

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

City of Minneapolis
(Including the Municipal Building Commission)
Minneapolis, Minnesota

Management and Compliance Report

Year Ended December 31, 2022

Description of the Office of the State Auditor

The Office of the State Auditor (OSA) helps ensure financial integrity and accountability in local government financial activities. The OSA is the constitutional office that oversees more than \$40 billion in annual financial activity by local governments and approximately \$20 billion of federal funding financial activity.

The OSA performs around 90 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office maintains the following seven divisions:

- **Audit Practice:** Helps ensure fiscal integrity by conducting financial and compliance audits of local governments and the federal compliance audit of the State of Minnesota.
- **Constitution:** Connects with the public via external communication, media relations, legislative coordination, and public engagements for the State Auditor.

This division also supports the State Auditor's service on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, the Minnesota Historical Society, and the Rural Finance Authority Board.

- **Government Information:** Collects, analyzes, and shares local government financial data to assist in policy and spending decisions; administers and supports financial tools including the Small Cities and Towns Accounting System (CTAS) software and infrastructure comparison tools.
- **Legal/Special Investigations:** Provides legal analysis and counsel to the OSA and responds to outside inquiries about Minnesota local law relevant to local government finances; investigates local government financial records in response to specific allegations of theft, embezzlement, or unlawful use of public funds or property.
- **Operations:** Ensures the office runs efficiently by providing fiscal management and technology support to the office.
- **Pension:** Analyzes investment, financial, and actuarial reporting for Minnesota's local public pension plans and monitors pension plan operations.
- **Tax Increment Financing (TIF):** Promotes compliance and accountability in local governments' use of tax increment financing through education, reporting, and compliance reviews.

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www.osa.state.mn.us

City of Minneapolis
(Including the Municipal Building Commission)
Minneapolis, Minnesota

Year Ended December 31, 2022



Management and Compliance Report

Audit Practice Division
Office of the State Auditor
State of Minnesota

City of Minneapolis Minneapolis, Minnesota

Table of Contents

	<u>Page</u>
City of Minneapolis Management and Compliance Report	
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
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	3
Schedule of Findings and Questioned Costs	7
Corrective Action Plan	11
Summary Schedule of Prior Audit Findings	13
Schedule of Expenditures of Federal Awards	14
Notes to the Schedule of Expenditures of Federal Awards	19
Municipal Building Commission Management and Compliance Report	
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>	21

**City of Minneapolis
Management and Compliance Report
Year Ended December 31, 2022**



**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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 22, 2023. Our report includes a reference to other auditors who audited the financial statements of the Meet Minneapolis component unit as described in our report on the City's financial statements. The financial statements of Meet Minneapolis were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with Meet Minneapolis. We issue a separate Management and Compliance Report for the Minneapolis Park and Recreation Board component unit. 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 component unit includes the reports required for an audit in accordance with *Government Auditing Standards*. This report does not include the results of our audit testing of the Municipal Building Commission component unit's internal control over financial reporting or compliance and other matters that are reported on separately within this Management and Compliance Report.

Report on 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 as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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 Questioned Costs as item 2022-001, that we consider to be a material weakness.

Report on 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 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 City of Minneapolis failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing 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 City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

City of Minneapolis' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Minneapolis' response to the internal control finding identified in our audit and described in the accompanying Corrective Action Plan. The City'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 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/Julie Blaha

Julie Blaha
State Auditor

August 22, 2023

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor



**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

Qualified and Unmodified Opinions

We have audited the City of Minneapolis' compliance with the types of compliance requirements identified as subject to audit 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 of Minneapolis' major federal programs for the year ended December 31, 2022. 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.

Qualified Opinion on COVID-19 – Emergency Rental Assistance Program

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the City of Minneapolis complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the COVID-19 – Emergency Rental Assistance Program for the year ended December 31, 2022.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2022.

