to work with departmental staff to reinforce the need for obtaining affidavits before approving final payments. Although every effort has been made to implement this process in our procedures, one or two instances out of thousands of payments tend to occur. We will look further into revising our procedures for these types of payments.

Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No   X

This page was left blank intentionally.

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</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	-	\$ 717,392	\$ -
Passed through Minnesota Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	Not Provided	25,696	-
National School Lunch Program	10.555	Not Provided	39,428	-
<i>(Total expenditures for Child Nutrition Cluster \$65,124)</i>				
Passed through Minnesota Department of Health				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	12-700-00068	1,240,163	-
Passed through Minnesota Department of Agriculture				
WIC Farmers' Market Nutrition Program (FMNP)	10.572	Not Provided	2,499	-
Passed through Minnesota Department of Human Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15152MN101S2514	1,122,513	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	620,747	-
<i>(Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program 10.561 \$1,743,260)</i>				
<b>Total U.S. Department of Agriculture</b>			<b>\$ 3,768,438</b>	<b>\$ -</b>
<b>U.S. Department of Housing and Urban Development</b>				
Direct				
Community Development Block Grants/Entitlement Grants	14.218	-	\$ 1,813,403	\$ 1,813,403
Community Development Block Grants/Entitlement Grants	14.218	B-08-UN-27-002	10,363	10,363
<i>(Total Community Development Block Grants/Entitlement Grants 14.218 \$1,823,766)</i>				
Home Investment Partnerships Program	14.239	-	2,207,507	2,207,507
Passed through Minnesota Department of Human Services				
Emergency Solutions Grant Program	14.231	Not Provided	64,532	64,532
Emergency Solutions Grant Program	14.231	MN0077L5K0331306	628,704	-
<i>(Total Emergency Solutions Grant Program 14.231 \$693,236)</i>				
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 4,724,509</b>	<b>\$ 4,095,805</b>
<b>U.S. Department of Justice</b>				
Direct				
Edward Byrne Memorial Formula Grant Program	16.579	-	\$ 72,900	\$ -
State Criminal Alien Assistance Program	16.606	-	32,891	-
Equitable Sharing Program	16.922	-	25,531	-
Passed through Minnesota Department of Public Safety				
Juvenile Accountability Block Grants	16.523	Not Provided	26,813	-
Crime Victim Assistance	16.575	Not Provided	51,780	-
<b>Total U.S. Department of Justice</b>			<b>\$ 209,915</b>	<b>\$ -</b>

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</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				
WIA/WIOA Cluster				
WIA/WIOA Adult Program	17.258	5143100	\$ 120,987	\$ -
WIA/WIOA Adult Program	17.258	6143100	75,800	-
<i>(Total WIA/WIOA Adult Program 17.258 \$196,787)</i>				
WIA/WIOA Youth Activities	17.259	5143600	96,270	-
WIA/WIOA Youth Activities	17.259	6143600	150,297	-
<i>(Total WIA/WIOA Youth Activities 17.259 \$246,567)</i>				
WIA/WIOA Dislocated Worker Formula Grants	17.278	4148000	16,012	-
WIA/WIOA Dislocated Worker Formula Grants	17.278	5148000	140,802	-
WIA/WIOA Dislocated Worker Formula Grants	17.278	6148000	99,945	-
<i>(Total WIA/WIOA Dislocated Workers Formula Grants 17.278 \$256,759)</i>				
<i>(Total expenditures for WIA/WIOA Cluster \$700,113)</i>				
<b>Total U.S. Department of Labor</b>			<b>\$ 700,113</b>	<b>\$ -</b>
<b>U.S. Department of Transportation</b>				
Passed through Minnesota Department of Transportation				
Highway Planning and Construction	20.205	1914073	\$ 755,351	\$ -
Highway Planning and Construction	20.205	1915160	738,179	-
Highway Planning and Construction	20.205	1912258	131,522	-
Highway Planning and Construction	20.205	8814077	1,317,084	-
Highway Planning and Construction	20.205	1916059	579,255	-
Highway Planning and Construction	20.205	1915182	552,572	-
Highway Planning and Construction	20.205	1916122	1,447,159	-
Highway Planning and Construction	20.205	1915164	312,612	-
Highway Planning and Construction	20.205	S223001	168,523	-
Highway Planning and Construction	20.205	S223002	411,250	-
Highway Planning and Construction	20.205	1915144	1,115,489	-
<i>(Total Highway Planning and Construction 20.205 \$7,528,996)</i>				
Formula Grants for Rural Areas	20.509	Not Provided	1,970	-
Transit Services Programs Cluster				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	Not Provided	69,248	-
<i>(Total expenditures for Transit Services Programs Cluster \$72,339)</i>				
Passed through Metropolitan Council				
Transit Services Programs Cluster				
Job Access and Reverse Commute Program	20.516	MN-37-X015	3,091	-
<i>(Total expenditures for Transit Services Programs Cluster \$72,339)</i>				
Passed through the City of Hastings				
Highway Safety Cluster				
State and Community Highway Safety	20.600	Not Provided	3,013	-
National Priority Safety Programs	20.616	Not Provided	6,265	-
<i>(Total expenditures for Highway Safety Cluster \$9,278)</i>				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	Not Provided	24,494	-
<b>Total U.S. Department of Transportation</b>			<b>\$ 7,637,077</b>	<b>\$ -</b>

