

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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MANAGEMENT AND COMPLIANCE REPORT

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

YEAR ENDED DECEMBER 31, 2016

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

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

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

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**CITY OF MINNEAPOLIS  
MINNEAPOLIS, MINNESOTA**

**Year Ended December 31, 2016**



**Management and Compliance Report**

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

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**CITY OF MINNEAPOLIS  
MINNEAPOLIS, MINNESOTA**

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**CITY OF MINNEAPOLIS  
MANAGEMENT AND COMPLIANCE REPORT**

**YEAR ENDED DECEMBER 31, 2016**

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

### Independent Auditor's Report

The Honorable Betsy Hodges, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 8, 2017. Our report includes a reference to other auditors who audited the financial statements of Meet Minneapolis and Minneapolis Telecommunications Network as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Meet Minneapolis and Minneapolis Telecommunications Network were not audited in accordance with *Government Auditing Standards*. We issue separate management and compliance reports for the Minneapolis Park and Recreation Board and the Municipal Building Commission. This report does not include the results of our audit testing of the Minneapolis Park and Recreation Board component unit's internal control over financial reporting or on compliance and other matters. The management and compliance report for the Minneapolis Park and Recreation Board includes the reports required for a single audit. The results of our audit testing of the Municipal Building Commission component unit's internal control over financial reporting and on compliance and other matters is reported on separately within this Management and Compliance Report.

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Minneapolis' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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. 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 may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2013-002 and 2016-001, that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Minneapolis' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the City's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Minneapolis failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the Schedule of Findings and Questioned Costs as item 2009-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

### **City of Minneapolis' Response to Findings**

The City of Minneapolis' responses to the internal control and legal compliance findings identified in our audit are described in the Corrective Action Plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 8, 2017

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REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

### Independent Auditor's Report

The Honorable Betsy Hodges, Mayor,  
and Members of the City Council  
City of Minneapolis, Minnesota

#### **Report on Compliance for Each Major Federal Program**

We have audited the City of Minneapolis' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. 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.

The City of Minneapolis' basic financial statements include the operations of the Minneapolis Park and Recreation Board (Park Board) component unit, which expended \$2,540,256 in federal awards during the year ended December 31, 2016, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Park Board because it had a separate single audit in accordance with the Uniform Guidance.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Minneapolis' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in

*Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Minneapolis' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

#### ***Opinion on Each Major Federal Program***

In our opinion, the City of Minneapolis complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

#### ***Other Matters***

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

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

#### **Report on Internal Control Over Compliance**

Management of the City of Minneapolis is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Minneapolis, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated June 8, 2017, which contained unmodified opinions on those financial statements. We did not audit the financial statements of Meet Minneapolis and Minneapolis Telecommunications Network component units, which were audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Minneapolis' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit

of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

June 8, 2017

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR



**CITY OF MINNEAPOLIS  
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**I. SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

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

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor’s report issued on compliance for major federal programs: **Unmodified**

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

The major federal programs are:

Home Investment Partnerships Program	CFDA No. 14.239
Workforce Investment Act (WIA) / Workforce Innovation Opportunity Act (WIOA) Cluster	
WIA/WIOA Adult Program	CFDA No. 17.258
WIA/WIOA Youth Activities	CFDA No. 17.259
WIA/WIOA Dislocated Worker Formula Grants	CFDA No. 17.278
Highway Planning and Construction	CFDA No. 20.205
Maternal and Child Health Services Block Grant to the States	CFDA No. 93.994

The threshold for distinguishing between Types A and B programs was \$1,495,700.

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

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2013-002

#### Loan C Documentation

**Criteria:** Developmental Loans (Loan C) is an internal loan servicing system through the City's Community Planning and Economic Development (CPED) Department. CPED is responsible for maintaining the supporting documentation originating the loans as well as keeping track of all loans issued.

