

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CITY OF MINNEAPOLIS
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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**CITY OF MINNEAPOLIS
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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**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

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**CITY OF MINNEAPOLIS
MANAGEMENT AND COMPLIANCE REPORT**

YEAR ENDED DECEMBER 31, 2017

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REBECCA OTTO
STATE AUDITOR

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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

The Honorable Jacob Frey, Mayor,
and Members of the City Council
City of 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information 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 City'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 Meet Minneapolis as described in our report on the City'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 Meet Minneapolis were not audited in accordance with *Government Auditing Standards*. We issue separate management and compliance reports for the Minneapolis Park and Recreation Board and the Municipal Building Commission. This report does not include the results of our audit testing of the Minneapolis Park and Recreation Board component unit's internal control over financial reporting or on compliance and other matters. The management and compliance report for the Minneapolis Park and Recreation Board includes the reports required for an audit in accordance *Government Auditing Standards*. The results of our audit testing of the Municipal Building Commission component unit's internal control over financial reporting and on compliance and other matters is reported on separately within this Management and Compliance Report.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and an item 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 City'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 the attention of those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Cost as item 2017-002 to be a material weakness and item 2017-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Minneapolis' 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 City'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.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Minneapolis failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the Schedule of Findings and Questioned Costs as item 2017-003. 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 City's noncompliance with the above referenced provisions.

City of Minneapolis' Response to Findings

The City of Minneapolis' responses to the internal control and legal compliance findings identified in our audit are described in the Corrective Action Plan. The City'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 City'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 City'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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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

The Honorable Jacob Frey, Mayor,
and Members of the City Council
City of Minneapolis, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the City of Minneapolis' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City of Minneapolis' major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Minneapolis' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 City of Minneapolis' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the City of Minneapolis complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002. Our opinion on each major federal program is not modified with respect to this matter.

The City of Minneapolis' response to the noncompliance finding identified in our audit is described in the accompanying Corrective Action Plan. The City of Minneapolis' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City of Minneapolis is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of

compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002, that we consider to be a significant deficiency.

The City of Minneapolis' response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. The City of Minneapolis' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information 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 City's basic financial statements. We have issued our report thereon dated July 9, 2018, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Meet Minneapolis component unit, which was audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Minneapolis' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 9, 2018

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

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

I. SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

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 federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major federal programs are:

CDBG - Entitlement Grants Cluster	CFDA No. 14.218
Home Investment Partnerships Program	CFDA No. 14.239
Lead-Based Paint Hazard Control in Privately-Owned Housing	CFDA No. 14.900
State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity and Associated Risk Factors and Promote School Health financed in part by Prevention and Public Health Funding (PPHF)	CFDA No. 93.757
Homeland Security Grant Program	CFDA No. 97.067

The threshold for distinguishing between Types A and B programs was \$1,221,962.

City of Minneapolis qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

Finding Number 2017-001

Monitoring Internal Controls

Criteria: Management is responsible for developing and monitoring its internal controls over the various accounting cycles. The monitoring process includes performing an annual risk assessment of existing controls over significant functions of its accounting system used to produce financial information, documenting the significant internal controls for each transaction cycle/account balance, monitoring those controls on a regular basis, and documenting the monitoring activity performed.

Condition: Our inquiry of City management found that a risk assessment and documentation of the internal controls had not been updated, and the monitoring performed over internal controls was not completed. As a result, management was not able to review the results of the monitoring performed to assess the effectiveness of the internal controls.

Context: Assessing risk and monitoring transaction cycles and account balances ensures activity is being properly recorded and reported in the financial statements.

Effect: The internal control environment is constantly changing with changes in staffing, information systems, processes, and the services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls, which may go unnoticed without a formal and timely risk assessment process in place. Without monitoring of internal controls, management cannot be assured that internal controls are operating effectively and transactions are processed according to policy.

Cause: The City informed us that it has taken time to educate the various departments over the importance of maintaining updated risk assessments and performing monitoring procedures. The City also informed us that it lacks resources dedicated to establishing a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring those controls.