Basis for Qualified and Unmodified Opinions

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Minneapolis and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for

each major federal program. Our audit does not provide a legal determination of the City of Minneapolis' compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on COVID-19 – Emergency Rental Assistance Program

As described in the accompanying Schedule of Findings and Questioned Costs, the City of Minneapolis did not comply with requirements regarding Assistance Listing No. 21.023 COVID-19 – Emergency Rental Assistance Program, as described in finding number 2022-002 for Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Period of Performance.

Compliance with such requirements is necessary, in our opinion, for the City of Minneapolis to comply with the requirements applicable to that program.

Other Matter – Federal Expenditure Not Included in the Compliance Audit

The City of Minneapolis' basic financial statements include the operations of the Minneapolis Park and Recreation Board component unit, which expended \$652,721 in federal awards which are not included in the City of Minneapolis' Schedule of Expenditures of Federal Awards during the year ended December 31, 2022. Our compliance audit, described in the Qualified and Unmodified Opinions section, does not include the operations of the Minneapolis Park and Recreation Board component unit because the component unit is legally separate from the primary government, and because it expended less than \$750,000 of federal awards for the year ended December 31, 2022, it was not subject to Uniform Guidance audit requirements.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City of Minneapolis' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Minneapolis' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Minneapolis' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Minneapolis' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and

- obtain an understanding of the City of Minneapolis' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, 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 the City of Minneapolis' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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 2022-003. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Minneapolis' response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City of Minneapolis' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-003 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Minneapolis' response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The City of Minneapolis' response was not subjected to

the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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 as of and for the year ended December 31, 2022, and have issued our report thereon dated August 22, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

/s/Julie Blaha

Julie Blaha
State Auditor

August 22, 2023

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

City of Minneapolis Minneapolis, Minnesota

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2022

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s 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? **None reported**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor’s report issued on compliance for the major federal programs: **Unmodified, except for COVID-19 – Emergency Rental Assistance Program, which is qualified.**

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

Identification of the major federal programs:

Assistance Listing	
Number	Name of Federal Program or Cluster
21.023	COVID-19 – Emergency Rental Assistance Program
21.027	COVID-19 – Coronavirus State and Local Fiscal Recovery Funds
66.468	Drinking Water State Revolving Fund Cluster

The threshold used to distinguish between Type A and B programs was \$3,000,000.

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

Section II – Financial Statement Findings

2022-001 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

City of Minneapolis

Minneapolis, Minnesota

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 City'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 in the audit; however, independent external auditors cannot be considered part of the City's internal control.

Effect: The following audit adjustment was reviewed and approved by the appropriate City of Minneapolis staff and is reflected in the financial statements: the HUD Consolidated Special Revenue Fund's Loans Receivable and Deferred Inflows of Resources – Unavailable Revenue were reduced by \$3,163,000 to adjust for loans that had been approved but the proceeds had not yet been disbursed. Similar adjustments were made to the Community Planning and Economic Development Special Revenue Fund and the Grants – Federal Special Revenue Fund; however, these adjustments were not material.

Cause: The City switched to a new program to account for their loans, and all loans were re-evaluated as they were added to the program. Staff did not follow the past methodology of using the amount drawn on the loan and instead used the contract amount in error. The loans receivable balance at year-end included loans that had been approved, but the proceeds had not yet been disbursed.

Recommendation: We recommend the City 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 City's financial statements are fairly presented in accordance with generally accepted accounting principles.

View of Responsible Official: Concur

Section III – Federal Award Findings and Questioned Costs

2022-002 Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Period of Performance

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Material Weakness and Modified Opinion

Federal Agency: U.S. Department of the Treasury

Program: 21.023 COVID-19 – Emergency Rental Assistance Program

Award Number and Year: ERA0166, ERAE0477, and B-20-MW-27-0003; 2021

Pass-Through Agency: N/A

City of Minneapolis

Minneapolis, Minnesota

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. The City's subrecipient agreements state, "invoice, admin cost summary report and payroll reports, and randomly selected files for monitoring must be submitted by provider for reimbursement."