**Condition:** During our review of Loan C, inconsistencies were noted in the Loan C population provided to us. We obtained a listing of the loans through MINS, CPED's database system, to perform our testing. We selected 25 new loan files and 25 deleted loans for testing. The following discrepancies were noted during our testing:

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

**Context:** The City uses MINS to record and account for the Loan C loans as well as maintaining loan files with supporting documentation. The loan receivable balance in the financial statements is based largely on the loan information recorded in MINS. A reconciliation is performed between MINS and the general ledger system for current year draw downs.

**Effect:** The loans receivable balance could be misstated as a result of incomplete loan file documentation and loan listings.

**Cause:** Lack of policies and procedures for maintaining loan documentation. A reconciliation is performed between MINS and the general ledger, but it does not include reconciling beginning balances to the prior year ending balances, and the reconciliation does not perform a complete reconciliation of the general ledger revenue and expenditure accounts to the payments and draw downs recorded in MINS.

**Recommendation:** We acknowledge that the City has made improvements to maintain a complete and accurate Loan C listing and loan documentation, and we encourage the City to continue its efforts in developing written policies and procedures, including reconciling beginning balances to prior year ending balances as well as reconciling general ledger receipts and disbursements to loan additions and loan payments in MINS.

**View of Responsible Official:** Concur

#### ITEM ARISING THIS YEAR

Finding Number 2016-001

#### Written Policies and Procedures Documentation

**Criteria:** Management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls includes documenting the City's accounting policies and procedures. Written policies and procedures should exist to ensure the City's practices are followed as intended by management. Changes may be necessary due to such things as organizational restructuring, updates to information systems, changes to services being provided, or changes to regulatory requirements. Changes should be updated and reflected in the written policies and procedures on a timely basis.

**Condition:** Our inquiry of City management found that significant internal controls of its accounting system or pass-through compliance monitoring have not been updated to reflect changes or have not been properly documented.

**Context:** Documentation and monitoring of internal controls is necessary to determine controls are in place and operating effectively. Documented policies and procedures will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the City's internal control system and can help to avoid circumvention of the City's policies.

**Effect:** As a result of this condition, the City's practices may not be followed as intended by management, and employees may not understand the purpose of internal controls. This could cause internal controls to not detect and correct misstatements in the financial statements or detect and correct noncompliance with federal, state, or local awards.

**Cause:** The City has various policies and procedures documents that have been adopted by the City Council. Some of these policies have not been updated to reflect changes to the City's internal control system. An example includes information technology policies, which have been drafted, but have not been completed or formally approved to reflect changes in the City's service provider and identification of the procedures handled by the

City or by the new service provider. Other policies are not documented or are limited in the information written into policy or procedure. An example of this is documentation of the internal controls over Loan C, for which there are currently no formal written policies and procedures.

**Recommendation:** We recommend the City review current written policies and procedures or establish written policies and procedures over the various internal controls of its accounting system and pass-through compliance monitoring. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls. The City should periodically monitor procedures to reassess risk and determine whether the established internal controls are still effective or if changes are needed. The monitoring activity should be documented to show the results of the review, any changes required, and who performed the work.

**View of Responsible Official:** Concur

### III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

#### ITEM ARISING THIS YEAR

Finding Number 2016-002

#### Uniform Guidance Written Procurement Policies and Procedures

**Programs:** U.S. Department of Housing and Urban Development's (HUD) Home Investment Partnerships Program (CFDA No. 14.239), Award #M15-MC-27-0201, 2015 and U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award #99903, 2015 and 2016

**Pass-Through Agency:** None (CFDA No. 14.239) and Minnesota Department of Transportation (CFDA No. 20.205)

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

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

**Questioned Costs:** Not applicable.

**Context:** This issue was discovered during the audit of the major federal programs; however, it impacts federal programs entity-wide. Written policies that reflect the specific components of federal regulations improve controls to help ensure compliance with federal award requirements.

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

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

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

**View of Responsible Official:** Concur

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### MINNESOTA LEGAL COMPLIANCE

##### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2009-001

##### Prompt Payment of Invoices

**Criteria:** As stated in Minn. Stat. § 471.425, the City is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later.

**Condition:** Seven of the 110 invoices tested for compliance with this statute were not paid within 35 days.

**Context:** The City's accounts payable function is centralized.

**Effect:** Making payment on invoices after 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later, is in noncompliance with Minnesota law.

