

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**MANAGEMENT AND COMPLIANCE REPORT FOR**

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

**YEAR ENDED DECEMBER 31, 2008**

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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

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

**Year Ended December 31, 2008**



**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 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of the Minneapolis Park and Recreation Board, a component unit of the City of Minneapolis.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of the Minneapolis Park and Recreation Board and are reported in the "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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of the Minneapolis Park and Recreation Board were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for the Minneapolis Park and Recreation Board expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
  - Highway Planning and Construction CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Minneapolis Park and Recreation Board was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-1 Monitoring Internal Controls

Park Board management is responsible for monitoring its internal controls. This requires performing a risk assessment of existing controls over significant functions of its accounting system used to produce financial information for management, the Board, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updated information systems, or changes to services being provided. Our inquiry of Park Board management found that significant internal controls of its accounting system are assessed on an informal basis. Internal controls and financial reports may be reviewed periodically; however, the significant internal controls have not been documented. Significant internal controls cover such areas as:

- cash;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing, and
- payroll.

Risk assessments performed by the Park Board lack a formal process as they are not documented to demonstrate what was reviewed and the results.

We recommend that the Park Board document the significant internal controls in its accounting system. We also recommend that a formal plan be developed that calls for the monitoring of the internal control structure on a regular basis, no less than annually. The monitoring activity should be documented to show the results of the review, changes required as a result of the risk assessment, and who performed the work.



Client's Response:

*The Minneapolis Park and Recreation Board is a primary user of the City of Minneapolis' financial system and was included in the documentation of significant internal controls during the implementation of the new City financial system.*

*The Minneapolis Park and Recreation Board will document Park Board specific internal control policies and procedures, perform various internal audits to monitor activities within Park Board Departments, and evaluate internal controls to determine whether the control has been successfully implemented. The Park Board will evaluate the application of internal controls and document the results to show assets are reasonably safeguarded against unauthorized acquisition, use, or disposition. The Park Board will evaluate internal controls and document the results to ensure they are capable of effectively preventing or detecting and correcting material misstatements.*

ITEMS ARISING THIS YEAR

08-1 Journal Entries

A limited number of staff have journal entry access rights to approve (post) journal entries to the accounting system. However, no controls are in place to prevent these staff from both initiating and approving the same journal entries. The system does not provide an audit trail to indicate which staff with approval access actually did the posting to the system. In addition, there is no formal oversight or review process of journal entry activity.

The ability to initiate and approve journal entries on the general ledger system is a powerful function. It allows staff with access the ability to make changes to the financial system.

The Park Board follows the City's policies and procedures related to journal entries. These are in the process of being formally updated for the new general ledger system (Compass). To improve internal controls surrounding the journal entry function, we recommend that the formal policies and procedures include system access limitations that prevent the same person from initiating and approving journal entries along with identification of the person approving journal entries. A report should be generated monthly that shows all journal entries that have been posted to the accounting system. Review and monitoring of this report should be done to ensure proper oversight for unusual or inappropriate activity.

Client's Response:

*The Minneapolis Park and Recreation Board is a primary user of the City of Minneapolis' financial system and will be included in system improvements made to the journal entry process and the system-wide reporting and monitoring of journal entry activity.*

*The Minneapolis Park and Recreation Board finance department instituted the following internal business process with the implementation of the new financial system:*

1. *Employee initiating a journal entry*
  - *Prints a copy of the journal entry*
  - *Initials the journal entry copy*
  - *Submits journal entry copy and supporting documentation to Approver*
2. *Employee approving journal entry*
  - *Reviews journal entry and supporting documentation*
  - *Stamps journal entry copy with date approved*
  - *Initials journal entry copy*
3. *Journal entry copy and supporting documentation are filed in a centralized journal entry book maintained in the Park Board finance department.*

*Beginning in 2009, the Park Board finance department will monitor and document on a monthly basis adherence to the internal business process for all journal entries processed by the Park Board.*

08-2 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls.