Recommendation: We recommend the City document the significant internal controls in the accounting system and formalize a plan to assess and monitor these controls on a regular basis, no less than annually. Significant functions and internal controls include and cover such areas as cash, loan receivable balances, capital assets, major funding sources, expenditure processing, and payroll. The monitoring of these functions and areas should be documented to show the results of the review, changes required as a result of the risk assessment, and who performed the work.

View of Responsible Official: Concur

Finding Number 2017-002

Prior Period Adjustment

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 restatement of previously issued financial statements to reflect the correction of misstatements due to error.

Condition: During our audit of the governmental activities capital assets, several capital assets were recorded in the governmental activities, which had also been previously recorded in the Sanitary Sewer and Stormwater Enterprise Funds, resulting in the capital assets being recorded in both the governmental activities and business-type activities.

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

Effect: The January 1, 2017, net position for the governmental activities was restated (decreased) by \$41,122,349 as a result of the error.

Cause: The City informed us that an oversight in the identification of capital assets and the appropriate fund in which to record them occurred.

Recommendation: We recommend the City review its policies and procedures for the preparation of its financial statements to ensure that all amounts are properly reported in the financial statements.

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2016-002

Uniform Guidance Written Procurement Policies and Procedures

Program: U.S. Department of Health and Human Services' State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity and Associated Risk Factors and Promote School Health financed in part by Prevention and Public Health Funding (PPHF) (CFDA No. 93.757), Award #12-700-00079, 2015

Pass-Through Agency: Minnesota Department of Health

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.318 states that the non-federal entity must use its own documented procurement procedures which reflect applicable state, local, and tribal laws and regulations, provided that the procurements conform with applicable federal law and the standards identified in this regulation.

Condition: The City has written procurement policies; however, these policies did not include all the required components in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318.

Questioned Costs: Not applicable.

Context: This issue was discovered during the audit of the major federal programs; however, it impacts federal programs entity-wide. Written policies that reflect the specific components of federal regulations improve controls to help ensure compliance with federal award requirements. During 2018, the City has updated its policies and procedures that include additional language to capture the required components in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318.

Effect: Written policies and procedures that are not updated to reflect the Uniform Guidance procurement requirements could increase the risk of noncompliance with federal program requirements.

Cause: The City informed us that the written procurement policies and procedures encompass the overall procurement process to create a contract, but do not include responsibilities that are handled at the department level on an individual basis, including contract compliance monitoring.

Recommendation: We recommend the City include the specific components of the Uniform Guidance requirements in written procurement policies and procedures.

View of Responsible Official: Concur

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding Number 2017-003

Withholding Affidavit for Contractors (Form IC-134)

Criteria: Minnesota Statute § 270C.66 states that, before making final settlement with any contractor under a contract requiring the employment of employees for wages by the contractor and by subcontractors, the City is required to obtain a certificate from the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92.

Condition: Final payment to two contractors for contracts involving the employment of individuals for wages by the contractor were tested. For both of these, final payment was made on the contract before Form IC-134, which certifies withholding compliance, was received from this contractor and approved by the Minnesota Department of Revenue.

Context: City departments are responsible for obtaining the required certificate prior to submitting the final payment for processing.

Effect: Noncompliance with Minn. Stat. § 270C.66.

Cause: City staff was not aware of the requirement.

Recommendation: We recommend the City obtain the required IC-134 Withholding Affidavit Form before final payment is made to contractors and subcontractors on all contracts requiring the employment of employees for wages.

View of Responsible Official: Concur

V. PREVIOUSLY REPORTED ITEMS RESOLVED

2009-001 Prompt Payment of Invoices

2013-002 Loan C Documentation

2016-001 Written Policies and Procedures Documentation

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**REPRESENTATION OF THE CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

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

Finding Number: 2017-001

Finding Title: Monitoring Internal Controls

Name of Contact Person Responsible for Corrective Action:

Chris Fittipaldi

Corrective Action Planned:

The Finance Manager in Internal Controls will work with other departments to document processes, assess risk, and test internal controls.

