

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, 2009

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, 2009



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, 2009**

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. 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. Significant deficiencies relating to the audit of the major federal award programs are 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." None were material weaknesses.
- E. The Auditor's Report on Compliance for the major federal award programs for the Minneapolis Park and Recreation Board expresses an unqualified opinion.
- F. Findings relative to a major federal award program for the Minneapolis Park and Recreation Board were reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Workforce Investment Act - Youth Activities - ARRA	CFDA #17.259
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 ITEMS NOT RESOLVED

07-1 Monitoring Internal Controls

In our previous reports, we commented on the responsibility of the Park Board's management for monitoring its internal controls and performing a risk assessment of existing controls over significant functions of its accounting system used to produce financial information. Significant functions and internal controls cover such areas as cash, capital assets, major funding sources, expenditure/expense processing, and payroll. We also commented on the need for the Park Board to formalize its assessments of risks in its review of internal controls; to document the significant internal controls, to perform monitoring activity of the internal controls on a regular basis, no less than annually; and to document the monitoring activity.

The Park Board has made significant progress in addressing the monitoring of internal controls over cash, capital assets, major funding sources, expenditure/expense processing, and payroll and in providing evidence of monitoring activity since the issuance of our last report in July 2009.

We recommend the Park Board continue its progress by documenting the significant internal controls and developing a formalized process of assessing and addressing risks related to internal controls.

Client's Response:

The Minneapolis Park and Recreation Board will document the internal control policy and establish an audit plan based on annual risk assessments. During 2009, the Park Board made significant improvements to the performance of its internal control reviews, documentation of monitoring activities, and the implementation of improvements identified during the reviews. These activities will be further strengthened by the completion of the formal policy and the implementation of the annual risk assessment and audit planning procedures.

08-2 Audit Adjustments

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. Statement on Auditing Standards No. 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

During our audit, we identified the following material audit adjustments that were reviewed and approved by Park Board staff and are reflected in the financial statements:

- Accounts receivable and deferred revenue - unavailable were increased by \$491,504 to properly match grant expenditures in the Permanent Improvement Fund.
- Accounts payable and related expenditures were increased by \$278,831 to record contracted services received during 2009, but not paid until 2010, in the Permanent Improvement Fund.

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

Client's Response:

The Minneapolis Park and Recreation Board is committed to presenting accurate financial statements and performs balance sheet account reconciliations and recording of accruals on an ongoing basis. The Park Board will perform an additional test during year-end processing to ensure all balance sheet accounts reconciliations have been completed and transactions have been properly recorded.

PREVIOUSLY REPORTED ITEM RESOLVED

Journal Entries (08-1)

The Minneapolis Park and Recreation Board did not have controls in place to prevent staff from both initiating and approving the same journal entries, and the general ledger system used did not provide an audit trail to document who posted the journal entries. In addition, there was no formal oversight or review process of journal entry activity.

Resolution

The Minneapolis Park and Recreation Board implemented an internal business process to document that the initiating and approving of journal entries is performed by different individuals. The Minneapolis Park and Recreation Board has also monitored this business process throughout the year.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

09-1 Identification of Federal Awards - Workforce Investment Act - Youth Activities--ARRA (CFDA #17.259)

Park Board staff initially provided auditors with federal awards information that did not include identification of the Workforce Investment Act - Youth Activities program (CFDA #17.259). It was not until the audit of the General Fund that auditors were made aware of this federal grant. This federal award was funded by the American Recovery and Reinvestment Act of 2009 (ARRA) and is considered to be a higher risk program subject to audit with the compliance requirements described in U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* as part of the Park Board's single audit.

OMB Circular A-133, Subpart C, § .300, lists auditee responsibilities, which include identifying all federal awards received and expended and the federal programs under which they were received and preparing appropriate financial statements, including the Schedule of Expenditures of Federal Awards. The Park Board did not adequately meet this responsibility in regard to the federal awards program for CFDA #17.259.

We recommend the Park Board develop policies and procedures that effectively address its responsibility to properly identify all federal awards received and expended and identify the federal programs under which they were received.

Corrective Action Plan:

Contact Person:

Julia Wiseman, Finance Manager

Corrective Action Plan:

The Minneapolis Park and Recreation Board reports federal grant information to the Office of the State Auditor on an annual basis at the beginning of the audit cycle. The Park Board will add an additional review to ensure all federal awards have been identified and reported.

Anticipated Completion Date:

September 30, 2010

09-2 Support for Reimbursement Requests - Workforce Investment Act - Youth Activities--ARRA (CFDA #17.259)

The Park Board received federal funding under the Workforce Investment Act - Youth Activities--ARRA program (CFDA #17.259) as a subrecipient of the City of Minneapolis. This funding was provided to cover payroll costs (both hourly wages and, for those that qualified, fringe benefits) for some participants and supervisors in the Teen Teamworks summer program. Reimbursement requests, along with support for the expenditures reported, were sent to the City of Minneapolis. We were unable to recalculate some of the amounts reimbursed.

In some instances, the number of hours suggested by the start and end times on the approved time sheets for youth participants did not agree with the number of hours paid and requested for grant reimbursement. It should be noted, however, that some of the start and end times written on the time sheets were unrealistic or not recorded. Finally, we noted some of the hours reimbursed for youth participants exceeded the 28 hours per week stated in the grant letter. For supervisors' wages included on the reimbursement requests, we were informed that amounts were based on a formula, rather than actual time. Although the formula and actual calculations used by Park Board staff were not documented, we were told it involved using the number of days worked, eight hours for each day, and an average hourly supervisor wage, plus fringe benefits. We were unable to recalculate these amounts reimbursed based on the information provided. In all cases, the City of Minneapolis did, however, reimburse the Park Board based on their review of the supporting documentation submitted with the reimbursement requests.

We recommend that staff involved with incurring and accounting for costs related to federal programs be sufficiently trained in documentation requirements to support reimbursement requests. We also recommend the Park Board maintain all documentation supporting expenditures included on reimbursement requests.

Corrective Action Plan:

Contact Person:

Julia Wiseman, Finance Manager

Corrective Action Plan:

The Minneapolis Park and Recreation Board has implemented improvements to time reporting and record keeping of the teen employment program. The department has revised the timesheet form to improve ease of use and training has occurred to ensure proper time reporting. The department has also implemented improvements to file management to ensure accessibility to records. The Park Board will review policies and procedures related to federal grant accounting and implement improvements to ensure compliance with contract terms.

Anticipated Completion Date:

September 30, 2010

IV. OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (for example, corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for the specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose but that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the Park Board for the year ending December 31, 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

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, 2009, which collectively comprise the Minneapolis Park and Recreation Board's basic financial statements, and have issued our report thereon dated June 11, 2010. 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 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 08-2 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 07-1 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 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.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the Park Board, and it is reported for that purpose.

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

June 11, 2010

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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 each of its major federal programs for the year ended December 31, 2009. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

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 in order to determine our 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 preceding paragraph 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, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 09-1 and 09-2. 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, 2009, which collectively comprise the Park Board's basic financial statements, and have issued our report thereon dated June 11, 2010. 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 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.

The Minneapolis Park and Recreation Board's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Park Board's corrective action plans and, accordingly, we express no opinion on them.

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

June 11, 2010

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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, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Labor		
Passed Through City of Minneapolis Employment & Training Program Workforce Investment Act - Youth Activities - ARRA	17.259	\$ 267,716
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	<u>2,423,955</u>
Total Federal Awards		<u><u>\$ 2,691,671</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, 2009**

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. 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, 2009. 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 modified 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 money to subrecipients during the year ended December 31, 2009.

5. 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.