In 2008, the Park Board implemented new general ledger software that included a capital asset module. At that time, the decision was also made to eliminate salvage values. The effect of this change in accounting estimate is to depreciate the net book value of capital assets down to zero over their remaining useful lives. However, the new software failed to depreciate the old salvage values for assets already at the end of their useful lives.

Also, because of system settings determined during the software's implementation, depreciation on assets whose lives extended beyond year 2050 failed to calculate correctly, resulting in depreciation amounts taken in some instances at up to twice the expected rate. These problems went undetected until we commenced our audit procedures relative to the capital assets and related depreciation accounts.

Because of the two problems mentioned above, during the audit, we proposed the following adjustments that resulted in significant changes to the Park Board's financial statements:

- Depreciation expense and related accumulated depreciation were adjusted in the governmental activities, internal service fund, and enterprise fund in amounts ranging from \$52,647 to \$5,592,186.

The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend the Park Board modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

*The Minneapolis Park and Recreation Board is a primary user of the City of Minneapolis' financial system and will be included in any modifications and adjustments made to the capital asset module to ensure that depreciation is properly calculated and recorded in the financial system.*

*The Minneapolis Park and Recreation Board will also expand its balance sheet review and analysis process to include capital assets and depreciation. The balance sheet review will be conducted twice per year with the final review being completed in December to ensure that any potential misstatements are identified and corrected and to ensure the financial statements are fairly presented.*

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. MANAGEMENT PRACTICES**

PREVIOUSLY REPORTED ITEM RESOLVED

**Business Continuity Plan (01-1)**

The Minneapolis Park and Recreation Board did not have a comprehensive information systems disaster recovery/business continuation plan.

**Resolution**

We were provided with the completed Business Continuity Plan which was approved by the Minneapolis Park and Recreation Board at its June 17, 2009, Board meeting.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND 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

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, as of and for the year ended December 31, 2008, which collectively comprise the Minneapolis Park and Recreation Board's basic financial statements, and have issued our report thereon dated July 27, 2009. 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

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 of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Park Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Park Board's financial statements that is more than inconsequential will not be prevented or detected by the Park Board's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 07-1, 08-1, and 08-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Minneapolis Park and Recreation Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-2 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 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 Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in deposits and investments, public indebtedness, claims and disbursements, conflicts of interest, and miscellaneous provisions because 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 significant deficiencies and material weakness 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, 2009

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Minneapolis Park and Recreation Board

### 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 are applicable to its major federal program for the year ended December 31, 2008. The Minneapolis Park and Recreation Board's major federal program is 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 its major federal program 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 requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

#### Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Park Board's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Park Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Minneapolis Park and Recreation Board's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

#### 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, 2008, which collectively comprise the Park Board's basic financial statements, and have issued our report thereon dated July 27, 2009. Our audit was performed for the purpose of forming opinions on the Minneapolis Park and Recreation Board's basic financial statements. The accompanying Schedule of

Expenditures of Federal Awards 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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, 2009

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

*Schedule 2*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of the Interior - National Park Service</b>		
Direct		
Save America's Treasures	15.929	\$ 141,283
<b>U.S. Department of Justice</b>		
Passed Through Powderhorn Park Neighborhood Community Capacity Development Office	16.595	4,000
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	766,247
<b>U.S. Environmental Protection Agency</b>		
Direct		
Brownsfields Assessment and Cleanup Cooperative Agreements	66.818	<u>175</u>
<b>Total Federal Awards</b>		<b><u>\$ 911,705</u></b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Minneapolis Park and Recreation Board. The Board's reporting entity is defined in Note 2 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 2 to the Park Board's basic financial statements.
3. The Park Board did not pass any federal money to subrecipients during the year ended December 31, 2008.
4. Pass-through grant numbers were not assigned by the pass-through agencies.