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Environmental Protection Agency</b>				
Passed through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants	66.460	Not Provided	\$ 21,748	\$ -
<b>U.S. Department of Education</b>				
Direct Special Education - Grants for Infants and Families	84.181	-	\$ 1,933	\$ -
<b>U.S. Department of Health and Human Services</b>				
Passed through Minnesota Department of Health Public Health Emergency Preparedness Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.069	Not Provided	\$ 307,270	\$ -
Universal Newborn Hearing Screening	93.074	12-700-00068	3,025	-
Immunization Cooperative Agreements	93.251	Not Provided	9,275	-
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.268	Not Provided	16,820	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.314	12-700-00068	375	-
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	93.505	Not Provided	369,364	-
Temporary Assistance for Needy Families	93.539	Not Provided	9,525	-
<i>(Total Temporary Assistance for Needy Families 93.558 \$2,912,385)</i>	93.558	Not Provided	325,356	-
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00068	303,230	-
Passed through Minnesota Department of Human Services				
Guardianship Assistance	93.090	1601MNGARD	65,953	-
Projects for Assistance in Transition from Homelessness (PATH)	93.150	Not Provided	26,124	-
Promoting Safe and Stable Families	93.556	1501MNFPS	116,051	-
Temporary Assistance for Needy Families <i>(Total Temporary Assistance for Needy Families 93.558 \$2,912,385)</i>	93.558	1601MNTANF	2,587,029	-
Child Support Enforcement	93.563	1604MNCES	7,266,269	-
Child Care and Development Block Grant	93.575	G1601MNCDF	502,706	-
Community-Based Child Abuse Prevention Grants	93.590	1402MNFPG	127,987	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1501MNCWSS	47,306	-
Foster Care - Title IV-E	93.658	1601MNFOS	1,457,512	-
Adoption Assistance	93.659	1601MNA	420,434	-
Social Services Block Grant	93.667	1501MNSOS	1,458,991	-
Chafee Foster Care Independence Program	93.674	1501MNCILP	61,646	-
Medical Assistance Program	93.778	1605MN5ADM	9,139,007	-
Medical Assistance Program <i>(Total Medical Assistance Program 93.778 \$9,226,851)</i>	93.778	1605MN5MAP	87,844	-
Money Follows the Person Rebalancing Demonstration	93.791	Not Provided	78,839	-
Block Grants for Community Mental Health Services	93.958	SM010027-15	6,173	-
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 24,794,111</b>	<b>\$ -</b>

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Homeland Security</b>				
Passed through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	Not Provided	\$ 12,407	\$ -
Passed through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Not Provided	63,114	-
Emergency Management Performance Grants	97.042	Not Provided	59,938	-
Homeland Security Grant Program	97.067	A-UASI-2014-DAKOTACO-00006	353,161	-
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 488,620</b>	<b>\$ -</b>
<b>Total Federal Awards</b>			<b>\$ 42,346,464</b>	<b>\$ 4,095,805</b>

**DAKOTA COUNTY  
HASTINGS, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

---

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Dakota County. The County's reporting entity is defined in Note I to the financial statements. Dakota County's financial statements include the operations of the Dakota County Community Development Agency (CDA) component unit, which expended \$24,040,350 in federal awards during the year ended June 30, 2016. Those expenditures are not included in the County's Schedule of Expenditures of Federal Awards, because the CDA had a separate single audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Dakota County under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Dakota County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Dakota County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of Dakota County. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the full accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Dakota County has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 41,479,634
Grants held in the Agency Fund	
Foster Care - Title IV-E	346,426
Medical Assistance Program	<u>520,404</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 42,346,464</u>

This page was left blank intentionally.

**VERMILLION RIVER WATERSHED JOINT POWERS ORGANIZATION  
MANAGEMENT AND COMPLIANCE REPORT**

**YEAR ENDED DECEMBER 31, 2016**

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)

## **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***

### Independent Auditor's Report

Joint Powers Board  
Vermillion River Watershed  
Joint Powers Organization  
Apple Valley, Minnesota

We have audited, 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, the financial statements of Dakota County, Minnesota, which include as supplementary information, the financial statements of the Vermillion River Watershed Joint Powers Organization, a discretely presented component unit, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 19, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Vermillion River Watershed Joint Powers Organization's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 Watershed's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Watershed's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Watershed's

financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Vermillion River Watershed Joint Powers Organization's financial statements are free from 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**

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the Watershed's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because the Watershed has no outstanding debt, or the provisions for tax increment financing because the Watershed does not administer any tax increment financing districts. The provisions for contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions were tested in conjunction with the audit of Dakota County.

In connection with our audit, nothing came to our attention that caused us to believe that the Vermillion River Watershed Joint Powers Organization failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Watershed's noncompliance with the above referenced provisions.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the Watershed's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Watershed's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 19, 2017