

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT
MINNEAPOLIS PARK AND RECREATION BOARD
(A COMPONENT UNIT OF THE
CITY OF MINNEAPOLIS, MINNESOTA)

YEAR ENDED DECEMBER 31, 2013

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.

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**MINNEAPOLIS PARK AND RECREATION BOARD
(A COMPONENT UNIT OF THE
CITY OF MINNEAPOLIS, MINNESOTA)**

Year Ended December 31, 2013



Management and Compliance Report

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

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**MINNEAPOLIS PARK AND RECREATION BOARD
MINNEAPOLIS, MINNESOTA**

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**MINNEAPOLIS PARK AND RECREATION BOARD
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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? **No**

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:

Highway Planning and Construction	CFDA# 20.205
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA# 97.036

The threshold for distinguishing between Types A and B programs was \$300,000.

The Minneapolis Park and Recreation Board qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2011-002

Prior Period 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. 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 preparation of the Park Operating Enterprise Fund trial balance, finance staff of the Minneapolis Park and Recreation Board identified the need to restate beginning net position to correct an understatement of accounts receivable and an understatement of accounts payable in the prior year's financial statements. Accounts receivable from 2011 and 2012 were not recorded in the 2012 financial statements, and an account payable for a lease was not recorded in the 2012 financial statements.

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

Effect: The January 1, 2013, net position of the Park Operating Enterprise Fund and the business-type activities were restated by a net amount of \$584,613 for the accounts receivable and accounts payable restatement.

Cause: Oversight and misinformation received from the vendor.

Recommendation: We recommend Park Board staff perform a thorough review of year-end accruals during the trial balance preparation to determine transactions have been properly recorded.

Client's Response:

The Finance staff of the Minneapolis Park and Recreation Board, in conjunction with staff in the Accounts Receivable/Treasury Department, City of Minneapolis, has set up a process to ensure that outstanding accounts receivable issues are discovered and corrected prior to month-end closings.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

Finding 2013-001

Disaster Grants - Public Assistance (Presidentially Declared Disasters): Identification of Federal Expenditures; Cash Management; and Procurement, Suspension, and Debarment

Program: U.S. Department of Homeland Security's Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036)

Pass-Through Agency: Minnesota Department of Public Safety - Division of Homeland Security and Emergency Management

Criteria: OMB Circular A-133, § .300(b), indicates auditee responsibilities that include maintaining internal control over federal programs that provide 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. Also, the 2013 OMB Circular A-133 Compliance Supplement, Part 3C, Cash Management, states that, when entities are funded on a reimbursement basis, the costs for which reimbursement was requested should be paid prior to the date of the reimbursement request. In addition, Federal Regulation 45 C.F.R. § 92.35 prohibits any state or agency from purchasing goods and services with federal money from vendors who have been suspended or debarred by the federal government.

Condition: The Park Board provided project costs on an overall basis and did not provide which costs were reimbursable with federal funding. In addition, the Park Board requested reimbursement for costs which had not yet been paid by the Park Board. Finally, the Park Board entered into contracts with vendors for projects that were federally funded; however, two contracts did not include suspension and debarment language, nor was verification performed to determine these vendors were not suspended or debarred at the time the contract was awarded. Compliance testing performed during the federal program audit did not indicate that either contractor was suspended or debarred at the time the testing was performed.

Questioned Costs: None.

Context: The U.S. Department of Homeland Security and the Minnesota Department of Public Safety assist entities in the identification of reimbursable costs and the subsequent completion of the reimbursement requests. The Park Board relies on the City of Minneapolis' Purchasing Department for its contracting function; language relating to federal contracts is only included if the City's Purchasing Department is made aware of the contract's federal status.

Effect: Additional testing and procedures were required to be performed due to the fact that project costs were tracked in total and not by reimbursement status. Requesting reimbursements for costs not yet paid is not compliant with cash management requirements. Finally, the Park Board had no assurance that its contractors for this federal project had not been suspended or debarred, which could result in noncompliance with federal grant requirements.

Cause:

- Identification of Federal Expenditures - The client informed us that the auditor was given the full expenditure population associated with the storms. Park Board staff then had to extract and provide the expenditure population that was eligible for federal reimbursement.
- Cash Management - The client informed us that the cause was oversight; Park Board staff followed direction given.
- Procurement, Suspension, and Debarment - The client informed us that the cause was oversight due to the emergency nature of the storm response.

Recommendation: We recommend the Park Board develop written internal controls and written policies and procedures to ensure compliance with the requirements over federal funds (including identification of federal costs; cash management requirements; and procurement, suspension, and debarment requirements).

Corrective Action Plan:

Name of Contact Person Responsible for Correction Action:

Julia Wiseman

Corrective Action Planned:

The Finance staff of the Minneapolis Park and Recreation Board will establish federal grant procedures to clarify requirements for procurement, tracking, and reporting. All staff that have responsibility for federal grants will be trained on these procedures.

