

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

DAKOTA COUNTY
HASTINGS, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

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 700 public pension funds; and

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

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

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**DAKOTA COUNTY
HASTINGS, MINNESOTA**

Year Ended December 31, 2014



Management and Compliance Report

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

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**DAKOTA COUNTY
HASTINGS, MINNESOTA**

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**DAKOTA COUNTY
HASTINGS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Temporary Assistance for Needy Families	CFDA #93.558
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$1,247,435.

Dakota County qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2007-001

Documenting and Monitoring Internal Controls

Criteria: County management is responsible for developing and monitoring its internal control over financial reporting. An essential element of monitoring controls includes documenting the County's accounting policies and procedures and performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for members of the County Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Significant internal controls would cover areas such as: cash and investment activities; capital assets (capitalization process and related depreciation); major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items); expenditure/expense processing, including social services expenditures; and payroll.

Condition: Our inquiry of County management found that significant internal controls of its accounting system had not been documented and/or updated to reflect the implementation of a new integrated financial and administrative system (IFAS), including the documentation of risk assessment and monitoring procedures. During 2014, the County worked to document its significant internal controls that reflected its new IFAS general ledger system. In 2015, the County hired a Compliance Analyst to review the County's policies and procedures, to develop a formal risk assessment, as well as to perform monitoring procedures.

Context: The County implemented a new integrated financial and administrative system in 2012.

Effect: The lack of risk assessment and monitoring procedures increases the risk of fraud.

Cause: The County informed us that due to limited time and resources prior to 2015, the County was not able to complete this project.

Recommendation: We recommend the County continue its efforts to complete and document its formal plan for assessing and monitoring the significant internal controls on a regular basis, no less than annually. The monitoring activity should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

We believe that we have addressed this finding through our updates of procedures and practices which were provided to the audit team at the end of 2014. We have updated and documented our narratives on the majority of our financial duties and processes within the Finance and Community Services departments by individual review and through interviews of the person(s) performing the duties.

Additionally, we have begun a risk assessment analysis within the Finance department, including a quarterly assessment and report on purchasing card activity, petty cash and change funds review/report and employee reimbursement activity. These reports have been shared with senior management and will go to an internal control committee later this summer. The risk assessment review will be further expanded to cover each of the major functions/units within Finance.

Finding 2013-001

IFAS General Ledger System Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Journal entries could be created in the IFAS general ledger system without secondary approval, and there were no documented policies or procedures addressing manual approval over journal entries. Also, it was discovered and reported that two Accounts Payable staff who review invoices for proper approvals and input into IFAS can bypass the system's approval workflows. During 2014, the County developed an approval policy over journal entries.

Context: The County implemented a new integrated financial and administrative system in 2012.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County informed us that due to limited time and resources, the County has not been able to utilize the full capabilities of IFAS. Also, the County has not updated its risk assessment to address its new IFAS system.

Recommendation: We recommend a formal plan be developed that calls for assessing and monitoring the significant internal controls on a regular basis, no less than annually.

Client's Response:

The County believes that it has addressed and resolved this finding through a review and restructure of our security roles in our Financial Management System (IFAS). Also, specific controls over journal entries have been implemented as we have revised and documented our procedures for handling journal entry requests, data entry and posting processes. We also restructured some of our staff duties over the A/P function as it relates to final review and distribution of accounts payable items, including an internal workflow process.

All processes that occur in IFAS create a record within the system that identifies the user and their function. Reports are run out of the system to verify the user's access and controls.

Finding 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. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we proposed material audit adjustments to Dakota County's financial statements. We also proposed numerous 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 material misstatements detected as a result of audit procedures were corrected by management:

- Cash and pooled investments and interest on investments were increased by \$11,228,292 in the General Fund.
- Due from other governments and deferred inflows of resources - unavailable revenue were increased by \$4,332,279 in the Highway Special Revenue Fund.

Also, audit adjustments were necessary in numerous funds to reflect proper cash balances, to reclassify fund balance, and to reclassify revenues and intergovernmental revenue.

Cause: County employees did not detect the errors in the normal course of performing their assigned functions.