Anticipated Completion Date:

12/31/18

Finding Number: 2017-002

Finding Title: Prior Period Adjustment

Name of Contact Person Responsible for Corrective Action:

Lyle Hodges

Corrective Action Planned:

The adjustment was made in the 2017 financial statements, and a more thorough review of asset additions will be made going forward.

Anticipated Completion Date:

Completed in April 2018

Finding Number: 2016-002

Finding Title: Uniform Guidance Written Procurement Policies and Procedures

Name of Contact Person Responsible for Corrective Action:

Pam Fernandez

Corrective Action Planned:

Policies and Procedures have been updated to conform with the Uniform Grant Guidance requirements.

Anticipated Completion Date:

Completed in April 2018

Finding Number: 2017-003

Finding Title: Withholding Affidavit for Contractors (Form IC-134)

Name of Contact Person Responsible for Corrective Action:

Pam Fernandez

Corrective Action Planned:

Accounts Payable will not complete final payment until the IC-134 has been received from contractor.

Anticipated Completion Date:

Completed in June 2018

**REPRESENTATION OF THE CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

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

Finding Number: 2016-001

Finding Title: Written Policies and Procedures Documentation

Summary of Condition: Significant internal controls of the City’s accounting system or pass-through compliance monitoring have not been updated to reflect changes or have not been properly documented.

Summary of Corrective Action Previously Reported: The Information Technology (IT) Department will complete the standards and procedures manual for OneNeck services key processes. These processes include incident management, change management, service request management, server release management and problem management. IT will complete standards and procedures documentation for internal processes insourced beginning in 2015. These include: incident management, change management, problem management, access provisioning and deprovisioning, release management and vendor risk management.

Also, the Finance Grants Management is in the process of updating the policies and procedures.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No x

Finding Number: 2016-002

Finding Title: Uniform Guidance Written Procurements Policies and Procedures

Programs: Home Investment Partnerships Program (CFDA No. 14.239) and Highway Planning and Construction (CFDA No. 20.205)

Summary of Condition: The City has written procurement policies; however, these policies did not include all the required components in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318.

Summary of Corrective Action Previously Reported: The Procurement and the Controller’s divisions of Finance & Property Services will work together to update the appropriate policies to include all of the required components in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318.

Status: Partially Corrected. The updated policy was not in place until May of 2018.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No x

Finding Number: 2013-002
Finding Title: Loan C Documentation

Summary of Condition: Inconsistencies were noted in the Loan C population provided. A listing of the loans was obtained through MINS, CPED’s database system, 25 new loan files and 25 deleted loans were selected for testing. The following discrepancies were noted during testing:

- one loan was found to be satisfied in 2002;
- one loan recorded in previous years and deleted in the current year was found to be a grant and was never a loan; and
- one loan was found to be deleted but not included in the 2016 Loan C Satisfied Report.

Summary of Corrective Action Previously Reported: Policies and procedures will be updated and included in a manual for Loan C work activities. In addition, every loan file in Loan C has been audited and compared to MINS reports to assure that there are no inconsistencies between what is in the physical Loan C records and what is in the system. Staff will continue to refine this process to reduce the opportunities for errors throughout the calendar year.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No x

Finding Number: 2009-001
Finding Title: Prompt Payment of Invoices

Summary of Condition: Seven of 110 invoices tested for compliance with Minn. Stat. § 471.425 were not paid within 35 days.

Summary of Corrective Action Previously Reported: Over the last three years, the City’s Accounts Payable (AP) staff has worked with vendors and City staff to implement a number of changes to its processes which has significantly improved the timing of payment of invoices. The City AP continues to work on improvements to its invoice payment process as well as communication with both groups to ensure invoices and supporting documentation are submitted directly to AP.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No x