**Cause:** Improvements have been made to the accounts payable process, which is a centralized process; however, not all vendors submit invoices directly to the accounts payable group. Additional processing time is incurred when invoices or other supporting documentation is first sent to the individual departments. The City informed us the invoice dates recorded in the COMET general ledger system have not always been accurately recorded.

**Recommendation:** We acknowledge that further improvements were made and encourage the City to continue its efforts in making payments on vendor invoices in accordance with Minn. Stat. § 471.425.

**View of Responsible Official:** Concur

**V. PREVIOUSLY REPORTED ITEMS RESOLVED**

- 2011-002 Identification of Federal Awards (CFDA No. 20.205)
- 2014-001 Audit Adjustments
- 2014-003 Network and System Access Termination
- 2015-001 Prior Period Adjustment

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

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 2013-002**

**Finding Title: Loan C Documentation**

Name of Contact Person Responsible for Corrective Action:

Mark Anderson, Senior Contract Management Specialist, Development Finance

Corrective Action Planned:

Policies and procedures will be updated and included in a manual for Loan C work activities.

In addition, every loan file in Loan C has been audited and compared to MINS reports to assure that there are no inconsistencies between what is in the physical Loan C records and what is in the system. Staff will continue to refine this process to reduce the opportunities for errors throughout the calendar year.

Anticipated Completion Date:

12/31/2017

**Finding Number: 2016-001**

**Finding Title: Written Policies and Procedures Documentation**

Name of Contact Person Responsible for Corrective Action:

Chris Fittipaldi, Finance Manager, Internal Controls  
Beth Cousins, Deputy Director, Information Technology  
Terri Spencer, Accounting Manager, Grants Accounting

Corrective Action Planned:

The City will review its current policies and procedures, and update where needed. The Finance Manager in the Internal Controls division of the Finance and Property Services Department is currently updating the City's risk assessment as it relates to financial reporting. In addition, he will be looking at the policies and procedures associated with this assessment.

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

Also, the Finance Grants Management is in the process of updating the policies and procedures related to pass-through compliance monitoring.

Anticipated Completion Date:

12/31/2017

**Finding Number: 2016-002**

**Finding Title: Uniform Guidance Written Procurements Policies and Procedures**

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

Name of Contact Person Responsible for Corrective Action:

Pam Fernandez, Procurement Director

Corrective Action Planned:

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

Anticipated Completion Date:

12/31/2017

**Finding Number: 2009-001**

**Finding Title: Prompt Payment of Invoices**

Name of Contact Person Responsible for Corrective Action:

Rich Perrizo, Accounts Payable Manager



Corrective Action Planned:

Continued efforts are being made by the City's Accounts Payable (AP) team to help reduce the time to pay invoices. Communication and awareness has been the key in making progress over the few past years.

We have added a position dedicated to monitoring outstanding invoices. An outstanding invoice list is sent to department staff each week to make them aware of the invoices, and to request their assistance in reviewing and approving these invoices in a timely manner.

Anticipated Completion Date:

12/31/2017

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 2013-002**

**Finding Title: Loan C Documentation**

**Summary of Condition:** Inconsistencies were noted in the Loan C population provided during the audit, and the following discrepancies were noted:

- six loans listed as deleted in the population were found to not have been deleted,
- one loan was found to be incorrectly recorded in MINS,
- one loan had an incorrect date recorded in MINS, and
- fourteen loans were identified that had beginning balances that did not agree with the prior year ending balances.

**Summary of Corrective Action Previously Reported:** Finance and Property Services (FPS) staff will continue to work with the development staff to refine the process to provide more accurate and timely reporting. FPS staff will continue to maintain transaction schedules/spreadsheets to ensure that detailed accounting records for each loan are maintained and the proper accounts receivable, payment, and collectability balances are identified and verified for purposes of audit reconciliation and financial reporting purposes. The initial phase in the reconciliation process for 2016 is to verify beginning balances for each loan in existence at the end of 2015 using the spreadsheet created by the Office of the State Auditor for the Loan C program as a starting point. As the year progresses, new loans will be added to the spreadsheet; payment/receipt information will be reconciled to payment and receipt transactions in the COMET Finance System; and loan payoffs/write-offs will be documented. Procedures will be reviewed, agreed to, and documented by CPED, Development Finance, and Controller Accounting staff. Bi-monthly meetings will be held to discuss and resolve issues and identify problems as they occur. This process will be continued until such time as the MINS replacement system is implemented and interfaced with the COMET Finance System.

