

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Minneapolis Park and Recreation Board (A Component Unit of the City of Minneapolis, Minnesota)

Management and Compliance Report

Year Ended December 31, 2021

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 Minnesota's local 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, Minnesota)

Year Ended December 31, 2021



Management and Compliance Report

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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

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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

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, 2021, 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 July 18, 2022. Our report includes a reference to other auditors who audited the financial statements of the Minneapolis Parks Foundation component unit 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 component unit were not audited in accordance with *Government Auditing Standards*.

Report on 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 as a basis for designing 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.

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 a combination of deficiencies, in internal control over financial reporting, 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. A significant deficiency is a deficiency, or a 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.

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. We identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 2021-001, that we consider to be a material weakness.

Report on 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 financial statements. 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

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 contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

Minneapolis Park and Recreation Board's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Minneapolis Park and Recreation Board's response to the internal control finding identified in our audit and described in the accompanying Corrective Action Plan. The Park and Recreation Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

July 18, 2022

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021**

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

2021-001 Audit Adjustment

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Material Weakness

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 a 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: A material audit adjustment was identified that resulted in significant changes to the Minneapolis Park and Recreation Board's financial statements.

Context: The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustment was found during the review of the City of Minneapolis' actuary report and related pension adjustments made by the City. The Minneapolis Park and Recreation Board uses the adjustments the City of Minneapolis prepares in the preparation of the Park and Recreation Board's financial statements. Independent external auditors cannot be considered part of the Park and Recreation Board's internal control.

Effect: The following audit adjustment, related to pensions, was reviewed and approved by the appropriate City staff and is reflected in the Minneapolis Park and Recreation Board's financial statements:

- in the governmental activities, deferred outflows of resources – pensions decreased \$25,000,615, deferred inflows of resources – pensions increased \$19,991,279, and pension expense increased \$44,991,894, which includes the aggregate remaining fund information adjustment;

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2021**

- in the Enterprise Fund, deferred outflows of resources – pensions decreased \$2,132,278, deferred inflows of resources – pensions increased \$1,754,141, and pension expense increased \$3,886,419; and
- in the aggregate remaining fund information, which includes internal service funds, deferred outflows of resources – pensions decreased \$1,285,606, deferred inflows of resources – pensions increased \$1,057,618, and pension expense increased \$2,343,224.

Cause: The City relied on calculations made by an actuary to calculate an alternative method for pension liabilities, deferred inflows of resources, deferred outflows of resources, and pension expense. The actuary incorrectly included a deferred inflow of resources as a deferred outflow of resources. The actuary also used the prior year proportionate share percentage to calculate the deferred inflow net pension liability change in proportion amount instead of the current year percentage. The Minneapolis Park and Recreation Board relies on the calculations made by the City for the pension entries.

Recommendation: We recommend staff implement additional procedures over financial reporting that include a comprehensive review of balances, disclosures, and supporting documentation by a qualified individual to ensure the information is complete and accurate so the Park and Recreation Board's financial statements are fairly presented in accordance with generally accepted accounting principles.

View of Responsible Official: Acknowledge



Minneapolis Park & Recreation Board

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REPRESENTATION OF THE MINNEAPOLIS PARK AND RECREATION BOARD MINNEAPOLIS, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2021

Finding Number: 2021-001

Finding Title: Audit Adjustment

Name of Contact Person Responsible for Corrective Action:

Julia Wiseman, Finance Director

Corrective Action Planned:

The City of Minneapolis prepares the pension actuary report and related audit adjustments for all funds including the Minneapolis Park and Recreation Board funds. The Park Board relies on the City for these entries and Park Board staff do not enter the entries into the financial statements until the actuary report and related entries have been audited. The City of Minneapolis has put in place a corrective action the Park Board views as satisfactory, and the Park Board will continue to rely on the City for the completion of these entries.

Anticipated Completion Date:

December 31, 2022

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