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Housing and Urban Development				
Direct				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218		\$ 11,972,636	\$ 2,663,003
Emergency Solutions Grant Program	14.231		845,138	662,873
Home Investment Partnerships Program	14.239		3,289,430	-
Housing Opportunities for Persons with AIDS	14.241		1,076,521	1,061,644
Neighborhood Stabilization Program - ARRA	14.256		(207,170)	-
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		1,911,876	-
Passed through Minnesota Housing Finance Agency				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	02-2009-09A-NSP	468,054	-
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii <i>(Total Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii 14.228 \$521,472)</i>	14.228	02-2011-02-NSP3	53,418	-
Total U.S. Department of Housing and Urban Development			<u>\$ 19,409,903</u>	<u>\$ 4,387,520</u>
U.S. Department of the Interior				
Passed through Minnesota Historical Society				
Historic Preservation Fund Grants-In-Aid	15.904	4709519	<u>\$ 16,377</u>	<u>\$ -</u>
U.S. Department of Justice				
Direct				
Drug Court Discretionary Grant Program	16.585		\$ 60,000	\$ -
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		76,310	-
Public Safety Partnership and Community Policing Grants	16.710		405,560	-
Edward Byrne Memorial Justice Assistance Grant Program <i>(Total Edward Byrne Memorial Justice Assistance Grant Program 16.738 \$165,030)</i>	16.738		21,228	-
Byrne Criminal Justice Innovation Program	16.817		30,041	30,041
Children Exposed to Violence	16.818		78,785	-
National Forum on Youth Violence Prevention	16.819		1,000	-
Passed through Minnesota Department of Public Safety				
Juvenile Accountability Block Grants	16.523	A-JABGSP-2016- HFS-00002	(2,000)	-

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Justice				
Passed through Minnesota Department of Public Safety (Continued)				
Crime Victim Assistance	16.575	A-CVS-2016-MPLS A-CVS-2017-MPLS-	(1,568)	-
Crime Victim Assistance <i>(Total Crime Victim Assistance Program 16.575 \$138,140)</i>	16.575	HFS	139,708	138,554
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	A-NFSIA-2017- MPLSPD-00004	8,680	-
Passed through Hennepin County				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	A140666	80,030	-
Edward Byrne Memorial Justice Assistance Grant Program <i>(Total Edward Byrne Memorial Justice Assistance Grant Program 16.738 \$165,030)</i>	16.738	A153627-SR	63,772	-
Total U.S. Department of Justice			\$ 961,546	\$ 168,595
U.S. Department of Labor				
Direct				
Reintegration of Ex-Offenders	17.270		\$ 131,942	\$ -
Passed through Minnesota Department of Employment and Economic Development				
WIA Cluster				
WIA Adult Program	17.258	5103100	18,425	-
WIA Adult Program	17.258	6103100	442,952	393,827
WIA Adult Program <i>(Total WIA Adult Program 17.258 \$739,177)</i>	17.258	7103100	277,800	91,513
WIA Youth Activities	17.259	5103601	4,274	4,274
WIA Youth Activities	17.259	6103600	980,865	854,358
WIA Youth Activities <i>(Total WIA Youth Activities 17.259 \$1,140,269)</i>	17.259	7103600	155,130	69,745
WIA Dislocated Worker Formula Grants	17.278	4108001	2,833	-
WIA Dislocated Worker Formula Grants	17.278	6108000	308,877	125,776
WIA Dislocated Worker Formula Grants <i>(Total WIA Dislocated Worker Formula Grants 17.278 \$368,089)</i>	17.278	7108000	56,379	46,664
Workforce Investment Act (WIA)				
National Emergency Grants	17.277	5107200	90,055	44,528
Passed through Employ Milwaukee				
H-1B Job Training Grants	17.268	HG-30128- 17-60-A-55	97,014	-
Total U.S. Department of Labor			\$ 2,566,546	\$ 1,630,685