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 reported in accordance with generally accepted accounting principles.

Client's Response:

The County acknowledges that it has a duty to review and apply audit adjustments necessary to comply with generally accepted accounting principles. We generally utilize a checklist of items that are expected each year-end, however, the Finance staff experienced a miscommunication with regard to the two material misstatements detected by the auditors. Other audit adjustments, although minor, were not considered errors, but differences of opinion on their classification. We will review these adjustments and consider the materiality, purpose, and future classifications.

ITEM ARISING THIS YEAR

Finding 2014-001

Prior Period Restatement and Audit Adjustment

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. One indication of a material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: During the audit of the Byllesby Dam Enterprise Fund, the auditor identified the need to restate beginning net position to correct an understatement of capital assets in the prior year's financial statements. An upgrade project that began in 2013 was not capitalized as construction in progress, but instead expensed in the 2013 financial statements. We also proposed an audit adjustment to capitalize the 2014 expenses of the upgrade project as construction in progress.

Context: The need for prior period adjustments can raise doubts as to the reliability of Dakota County's financial information being presented.

Effect: The January 1, 2014, net positions of the Byllesby Dam Enterprise Fund and the business-type activities were restated by \$5,031,329 to record the construction in progress capital asset. Construction in progress increased by \$2,213,732 to capitalize 2014 upgrade project expenses.

Cause: County employees did not detect the errors in the normal course of performing their assigned functions.

Recommendation: We recommend Dakota County staff perform a thorough review of capital assets to determine that all capital assets have properly been recorded.

Client's Response:

A team of staff are responsible for the management of the County's capital assets, schedules, and depreciation. The misclassification of capital expenses for construction in progress for the Enterprise Fund was an oversight and will be added to our list of on-going projects under construction. Although the majority of these capital expenses were incurred in the prior year, they were not specifically identified until the 2014 audit, therefore requiring a prior period adjustment. The Finance staff will review these items with appropriate personnel and update our procedures for future classifications.

PREVIOUSLY REPORTED ITEM RESOLVED

Bank Reconciliations (2012-001)

During 2013, the bank balance did not reconcile to the County's cash balance per the general ledger.

Resolution

During our testing of the 2014 bank reconciliations, the bank balance reconciled to the County's cash balance per the general ledger.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding 2014-002

Eligibility Testing

Programs: U.S. Department of Health and Human Services' Temporary Assistance for Needy Families (CFDA No. 93.558) and Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition: The Minnesota Department of Human Services maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. The following instances were noted in our samples of cases tested:

- Out of our sample of 40 Temporary Assistance for Needy Families (TANF) case files, two had instances where child support was not being received, and a Good Cause form was not on file.
- Out of our sample of 40 TANF case files, one did not have documentation verifying two bank accounts.
- Out of our sample of 40 Medical Assistance Program (MA) case files, one did not verify citizenship.
- Out of our sample of 40 MA case files, one did not update MAXIS to reflect income noted on the application.
- Out of our sample of 40 MA case files, three did not have documentation verifying assets listed in MAXIS, or documentation did not agree with MAXIS.
- Out of our sample of 40 MA case files, one did not have an application on file, and in another the application was not signed by the applicant.

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

Context: 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 Department of Human Services maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to participants.

Effect: The lack of proper documentation and follow-up of issues and not updating information in MAXIS increases the risk that clients will receive benefits when they are not eligible.

Cause: Program personnel entering case information into MAXIS did not ensure all required information was obtained, maintained in the case files, and updated in MAXIS.

Recommendation: We recommend the County implement additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is obtained and properly updated in MAXIS. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Tiffany Miller

Corrective Action Planned:

Procedures based on the case deficiencies, the importance of entering information timely and correctly, and the value of quality work versus the quantity of work will be reviewed at unit staff meetings. Dakota County also updated its Bluezone Scripts and plans to mandate Financial Workers' use of CaseNote scripts for intake and eligibility reviews as an additional safeguard.

