

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, 2017

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

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

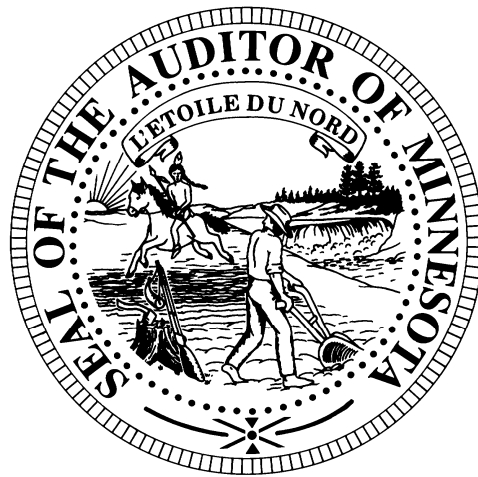
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

Year Ended December 31, 2017



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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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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Minneapolis Park and Recreation Board, a component unit of the City of Minneapolis, Minnesota, as of and for the year ended December 31, 2017, 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 July 9, 2018. Our report includes a reference to other auditors who audited the financial statements of the Minneapolis Parks Foundation as described in our report on the Park Board'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. The financial statements of the Minneapolis Parks Foundation were not audited in accordance with *Government Auditing Standards*.

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.

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. 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.

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 deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Cities*, 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 Park Board's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness and tax increment financing because the Park Board cannot issue debt and does not administer any tax increment financing districts. The testing of compliance with the provisions of deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions was performed in conjunction with the audit 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 Cities*. 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.

Other Matters

Included in the Schedule of Findings and Recommendations is a management practices comment and an other matter. We believe these recommendations and information to be of benefit to the Park Board, and they are reported for that purpose.

Minneapolis Park and Recreation Board's Response to Findings

The Minneapolis Park and Recreation Board's responses to the management practices finding and to the other matter identified in our audit are described in the Corrective Action Plan. 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 Cities* 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

July 9, 2018

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017**

I. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

Finding Number 2017-001

Financial Condition

Criteria: Management is responsible for fiscally managing the operations of the Minneapolis Park and Recreation Board, including the financial condition of each of its funds.

Condition: The financial condition of the Permanent Improvement Capital Projects Fund has declined to a fund balance of (\$11,243,834) as of December 31, 2017. While this fund does report a positive cash balance, this is mainly due to advances from other funds. Also, this fund is reporting intergovernmental receivables in the amount of \$10,436,436 and deferred inflows of resources - unavailable revenue in the amount of \$8,676,933. Projects are typically multi-year projects, with budgeted revenue sources, revenue received, and expenditures tracked by project. The amount and timing of revenue received is dependent on funding agreements as well as the timing of when reimbursement requests are submitted.

Context: The Permanent Improvement Capital Projects Fund has many projects with varying funding sources, with each source having its own parameters as to when the funding will be provided. Also, the Minneapolis Park and Recreation Board does not have the authority to issue bonded debt.

Effect: The fund balance of the Permanent Improvement Capital Projects fund has decreased to (\$11,243,834). In addition, other Minneapolis Park and Recreation Board funds have had to borrow cash to the Permanent Improvement Capital Projects fund to ensure adequate cash flow.

Cause: Management informed us that for some of the project expenditures, there are timing issues. Invoices are received from a contractor near year-end, and it does not allow for payment of the invoice and requesting reimbursement from funding sources before year-end. Some reimbursements are not requested until the end of the year or when a project is fully completed.

Recommendation: We recommend the Minneapolis Park and Recreation Board analyze current projects to determine if reimbursement requests can be submitted on a more timely basis. We also recommend the Minneapolis Park and Recreation Board consider a financial plan to bring this fund to a more positive position.

View of Responsible Official: Concur

B. OTHER MATTER

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-002

Disaster Grants - Public Assistance (Presidentially Declared Disasters): Cash Management and Reporting

Program: U.S. Department of Homeland Security's Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036), Award #4182DRMNP00000001, 2015

Pass-Through Agency: Minnesota Department of Public Safety

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. In addition, the Minneapolis Park and Recreation Board must comply with the required provisions for Cash Management and Reporting.

Condition: The Minneapolis Park and Recreation Board is submitting cost information and documentation to the pass-through agency (Minnesota Department of Public Safety), but the amount reimbursed is not consistent with the information and documentation submitted. Inquiry of the Minneapolis Park and Recreation Board employees revealed the staff were not aware of what reimbursement was occurring or the basis for the reimbursement they received. The Minneapolis Park and Recreation Board was also not submitting required reimbursement reports, but instead was informally submitting information about costs that had occurred and had been paid to the pass-through agency.

Questioned Costs: None.

Context: The Minnesota Department of Public Safety was granting reimbursements to the Minneapolis Park and Recreation Board despite the fact that the Minneapolis Park and Recreation Board had not submitted the required reimbursement reports. The Minnesota Department of Public Safety provided the required reporting form that should be used going forward. The cost information and documentation that is informally submitted by the Minneapolis Park and Recreation Board does not tie to the reimbursements, in part, due to changes in what is considered allowable. Several costs have been de-obligated and/or past costs have now been determined to be ineligible by the state.

Effect: Reimbursement reports were not filed as required by federal and state grant requirements, which contributes to the discrepancies between reimbursements and information submitted for reimbursement.