Condition: In the sample of seven disbursements tested for Activities Allowed and Unallowed and Allowable Costs/Cost Principles, all seven did not have itemized documentation supporting the expenditures. In addition, in the sample of six disbursements tested to verify they were expended within the period of performance, two did not have itemized documentation supporting the expenditures, thus, it could not be determined that they were expended within the period of performance.

Questioned Costs: None.

Context: The City passed through \$12,285,250 of the \$12,299,743 expended of its Emergency Rental Assistance funds to subrecipients. The City completed monitoring procedures over its subrecipients and its applicants throughout 2022, which included reviewing spending of the subrecipients against budgets established at the beginning of the program and viewing data entered by its subrecipients into portals noting rent and utility assistance provided.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: By not obtaining itemized documentation, the City cannot be assured that its subrecipients were expending funds on allowable activities and met the requirements of allowable costs, or that the subrecipients expended funds within the period of performance. In addition, the City's subrecipients were not meeting the requirements outlined in their agreements with the City.

Cause: The City considered its procedures sufficient in lieu of obtaining itemized invoices.

Recommendation: We recommend the City obtain itemized documentation prior to paying invoices to ensure compliance with grant requirements. In addition, we recommend the City implement procedures to ensure its subrecipients are in compliance with established agreements.

View of Responsible Official: Concur.

2022-003 Project and Expenditure Special Report

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Significant Deficiency and Other Matter

Federal Agency: U.S. Department of the Treasury

Program: 21.027 COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

Award Number and Year: SLT0790, 2021; E-20-MW-27-0003, 2020

Pass-Through Agency: Minnesota Department of Health

City of Minneapolis Minneapolis, Minnesota

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.

Condition: While testing the fourth quarter Project and Expenditure Special Report, the completeness of the Subawards Section could not be determined. The supporting documentation was not maintained in a manner that supported the amounts in the report. Data for some elements of the section could be obtained by reperforming work but that took significant time. Immaterial differences were also identified in other sections of the report.

Questioned Costs: None.

Context: The U.S. Treasury uses the subawards section to report “contracts, grant, loans, direct payments, and other,” which is a broader definition than that used by the Code of Federal Regulations. The City has several projects, and payments within these projects, that need to be tracked in different ways for reporting in the Project and Expenditure Special Report. The documentation for some projects showed the approved contract amounts but did not document that no expenditures had been applied to the contracts yet.

Effect: Completeness of the subawards section of the fourth quarter Project and Expenditure Special Report could not be determined. In addition, immaterial differences were identified in the reported amounts for the Subawards, Expenditures for Awards more than \$50,000, and Payments to Individuals sections of the report.

Cause: The City uses tracking files and queries from the general ledger system for reporting but does not have a process to determine completeness for subawards compared to expenditures. Also, the report instructions are updated each quarter by the U.S. Treasury providing further instructions and clarifications of previous instructions.

Recommendation: We recommend the City review the process to accumulate data reported for the Project and Expenditure Special Report to ensure documentation is complete and accurately reflects activity for the period.

View of Responsible Official: Concur

**Representation of City of Minneapolis
Minneapolis, Minnesota**

Corrective Action Plan
For the Year Ended December 31, 2022

Finding Number: 2022-001

Finding Title: Audit Adjustment

Name of Contact Person Responsible for Corrective Action:

Angie Skildum, Director Development Finance, Finance and Property Services

Corrective Action Planned:

Using additional reporting capabilities in the loan tracking system, staff will evaluate the status of loans to determine the amount of loans receivable more accurately. Using this information, accounting staff will be able to accurately report the value of loans receivable and unavailable revenue in the financial statements.

