

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

YEAR ENDED DECEMBER 31, 2011

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)**

Year Ended December 31, 2011



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, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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:

Brownfields Assessment and Cleanup Cooperative Agreements - ARRA	CFDA #66.818
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

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

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

11-1 Segregation of Duties - Payroll

Criteria: Management is responsible for establishing and maintaining internal control over various accounting cycles, including payroll. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Due to a limited number of staff, one person is responsible for processing payroll, adding new employees, and changing pay rates.

Context: Without proper segregation of duties, errors or irregularities may not be detected timely.

Effect: Fictitious employees could be added to the payroll, or employees may be paid at rates other than their approved rates.

Cause: Reduction in staff.

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Minneapolis Park and Recreation Board be mindful that limited staffing causes inherent risk in safeguarding the Park Board's assets. We recommend that payroll processing duties, including adding new employees and changing pay rates, be segregated among employees. While one person's responsibilities may include the adding of new employees and changing of the pay rates, another's responsibilities may be reviewing those changes.

Client's Response:

The Human Resources Department for the Minneapolis Park and Recreation Board (MPRB) consists of four full-time positions and one part-time position. Due to the size of the department and seasonal fluctuations in the MPRB's workforce, it is necessary for HR staff to be flexible with their duties and assignments. HR staff, with the exception of the HR Manager and HR Generalist, is responsible for processing payroll, adding new employees, and changing pay rates in the Human Resource Information System (HRIS).

Supervisors submit employee requests in writing to the HR Department through the use of the appropriate hire and change request forms. The HR Manager and HR Generalist have view only access to HRIS; they are not able to make changes to data. The HR Manager and HR Generalist will be responsible for reviewing processed hire and change request paperwork for accuracy.

Process implemented in May 2012 (following discussion with the Auditor)

- *Supervisor submits paperwork to Human Resource Department for processing.*
- *Human Resources staff reviews paperwork for accuracy and processes in the HRIS system. Processed paperwork will be time stamped and initialed by the processor.*
- *Processed paperwork is submitted to HR Manager or HR Generalist for review. Verified paperwork is initialed by the reviewer.*

Contact Person - Teresa Chaika, Human Resource Manager

11-2 Restatement

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 Permanent Improvement Capital Project Fund trial balance, finance staff of the Minneapolis Park and Recreation Board identified the need to restate beginning fund balance to correct an overstatement of accounts payable and related expenditures in the prior year's financial statements.

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

Effect: The January 1, 2011, fund balance of the Permanent Improvement Capital Project Fund and net assets of the Governmental Activities was restated by \$904,500 to correct payables and related expenditures overstated in 2010.

Cause: Oversight.

Recommendation: We recommend Park Board staff review the prior year's trial balances and journal entries in detail when preparing the current year financial statements to ensure they have an understanding of any journal entries that need reversing.

Client's Response:

Corrective action has been taken to include the following:

- *The finance staff of the Minneapolis Park and Recreation Board has established and implemented a procedure whereby post-closing journal entries for the period being audited and the reversing entries are processed at the same time. This procedure will ensure that the post-closing entries and corresponding reversing entries have been completed. The procedure was instituted with the processing of the 2011 post-closing entries.*
- *Finance staff is also developing and will implement a process to track and complete year-end procedures. All balance sheet and fixed asset accounts will be analyzed and all necessary adjustments or transactions will be processed prior to the year-end close date.*

Contact Person - Julia Wiseman, Finance Manager

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

11-3 Identification of Federal Awards

Program: Brownfields Assessment and Cleanup Cooperative Agreements - ARRA (CFDA No. 66.818)

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended and the federal programs under which they were received, including identifying programs funded by the American Recovery and Reinvestment Act (ARRA) and maintaining internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition: The Park Board did not identify material amounts received and expended for this program as being federal and ARRA funded until after our exit meeting with management.

Questioned Costs: None.

Context: This grant, which was passed through Hennepin County, accounts for nearly 40 percent of the Park Board's total federal expenditures.

Effect: Additional testing of this major federal program was required to be performed after the audit was complete and reports ready for issuance. In addition, because the program was not identified as a grant to the appropriate staff, the contracts with the two vendors performing work on this project did not include the standard contract language relating to suspended or debarred vendors.

Cause: The Park Board does not have adequate internal controls in place for identifying federal programs and for communicating requirements of those programs to departments carrying out program-related functions.

