

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

YEAR ENDED DECEMBER 31, 2009

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

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

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

Year Ended December 31, 2009



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

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

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

**ORGANIZATION
2009**

<u>Board of Directors</u>	<u>Title</u>
Robert Raupp ¹	Benton County Attorney
Brad Bennett ²	Benton County Sheriff
John Sanner ³	Stearns County Sheriff
Dennis Ballantine	City of St. Cloud Police Chief
Michel Wetzel	Morrison County Sheriff
Peter Mikkelson	Todd County Sheriff

¹Chair

²Secretary

³Treasurer

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Central Minnesota Major Crime Investigation Unit

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Central Minnesota Major Crime Investigation Unit (MCIU) as of and for the year ended December 31, 2009, which collectively comprise the MCIU's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the MCIU's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the MCIU as of December 31, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 4, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(Unaudited)**

This section of the annual financial report presents our discussion and analysis of the financial performance during the fiscal year that ended December 31, 2009. The Management's Discussion and Analysis (MD&A) is an element of required supplementary information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999. Certain comparative information between the current year, 2009, and the prior year, 2008, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2009 include the following:

- Government-wide net assets increased by 11.1 percent from the prior year.
- Overall fund level revenues totaled \$348,055 and were \$33,777 more than expenditures.
- The General Fund's fund balance increased \$33,777 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts--Independent Auditor's Report; required supplementary information, which includes the Management's Discussion and Analysis (this section); the basic financial statements; and notes to the financial statements. The basic financial statements include the statement of net assets and governmental fund balance sheet and the statement of activities and statement of governmental fund revenues, expenditures, and changes in fund balance.

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

Figure A-1 summarizes the major features of the Central Minnesota Major Crime Investigation Unit’s (MCIU) financial statements, including the portion of the MCIU’s activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

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

Type of Statements	Government-Wide	Governmental Fund
Scope	Entire government	The activities of the government that are not proprietary or fiduciary
Required financial statements	Statement of net assets, statement of activities	Balance sheet; statement of revenues, expenditures, and changes in fund balance
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-Wide and Fund Financial Statements

The financial statements included in this report combine the governmental fund and government-wide activities into two statements.

The governmental or General Fund activity includes the MCIU’s basic services that generally focus on: (1) how cash and other financial assets that can be readily converted to cash flow in and out, and (2) the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the MCIU’s programs.

The government-wide statements report information about the MCIU as a whole, using accounting methods similar to those used by private-sector companies. These statements include all of the assets and liabilities of the MCIU, including long-term activity. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

FINANCIAL ANALYSIS OF THE UNIT AS A WHOLE

Governmental Activities

The MCIU's net assets were \$297,191 on December 31, 2009.

	Net Assets		Percent (%) Change
	2009	2008	
December 31			
Assets			
Cash and pooled investments	\$ 223,482	\$ 162,424	37.6
Due from other governments	56,973	81,202	(29.8)
Capital assets - net	24,555	28,427	(13.6)
Total Assets	\$ 305,010	\$ 272,053	12.1
Liabilities			
Current liabilities			
Accounts payable	\$ 7,819	\$ 4,767	64.0
Net Assets			
Invested in capital assets	\$ 24,555	\$ 28,427	(13.6)
Unrestricted	272,636	238,859	14.1
Total Net Assets	\$ 297,191	\$ 267,286	11.2

Change in Net Assets For the Year Ended December 31

	2009		2008	Percent (%) Change
	2009	2008		
Revenues				
Intergovernmental	\$ 311,291	\$ 358,017	(13.1)	
Fines and forfeits	22,329	92,404	(75.8)	
Investment income	1,085	598	81.4	
Miscellaneous	13,350	5,894	126.5	
Total Revenues	\$ 348,055	\$ 456,913	(23.8)	
Expenses				
Public safety	318,150	349,631	(9.0)	
Change in Net Assets	\$ 29,905	\$ 107,282	(72.1)	
Net Assets - January 1	267,286	160,004	67.0	
Net Assets - December 31	\$ 297,191	\$ 267,286	11.2	

(Unaudited)

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FINANCIAL ANALYSIS OF THE MCIU AT THE FUND LEVEL

The financial performance of the MCIU as a whole is reflected in its governmental fund as well. The General Fund, which is the only governmental fund of the MCIU, includes the primary operations of the MCIU in providing crime investigation to the citizens of Benton, Morrison, Stearns, and Todd Counties. As the MCIU completed the year, the General Fund reported a fund balance of \$272,636.

