

STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

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

YEAR ENDED DECEMBER 31, 2018

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 100 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 600 public pension funds; and

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

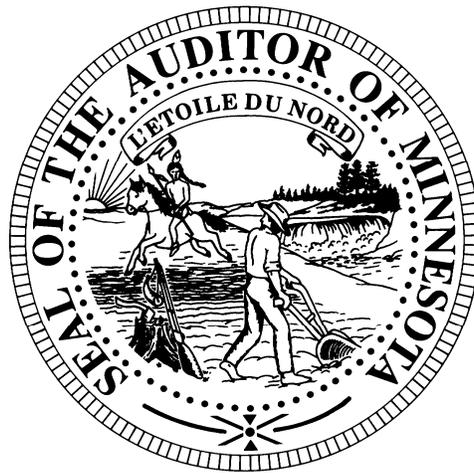
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

Year Ended December 31, 2018



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**

TABLE OF CONTENTS

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Schedule of Findings and Recommendations	4
Corrective Action Plan	8
Summary Schedule of Prior Audit Findings	10

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JULIE BLAHA
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*

Independent Auditor's Report

Board of Commissioners
Minneapolis Park and Recreation Board
Minneapolis, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Minneapolis Park and Recreation Board, a component unit of the City of Minneapolis, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Park and Recreation Board's basic financial statements, and have issued our report thereon dated June 24, 2019. Our report includes a reference to other auditors who audited the financial statements of the Minneapolis Parks Foundation as described in our report on the Park and Recreation Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Minneapolis Parks Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Minneapolis Park and Recreation Board's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Park and Recreation Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Park and Recreation Board'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 Recommendations, we did identify a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 and Recreation Board's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2018-001 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the Park and Recreation Board's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness and tax increment financing because the Park and Recreation Board cannot issue debt and does not administer any tax increment financing districts. The testing of compliance with the provisions of contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions was performed in conjunction with the audit of the City of Minneapolis.

In connection with our audit, nothing came to our attention that caused us to believe that the Minneapolis Park and Recreation Board failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Park and Recreation Board's noncompliance with the above referenced provisions.

Other Matters

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

Minneapolis Park and Recreation Board's Response to Findings

The Minneapolis Park and Recreation Board's responses to the internal control and management practices findings and to the other matter identified in our audit are described in the Corrective Action Plan. The Park and Recreation Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on the effectiveness of the Park and Recreation Board's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Park and Recreation Board's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2019

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

Finding Number 2018-001

Audit 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. Auditing standards define 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.

Condition: During the audit, a material audit adjustment was identified; this was reviewed and approved by the Minneapolis Park and Recreation Board staff and is reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the Minneapolis Park and Recreation Board's internal control.

Context: A loan was issued in the General Fund to retire a loan that was being serviced in the Permanent Improvement Capital Projects Fund. Because the loan proceeds were applied directly to the existing loan, the funds were not recorded in the Minneapolis Park and Recreation Board's general ledger.

Effect: The following material misstatement detected as a result of audit procedures was corrected by management: in the Permanent Improvement Capital Projects Fund, a transfer in and a debt service expenditure for principal retirement in the amount of \$1,160,000 needed to be recorded.

Cause: Management informed us the loan proceeds and related payoff of the existing loan were not recorded in the Minneapolis Park and Recreation Board's general ledger due to the nature of the transaction.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

Recommendation: We recommend the Minneapolis Park and Recreation Board review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements on a timely basis. In addition, we recommend that all transactions are recorded in the general ledger.

View of Responsible Official: Concur

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2017-001

Financial Condition

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

Condition: The financial condition of the Permanent Improvement Capital Projects Fund has improved from a fund balance of (\$11,243,835) as of December 31, 2017, to a fund balance of (\$4,905,008) as of December 31, 2018. While this is a significant improvement over the prior year, the fund balance is still negative. The fund continues to report a positive cash balance; however, this is mainly due to advances from other funds. This fund is reliant upon reimbursements from grants and other sources for capital projects. Projects are typically multi-year projects, with budgeted revenue sources, revenue received, and expenditures tracked by project. The amount and timing of revenue received is dependent on funding agreements as well as the timing of when reimbursement requests are submitted.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

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

Effect: The fund balance of the Permanent Improvement Capital Projects fund has increased to (\$4,905,008). Other Minneapolis Park and Recreation Board funds have loaned cash to the Permanent Improvement Capital Projects fund in the amount of \$4,540,000 to ensure adequate cash flow.

Cause: Management informed us that for some of the project expenditures, there are timing issues. Invoices are received from contractors near year-end, which does not allow for payment of the invoice and requesting reimbursement from funding sources before year-end. Some reimbursements are not requested until the end of the year or when a project is fully completed. However, the fund accountant worked diligently throughout the year and at year-end to pay vendor invoices and request reimbursements to improve the condition of the fund.

Recommendation: We recommend the Minneapolis Park and Recreation Board continue its progress in bringing this fund to a more favorable financial position by analyzing current projects and submitting reimbursement requests on a more timely basis.

View of Responsible Official: Concur

B. OTHER MATTER

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-002

Disaster Grants – Public Assistance (Presidentially Declared Disasters): Cash Management

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

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

Pass-Through Agency: Minnesota Department of Public Safety

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. In addition, the Minneapolis Park and Recreation Board must comply with the required provisions for cash management.