Anticipated Completion Date:

December 31, 2023

Finding Number: 2022-002

Finding Title: Activities Allowed and Unallowed, Allowable Costs/Cost Principles, and Period of Performance

Program: 21.023 COVID-19 – Emergency Rental Assistance Program

Name of Contact Person Responsible for Corrective Action:

Jamie Radel, Senior Project Coordinator, Community Planning and Economic Development

Corrective Action Planned:

City staff will review invoices in conjunction with itemized documentation to support the expenditure prior to payment.

Anticipated Completion Date:

December 31, 2023

Finding Number: 2022-003

Finding Title: Project and Expenditure Special Report

Program: 21.027 COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

Name of Contact Person Responsible for Corrective Action:

Lyle Hodges, Controller, Finance and Property Services

Corrective Action Planned:

We will work with our Procurement and PeopleSoft support staff to develop a process to query data for subrecipient contracts from the PeopleSoft system. This will allow staff to review which contracts are identified as subrecipients and ensure completeness of the population.

Anticipated Completion Date:

December 31, 2023

**Representation of the City of Minneapolis
Minneapolis, Minnesota**

**Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2022**

Finding Number: 2021-001

Year of Finding Origination: 2021

Finding Title: Audit Adjustment

Summary of Condition: A material audit adjustment was identified that resulted in significant changes to the City's financial statements.

Summary of Corrective Action Previously Reported: We will establish a process for additional review of all pension schedules used to create the required entries and backup. Additional methodologies for preparing the required schedules will be researched.

Status: Fully Corrected. Corrective action was taken.

Corrective action taken was not significantly different than the action previously reported.

Finding Number: 2021-002

Year of Finding Origination: 2021

Finding Title: Procurement, Suspension, and Debarment

Program: Emergency Solutions Grant Program (ALN 14.231) and COVID-19 – Emergency Solutions Grant Program (ALN 14.231)

Summary of Condition: In a sample of two contracts tested over the covered transaction amount, the City did not have documentation to meet the verification requirements as to whether the vendor was suspended, debarred, or otherwise excluded.

Summary of Corrective Action Previously Reported: We will immediately begin reviewing and checking all vendors for suspension and/or debarment, including any governmental agencies. We have beefed up the language in our overall program guidance and particularly on the standard Closing Checklist for Emergency Solutions Grant projects.

Status: Partially Corrected. The suspension and debarment check has been included as a Closing Checklist requirement for projects that are funded through our Affordable Housing Trust Fund (AHTF) program but was missed in these projects because they were done outside of the AHTF program. However, a clause was added to contracts addressing suspension and debarment.

Corrective action taken was not significantly different than the action previously reported.

**City of Minneapolis
Minneapolis, Minnesota**

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing 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		\$ 14,591,938	\$ 1,943,531
COVID-19 – Community Development Block Grants/Entitlement Grants	14.218		2,626,321	2,051,417
(Total Community Development Block Grants/Entitlement Grants 14.218 \$17,218,259)				
Emergency Solutions Grant Program	14.231		1,079,425	801,996
COVID-19 – Emergency Solutions Grant Program	14.231		7,449,265	2,873,726
(Total Emergency Solutions Grant Program 14.231 \$8,557,740)				
Home Investment Partnerships Program	14.239		5,902,183	-
Housing Opportunities for Persons with AIDS	14.241		1,821,431	1,802,194
COVID-19 – Housing Opportunities for Persons with AIDS	14.241		174,100	171,290
(Total Housing Opportunities for Persons with AIDS 14.241 \$1,995,531)				
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		1,188,370	-
Healthy Homes Production Program	14.913		67,812	-
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	40,000	-
Passed Through Minnesota Department of Human Services				
COVID-19 – Emergency Solutions Grant Program	14.231	184736	29,050	25,126
(Total Emergency Solutions Grant Program 14.231 \$8,557,740)				
Total U.S. Department of Housing and Urban Development			\$ 34,969,895	\$ 9,669,280
U.S. Department of the Interior				
Passed Through Minnesota Historical Society				
Historic Preservation Fund Grants-In-Aid	15.904	Not provided	\$ 20,000	\$ -
U.S. Department of Justice				
Direct				
COVID-19 – Coronavirus Emergency Supplemental Funding Program	16.034		\$ 55,422	\$ -
Public Safety Partnership and Community Policing Grants	16.710		183,675	-
National Sexual Assault Kit Initiative	16.833		548,890	548,890
Body Worn Camera Policy and Implementation	16.835		1,600	-
Comprehensive Opioid Abuse Site-Based Program	16.838		94,894	-
Equitable Sharing Program	16.922		69,810	-
Passed Through Minnesota Department of Public Safety				
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	A-NFSIA-2022- MPLSPD-003	2,433	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	A-NFSIA-2022- MPLSPD-007	4,500	-
(Total Paul Coverdell Forensic Sciences Improvement Grant Program 16.742 \$6,933)				
Passed Through Hennepin County, Minnesota				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	PR00001610	133,417	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	PR00003163	200,322	-
(Total Edward Byrne Memorial Justice Assistance Grant Program 16.738 \$333,739)				
Total U.S. Department of Justice			\$ 1,294,963	\$ 548,890