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

Function	Year Ended December 31		Change	
	2009	2008	Increase (Decrease)	Percent (%)
	Intergovernmental	\$ 311,291	\$ 358,017	\$ (46,726)
Fines and forfeitures	22,329	92,404	(70,075)	(75.8)
Investment income	1,085	598	487	81.4
Miscellaneous	13,350	5,894	7,456	126.5
Total General Fund Revenues	<u>\$ 348,055</u>	<u>\$ 456,913</u>	<u>\$ (108,858)</u>	(23.8)

Total General Fund revenue decreased by \$108,858, or 23.8 percent, from the previous year. A federal forfeiture from an old case accounted for a large portion of this difference.

The following schedule presents a summary of General Fund expenditures:

Function	Year Ended December 31		Change	
	2009	2008	Increase (Decrease)	Percent (%)
	Public Safety	<u>\$ 314,278</u>	<u>\$ 355,611</u>	<u>\$ (41,333)</u>

Total General Fund expenditures decreased by \$41,333, or 11.6 percent, from the previous year.

CAPITAL ASSETS

The MCIU'S capital assets for its governmental activities at December 31, 2009, consist of office furniture and equipment totaling \$24,555 (net of accumulated depreciation). The investment in capital assets decreased by \$3,872, or 13.6 percent, from the previous year. Additional information on the MCIU's capital assets can be found in Note 2.C.

FACTORS BEARING ON THE MCIU'S FUTURE

The MCIU is somewhat dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that these funds will remain intact. If, for some reason, the Legislature decreases revenues, the agencies involved in the operation of this unit would attempt to gain funds either through County budgets or federal and state grants that would aid law enforcement. The unit also gains funds through asset seizure during investigations; these funds would also continue to be used to maintain the MCIU. Even if the state were to withdraw financial support for the operation of this unit, the administration of the member agencies agrees that the unit would have to continue to exist even if in a reduced version.

CONTACTING THE MCIU'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and customers, with a general overview of the MCIU's finances and to demonstrate the MCIU's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sgt. Kellan Hemmesch at 320-259-3795.

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BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 223,482	\$ -	\$ 223,482
Due from other governments	56,973	-	56,973
Capital assets			
Depreciable - net	-	24,555	24,555
Total Assets	\$ 280,455	\$ 24,555	\$ 305,010
 <u>Liabilities and Fund Balance/Net Assets</u>			
Current liabilities			
Accounts payable	\$ 7,819	\$ -	\$ 7,819
Fund Balance			
Unreserved			
Undesignated	272,636	\$ (272,636)	
Net Assets			
Invested in capital assets		\$ 24,555	\$ 24,555
Unrestricted		272,636	272,636
Total Net Assets		\$ 297,191	\$ 297,191
Total Liabilities and Fund Balance/Net Assets	\$ 280,455	\$ 24,555	\$ 305,010
 Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - Governmental Fund			\$ 272,636
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.			24,555
Net Assets - Governmental Activities			\$ 297,191

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

EXHIBIT 2

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Intergovernmental	\$ 311,291	\$ -	\$ 311,291
Fines and forfeitures	22,329	-	22,329
Investment income	1,085	-	1,085
Miscellaneous	13,350	-	13,350
Total Revenues	\$ 348,055	\$ -	\$ 348,055
Expenditures/Expenses			
Current			
Public safety	314,278	3,872	318,150
Net Change in Fund Balance/Net Assets	\$ 33,777	\$ (3,872)	\$ 29,905
Fund Balance/Net Assets - January 1	238,859	28,427	267,286
Fund Balance/Net Assets - December 31	\$ 272,636	\$ 24,555	\$ 297,191
Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities			
Net Change in Fund Balance			\$ 33,777
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The adjustment is the net of the current year additions, deletions, and depreciation expense.			(3,872)
Change in Net Assets of Governmental Activities			\$ 29,905

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Summary of Significant Accounting Policies

The Central Minnesota Major Crime Investigation Unit's (MCIU) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2009. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the MCIU are discussed below.

A. Organization

1. General

Benton, Morrison, Stearns, and Todd Counties and the City of St. Cloud have formed a joint powers investigative unit. This unit, established in 1979, was formed to assist in major case investigations within the participating counties by drawing upon the resources of the member units of government. The MCIU has established a Board of Directors, which has general supervision over the MCIU's activities. The MCIU added a Gang Investigation Unit to the Drug Task Force during 2006.

2. Board of Directors

The Board consists of six members comprising the Sheriff of each member county, the Police Chief of the City of St. Cloud, and the Benton County Attorney, or their designees.

The Board elects a chair, a secretary, and a treasurer from its members. These officers serve a one-year term of office and may serve more than one term.

The Board has adopted bylaws and operating rules as it has deemed necessary.