Condition: The Minneapolis Park and Recreation Board began submitting cost reimbursement information on the required reporting forms to the pass-through agency (Minnesota Department of Public Safety) in 2018. However, during testing, it was noted that one invoice was not paid prior to being submitted for reimbursement.

Questioned Costs: None.

Context: Periodically, the Minneapolis Park and Recreation Board submits cost documentation and formal reimbursement reports to the Minnesota Department of Public Safety. Since this is a reimbursement-based grant, costs are to be paid prior to submission to the pass-through agency.

Effect: Costs were submitted to the pass-through agency prior to being paid, which results in noncompliance with the cash management compliance requirement.

Cause: Management informed us the invoice was included on the reimbursement report because it had been sent to accounts payable to be paid.

Recommendation: We recommend the Minneapolis Park and Recreation Board gather cost documentation and submit costs on the formal reimbursement requests to the Minnesota Department of Public Safety only after they have been paid.

View of Responsible Official: Concur



**Minneapolis
Park & Recreation Board**

Administrative Offices

2117 West River Road North
Minneapolis, MN 55411-2227

Northside Operation Center

4022 1/2 North Washington Avenue
Minneapolis, MN 55412-1742

Southside Operation Center

3800 Bryant Avenue South
Minneapolis, MN 55409-1000

Phone

612-230-6400

Fax

612-230-6500

www.minneapolisparks.org

President

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

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Finding Number: 2018-001
Finding Title: Audit Adjustment**

Name of Contact Person Responsible for Corrective Action:

Julia Wiseman, Finance Director

Corrective Action Planned:

The MPRB secures mortgages on an infrequent basis. Care will be taken when this type of transaction occurs to ensure that proper general ledger entries are made at the time of issuance of the debt.

Anticipated Completion Date:

December 31, 2019

**Finding Number: 2017-001
Finding Title: Financial Condition**

Name of Contact Person Responsible for Corrective Action:

Julia Wiseman, Finance Director

Corrective Action Planned:

The Permanent Improvement Capital Projects Fund accounts for the capital and rehabilitation projects of the MPRB. Most of the projects in this fund are on a reimbursement basis and funding is not received until after the invoices are paid. A negative fund balance position is consistent for this fund, over the past ten years there has been a negative fund balance. The Capital Project Accountant made great progress in 2018 to improve the condition of the fund by over \$6.0 million with a fund balance

of (\$4,905,008) as of December 31, 2018. Included in this negative fund balance are two significant items that are outside of the duties of the accountant which are West River Road mudslide FEMA appeal for (\$2.2 million) and the Webber Pool debt service for (\$700,000). The accountant will continue to manage the reimbursement process to ensure the timely reimbursement of expenditures.

Anticipated Completion Date:

December 31, 2019

Finding Number: 2015-002

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

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

Name of Contact Person Responsible for Corrective Action:

Julia Wiseman

Corrective Action Planned:

The Capital Project Accountant reported the cost information and documentation on the proper forms in 2018 and the reporting finding has been corrected. However, in 2018 a cash management finding occurred with an invoice submitted for reimbursement prior to the payment being made. The Capital Project Accountant has implemented a process to verify the check issued date before an invoice is submitted for reimbursement.

Anticipated Completion Date:

December 31, 2019



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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Finding Number: 2017-001

Finding Title: Financial Condition

Summary of Condition: The financial condition of the Permanent Improvement Capital Projects Fund has declined to a fund balance of (\$11,243,834) as of December 31, 2017.

Summary of Corrective Action Previously Reported: The Finance Department added a Capital Projects Accountant position that was hired and started working with the MPRB on June 12, 2017. The primary responsibilities of this position are the set-up, accounting, monitoring, and billing of capital projects to ensure proper reporting of revenues and expenditures. The Finance Director and Capital Projects Accountant will work closely with the MPRB Planning Division to monitor project balances to ensure timely drawdowns and billing from multiple funding sources.

Status: Partially Corrected

The Permanent Improvement Capital Projects Fund accounts for the capital and rehabilitation projects of the MPRB. Most of the projects in this fund are on a reimbursement basis and funding is not received until after the invoices are paid. A negative fund balance position is consistent for this fund, over the past ten years there has been a negative fund balance. The Capital Project Accountant made great progress in 2018 to improve the condition of the fund by over \$6.0 million with a fund balance of (\$4,905,008) as of December 31, 2018. Included in this negative fund balance are two significant items that are outside of the duties of the accountant which are West River Road mudslide FEMA appeal for (\$2.2 million) and the Webber Pool debt service for (\$700,000).

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

Yes _____ No X

Finding Number: 2015-002

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

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

Summary of Condition: The Minneapolis Park and Recreation Board is submitting cost information and documentation to the pass-through agency (Minnesota Department of Public Safety), but the amount reimbursed is not consistent with the information and documentation submitted.

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

Status: Partially Corrected.

The Capital Project Accountant reported the cost information and documentation on the proper forms in 2018 and the reporting finding has been corrected. However, in 2018 a cash management finding occurred with an invoice submitted for reimbursement prior to the payment being made. The Capital Project Accountant has implemented a process to verify the check issued date before an invoice is submitted for reimbursement.

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

Yes _____ No X