Cause: Management informed us that there were staffing changes that occurred in 2017, and it was not always known what had been previously completed or communicated with the Minnesota Department of Public Safety.

Recommendation: We recommend the Minneapolis Park and Recreation Board gather cost documentation and submit more formal reimbursement requests to the Minnesota Department of Public Safety at regular intervals. Procedures should be implemented that ensure required reimbursement request forms are completed with only eligible expenditures and are reviewed and approved prior to filing with the Minnesota Department of Public Safety. We also recommend that procedures be implemented to ensure accurate reporting of both expenditures and revenues and to ensure that reimbursement is properly occurring.

View of Responsible Official: Concur

II. PREVIOUSLY REPORTED ITEM RESOLVED

2014-001 Audit Adjustments

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**REPRESENTATION OF THE MINNEAPOLIS PARK AND
RECREATION BOARD
MINNEAPOLIS, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017**

Finding Number: 2017-001
Finding Title: Financial Condition

Name of Contact Person Responsible for Corrective Action:

Julia Wiseman, Finance Director

Corrective Action Planned:

The Finance Department added a Capital Projects Accountant position that was hired and started working with the MPRB on June 12, 2017. The primary responsibilities of this position are the set-up, accounting, monitoring, and billing of capital projects to ensure proper reporting of revenues and expenditures. The Finance Director and Capital Projects Accountant will work closely with the MPRB Planning Division to monitor project balances to ensure timely drawdowns and billing from multiple funding sources. Year-end procedures will be reviewed and adjusted to improve the amount of revenue received within sixty days from end of the fiscal year. Project reviews currently conducted on a quarterly basis will be done more frequently to identify any potential overspending of projects and additional funding sources to cover those overages when they occur.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2015-002
Finding Title: Disaster Grants - Public Assistance (Presidentially Declared Disasters): Cash Management and Reporting
Program: Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036)

Name of Contact Person Responsible for Corrective Action:

Julia Wiseman, Finance Director

Corrective Action Planned:

The Finance Department added a Capital Projects Accountant position that was hired and started working with the MPRB on June 12, 2017. The primary responsibilities of this position are the set-up, accounting, monitoring, and billing of capital projects to ensure proper reporting of revenues and expenditures and to ensure expenditures are eligible and within the scope of grant requirements. The Capital Projects Accountant and State of Minnesota worked closely to request reimbursements and file reimbursement reports. However, with the complexity of this disaster, an excel spreadsheet is still being utilized between the two agencies. It is anticipated that the State of Minnesota reporting requirements will be modified and the projects associated with this disaster will be completed in 2018.

Anticipated Completion Date:

December 31, 2018



**Minneapolis
Park & Recreation Board**

**REPRESENTATION OF THE MINNEAPOLIS PARK AND
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MINNEAPOLIS, MINNESOTA**

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Finding Number: 2014-001
Finding Title: Audit Adjustments**

Summary of Condition: Audit adjustments were made to the Permanent Improvement Capital Projects Fund to correctly reverse an intergovernmental receivable from the prior year. Receivables and fund balance were understated by \$5,642,144. An adjustment was made to correctly reverse a prior year entry to unavailable revenue. Unavailable revenue was understated by \$5,899,979 and fund balance was overstated by this amount. In the Governmental Activities Capital Assets, an adjustment was made to remove an item from construction in progress that had also been capitalized as infrastructure. Construction in progress was overstated by \$5,966,304. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Summary of Corrective Action Previously Reported: The Finance Department has added a Capital Projects Accountant position that was hired and started working with the MPRB on June 12, 2017. The primary responsibilities of this position are the set-up, accounting, monitoring, and billing of capital projects to ensure proper reporting of revenues and expenditures and to ensure expenditures are eligible and within the scope of grant requirements.

Status: Fully Corrected. In 2016, there were post-closing journal entries that were incorrectly reversed which required an audit adjustment. The Capital Projects Accountant was not hired until June 12, 2017. Accountant position was filled mid-year 2017.

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

Yes _____ No X

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Vice President
AK Hassan

Commissioners
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Superintendent
Mary Merrill

Secretary to the Board
Jennifer B. Ringold

Finding Number: 2015-002

Finding Title: Disaster Grants - Public Assistance (Presidentially Declared Disasters): Cash Management and Reporting

Program: Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036)

Summary of Condition: Inquiry of Minneapolis Park and Recreation Board employees revealed that the organization was not aware of how reimbursement of eligible expenditures was to occur or what procedures should be followed in order to receive reimbursement. A request for reimbursement of eligible expenditures had not occurred, and an accounting of the projects had not been provided to the State of Minnesota as required.

Summary of Corrective Action Previously Reported: The Finance Department added a Capital Projects Accountant position that was hired and started working with the MPRB on June 12, 2017. The primary responsibilities of this position are the set-up, accounting, monitoring, and billing of capital projects to ensure proper reporting of revenues and expenditures and to ensure expenditures are eligible and within the scope of grant requirements

Status: Not Corrected. The audit finding was reported during the 2015 Audit that occurred during January - June, 2016. The issue discovered by the auditor reoccurred in 2016 and was corrected by Finance Department staff during the last half of 2016. The Capital Projects Accountant was not hired until June 12, 2017. Accountant position was filled mid-year 2017, communication has occurred between the State and MPRB regarding FEMA billing. However, changes had not been completely implemented in 2017.

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

Yes _____ No X