Anticipated Completion Date:

June 2015

Finding 2014-003

Reporting

Programs: U.S. Department of Health and Human Services' Temporary Assistance for Needy Families (CFDA No. 93.558) and Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: The Minnesota Department of Human Services issues instructions (DHS Bulletin #14-32-01) for preparing the Income Maintenance quarterly expense reports (Form DHS-2550). These instructions indicate expenditures reported in Section A (IMRMS Time Study Expenditures) are direct costs associated with staff required to participate in the random moment time study (IMRMS).

Condition: During our testing of DHS-2550 quarterly reports, the County reported salaries and fringe expenditures on DHS-2550, Section A, for employees who were not listed on the random moment time study. These employees should have been reported in Section E of the DHS-2550 report.

Questioned Costs: These cannot be easily determined. The Minnesota Department of Human Services determines part of the County's federal reimbursement for multiple programs based upon its random moment time study performed.

Context: The Minnesota Department of Human Services uses Form DHS-2550 to reimburse the County federal awards for several programs.

Effect: The County incorrectly reported \$99,742 of salaries and fringe expenditures in the first and third quarters in 2014 on Form DHS-2550 Section A and Section E. This was projected to a total of \$199,485 for 2014.

Cause: The County informed us that staff changes more frequently than the list of employees on the random moment time study is reviewed by those preparing the DHS-2550 forms.

Recommendation: We recommend the County implement procedures to review the list of employees on the random moment time study on a more frequent basis and report only these participants in Section A of Form DHS-2550.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Leng Veng

Corrective Action Planned:

During the first quarter of 2015, a new process was implemented to reconcile the IMRMS participant list to the DHS-2550 report quarterly to ensure accurate reporting; only IMRMS participants will be reported in Section A of the DHS-2550 report and employees not listed in Section A will be reported in Section E.

Anticipated Completion Date:

April 2015

IV. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Dakota County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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, 2014, 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 29, 2015. 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, 2014, as described in our report on Dakota County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit 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.

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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other items that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-002 and 2014-001 to be material weaknesses.

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 attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2007-001 and 2013-001 to be significant deficiencies.

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 Political Subdivisions*, 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 Dakota County has no 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 Political Subdivisions*. 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.

Other Matters

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and it is reported for that purpose.

Dakota County's Response to Findings

Dakota County's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. 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 Political Subdivisions* 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

June 29, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
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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 OMB CIRCULAR A-133

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) *Circular A-133 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, 2014. 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 \$21,353,769 in federal awards during the year ended June 30, 2014, 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 OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dakota County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

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 major federal programs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002 and 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

Dakota County's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A 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. 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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002, that we consider to be a significant deficiency.

Dakota County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Dakota County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2014, 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 29, 2015, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Dakota County CDA, which was audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The 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 OMB Circular A-133. 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 29, 2015

**DAKOTA COUNTY
HASTINGS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture			
Direct			
Farm and Ranch Lands Protection Program	10.913	\$ 228,656	\$ -
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	1,379,742	-
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP)	10.572	2,350	-
Passed Through Minnesota Department of Education Child Nutrition Cluster			
School Breakfast Program	10.553	14,893	-
National School Lunch Program	10.555	23,285	-
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>2,152,232</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>\$ 3,801,158</u>	<u>\$ -</u>
U.S. Department of Housing and Urban Development			
Direct			
Community Development Block Grants/Entitlement Grants	14.218	\$ 1,652,782	\$ 1,652,782
Supportive Housing Program	14.235	18,846	-
HOME Investment Partnerships Program	14.239	2,007,164	2,007,164
Passed Through Minnesota Department of Human Services Emergency Solutions Grant Program	14.231	392,332	31,321
Passed Through Minnesota Department of Health Asthma Interventions in Public and Assisted Multifamily Housing	14.914	<u>13,593</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 4,084,717</u>	<u>\$ 3,691,267</u>