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

1. Summary of Significant Accounting Policies (Continued)

B. Financial Reporting Entity

The MCIU is a separate entity independent of the city and counties that formed it. In accordance with generally accepted accounting principles, the MCIU's financial statements are not included in any member's financial statements. No single member retains control over the operations or is financially accountable for the MCIU.

C. Basic Financial Statements

Basic financial statements include information on the MCIU's activities as a whole and information on the individual fund of the MCIU. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the MCIU as a whole.

The governmental activities columns are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The MCIU's net assets are reported in two parts: invested in capital assets, net of related debt, and unrestricted net assets. The statement of activities demonstrates the degree to which the expenses of the MCIU are offset by revenues.

The balance sheet and statement of revenues, expenditures, and changes in fund balance for the General Fund are presented on the modified accrual basis and report current financial resources.

D. Measurement Focus and Basis of Accounting

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

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

1. Summary of Significant Accounting Policies

D. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The MCIU considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred.

When both restricted and unrestricted resources are available for use, it is the MCIU's policy to use restricted resources first and then unrestricted resources as needed.

E. Assets, Liabilities, and Net Assets or Equity

1. Capital Assets

Capital assets are recorded in the governmental activities column in the statement of net assets. The MCIU defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the MCIU are depreciated using the straight-line method over an estimated five-year useful life.

2. Fund Equity

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

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

1. Summary of Significant Accounting Policies

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

3. Budgetary Information

The MCIU maintains four accounts: the grant account used to account for the MCIU's federal, state, and local grant proceeds; the membership account used to pay the State of Minnesota's portion of forfeitures received by the MCIU; the federal forfeiture account used to account for the federal drug forfeiture monies received by the MCIU; and a program income account used to account for forfeitures and restitution monies received by the MCIU. An annual budget is adopted for the grant account. The MCIU does not adopt budgets for the activity in the membership, federal forfeiture, and program income accounts.

2. Detailed Notes on all Funds

A. Deposits

The MCIU is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The MCIU is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the MCIU's deposits may not be returned to it. The MCIU does not have a deposit policy for custodial credit risk. As of December 31, 2009, the bank balance of the MCIU's deposits totaled \$242,354 and was not exposed to custodial credit risk.

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

2. Detailed Notes on all Funds (Continued)

B. Receivables

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

C. Capital Assets

The following is a summary of changes in capital assets for the year ended December 31, 2009.

	Beginning Balance	Increase	Decrease	Adjustments	Ending Balance
Capital assets depreciated					
Office furniture and equipment	\$ 160,014	\$ 11,747	\$ 89,482	\$ 35,117	\$ 117,396
Less: accumulated depreciation for					
Office furniture and equipment	<u>131,587</u>	<u>15,619</u>	<u>89,482</u>	<u>35,117</u>	<u>92,841</u>
Total Capital Assets Depreciated, Net	<u>\$ 28,427</u>	<u>\$ (3,872)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,555</u>

An adjustment to capital assets was made to add fully depreciated office furniture previously omitted. This adjustment had no effect on net assets.

Depreciation expense was charged to public safety expenses in the amount of \$15,619.

D. Risk Management

The MCIU is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. For all risks, the MCIU relies upon the insurance coverage of the participants in the joint venture. There have been no significant reductions in insurance from the previous year. The amount of settlements did not exceed insurance coverage for each of the past three years.

E. Contingencies

The expenditures under the federal grant are subject to audit by federal and state agencies. To the extent that these agencies may disallow expenditures claimed, a liability to the MCIU could result.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009**

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-1 Preparation of Financial Statements

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

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

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

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

Client's Response:

The MCIU has taken under advisement the matter of having an internal employee process the financial statements used for the audits. At the present time the matter is being discussed by the Board members of the MCIU on how to best handle the matter and comply with GAAP.

II. OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the MCIU for the year ending December 31, 2011.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Directors
Central Minnesota Major Crime Investigation Unit

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and the General Fund of the Central Minnesota Major Crime Investigation Unit (MCIU) as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the MCIU's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MCIU's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MCIU's internal control over financial reporting.

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 MCIU's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency described

in the accompanying Schedule of Findings and Recommendations as item 06-1. A significant deficiency is a deficiency, or a 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.

Minnesota Legal Compliance

We have audited the financial statements of the governmental activities and the General Fund of the MCIU as of and for the year ended December 31, 2009, which collectively comprise the MCIU's basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding since those transactions are handled by Stearns County. In addition, we did not test for compliance in public indebtedness, because the MCIU has no long-term debt.

The results of our tests indicate that, for the items tested, the MCIU complied with the material terms and conditions of applicable legal provisions.

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

The MCIU's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the MCIU's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and others within the MCIU and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 4, 2010