**Status:** Partially Corrected. The process to replace the MINS system is ongoing, and staff were not able to get the procedures out of the draft stage.

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

Yes \_\_\_\_\_ No   X

**Finding Number: 2014-001**

**Finding Title: Audit Adjustments**

**Summary of Condition:** A material adjustment to the Permanent Improvement Capital Projects Fund resulted in significant changes to the City’s financial statements.

**Summary of Corrective Action Previously Reported:** The City has developed additional review procedures for year-end transactions to ensure that proper accounting for deferrals and accruals occur at that time. This includes the development of checklists and training to aid accounting staff in reviewing financial information on an ongoing basis throughout the year and when compiling information for trial balances at year-end.

**Status:** Fully Corrected. Corrective action was taken.

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

Yes \_\_\_\_\_ No  X

**Finding Number: 2014-003**

**Finding Title: Network and System Access Termination**

**Summary of Condition:** Instances of improper network and general ledger system access for terminated employees were identified.

**Summary of Corrective Action Previously Reported:** With the implementation of the upgrade to the City’s PeopleSoft Financial and Human Capital Management systems, the security and access protocols for both systems were reviewed and formal procedures for changes in access developed. In addition, the City implemented the following changes related to employee termination and/or job changes that should help to improve the security of access to both systems and establish more formal procedures to ensure that appropriate changes to access are made timely:

- Developed query to identify terminated employees; this is run every two weeks by the Finance application support team to identify employees who have been terminated from the Human Capital Management (HCM) system regardless of network access;
- Reconciliation of individuals with access to the financial general ledger system occurs quarterly regardless of network access to compare current users and their current role in the organization to ensure access remains appropriate; this is a joint effort between the Finance application support team and the Human Resources Technology Solutions (HRTS) team;
- On a weekly basis, HRTS runs a process to lock user profiles; the process locks the user profiles for all employees 30 days after their termination (based on the effective date) has been entered into COMET HR; if an employee has more access than a self-service user in COMET HR, HRTS Admin removes the additional access so that the employee can only view their own data via employee self-service;

- Manager analyst in HRTS runs a report monthly that identifies who has terminated and met the 32-day limit on access to their personal information in the HR system;
- In process of implementing online separation form functionality which will include supervisor training and updated written procedures when rolled out; a number of automated notifications are linked to this online entry including notification to the staff responsible for timely removal of network access;
- Plan to implement the Microsoft Identity Manager (MIM) system to ensure a unique identifier link is established between individuals in the Human Capital Management (HCM) system and the network accounts in Active Directory; this will allow the two systems to communicate the current status of individuals between systems in an automated and timely fashion;
- Continue to evaluate the HCM system capabilities with regard to entering the termination of an employee as soon as notification is received.

**Status:** Fully Corrected. Corrective action was taken.

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

Yes \_\_\_\_\_ No  X

**Finding Number: 2015-001**

**Finding Title: Prior Period Adjustment**

**Summary of Condition:** A prior period adjustment was made related to capital assets in the Stormwater Enterprise Fund.

**Summary of Corrective Action Previously Reported:** Based on review of the City's current year capital assets, procedures were implemented to reconcile capital assets reported in the general ledger Asset Management module to the records used for financial reporting.

**Status:** Fully Corrected. Corrective action was taken.

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

Yes \_\_\_\_\_ No  X

**Finding Number: 2011-002**

**Finding Title: Identification of Federal Awards**

**Program:** Highway Planning and Construction CFDA No. 20.205

**Summary of Condition:** The City did not properly identify amounts expended for the Highway Planning and Construction federal program (CFDA No. 20.205) in the population of expenditures provided for audit.