Anticipated Completion Date:

November 2014

PREVIOUSLY REPORTED ITEM RESOLVED

**Procurement and Suspension and Debarment (CFDA Nos. 66.818 and 81.128)
(2012-001)**

Contracts were entered into with vendors for both of these federally funded grants where the contracts did not contain the suspension and debarment language nor was a verification performed to determine these vendors were not suspended or debarred at the time the contract was awarded.

Resolution

The Minneapolis Park and Recreation Board did not receive federal funding related to either of these grants in 2013, as the grant period for both grants had ended prior to 2013.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2012-002

Prompt Payment of Invoices

Criteria: As stated in Minn. Stat. § 471.425, the Park Board is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later.

Condition: Nine of the 50 invoices tested for compliance with this statute in conjunction with our testing of internal controls over financial reporting and federal award programs were not paid within 35 days.

Context: Minneapolis Park and Recreation Board employees must first approve invoices before submitting them for processing and payment by the City of Minneapolis Finance and Property Services Department.

Effect: Making payment on invoices after 35 days of completed delivery of the goods or services or the receipt of the invoice, whichever is later, is not in compliance with Minn. Stat. § 471.425.

Cause: There has been a large turnover in staff of the Minneapolis Park and Recreation Board's Planning Department.

Recommendation: We recommend the Park Board review statutory requirements with employees to ensure timely approval, processing, and payment of invoices in accordance with Minn. Stat. § 471.425.

Client's Response:

Examination of the samples tested by the state auditor for the current year indicates that the delays happened across departments with the bulk occurring in Forestry due to the 2013 storm. The Finance department will conduct training with key accounts payable personnel within the Park Board to ensure that proper procedures are followed. Staff will also be made aware of State requirements concerning the prompt payment of invoices.



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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 Commissioners
Minneapolis Park and Recreation Board
Minneapolis, 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, each major fund, and the aggregate remaining fund information of the Minneapolis Park and Recreation Board, a component unit of the City of Minneapolis, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Park Board's basic financial statements, and have issued our report thereon dated June 18, 2014.

Internal Control Over Financial Reporting

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

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 Park Board'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 2011-002 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Minneapolis Park and Recreation Board'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 six categories of compliance to be tested in connection with the audit of the Park Board's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories; however, they were tested in conjunction with the audit of the financial statements of the City of Minneapolis.

In connection with our audit, nothing came to our attention that caused us to believe that the Minneapolis Park and Recreation Board failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2012-002. 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 Park Board's noncompliance with the above referenced provisions.

Minneapolis Park and Recreation Board's Response to Findings

The Minneapolis Park and Recreation Board's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The Park Board'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 Park Board'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 Park Board'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 18, 2014

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of Commissioners
Minneapolis Park and Recreation Board
Minneapolis, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the Minneapolis Park and Recreation Board'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 Park Board's major federal programs for the year ended December 31, 2013. The Minneapolis Park and Recreation Board is a component unit of the City of Minneapolis. The Minneapolis Park and Recreation Board's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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 the Minneapolis Park and Recreation Board'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 the Minneapolis Park and Recreation Board'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 Park Board's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the Minneapolis Park and Recreation Board 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, 2013.

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 item 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

The Minneapolis Park and Recreation Board's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. The Minneapolis Park and Recreation Board'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 Internal Control Over Compliance

Management of the Minneapolis Park and Recreation Board 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 Park Board'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 Park Board'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 2013-001, that we consider to be a significant deficiency.

The Minneapolis Park and Recreation Board'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. The Minneapolis Park and Recreation Board'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, each major fund, and the aggregate remaining fund information of the Minneapolis Park and Recreation Board as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Park Board's basic financial statements. We have issued our report thereon dated June 18, 2014, which contained unmodified opinions on those financial statements. 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 18, 2014

**MINNEAPOLIS PARK AND RECREATION BOARD
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Passed Through City of Minneapolis Community Development Block Grants/Entitlement Grants	14.218	\$ 4,000
U.S. Department of the Interior		
Passed Through City of Minneapolis Migratory Bird Monitoring, Assessment and Conservation	15.655	25,000
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	725,339
U.S. National Endowment for the Arts		
Passed Through Minnesota State Arts Board Promotion of the Arts - Partnership Agreements	45.025	8,521
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety - Division of Homeland Security and Emergency Management Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	<u>1,710,231</u>
Total Federal Awards		<u>\$ 2,473,091</u>

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**MINNEAPOLIS PARK AND RECREATION BOARD
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Minneapolis Park and Recreation Board, a discretely presented component unit of the City of Minneapolis. The Park Board's reporting entity is defined in Note 2 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Minneapolis Park and Recreation Board under programs of the federal government for the year ended December 31, 2013. 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 the Minneapolis Park and Recreation Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Minneapolis Park and Recreation Board.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of the Minneapolis Park and Recreation Board. 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. Subrecipients

The Park Board did not pass any federal awards through to subrecipients during the year ended December 31, 2013.