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation				
Passed through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	99903	\$ 8,974,185	\$ -
Highway Planning and Construction	20.205	03973	(13,907)	-
Highway Planning and Construction	20.205	93496	15,191	-
Highway Planning and Construction	20.205	1000608	4,104	-
<i>(Total Highway Planning and Construction 20.205 \$8,979,573)</i>				
Passed through Metropolitan Council				
Federal Transit Cluster				
Federal Transit - Capital Investment Grants	20.500	10I045R	20,598	-
Federal Transit - Formula Grants	20.507	MN-2016-004	231,659	231,659
Passed through Minnesota Department of Public Safety				
Highway Safety Cluster				
State and Community Highway Safety	20.600	A-ENFRC17-2017- MPLSPD-015	22,998	-
State and Community Highway Safety	20.600	A-ENFRC18-2018- MPLSPD-010	8,480	-
<i>(Total State and Community Highway Safety 20.600 \$31,478)</i>				
National Priority Safety Programs	20.616	A-ENFRC17-2017- MPLSPD-015	3,039	-
National Priority Safety Programs	20.616	A-OFFICR17-2017- MPLSPD-004	20,715	-
National Priority Safety Programs	20.616	A-OFFICR18-2018- MPLSPD-013	13,312	-
<i>(Total National Priority Safety Programs 20.616 \$37,066)</i>				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC17-2017- MPLSPD-015	42,074	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC18-2018- MPLSPD-010	46,153	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR17-2017- MPLSPD-004	42,058	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR18-2018- MPLSPD-013	17,159	-
<i>(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$147,444)</i>				
Total U.S. Department of Transportation			\$ 9,447,818	\$ 231,659
National Endowment for the Arts				
Direct				
Promotion of the Arts - Grants to Organizations and Individuals	45.024		\$ 8,525	\$ -

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

(Continued)

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Direct				
Food and Drug Administration - Research	93.103		\$ 2,438	\$ -
Maternal and Child Health Federal Consolidated Programs	93.110		176,747	100,484
Injury Prevention and Control Research and State and Community Based Programs	93.136		228,745	42,066
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		441,542	33,495
Healthy Start Initiative	93.926		726,146	511,350
Passed through Minnesota Department of Health				
Public Health Emergency Preparedness	93.069	65488	183,884	-
Public Health Emergency Preparedness	93.069	127925	110,968	-
Public Health Emergency Preparedness	93.069	90407	10,871	-
<i>(Total Public Health Emergency Preparedness 93.069 \$305,723)</i>				
Pregnancy Assistance Fund Program	93.500	131721	34,745	32,942
Maternal, Infant and Early Childhood Home Visiting Cluster				
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	115011	151,665	151,665
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	102299	163,434	163,434
<i>(Total Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program 93.505 \$315,099)</i>				
Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870	118492	388,509	378,847
TANF Cluster				
Temporary Assistance for Needy Families	93.558	93083	601,180	543,660
Temporary Assistance for Needy Families	93.558	127474	504,601	457,760
<i>(Total Temporary Assistance for Needy Families 93.558 \$1,256,770)</i>				
Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program	93.753	107286	15,000	-
State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity, and Associated Risk Factors and Promote School Health financed in part by Prevention and Public Health Funding (PPHF)	93.757	12-700-00079	830,734	444,483
Maternal and Child Health Services Block Grant to the States	93.994	86869	821,359	268,630

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services (Continued)				
Passed through Minnesota Department of Employment and Economic Development				
TANF Cluster				
Temporary Assistance for Needy Families <i>(Total Temporary Assistance for Needy Families 93.558 \$1,256,770)</i>	93.558	8107400	150,989	5,106
Passed through Hennepin County				
Teenage Pregnancy Prevention Program	93.297	A153906-SR	117,305	-
Passed through Regents of the University of Minnesota				
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	P004828001	11,680	-
Total U.S. Department of Health and Human Services			\$ 5,672,542	\$ 3,133,922
U.S. Department of Homeland Security				
Direct				
Assistance to Firefighters Grant	97.044		\$ 498,689	\$ -
Passed through Minnesota Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4182DRMN P00000001 A-EMPG-2017-	545,080	-
Emergency Management Performance Grants	97.042	MPLSEMER-050 A-SHSP-2016-	30,000	-
Homeland Security Grant Program	97.067	MPLSBOMB-00015 A-UASI-2015-	117,701	-
Homeland Security Grant Program	97.067	MPLSEMER-0008 A-UASI-2016-	545,935	-
Homeland Security Grant Program	97.067	MPLSEMER-008 A-UASI-2017-	710,789	137,992
Homeland Security Grant Program	97.067	MPLSEMER-008	66,019	-
Passed through City of Minneapolis				
Homeland Security Grant Program <i>(Total Homeland Security Grant Program 97.067 \$1,575,034)</i>	97.067	C-41661	134,590	-
Total U.S. Department of Homeland Security			\$ 2,648,803	\$ 137,992
Total Federal Awards			\$ 40,732,060	\$ 9,690,373