**Summary of Corrective Action Previously Reported:** The Controller’s Division, in cooperation with the Public Works Department, has developed and implemented written procedures and related monitoring and reporting processes to ensure that staff can correctly identify all federal financial assistance received and expended. In 2015, additional analysis work was done to compare the prior year’s grant awards to the current year’s listing to help ensure that no grants were omitted. In an effort to ensure that the issues related to the identification of federal awards is addressed, the City has implemented additional procedures in 2016 to ensure new grant awards or changes to grant information are adequately identified and reported. These additional procedures include the following:

- All Capital Proceed orders will be reviewed for funding sources that include grants. A copy of the grant agreement will be obtained. The Federal CFDA number in addition to the State Grant number will be put on the Project in the PeopleSoft financial system in the fields designed to hold these numbers.
- City Controller staff will work with Public Works central administrative staff and project managers to establish and document expenditure reimbursement request procedures for grant related expenses. Requests need to go through the Finance staff for review and approval prior to sending reimbursement request. The City Finance staff will maintain a monthly spreadsheet that details the expenses and receipts along with the CFDA and other Federal and State identification numbers.
- Accounting staff will review the State Payment report quarterly to compare the detail records for payments to ensure all payments are accounted for. This quarterly reconciliation will help ensure that differences are reconciled promptly.
- City staff will work with the Project Managers to get estimates of any additional costs that will be incurred in the year, prior to putting together the preliminary estimates of federal expenditures. This, along with the reviews of the State payments report along with a review of all capital projects with a Grant funding source, will help ensure that all grant related projects are on the list and properly identified with the related CFDA and state grant numbers.
- All reports for grant related information prepared for the State Auditors will be reviewed initially by the related accounting managers prior to being sent to the Grant Accounting Manager for a final review.

**Status:** Fully Corrected. Corrective action was taken.

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

Yes \_\_\_\_\_ No  X

**Finding Number: 2009-001**

**Finding Title: Prompt Payment of Invoices**

**Summary of Condition:** Eleven of 128 invoices tested for compliance with Minn. Stat. § 471.425 were not paid within 35 days.

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

Improvements in functionality and business processes as a result of the upgrade to the City’s PeopleSoft Financial system have also helped in this regard. The City’s AP team has worked on increasing awareness to City staff to help reduce the number of invoices paid over 35 days. Some examples of this include:

- Quarterly departmental meetings with AP staff where metrics are shared and opportunities are provided for departments to express their concerns or identify problems they are experiencing with the Procure-to-Pay Process;
- Enabling City staff to review and approve their invoices within our ECMS tool designed for speeding up invoice workflow and allowing faster follow-up;
- Providing regular reports of outstanding invoices to City staff and asking for prompt responses.

Looking at the initial potential findings from this audit, AP was able to find extenuating circumstances beyond the City’s control in about 25% of the potential findings. AP is working to determine which invoices are not being sent to AP as “clean invoices” and how to measure them appropriately so that the improperly sent or incorrect invoices are identified and AP can develop more accurate metrics. There are some ways to record this information in COMET that the City will be taking advantage of moving forward.

**Status:** Partially Corrected. The process to get invoices in the hands of the Accounts Payable staff is ongoing. Departments are slowly adapting to the new procedures, and compliance is not as high as was hoped.

Was corrective action taken significantly different than the action previously reported?  
Yes \_\_\_\_\_ No  X

