

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

DAKOTA COUNTY
HASTINGS, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

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, 2015



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
MANAGEMENT AND COMPLIANCE REPORT
YEAR ENDED DECEMBER 31, 2015**

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**DAKOTA COUNTY
HASTINGS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report 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? **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? **None reported**

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 2 CFR 200.516(a)? **No**

The major programs are:

Highway Planning and Construction	CFDA No. 20.205
Child Support Enforcement	CFDA No. 93.563
Social Services Block Grant	CFDA No. 93.667

The threshold for distinguishing between Types A and B programs was \$1,292,022.

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 ITEMS NOT RESOLVED

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.

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. The amount of audit adjustments were significantly lower in the current year audit than in the prior year.

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

- Accounts receivable and accounts payable for interfund transactions were eliminated in the amount of \$2,047,500 in the General Fund and Byllesby Dam Fund.
- Metropolitan Council intergovernmental revenue was increased and unearned revenue was decreased to record revenue that had been improperly "set aside" and not recorded as earned in the amount of \$2,472,633 in the County Parks Fund.

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 does employ a system of internal controls to ensure that year-end entries have been included in order to complete the close of the County's general ledger. Staff accepts responsibility for reviewing all year-end entries and comparing with prior years' adjustments by using a checklist of annual entries. In the normal course of any year-end, we communicate across departments to obtain information affecting current classifications and resolve outstanding balances or entries. The two misstatements cited this year were discovered during the audit fieldwork, however, they were not adjusted to the trial balances before testing was completed.

Finding 2014-001

Capital Assets 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. 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 the audit of the Byllesby Dam Enterprise Fund, the auditor identified material structural rehabilitation, gate refurbishment, and turbine upgrade expenses that were not capitalized as construction in progress.

Context: The inability to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: Construction in progress increased by \$558,058 to capitalize the structural rehabilitation, gate refurbishment, and turbine upgrade 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 comparison of capital outlay expenses to additions to capital assets to review for any unrecorded capital assets.

Client's Response:

The County has made an effort to combine all Fixed Asset activity within one functional area in Finance. This task requires regular communication with external departments to obtain accurate and timely records of purchases, construction in progress and determining the state of all capital improvement projects. We rely on many County staff to assist in recordkeeping, especially during the course of finalizing a fiscal year's transactions. Staff plans to periodically coordinate meetings, collect data and update the status for on-going projects throughout the year in order to balance out year-end workloads and stay informed on significant transactions.

ITEMS ARISING THIS YEAR

Finding 2015-001

Library Disbursement Approvals

Criteria: Management is responsible for establishing and maintaining internal control. The County's procedures indicate that disbursements are to be approved prior to payment. Approval over library materials is indicated through supervisor initials noted on the materials list.

Condition: Out of our 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.

Context: Prior to November 2014, there was a Library Board that approved expenditures. The approval process was implemented after the Board dissolved in late 2014.

Effect: The County is not following its procedures over purchases for library materials. Lack of approval over disbursements increases the risk that an improper payment will be made with County funds.

Cause: The approved materials list is not always maintained as support for the disbursement.

Recommendation: We recommend that the library maintain the approved materials list as support for the payment.

Client's Response:

The County agrees with the recommendation to maintain an approved materials list and the Division of Public Services & Revenue has been working to ensure this duty is carried out in a timely manner by Library management and staff. The approval workflow process includes proper separation of duties (requests, approvals, and placements of orders are performed by three separate parties) and are continually reviewed and managed according to vendor changes, staffing adjustments, and other County policies and procedures regarding procurement. The use of the Symphony system for ordering materials will continue, however, the Library's staff and management will keep copies of requests and approvals on file for future audit reviews.

Finding 2015-002

Journal Entries

Criteria: Management is responsible for establishing and maintaining internal control. The County's procedures indicate that an authorization by a supervisor/manager must accompany journal entry requests. The authorization is indicated by a supervisor/manager signature on the County's "JE Request Form."

Condition: Out of our 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.

Context: In addition to the 14 journal entries noted above, an additional 6 journal entries also did not have a "JE Request Form;" however, e-mail documentation supported the authorization by a supervisor/manager. This still does not follow the County's procedures.