**City of Minneapolis
Minneapolis, Minnesota**

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Labor				
Passed Through Minnesota Department of Employment and Economic Development				
WIOA Cluster				
WIA Adult Program	17.258	0103100	\$ 43,920	\$ 8,016
WIA Adult Program	17.258	1103100	701,722	585,316
WIA Adult Program	17.258	2103100_2	250,077	250,077
(Total WIA Adult Program 17.258 \$995,719)				
WIA Youth Activities	17.259	0103600	124,792	118,212
WIA Youth Activities	17.259	1103600	1,138,125	966,312
WIA Youth Activities	17.259	2103600	226,851	180,614
(Total WIA Youth Activities 17.259 \$1,489,768)				
WIA Dislocated Worker Formula Grants	17.278	0108000	50,540	46,472
WIA Dislocated Worker Formula Grants	17.278	1108000	415,983	362,752
WIA Dislocated Worker Formula Grants	17.278	2108000	92,866	69,578
(Total WIA Dislocated Worker Formula Grants 17.278 \$559,389)				
COVID-19 – Workforce Investment Act (WIA) National Emergency Grants	17.277	1100100	86,424	86,424
(Total Workforce Investment Act (WIA) National Emergency Grants 17.277 \$382,325)				
Passed Through Midwest Urban Strategies, Inc.				
Workforce Investment Act (WIA) National Emergency Grants (Total Workforce Investment Act (WIA) National Emergency Grants 17.277 \$382,325)	17.277	MET-DW-37016- 21-60-A-55	295,901	273,286
Total U.S. Department of Labor			\$ 3,427,201	\$ 2,947,059
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	8825-964	\$ 50,549	\$ -
Highway Planning and Construction	20.205	1029973	2,889,643	-
COVID-19 – Highway Planning and Construction	20.205	8822183	6,278	-
(Total Highway Planning and Construction 20.205 \$2,946,470)				
Passed Through City of Orono, Minnesota				
Highway Safety Cluster				
State and Community Highway Safety	20.600	A-ENFRC2-2022- ORONOPD-062	8,723	-
National Priority Safety Programs	20.616	A-ENFRC2-2022- ORONOPD-062	2,632	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC2-2022- ORONOPD-062	2,821	-
(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$43,119)				
Passed Through Minnesota Department of Public Safety				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-DGCT22-2022- 4TH-JD-008-DWI	28,075	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-DGCT23-2023- 4TH-JD004(1)	12,223	-
(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$43,119)				
Total U.S. Department of Transportation			\$ 3,000,944	\$ -

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**City of Minneapolis
Minneapolis, Minnesota**