Recommendation: We recommend Park Board management develop written procedures that will allow staff to correctly identify all federal financial assistance received and expended. Procedures should include communication of direct and material compliance requirements to all staff/departments necessary.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Julia M. Wiseman, Finance Manager

Corrective Action Planned:

- *For new projects, the Grant Manager will complete the “Project Set Up” form. The form is available on PBIntra.*
- *The Finance Department will verify information contained in the form by comparing the information to the grant agreement.*
- *Projects with Federal funding will be listed on a separate excel spreadsheet that will include information listing amount, CFDA#, and grant agreement dates.*
- *The Finance Department will conduct training sessions with Grant Managers to ensure that the “Project Set Up” form is correctly completed.*
- *Written procedures for federally funded projects will be completed in August 2012 and posted on PBIntra. These procedures will list the requirements for federal funding. For projects in the Permanent Improvement fund, the “Letter of Recommendation” will contain language that will identify the funding source. This letter will be sent to the City of Minneapolis Purchasing Department.*

Anticipated Completion Date:

The Park Board Finance Department has made the “Project Set Up” form available on PBItra beginning in August 2010. Training of staff will be completed during the monthly meetings with Finance staff in August 2012.

PREVIOUSLY REPORTED ITEM RESOLVED

**Time Reporting - Temporary Assistance to Needy Families - ARRA
(CFDA #93.558) (10-1)**

The Minneapolis Park and Recreation Board’s supporting documentation relating to payroll costs associated with the Teen Teamworks program did not always indicate proper supervisory review, some participants had not been determined eligible for participation in the program before being paid with federal funds, one timesheet did not list a start time making it difficult to verify that the correct hours were paid, and one participant was paid for more hours in the pay period than allowed by the grant agreement.

Resolution

The Park Board implemented its corrective action plan and did not receive federal funding for this program in 2011.



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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*

Board of Commissioners
Minneapolis Park and Recreation Board
Minneapolis, Minnesota

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, a component unit of the City of Minneapolis, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the Park Board's basic financial statements, and have issued our report thereon dated July 27, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Minneapolis Park and Recreation Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Minneapolis Park and Recreation Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been 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 another deficiency that we consider to be a significant deficiency.

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 11-2 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 11-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Minneapolis Park and Recreation Board's financial statements are free of 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories; however, they were tested in conjunction with the audit of the financial statements of the City of Minneapolis.

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

The Minneapolis Park and Recreation Board's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the Park Board's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the Minneapolis Park and Recreation Board, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 27, 2012

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Minneapolis Park and Recreation Board
Minneapolis, Minnesota

Compliance

We have audited the compliance of the Minneapolis Park and Recreation Board, a component unit of the City of Minneapolis, 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 its major federal programs for the year ended December 31, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Park Board's management. Our responsibility is to express an opinion on the Park Board's compliance based on our audit.

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. Our audit does not provide a legal determination on the Park Board's compliance with those requirements.

In our opinion, the Minneapolis Park and Recreation Board complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of the Minneapolis Park and Recreation Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Park Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 11-3. 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 attention by those charged with governance.

Schedule of Expenditures of Federal Awards

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, 2011, and have issued our report thereon dated July 27, 2012. Our audit was performed for the purpose of forming

opinions on the Minneapolis Park and Recreation Board's financial statements that collectively comprise the Park Board's 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. 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. The SEFA 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 financial statements or to the 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 taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners, management and others within the Minneapolis Park and Recreation Board, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 27, 2012

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice		
Direct		
Juvenile Mentoring Program	16.726	\$ 141,714
Passed Through City of Minneapolis Health and Family Support		
Youth Gang Prevention	16.544	<u>37,530</u>
Total U.S. Department of Justice		<u>\$ 179,244</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	\$ 27,918
Highway Planning and Construction - ARRA	20.205	<u>59,884</u>
Total U.S. Department of Transportation		<u>\$ 87,802</u>
U.S. Environmental Protection Agency		
Passed Through Hennepin County		
Brownfields Assessment and Cleanup Cooperative Agreements - ARRA	66.818	<u>\$ 819,197</u>
U.S. Department of Energy		
Passed Through City of Minneapolis		
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	<u>\$ 67,752</u>
U.S. Department of Health and Human Services		
Passed Through City of Minneapolis Health and Family Support		
Prevention and Wellness - Communities Putting Prevention to Work		
Funding Opportunities Announcement (FOA) - ARRA	93.724	<u>\$ 48,792</u>
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>\$ 863,474</u>
Total Federal Awards		<u><u>\$ 2,066,261</u></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, 2011**

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 discrete 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, 2011. 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 assets, 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. Clusters

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

Highway Planning and Construction Cluster	<u>\$ 87,802</u>
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**MINNEAPOLIS PARK AND RECREATION BOARD
MINNEAPOLIS, MINNESOTA**

5. Subrecipients

The Park Board did not pass any federal money to subrecipients during the year ended December 31, 2011.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.