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**CITY OF MINNEAPOLIS  
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. Department of Housing and Urban Development</b>				
Direct				
Community Development Block Grants/Entitlement Grants	14.218		\$ 16,997,819	\$ 2,501,635
Emergency Solutions Grant Program	14.231		833,409	429,675
Home Investment Partnerships Program	14.239		3,259,519	-
Housing Opportunities for Persons with AIDS	14.241		1,161,473	1,004,275
Neighborhood Stabilization Program - ARRA	14.256		931,044	-
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		936,262	-
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	8,304	-
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii <i>(Total Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii 14.228 \$47,007)</i>	14.228	02-2011-02-NSP3	38,703	-
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 24,166,533</b>	<b>\$ 3,935,585</b>
<b>U.S. Department of the Interior</b>				
Passed through Minnesota Historical Society				
Historic Preservation Fund Grants-In-Aid	15.904	4609320	\$ 11,273	\$ -
Historic Preservation Fund Grants-In-Aid <i>(Total Historic Preservation Fund Grants-In-Aid 15.904 \$26,273)</i>	15.904	4609319	15,000	-
<b>Total U.S. Department of the Interior</b>			<b>\$ 26,273</b>	<b>\$ -</b>
<b>U.S. Department of Justice</b>				
Direct				
Drug Court Discretionary Grant Program	16.585		\$ 60,000	\$ -
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		223,688	-
Public Safety Partnership and Community Policing Grants	16.710		389,394	-
Edward Byrne Memorial Justice Assistance Grant Program <i>(Total Edward Byrne Memorial Justice Assistance Grant Program 16.738 \$873,049)</i>	16.738		578,772	-
Byrne Criminal Justice Innovation Program <i>(Total Byrne Criminal Justice Innovation Program 16.817 \$158,627)</i>	16.817		156,351	98,765
Children Exposed to Violence	16.818		1,068	-
National Forum on Youth Violence Prevention	16.819		105,353	5,000
Equitable Sharing Program	16.922		13,677	-

**CITY OF MINNEAPOLIS  
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. Department of Justice (Continued)</b>				
Passed through Minnesota Department of Public Safety				
Juvenile Accountability Block Grants	16.523	A-JABGSP-2016- HFS-00002	28,034	-
Crime Victim Assistance	16.575	A-CVS-2016-MPLS	36,329	21,438
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	A-NFSIA-2016- MPLSPD-00003	7,157	-
Passed through Hennepin County				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	A130960	98,784	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	A140666	195,493	-
<i>(Total Edward Byrne Memorial Justice Assistance Grant Program 16.738 \$873,049)</i>				
Passed through Local Initiative Support Corporation				
Byrne Criminal Justice Innovation Program	16.817	2015-AJ-BX-K047	2,276	-
<i>(Total Byrne Criminal Justice Innovation Program 16.817 \$158,627)</i>				
<b>Total U.S. Department of Justice</b>			<b>\$ 1,896,376</b>	<b>\$ 125,203</b>
<b>U.S. Department of Labor</b>				
Direct				
Reentry Employment Opportunities	17.270		\$ 21,705	\$ -
Passed through Minnesota Department of Employment and Economic Development				
WIA/WIOA Cluster				
WIA/WIOA Adult Program	17.258	4103100	2,977	-
WIA/WIOA Adult Program	17.258	5103100	697,546	314,014
WIA/WIOA Adult Program	17.258	6103100	253,881	165,144
<i>(Total WIA/WIOA Adult Program 17.258 \$954,404)</i>				
WIA/WIOA Youth Activities	17.259	5103600	1,005,624	868,581
WIA/WIOA Youth Activities	17.259	6103600	104,928	51,701
<i>(Total WIA/WIOA Youth Activities 17.259 \$1,110,552)</i>				
WIA/WIOA Dislocated Worker Formula Grants	17.278	3108001	2,122	-
WIA/WIOA Dislocated Worker Formula Grants	17.278	4108000	(438)	-
WIA/WIOA Dislocated Worker Formula Grants	17.278	5108000	344,463	162,466
WIA/WIOA Dislocated Worker Formula Grants	17.278	6108000	66,785	58,260
<i>(Total WIA/WIOA Dislocated Worker Formula Grants 17.278 \$412,932)</i>				
<i>(Total expenditures for WIA/WIOA Cluster \$2,477,888)</i>				