Effect: The County is not following its procedures for journal entries. Lack of approval over journal entries increases the risk that an improper entry will be made to the general ledger.

Cause: Journal entries are being submitted through e-mail, or the e-mail is blank with just an attachment and no approval.

Recommendation: We recommend that all journal entries are accompanied by a "JE Request Form" and that that this form be maintained in the County's general ledger to document proper approval over journal entries.

Client's Response:

The County revised its journal entry process in 2015 to include a journal entry form to assist departments in making journal entry requests. The form has been helpful in clarifying the details of the requests and provides a place for personnel to sign the document with their approvals, or send a separate email for approvals. Additionally, we implemented a hierarchy for the entry and postings of journal entries within the Finance Department. The County plans to revise the language in the journal entry procedures manual to incorporate various instances for general ledger adjustments and appropriate backup documentation that will meet our needs and ensure that we are complying with our written process.

PREVIOUSLY REPORTED ITEMS RESOLVED

Documenting and Monitoring Internal Controls (2007-001)

During 2014, the County did not document its risk assessment and monitoring procedures.

Resolution

In 2015, the County hired a Compliance Analyst who reviewed the County's policies and procedures, developed a formal risk assessment, and performed monitoring procedures.

IFAS General Ledger System Segregation of Duties (2013-001)

In prior year audits, 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.

Resolution

In 2015, the County upgraded its general ledger system and reduced access levels for staff.

Prior Period Restatement and Audit Adjustment (2014-001)

A prior period adjustment was made to restate beginning net position of the Byllesby Dam Enterprise Fund to correct an understatement of capital assets.

Resolution

A material prior period adjustment was not identified this year; an audit adjustment was required. See item 2014-001 on page 3.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS RESOLVED

Eligibility Testing (CFDA No. 93.558) (2014-002)

During our previous audit of the Temporary Assistance for Needy Families program, we noted three instances where required documentation was not on file.

Resolution

During our current year eligibility testing of the Temporary Assistance for Needy Families program, we found no instances where documentation of key eligibility determining factors was not present in the case files.

Reporting (CFDA Nos. 93.558 and 93.778) (2014-003)

During our prior year 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.

Resolution

In 2015, the County implemented a process to compare the random moment time study listing to the general ledger coding for salary and fringe expenditures for applicable employees. We noted no issues while performing testing over this report in the current year.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 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 2015, 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.

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 and 2014 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.

Client's Response:

The County agrees with the recommendation to 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. The previous findings from the 2013 and 2014 audits have been noted and communicated to departments. The County has formed a contracts team that meets regularly to discuss common issues, documentation, and procedures for standardizing contract management. The Financial Services Department will continue to communicate between the Contract Specialist and other departments and division representatives to ensure contracts are executed properly and according to internal Policy 2751 and Minn. Stat. § 270C.66.

B. OTHER MATTER

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-002

Eligibility Testing

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

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 maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. Out of our sample of 15 case files, 1 did not have current documentation to support an asset.

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-Sammons

Corrective Action Planned:

In May 2016, we did another round of communication with staff on proper procedures based on the case and documentation at regular unit meetings. The County continues to update its Bluezone Scripts and has mandated Financial Workers' use of CaseNote scripts for intake and eligibility reviews.

Anticipated Completion Date:

May 2016



REBECCA OTTO
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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, 2015, 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 17, 2016. 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, 2015, 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 are 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.

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 a deficiency in internal control over financial reporting that we consider to be a material weakness 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

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 2013-002, 2015-001, and 2015-002 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 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 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 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.

Other Matters

Also included in the Schedule of Findings and Questioned Costs is an unresolved other matter described as item 2014-002.

Dakota County's Response to Findings

Dakota County's responses to the internal control and legal compliance findings and to the other matter 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 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 17, 2016

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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 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, 2015. 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 \$22,666,631 in federal awards during the year ended June 30, 2015, 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.

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, 2015.