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
Totals by Cluster				
Total expenditures for CDBG - Entitlement Grants Cluster			\$ 11,972,636	
Total expenditures for WIA Cluster			2,247,535	
Total expenditures for Highway Planning and Construction Cluster			8,979,573	
Total expenditures for Federal Transit Cluster			252,257	
Total expenditures for Highway Safety Cluster			68,544	
Total expenditures for Maternal, Infant and Early Childhood Home Visiting Cluster			703,608	
Total expenditures for TANF Cluster			1,256,770	

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Minneapolis, Minneapolis Park and Recreation Board, and Municipal Building Commission component units of the City. For the year ended December 31, 2017, the level of federal funding for the Minneapolis Park and Recreation Board and Municipal Building Commission did not require that separate single audits be performed for the component units. The City's, Minneapolis Park and Recreation Board's, and Municipal Building Commission's reporting entities are defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Minneapolis under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Minneapolis, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Minneapolis.

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 City of Minneapolis. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City of Minneapolis has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 39,619,248
Federal Fixed Price Contracts	
Equal Employment Opportunity Commission	(7,358)
Minnesota Family Investment Program	(95,000)
Minnesota Cold Case Investigations Task Force	(10,380)
Drug Enforcement Administration Task Force	(26,868)
Minnesota Cyber Crime Task Force	(17,245)
Safe Streets Violent Crime Task Force	(194,759)
U.S. Marshals Overtime - Predatory Offenders Unit	(12,548)
U.S. Marshals Overtime May - December 2017	(10,334)
Joint Terrorism Task Force	(6,471)
Violent Crimes Investigation - ATF	(44,922)
Violent Crimes Investigation - HIS	(58,029)
Toward Zero Deaths Partners	(110,449)
Timing Differences Between Expenditures and Related Reimbursements	(50,387)
Expenditures occurring in 2016 and reimbursed in 2017	(1,936,085)
Revenue received in 2017 for future year expenditures	(337,802)
Federal Program Income	
Neighborhood Stabilization Program - ARRA	73,014
Lead-Based Paint Hazard Control in Privately-Owned Housing	141,474
Neighborhood Stabilization Program	176,511
Community Development Block Grants/Entitlement Grants	1,752,867
Home Investment Partnerships Program	1,161,379
Expenditures for the Minneapolis Park and Recreation Board	
Highway Planning and Construction Cluster	4,104
Highway Safety Cluster - State and Community Highway Safety	5,822
Highway Safety Cluster - National Priority Safety Programs	4,860
Minimum Penalties for Repeated Offenders for Driving While Intoxicated	31,748
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	545,080
Homeland Security Grant Program	54,990
Expenditures for the Municipal Building Commission	
Homeland Security Grant Program	79,600
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 40,732,060

**MUNICIPAL BUILDING COMMISSION
MANAGEMENT AND COMPLIANCE REPORT**

YEAR ENDED DECEMBER 31, 2017

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REBECCA OTTO
STATE AUDITOR

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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

Municipal Building Commission Board
Municipal Building Commission
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 City of Minneapolis, Minnesota, which include as other supplemental information, the financial statements of the Municipal Building Commission, a discretely presented component unit, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 9, 2018.

Internal Control Over Financial Reporting

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

Commission'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 the attention of 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 any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. 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 Municipal Building Commission'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 Building Commission'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 Building Commission cannot issue debt and does not administer any tax increment financing districts. The applicable categories described above were tested in conjunction with the audit of the financial statements of the City of Minneapolis.

In connection with our audit, nothing came to our attention that caused us to believe that the Municipal Building Commission 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 Building Commission's noncompliance with the above referenced provisions.

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 Building Commission'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 Building Commission'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