**DAKOTA COUNTY
HASTINGS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Justice			
Direct			
Drug Court Discretionary Grant Program	16.585	\$ 16,979	\$ -
State Criminal Alien Assistance Program	16.606	41,480	-
Bulletproof Vest Partnership Program	16.607	8,025	-
Equitable Sharing Program	16.922	5,656	-
Passed Through City of Eagan			
Juvenile Accountability Block Grants (Total Juvenile Accountability Block Grants 16.523 \$56,198)	16.523	48,000	-
Passed Through Minnesota Department of Public Safety			
Juvenile Accountability Block Grants (Total Juvenile Accountability Block Grants 16.523 \$56,198)	16.523	<u>8,198</u>	<u>-</u>
Total U.S. Department of Justice		<u>\$ 128,338</u>	<u>\$ -</u>
U.S. Department of Labor			
Passed Through Minnesota Department of Employment and Economic Development			
Workforce Investment Act (WIA) Cluster			
WIA Adult Program	17.258	\$ 487,466	\$ 366,053
WIA Youth Activities	17.259	351,415	292,672
WIA Dislocated Worker Formula Grants	17.278	<u>688,383</u>	<u>537,781</u>
Total U.S. Department of Labor		<u>\$ 1,527,264</u>	<u>\$ 1,196,506</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	\$ 8,127,690	\$ -
Passed Through City of Hastings			
State and Community Highway Safety	20.600	40,328	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	18,327	-
National Priority Safety Programs	20.616	9,550	-
Passed Through Metropolitan Council			
Alternative Analysis	20.522	<u>157,417</u>	<u>-</u>
Total U.S. Department of Transportation		<u>\$ 8,353,312</u>	<u>\$ -</u>
U.S. Environmental Protection Agency			
Passed Through Minnesota Pollution Control Agency			
Nonpoint Source Implementation Grants	66.460	<u>\$ 37,419</u>	<u>\$ -</u>

**DAKOTA COUNTY
HASTINGS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Education			
Direct			
Special Education - Grants for Infants and Families	84.181	\$ 2,288	\$ -
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health			
Public Health Emergency Preparedness	93.069	\$ 290,390	\$ -
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	3,500	-
Universal Newborn Hearing Screening	93.251	7,500	-
Immunization Cooperative Agreements	93.268	24,540	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	1,950	-
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314	225	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	402,379	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$2,960,925)	93.558	325,356	-
Children's Health Insurance Program	93.767	771	-
Maternal and Child Health Services Block Grant to the States	93.994	240,472	-
Passed Through Minnesota Department of Human Services			
Guardianship Assistance	93.090	72,222	-
Projects for Assistance in Transition from Homelessness (PATH)	93.150	27,383	-
Promoting Safe and Stable Families	93.556	112,835	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$2,960,925)	93.558	2,635,569	1,161,594
Child Support Enforcement	93.563	7,470,184	-
Child Care and Development Block Grant	93.575	462,457	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	54,064	-
Foster Care - Title IV-E	93.658	820,006	-
Adoption Assistance	93.659	434,070	-
Social Services Block Grant	93.667	1,425,611	-
Chafee Foster Care Independence Program	93.674	61,646	-
Medical Assistance Program	93.778	8,338,193	-
Passed Through MnSure			
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	66,801	-
Total U.S. Department of Health and Human Services		\$ 23,278,124	\$ 1,161,594

**DAKOTA COUNTY
HASTINGS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 10,908	\$ -
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	149,463	-
Emergency Management Performance Grants	97.042	57,576	-
Homeland Security Grant Program	97.067	<u>150,588</u>	<u>-</u>
Total U.S. Department of Homeland Security		<u>\$ 368,535</u>	<u>\$ -</u>
Total Federal Awards		<u>\$ 41,581,155</u>	<u>\$ 6,049,367</u>

**DAKOTA COUNTY
HASTINGS, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

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 \$21,353,769 in federal awards during the year ended June 30, 2014. Those expenditures are not included in the County's Schedule of Expenditures of Federal Awards because the Dakota County 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, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Child Nutrition Cluster	\$ 38,178
Workforce Investment Act Cluster	1,527,264

**DAKOTA COUNTY
HASTINGS, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 43,383,531
Grants unavailable in 2013, recognized as revenue in 2014	
Farm and Ranch Lands Protection Program (CFDA #10.913)	<u>(1,802,376)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 41,581,155</u>