**CITY OF MINNEAPOLIS  
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. Department of Labor</b>				
Passed through Minnesota Department of Employment and Economic Development (Continued)				
WIOA National Dislocated Worker Grants/WIA				
National Emergency Grants	17.277	5107200	136,831	45,421
<b>Total U.S. Department of Labor</b>			<b>\$ 2,636,424</b>	<b>\$ 1,665,587</b>
<b>U.S. Department of Transportation</b>				
Passed through Minnesota Department of Transportation				
Highway Planning and Construction	20.205	99903	\$ 14,075,750	\$ -
Highway Planning and Construction	20.205	00973	88,291	-
Highway Planning and Construction	20.205	03973	(3,353)	-
Highway Planning and Construction	20.205	04206	(155,830)	-
Highway Planning and Construction	20.205	84205	9,153	-
Highway Planning and Construction	20.205	89757	13,778	-
Highway Planning and Construction	20.205	93496	(51,911)	-
Highway Planning and Construction	20.205	95524	(8,739)	-
Highway Planning and Construction	20.205	95525	(5,062)	-
Highway Planning and Construction	20.205	98031	(9,602)	-
<i>(Total Highway Planning and Construction 20.205 \$13,952,475)</i>				
Passed through Metropolitan Council				
Federal Transit Cluster				
Federal Transit Capital Investment Grants	20.500	10I045R	19,041	-
Federal Transit Capital Investment Grants	20.500	10I045Y	89,051	-
<i>(Total Federal Transit Capital Investment Grants 20.500 \$108,092)</i>				
Federal Transit Formula Grants	20.507	SG-2014-075	151,872	151,872
<i>(Total expenditures for Federal Transit Cluster \$259,964)</i>				
Passed through Minnesota Department of Public Safety				
Highway Safety Cluster				
State and Community Highway Safety	20.600	A-ENFRC16-2016- MPLSPD-00006	27,125	-
National Priority Safety Programs	20.616	A-ENFRC16-2016- MPLSPD-00006	61,694	-
National Priority Safety Programs	20.616	A-ENFRC17-2017- MPLSPD-00015	4,033	-
National Priority Safety Programs	20.616	A-OFFICR16-2016- MPLSPD-00008	15,778	-
National Priority Safety Programs	20.616	A-OFFICR17-2017- MPLSPD-00004	5,193	-
<i>(Total National Priority Safety Programs 20.616 \$86,698)</i>				
<i>(Total expenditures for Highway Safety Cluster \$113,823)</i>				

**CITY OF MINNEAPOLIS  
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. Department of Transportation</b>				
Passed through Minnesota Department of Public Safety (Continued)				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR16-2016- MPLSPD-00008	32,034	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-OFFICR17-2017- MPLSPD-00004	10,544	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	A-ENFRC17-2017- MPLSPD-00015	15,384	-
<i>(Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated 20.608 \$57,962)</i>			<hr/>	<hr/>
<b>Total U.S. Department of Transportation</b>			<b>\$ 14,384,224</b>	<b>\$ 151,872</b>
<b>National Endowment for the Arts</b>				
Direct				
Promotion of the Arts - Grants to Organizations and Individuals	45.024		<b>\$ 41,475</b>	<b>\$ -</b>
<b>U.S. Department of Health and Human Services</b>				
Direct				
Maternal and Child Health Federal Consolidated Programs	93.110		\$ 290,788	\$ 89,528
Injury Prevention and Control Research and State and Community Based Programs	93.136		12,362	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		6,445	-
Healthy Start Initiative	93.926		667,979	427,788
Passed through Minnesota Department of Health				
Public Health Emergency Preparedness	93.069	65488	304,891	56,335
Public Health Emergency Preparedness	93.069	90407	15,378	-
<i>(Total Public Health Emergency Preparedness 93.069 \$320,269)</i>				
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	57370	93,401	93,401
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	102299	1,337,955	1,337,955
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	115011	50,417	50,417
<i>(Total Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program 93.505 \$1,481,773)</i>				
Temporary Assistance for Needy Families	93.558	93083	882,923	788,028
<i>(Total Temporary Assistance for Needy Families 93.558 \$909,368)</i>				