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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2015, 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 17, 2016, 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 17, 2016

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**DAKOTA COUNTY
HASTINGS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Direct				
Farm and Ranch Lands Protection Program	10.913		\$ 432,968	\$ -
Passed through Minnesota Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	Not Provided	17,505	-
National School Lunch Program	10.555	Not Provided	27,203	-
(Total expenditures for Child Nutrition Cluster \$44,708)				
Passed through Minnesota Department of Health				
Special Supplemental Nutrition Program for Women, Infants, and Children				
	10.557	12-700-00068	1,314,376	-
WIC Farmers' Market Nutrition Program (FMNP)	10.572	Not Provided	2,350	-
Passed through Minnesota Department of Human Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				
	10.561	15152MN10152514	948,733	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				
	10.561	16162MN10152514	620,747	-
(Total SNAP 10.561 \$1,569,480)				
Total U.S. Department of Agriculture			\$ 3,363,882	\$ -
U.S. Department of Housing and Urban Development				
Direct				
Community Development Block Grants/Entitlement Grants	14.218		\$ 1,670,894	\$ 1,670,894
Community Development Block Grants/Entitlement Grants	14.218		17	17
(Total Community Development Block Grants/Entitlement Grants 14.218 \$1,670,911)				
Home Investment Partnerships Program	14.239		2,092,580	2,092,580
Passed through Minnesota Department of Human Services				
Emergency Solutions Grant Program	14.231	Not Provided	193,379	193,379
Emergency Solutions Grant Program	14.231	MN0077L5K0331306	161,881	-
Emergency Solutions Grant Program	14.231	MN0077L5K031205	347,986	-
(Total Emergency Solutions Grant Program 14.231 \$703,246)				
Total U.S. Department of Housing and Urban Development			\$ 4,466,737	\$ 3,956,870
U.S. Department of Justice				
Direct				
Crime Victim Assistance	16.575		\$ 339	\$ -
Drug Court Discretionary Grant Program	16.585		17,374	-
State Criminal Alien Assistance Program	16.606		29,960	-
Equitable Sharing Program	16.922		4,246	-
Passed through Minnesota Department of Public Safety				
Juvenile Accountability Block Grants	16.523	Not Provided	37,092	-
Passed through City of Eagan				
Juvenile Accountability Block Grants	16.523	A-T2JABG-2015-DAKOTACC-00005	48,000	-
(Total Juvenile Accountability Block Grants 16.523 \$85,092)				
Total U.S. Department of Justice			\$ 137,011	\$ -

**DAKOTA COUNTY
HASTINGS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Labor				
Passed through Minnesota Department of Employment and Economic Development				
Workforce Investment Act (WIA) Cluster				
WIA/WIOA Adult Program	17.258	3143100	\$ 318,916	\$ 124,628
WIA/WIOA Adult Program	17.258	4143100	370,249	294,583
WIA/WIOA Adult Program	17.258	5143100	61,742	55,568
(Total WIA/WIOA Adult Program \$750,907)				
WIA/WIOA Youth Activities	17.259	4143600	101,150	101,150
WIA/WIOA Youth Activities	17.259	5143600	188,949	151,125
(Total WIA/WIOA Youth Activities 17.259 \$290,099)				
WIA/WIOA Dislocated Worker Formula Grants	17.278	4148000	200,716	200,716
WIA/WIOA Dislocated Worker Formula Grants	17.278	5148000	312,907	260,915
(Total WIA/WIOA Dislocated Workers Formula Grants 17.278 \$513,623)				
(Total expenditures for WIA Cluster \$1,554,629)				
Total U.S. Department of Labor			\$ 1,554,629	\$ 1,188,685
U.S. Department of Transportation				
Passed through Minnesota Department of Transportation				
Highway Planning and Construction	20.205	Not Provided	\$ 189,080	\$ -
Highway Planning and Construction	20.205	1914073	3,177,537	-
Highway Planning and Construction	20.205	1914051	425,210	-
Highway Planning and Construction	20.205	881-4077	4,504,352	-
Highway Planning and Construction	20.205	H170003	50,998	-
Highway Planning and Construction	20.205	H170001	518,719	-
Highway Planning and Construction	20.205	1913283	47,392	-
Highway Planning and Construction	20.205	S223002	129,973	-
Highway Planning and Construction	20.205	1914163	1,632,000	-
(Total Highway Planning and Construction 20.205 \$10,675,261)				
Formula Grants for Rural Areas	20.509	Not Provided	1,500	-
Transit Services Programs Cluster				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	Not Provided	29,434	-
Passed through Metropolitan Council				
Transit Services Programs Cluster				
Job Access and Reverse Commute Program	20.516	MN-37-X015	24,912	-
(Total Transit Services Cluster \$54,346)				
Alternatives Analysis	20.522	MN-39-0005	43,865	-
Passed through the City of Hastings				
Highway Safety Cluster				
State and Community Highway Safety	20.600	Not Provided	9,732	-
National Priority Safety Programs	20.616	Not Provided	3,809	-
(Total expenditures for Highway Safety Cluster \$13,541)				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	Not Provided	13,803	-
Total U.S. Department of Transportation			\$ 10,802,316	\$ -
U.S. Environmental Protection Agency				
Passed through Minnesota Pollution Control Agency				
Nonpoint Source Implementation Grants	66.460	Not Provided	\$ 47,273	\$ -
U.S. Department of Education				
Direct				
Special Education - Grants for Infants and Families	84.181		\$ 2,492	\$ -