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of the Treasury				
Direct				
COVID-19 – Emergency Rental Assistance Program	21.023		\$ 12,299,743	\$ 12,285,250
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds	21.027		102,024,182	1,544,889
(Total COVID-19 – Coronavirus State and Local Fiscal Recovery Fund 21.027 \$102,084,198)				
Passed Through Minnesota Department of Health				
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds	21.027	168358	60,016	-
(Total COVID-19 – Coronavirus State and Local Fiscal Recovery Fund 21.027 \$102,084,198)				
Total U.S. Department of the Treasury			\$ 114,383,941	\$ 13,830,139
U.S. Environmental Protection Agency				
Direct				
State Environmental Justice Cooperative Agreement Program	66.312		\$ 106,915	\$ -
Passed Through Minnesota Public Facilities Authority				
Drinking Water State Revolving Fund Cluster				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-DWRF-L-049-FY19	3,488,729	-
Total U.S. Environmental Protection Agency			\$ 3,595,644	\$ -
U.S. Department of Health and Human Services				
Direct				
Food and Drug Administration – Research	93.103		\$ 13,747	\$ -
Injury Prevention and Control Research and State and Community Based Programs	93.136		120,763	-
COVID-19 – Community Programs to Improve Minority Health Grant Program	93.137		452,376	-
COVID-19 – Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises	93.391		1,894,736	369,260
(Total Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises 93.391 \$1,907,047)				
PPHF: Racial and Ethnic Approaches to Community Health Program Financed Solely by Public Prevention and Health Funds	93.738		457,233	11,639
COVID-19 – PPHF: Racial and Ethnic Approaches to Community Health Program Financed Solely by Public Prevention and Health Funds	93.738		50,602	-
(Total PPHF: Racial and Ethnic Approaches to Community Health Program Financed Solely by Public Prevention and Health Funds 93.738 \$507,835)				
Passed Through Minnesota Department of Employment and Economic Development				
Temporary Assistance for Needy Families	93.558	1107400	2,083	2,083
Temporary Assistance for Needy Families	93.558	2107400	57,000	54,750
(Total Temporary Assistance for Needy Families 93.558 \$850,951)				

**City of Minneapolis
Minneapolis, Minnesota**

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services (Continued)				
Passed Through Minnesota Department of Health				
Public Health Emergency Preparedness	93.069	161418	318,289	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	136481	96,164	-
Immunization Cooperative Agreements	93.268	168722	59,753	-
COVID-19 – Immunization Cooperative Agreements (Total Immunization Cooperative Agreements 93.268 \$168,731)	93.268	191800	108,978	-
COVID-19 – Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	191800	190,788	-
COVID-19 – Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354	204270	59,159	-
COVID-19 – Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354	204774	398,360	-
(Total COVID-19 – Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response 93.354 \$457,519)				
Innovative State and Local Public Health Strategies to Prevent and Manage Diabetes and Heart Disease and Stroke	93.435	152495	101,127	63,334
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$850,951)	93.558	1801MNTANF	791,868	730,534
Maternal, Infant and Early Childhood Home Visiting Grant	93.870	118492	754,212	740,138
Maternal and Child Health Services Block Grant to the States	93.994	167257	841,707	322,727
Passed Through Hennepin County, Minnesota				
Teenage Pregnancy Prevention Program	93.297	HS00000867	453,888	-
Passed Through National Association of County and City Health Officials (NACCHO)				
COVID-19 – Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises (Total Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises 93.391 \$1,907,047)	93.391	2019-052901	12,311	-
Strengthening Public Health Systems and Services Through National Partnerships to Improve and Protect the Nations Health	93.421	2022-031602	10,177	-
COVID-19 – Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nations Health (Total Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nations Health 93.421 \$44,811)	93.421	2022-032114	34,634	34,634
Passed Through Minnesota Department of Human Services				
Opioid STR	93.788	191971	138,955	-
Opioid STR (Total Opioid STR 93.788 \$238,645)	93.788	193541	99,690	-
Total U.S. Department of Health and Human Services			\$ 7,518,600	\$ 2,329,099