**CITY OF MINNEAPOLIS  
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. Department of Health and Human Services</b>				
Passed through Minnesota Department of Health (Continued)				
Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program	93.753	107286	16,300	-
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease, and Stroke (PPHF)	93.757	1U58DPO05452-01	811,764	285,403
Maternal and Child Health Services Block Grant to the States	93.994	86869	952,456	368,588
Passed through Minnesota Department of Employment and Economic Development				
Temporary Assistance for Needy Families <i>(Total Temporary Assistance for Needy Families 93.558 \$909,368)</i>	93.558	7107400	26,445	25,782
Passed through Hennepin County				
Teenage Pregnancy Prevention Program	93.297	A153906-SR	126,534	-
Passed through Regents of the University of Minnesota				
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	P004828001	10,664	-
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 5,606,702</b>	<b>\$ 3,523,225</b>
<b>U.S. Department of Homeland Security</b>				
Passed through Minnesota Department of Public Safety				
Emergency Management Performance Grants	97.042	A-EMPG-2016- MPLSEMER-00051	\$ 30,000	\$ -
Homeland Security Grant Program	97.067	A-SHSP-2014- MPLSBOMB-00014	19,791	-
Homeland Security Grant Program	97.067	A-SHSP-2015- MPLSBOMB-00016	60,186	-
Homeland Security Grant Program	97.067	A-UASI-2014- MPLSEMER-00009	467,585	-
Homeland Security Grant Program <i>(Total Homeland Security Grant Program 97.067 \$991,618)</i>	97.067	A-UASI-2015- MPLSEMER-0008	444,056	-
Passed through City of Saint Paul				
Assistance to Firefighters Grant	97.044	C-41336	77,027	-
<b>Total U.S. Department of Homeland Security</b>			<b>\$ 1,098,645</b>	<b>\$ -</b>
<b>Total Federal Awards</b>			<b>\$ 49,856,652</b>	<b>\$ 9,401,472</b>

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**CITY OF MINNEAPOLIS  
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Minneapolis. The City's reporting entity is defined in Note 1 to the financial statements. This schedule does not include \$2,540,256 in federal awards expended by the Minneapolis Park and Recreation Board component unit, which had a separate single audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Minneapolis under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Minneapolis, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Minneapolis.

3. Summary of Significant Accounting Policies

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

**CITY OF MINNEAPOLIS  
MINNEAPOLIS, MINNESOTA**

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4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 47,208,628
Federal Fixed Price Contracts	
Equal Employment Opportunity Commission	(32,021)
Metro Medical Response System	(12,000)
Minnesota Family Investment Program	(95,000)
Minnesota Cold Case Investigations Task Force	(14,454)
Drug Enforcement Administration Task Force	(47,103)
Minnesota Cyber Crime Task Force	(16,447)
Safe Streets Violent Crime Task Force	(132,757)
U.S. Marshals Overtime - Predatory Offenders Unit	(12,347)
U.S. Marshals Overtime May - December 2016	(13,332)
Joint Terrorism Task Force	(7,212)
Violent Crimes Investigation - ATF	(52,910)
Violent Crimes Investigation - HIS	(41,759)
Toward Zero Deaths Partners	(154,336)
Timing Differences Between Expenditures and Related Reimbursements	(28,258)
Expenditures occurring in 2016 but not reimbursed in 2016	93,186
Revenue received in 2016 for future year expenditures	(54,092)
Federal Program Income	
Neighborhood Stabilization Program - ARRA	131,207
Lead-Based Paint Hazard Control in Privately-Owned Housing	42,424
Neighborhood Stabilization Program	32,766
Community Development Block Grants/Entitlement Grants	2,356,815
Home Investment Partnerships Program	705,654
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 49,856,652</u>



**MUNICIPAL BUILDING COMMISSION  
MANAGEMENT AND COMPLIANCE REPORT**

**YEAR ENDED DECEMBER 31, 2016**

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REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

### Independent Auditor's Report

Municipal Building Commission Board  
Municipal Building Commission  
Minneapolis, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Minneapolis, Minnesota, which include as other supplemental information, the financial statements of the Municipal Building Commission, a discretely presented component unit, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 8, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipal Building Commission's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Building Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Building Commission's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Building

Commission's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipal Building Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Minnesota Legal Compliance**

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

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

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 8, 2017