**DAKOTA COUNTY
HASTINGS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Passed through Minnesota Department of Health				
Public Health Emergency Preparedness	93.069	Not Provided	\$ 321,826	\$ -
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	12-700-00068	8,122	-
Universal Newborn Hearing Screening	93.251	Not Provided	7,600	-
Immunization Cooperative Agreements	93.268	Not Provided	15,490	-
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314	12-700-00068	450	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	Not Provided	360,033	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$2,806,619)	93.558	Not Provided	325,356	-
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00068	303,233	-
Passed through Minnesota Department of Human Services				
Guardianship Assistance	93.090	1501MNGARD	66,320	-
Promoting Safe and Stable Families	93.556	1401MNFPS	90,806	-
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$2,806,619)	93.558	1502MNTANF	2,481,263	1,215,321
Child Support Enforcement	93.563	1504MN4005	6,972,922	-
Child Care and Development Block Grant	93.575	G1501MNCCDF	479,455	-
Community-Based Child Abuse Prevention Grants	93.590	1302MNFPRG	302,746	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1401MNCWSS	47,532	-
Foster Care - Title IV-E	93.658	1501MNFOST	922,860	-
Adoption Assistance	93.659	1501MNGARD	427,266	-
Social Services Block Grant	93.667	1501MNSOSR	1,409,071	-
Chafee Foster Care Independence Program	93.674	1401MN1420	53,761	-
Medical Assistance Program	93.778	1505MN5ADM	7,154,958	-
Total U.S. Department of Health and Human Services			\$ 21,751,070	\$ 1,215,321
U.S. Department of Homeland Security				
Passed through Minnesota Department of Natural Resources				
Boating Safety Financial Assistance	97.012	Not Provided	\$ 11,706	\$ -
Passed through Minnesota Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Not Provided	187,319	-
Emergency Management Performance Grants	97.042	Not Provided	53,259	-
Homeland Security Grant Program	97.067	A-UASI-2013-DAKOTACO-00006	335,797	-
Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$689,719)	97.067	A-UASI-2014-DAKOTACO-00006	141,838	-
Passed through Washington County				
Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$689,719)	97.067	Not Provided	212,084	-
Total U.S. Department of Homeland Security			\$ 942,003	\$ -
Total Federal Awards			\$ 43,067,413	\$ 6,360,876

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**DAKOTA COUNTY
HASTINGS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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 1 to the financial statements. Dakota County's financial statements include the operations of the Dakota County Community Development Agency (CDA) component unit, which expended \$22,666,631 in federal awards during the year ended June 30, 2015. 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, 2015. 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 accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Dakota County has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

YEAR ENDED DECEMBER 31, 2015

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REBECCA OTTO
STATE AUDITOR

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

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, 2015, 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 17, 2016.

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. However, material weaknesses 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 Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six 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, 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 Vermillion River Watershed Joint Powers Organization does not have tax increment financing.

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 Other 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 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 Other Political Subdivisions* 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 17, 2016