**City of Minneapolis
Minneapolis, Minnesota**

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022
(Continued)**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security				
Direct				
COVID-19 – Assistance to Firefighters Grant	97.044		\$ 102,079	\$ -
Passed Through Minnesota Department of Public Safety				
Emergency Management Performance Grants	97.042	A-EMPG-2021- MPLSEMER-050	30,000	-
Homeland Security Grant Program	97.067	A-SHSP-2020- MPLSBOMB-014	12,240	-
Homeland Security Grant Program	97.067	A-SHSP-2021- MPLSBOMB-016	10,208	-
Homeland Security Grant Program	97.067	A-UASI-2019- MPLSEMER-008	44,945	-
Homeland Security Grant Program	97.067	A-UASI-2020- MPLSEMER-008	579,793	-
Homeland Security Grant Program	97.067	A-UASI-2021- MPLSEMER-010	310,979	-
(Total Homeland Security Grant Program 97.067 \$958,165)				
Total U.S. Department of Homeland Security			\$ 1,090,244	\$ -
Total Federal Awards			\$ 169,301,432	\$ 29,324,467
Totals by Cluster				
Total expenditures for CDBG – Entitlement Grants Cluster			\$ 17,218,259	
Total expenditures for WIOA Cluster			3,044,876	
Total expenditures for Highway Planning and Construction Cluster			2,946,470	
Total expenditures for Highway Safety Cluster			11,355	
Total expenditures for Drinking Water State Revolving Fund Cluster			3,488,729	

City of Minneapolis Minneapolis, Minnesota

Notes to the Schedule of Expenditures of Federal Awards As of and for the Year Ended December 31, 2022

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Minneapolis. The City of Minneapolis' reporting entity is defined in Note 1 to the financial statements. The schedule does not include \$652,721 in federal awards expended by the Minneapolis Park and Recreation Board component unit. The component unit is legally separate from the primary government and expended less than \$750,000 of federal awards for the year ended December 31, 2022, and therefore, was not subject to 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).

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, 2022. The information in this schedule is presented in accordance with the requirements of the 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.

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 – De Minimis Cost Rate

The City of Minneapolis has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**City of Minneapolis
Minneapolis, Minnesota**

Note 3 – Reconciliation to Schedule of Intergovernmental Revenue

Reconciliation to Schedule of Intergovernmental Revenue	
Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 163,404,947
Federal fixed price contracts	
Minnesota Family Investment Program	(45,000)
Police Task Force Agreements	
Minnesota Cold Case Investigations Task Force	(2,146)
Drug Enforcement Administration Task Force	(14,463)
Minnesota Cyber Crime Task Force	(23,074)
Safe Streets Violent Crime Task Force	(195)
Violent Crimes Investigation – ATF	(6,686)
Violent Crimes Investigation – FBI	(14,402)
Timing differences between expenditures and related reimbursement	387,042
Minnesota Public Facilities Authority Loans	3,488,729
Expenditures occurring in 2021 and reimbursed in 2022	(415,493)
Revenue received in 2022 for future years' expenditures	(141,654)
Revenue received in 2021 and expended in 2022	27,897
Federal program income	
Community Development Block Grants/Entitlement Grants (AL No. 14.218)	880,859
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (AL No. 14.228)	16,273
Home Investment Partnerships Program (AL No. 14.239)	1,651,312
Neighborhood Stabilization Program – ARRA (AL No. 14.256)	17,767
Lead-Based Paint Hazard Control in Privately-Owned Housing (AL No. 14.900)	89,719
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 169,301,432</u>

**Municipal Building Commission
Management and Compliance Report
Year Ended December 31, 2022**



**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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 22, 2023.

Report on 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 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 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 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. 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. 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. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 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 Municipal Building Commission 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 Building Commission's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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/Julie Blaha

Julie Blaha
State Auditor

August 22, 2023

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor