

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

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 700 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, 2015



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, 2015

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**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. SUMMARY OF AUDITOR’S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal programs are:

| | |
|--|-----------------|
| Community Development Block Grants/Entitlement Grants | CFDA No. 14.218 |
| Housing Opportunities for Persons with AIDS | CFDA No. 14.241 |
| Highway Planning and Construction | CFDA No. 20.205 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | CFDA No. 93.505 |
| Temporary Assistance for Needy Families | CFDA No. 93.558 |

The threshold for distinguishing between Types A and B programs was \$1,131,388.

The 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 ITEMS NOT RESOLVED

Finding 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:

- 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.

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 draws 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.

Client's Response:

The current system (MINS) used to manage and track the loans in the Loan C Program requires a significant amount of manual input of loan data and information for tracking purposes. The Community Planning and Economic Development (CPED) Department, in conjunction with the City's IT Department, has started a project to replace the MINS system. Meanwhile, Finance & Property Services (FPS) staff in the Development Finance and Controller Divisions has been working with CPED program staff to develop policies and procedures for the management of, accounting for, reconciliation of, and reporting on the Loan C program loan disbursements and related transactions in the affected loan programs.

Significant improvement has been made in reporting since the 2013 audit, and 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.

Finding 2014-001

Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified a material adjustment that resulted in significant changes to the City's financial statements.

Context: The inability to make appropriate accrual adjustments or to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustment was reviewed and approved by the appropriate City staff and is reflected in the financial statements: in the Permanent Improvement Capital Projects Fund, intergovernmental receivables and related deferred inflows of resources were increased by \$6,723,023. This adjustment also affected the government-wide financial statements.

Cause: The Permanent Improvement Capital Projects Fund received funding for bridge bonding from the Minnesota Department of Transportation, and it was unclear which amount, if any, was to be accrued.

Recommendation: We recommend the City review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements.

Client's Response:

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.

For the Permanent Improvement Fund, in particular, the City has implemented a number of review procedures including monthly and quarterly reports along with discussions with management that have provided for significant improvement in the reporting and accounting for the various types of funding that support the hundreds of infrastructure projects accounted for in that fund. In addition, Controller Division staff has been given access to reports from the State of Minnesota payment system which will assist in the determination of which amounts should be reported as intergovernmental receivables and related deferred inflows for the State Bonding Program. City accounting staff will identify the source of funding received and the timing of the receipt from the department and ensure it is reported properly. These procedures will be documented in 2016.

Finding 2014-003

Network and System Access Termination

Criteria: When employees are terminated, the City's written procedures direct Unisys, a service provider for the City, to disable the network user account upon notification and delete the user account within 32 days of the termination date. At the end of 2015, the City began to manage the services previously performed by Unisys and followed a similar method as Unisys for removing network access. Access to the financial general ledger system is removed by the City as a result of network access being disabled and deleted.

Condition: During our testing of 19 terminated employees for proper network access removal, we identified 7 instances where terminated employees' access had not been disabled and the user accounts not deleted within 32 days of their termination dates. Our testing of 11 terminated employees' removal from the general ledger system revealed access for 1 City employee, and 1 Minneapolis Park and Recreation Board employee had not been removed. One of the terminated employees accessed the system after they were terminated.

Context: Department liaisons are required to fill out a change form for a terminated employee that notifies the City's Information Technology Department and Unisys of the termination. Unisys was responsible for disabling and subsequently removing the network access until December, when the City began to remove network access in-house and performs a monthly reconciliation to remove terminated employees. Procedures to remove terminated employees from the general ledger system rely on the removal of the network access. The Minneapolis Park and Recreation Board, a discretely presented component unit of the City, uses the City's general ledger system and relies on the City to remove access to the general ledger system for its terminated employees.

Effect: When terminated employees have access to City systems, it increases the risk that malicious damage to the City's data files and systems, fraud, and/or misstatements may occur.

Cause: For network access removal, either Unisys was not provided a change form to remove their network access, or the reconciliation process used by the City to remove terminated employees did not occur as scheduled and was a timing issue of when the employee terminated. The process to remove access for terminated employees from the general ledger system relies on the network access removal process. There are no formal documented policies and procedures in place now that the City is handling procedures that were once managed by Unisys.

Recommendation: We recommend the City implement additional procedures to allow the removal of a terminated employee's network access in a timely manner in accordance with the City's written procedures. We further recommend the City implement policies and procedures for the removal of terminated employees' access to the financial general ledger system separate from relying on removal of network access, including other entities that utilize the City's system.

Client's Response:

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.*

ITEM ARISING THIS YEAR

Finding 2015-001

Prior Period Adjustment

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. One indication of a weakness in internal control is restatement of previously issued financial statements to reflect the correction of misstatements due to error.

Condition: When reconciling capital assets in the general ledger Asset Management module to records used for financial reporting for the Stormwater Enterprise Fund, staff identified amounts that were expensed in the prior year which should have been capitalized and amounts that were recorded twice as capital assets. The adjustment was initially recorded as part of current year non-operating expenses instead of a restatement to net position, but was later reported as a restatement of net position.

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

Effect: The January 1, 2015, net position for the Stormwater Enterprise Fund and business-type activities were restated (decreased) by \$7,021,000 as a result of the error.

Cause: The City informed us that procedures for reconciling construction in progress did not identify in a timely manner the completion of capital assets or the amount of expenditures to add to the project during the year. In addition, reconciliation procedures performed for all capital assets in prior years did not detect the discrepancies.

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

Client's Response:

In 2015, new procedures were put into place to eliminate the capital asset reporting issues identified in the 2014 audit. One of the new procedures included a more detailed review and roll forward of the construction in process (CIP) balances in each fund. This new process provides for a reconciliation of assets capitalized in the year to asset additions ensuring that amounts were not previously capitalized. It was during this reconciliation process at year-end 2015 that the accounting staff identified the double capitalization done in a prior year. A correction was made resulting in the need to do a prior period adjustment for reporting purposes.

This type of correction should not occur again with the continued maintenance of the roll forward by accounting staff and the review by related managers to ensure that all costs for additions are included, project life-to-date amounts match up to the CIP balances, and all asset additions are removed from the CIP account and roll forward annually. The roll forward and asset capitalization procedures will be documented in 2016.

PREVIOUSLY REPORTED ITEMS RESOLVED

Bank Reconciliations (2013-001)

The credit card account bank reconciliation was designed so that reconciling items were not carried forward from month to month and were therefore tracked separately.

Resolution

The City implemented a new process to reconcile credit card bank account transactions during the implementation of the financial system upgrade.

Capital Asset Reporting Process (2014-002)

During the previous year reconciliation process, several discrepancies were noted with capital assets reported in the general ledger Asset Management module and the records used for financial reporting. Some of the discrepancies were discovered upon responding to our audit inquiries.

Resolution

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.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2011-002

Identification of Federal Awards

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205); *Award #99903*, 2012

Pass-Through Agency: Minnesota Department of Transportation

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 non-federal entity is managing the federal award in compliance with federal Statutes, regulations, and the terms and conditions of the federal award.

Condition: The City did not properly identify amounts expended for the Highway Planning and Construction federal award program in the population of expenditures provided for audit. The expenditure population included four projects totaling \$462,908 that related to another federal program and did not include one project totaling \$514,066.

Questioned Costs: None.

Context: Federal award programs often cover multiple projects. All expenditures reimbursed with federal funds are subject to audit as part of the City's single audit.

Effect: The Highway Planning and Construction program had already been selected for audit as a major federal program based on the preliminary expenditures identified by the City. Audit procedures performed on the population of expenditures to determine its completeness identified discrepancies which required additional procedures to be performed to ensure that the population was complete. Additional testing was required on the project not identified as federal, resulting in additional audit costs and time.

Cause: The City informed us that the project not identified in the expenditure population was a project that received federal funding for the first time. The projects identified during the audit as belonging to another federal program were due to oversight.

Recommendation: We recommend City management develop written procedures that will allow staff to correctly identify all federal financial assistance received and expended. We also recommend a review of all projects included in preliminary estimates and populations of federal expenditures.

Corrective Action Plan:

Contact Persons Responsible for Corrective Action:

- *Controller*
- *Finance Manager, Capital Projects and Public Works Accounting*
- *Director, Accounting and Financial Reporting*
- *Accounting Manager, Grants*

Corrective Action Planned:

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.*

Anticipated Completion Date:

December 31, 2016

PREVIOUSLY REPORTED ITEMS RESOLVED

Subrecipient Monitoring (CFDA No. 14.218) (2011-004)

Based on our review of subrecipient monitoring for program and financial compliance, we noted inconsistencies in the identification of subrecipients.

Resolution

Results from comparing subrecipients monitored for program and financial compliance did not identify significant instances of inconsistencies during the current audit.

Cash Management (CFDA Nos. 93.505 and 93.558) (2014-004)

The City requested reimbursement from the Minnesota Department of Health for costs which had not yet been paid by the City.

Resolution

Based on review of the current year reimbursement requests, all costs were incurred and paid prior to being requested for reimbursement.

Procurement, Suspension, and Debarment (CFDA Nos. 14.900 and 14.913) (2014-005)

The City entered into contracts where no verification was performed to determine that the vendors were not suspended or debarred at the time the contract was awarded. One contract did not include the suspension or debarment language.

Resolution

Based on review of the current year contracts for these programs, verification was performed to determine the vendors were not suspended or debarred at the time the contract was entered into, and all contracts had the required language.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 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: Eleven of the 128 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.

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.

Client's Response:

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.

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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, 2015, 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 15, 2016. Our report includes a reference to other auditors who audited the financial statements of Meet Minneapolis and the 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 the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other items that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2015-001 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-002 and 2014-003 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 have been included in the Schedule of Findings and Questioned Costs. 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

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STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 15, 2016

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1-800-627-3529 (Relay Service)

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, 2015. 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 \$3,173,668 in federal awards during the year ended December 31, 2015, 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, 2015.

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 2011-002, 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 Schedule of Findings and Questioned Costs as a 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, 2015, 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 15, 2016, 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 15, 2016

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures | Amount Provided to Subrecipients |
|--|------------------------------------|---|----------------------|---|
| U.S. Department of Housing and Urban Development | | | | |
| Direct | | | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | | \$ 12,990,423 | \$ 3,357,108 |
| Emergency Solutions Grant Program | 14.231 | | 958,383 | 364,188 |
| Home Investment Partnerships Program | 14.239 | | 6,003,310 | - |
| Housing Opportunities for Persons with AIDS | 14.241 | | 1,156,470 | 1,116,919 |
| Neighborhood Stabilization Program - ARRA | 14.256 | | 1,234,683 | - |
| Lead-Based Paint Hazard Control in Privately-Owned Housing | 14.900 | | 1,218,291 | - |
| Healthy Homes Production Program | 14.913 | | 5,909 | - |
| 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 | 138,094 | - |
| 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 \$119,257)</i> | 14.228 | 02-2011-02-NSP3 | (18,837) | - |
| Total U.S. Department of Housing and Urban Development | | | \$ 23,686,726 | \$ 4,838,215 |
| U.S. Department of the Interior | | | | |
| Passed through Minnesota Historical Society | | | | |
| Historic Preservation Fund Grants-In-Aid | 15.904 | 27-14-61930.008 | \$ 9,067 | \$ - |
| Historic Preservation Fund Grants-In-Aid <i>(Total Historic Preservation Fund Grants-In-Aid 15.904 \$17,715)</i> | 15.904 | 27-15-13122.005 | 8,648 | - |
| Total U.S. Department of the Interior | | | \$ 17,715 | \$ - |
| U.S. Department of Justice | | | | |
| Direct | | | | |
| Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program | 16.590 | | \$ 274,699 | \$ - |
| Public Safety Partnership and Community Policing Grants | 16.710 | | 304,894 | - |
| Paul Coverdell Forensic Sciences Improvement Grant <i>(Total Paul Coverdell Forensic Sciences Improvement Grant 16.742 \$93,973)</i> | 16.742 | | 79,377 | - |
| Byrne Criminal Justice Innovation Program | 16.817 | | 68,952 | - |
| National Forum on Youth Violence Prevention | 16.819 | | 435,508 | 158,654 |
| Equitable Sharing Program | 16.922 | | 86,478 | - |

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures | Amount Provided to Subrecipients |
|---|------------------------------------|---|---------------------|---|
| U.S. Department of Justice (Continued) | | | | |
| Passed through Minnesota Department of Public Safety | | | | |
| Juvenile Accountability Block Grants | 16.523 | A-JABGSP-2014- MPLS-HFS-00005 | (1,534) | 2,996 |
| Violence Against Women Formula Grants | 16.588 | A-VAWA-2013-MPLS- AO-00024/3-16964 | 20,219 | - |
| Paul Coverdell Forensic Sciences Improvement Grant <i>(Total Paul Coverdell Forensic Sciences Improvement Grant 16.742 \$93,973)</i> | 16.742 | A-NFSIS-2015- MPLSPD-00002 | 14,596 | - |
| Passed through Hennepin County | | | | |
| Edward Byrne Memorial Justice Assistance Grant Progr: | 16.738 | A120567 | 106,344 | - |
| Edward Byrne Memorial Justice Assistance Grant Progr: <i>(Total Edward Byrne Memorial Justice Assistance Grant Program 16.738 \$247,574)</i> | 16.738 | A130960 | 141,230 | - |
| Total U.S. Department of Justice | | | \$ 1,530,763 | \$ 161,650 |
| U.S. Department of Labor | | | | |
| Passed through Minnesota Department of Employment and Economic Development | | | | |
| Workforce Investment Act (WIA) Cluster | | | | |
| WIA/WIOA Adult Program | 17.258 | 4103100 | \$ 935,907 | \$ 515,535 |
| WIA/WIOA Adult Program | 17.258 | 4103400 | 27,301 | - |
| WIA/WIOA Adult Program | 17.258 | 5103100 | 158,048 | 137,483 |
| Total CFDA #17.258 | | | \$ 1,121,256 | \$ 653,018 |
| WIA/WIOA Youth Activities | 17.259 | 4103600 | \$ 910,835 | \$ 783,247 |
| WIA/WIOA Youth Activities | 17.259 | 5103600 | 195,862 | 195,862 |
| Total CFDA #17.259 | | | \$ 1,106,697 | \$ 979,109 |
| WIA/WIOA Dislocated Worker Formula Grants | 17.278 | 3108000 | \$ 19,038 | \$ 3,324 |
| WIA/WIOA Dislocated Worker Formula Grants | 17.278 | 4108000 | 179,964 | 92,666 |
| WIA/WIOA Dislocated Worker Formula Grants | 17.278 | 5108000 | 104,320 | 60,490 |
| Total CFDA #17.278 <i>(Total expenditures for WIA Cluster \$2,531,275)</i> | | | \$ 303,322 | \$ 156,480 |
| Total U.S. Department of Labor | | | \$ 2,531,275 | \$ 1,786,607 |

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures | Amount Provided to Subrecipients |
|---|------------------------------------|---|----------------------------|---|
| U.S. Department of Transportation | | | | |
| Passed through Minnesota Department of Transportation | | | | |
| Highway Planning and Construction | 20.205 | 99903 | \$ 2,403,785 | \$ - |
| Highway Planning and Construction | 20.205 | 01168 | 24,900 | 24,900 |
| Highway Planning and Construction | 20.205 | 04206 | 670 | - |
| Highway Planning and Construction | 20.205 | 89757 | 147,577 | - |
| Highway Planning and Construction | 20.205 | 92071 | 12,456 | - |
| Highway Planning and Construction | 20.205 | 93494 | (348) | - |
| Highway Planning and Construction | 20.205 | 93496 | 28,956 | - |
| Highway Planning and Construction | 20.205 | 95524 | 8,803 | - |
| Highway Planning and Construction | 20.205 | 97472 | (66,048) | - |
| Highway Planning and Construction | 20.205 | 97473 | (19,017) | - |
| Highway Planning and Construction | 20.205 | 97553 | 2,778 | - |
| Highway Planning and Construction | 20.205 | 98031 | 1,005 | - |
| Highway Planning and Construction | 20.205 | 95525 | 87,768 | - |
| Highway Planning and Construction | 20.205 | 00973 | 233,955 | - |
| Highway Planning and Construction | 20.205 | 02194 | (3,231) | - |
| Highway Planning and Construction | 20.205 | 03973 | 253,354 | - |
| Highway Planning and Construction | 20.205 | 98031 | <u>4,479</u> | <u>4,479</u> |
| Total CFDA #20.205 | | | <u>\$ 3,121,842</u> | <u>\$ 29,379</u> |
| Passed through Metropolitan Council | | | | |
| Federal Transit Cluster | | | | |
| Federal Transit Capital Investment Grants | 20.500 | 10I045R | \$ 68,700 | \$ - |
| Federal Transit Capital Investment Grants | 20.500 | 10I045Y | <u>39,339</u> | <u>-</u> |
| Total CFDA #20.500 | | | <u>\$ 108,039</u> | <u>\$ -</u> |
| Federal Transit Formula Grants | 20.507 | SG-2013-127 | \$ 167,696 | \$ 167,696 |
| Federal Transit Formula Grants | 20.507 | SG-2014-075 | <u>179,203</u> | <u>179,203</u> |
| Total CFDA #20.507 | | | <u>\$ 346,899</u> | <u>\$ 346,899</u> |
| <i>(Total expenditures for Federal Transit Cluster \$454,938)</i> | | | | |
| Alternatives Analysis | 20.522 | SG-2011-029 | <u>\$ 25,706</u> | <u>\$ -</u> |

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures | Amount Provided to Subrecipients |
|---|------------------------------------|---|----------------------------|---|
| U.S. Department of Transportation (Continued) | | | | |
| Passed through Minnesota Department of Public Safety | | | | |
| Highway Safety Cluster | | | | |
| State and Community Highway Safety | 20.600 | A-ENFRC15-2015- MPLSPD-00032 | <u>\$ 48,636</u> | <u>\$ -</u> |
| National Priority Safety Programs | 20.616 | A-ENFRC15-2015- MPLSPD-00032 | \$ 5,641 | \$ - |
| National Priority Safety Programs | 20.616 | A-ENFRC16-2016- MPLSPD-00006 | 19,312 | - |
| National Priority Safety Programs | 20.616 | A-OFFICR15-2015- MPLSPD-00007 | 12,906 | - |
| National Priority Safety Programs | 20.616 | A-OFFICR16-2016- MPLSPD-00008 | <u>6,749</u> | <u>-</u> |
| Total CFDA #20.616 | | | <u>\$ 44,608</u> | <u>\$ -</u> |
| <i>(Total expenditures for Highway Safety Cluster \$93,244)</i> | | | | |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | A-ENFRC15-2015- MPLSPD-00032 | \$ 65,808 | \$ - |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | A-OFFICR15-2015- MPLSPD-00007 | 26,204 | - |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | A-OFFICR16-2016- MPLSPD-00008 | <u>13,703</u> | <u>-</u> |
| Total CFDA #20.608 | | | <u>\$ 105,715</u> | <u>\$ -</u> |
| Total U.S. Department of Transportation | | | <u>\$ 3,801,445</u> | <u>\$ 376,278</u> |
| U.S. Department of Treasury | | | | |
| Direct | | | | |
| National Foreclosure Mitigation Counseling | 21.000 | | <u>\$ 95,139</u> | <u>\$ -</u> |
| National Endowment for the Arts | | | | |
| Direct | | | | |
| Promotion of the Arts - Grants to Organizations and Individuals | 45.024 | | <u>\$ 37,581</u> | <u>\$ -</u> |

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures | Amount Provided to Subrecipients |
|--|------------------------------------|---|---------------------|---|
| U.S. Department of Health and Human Services | | | | |
| Direct | | | | |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | | \$ 300,003 | \$ 102,662 |
| Healthy Start Initiative | 93.926 | | 811,604 | 629,550 |
| Passed through Minnesota Department of Health | | | | |
| Public Health Emergency Preparedness | 93.069 | 65488 | 294,123 | 65,000 |
| Public Health Emergency Preparedness <i>(Total Public Health Emergency Preparedness 93.069 \$307,874)</i> | 93.069 | 90407 | 13,751 | - |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | 57370 | 1,099,995 | 1,099,995 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program <i>(Total Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program 93.505 \$1,207,971)</i> | 93.505 | 38927 | 107,976 | 107,976 |
| Temporary Assistance for Needy Families <i>(Total Temporary Assistance for Needy Families 93.558 \$1,046,309)</i> | 93.558 | 93083 | 1,029,106 | 960,051 |
| Child Lead Poisoning Prevention Surveillance financed in part by the Prevention and Public Health (PPHF) Program | 93.753 | 97204 | 20,000 | - |
| State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease, and Stroke (PPHF) | 93.757 | 1U58DPO05452-01 | 206,880 | 14,664 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 1B04MC28107 | 817,617 | 281,736 |
| Passed through Minnesota Department of Employment and Economic Development | | | | |
| Temporary Assistance for Needy Families | 93.558 | 5107400 | 333 | 333 |
| Temporary Assistance for Needy Families <i>(Total Temporary Assistance for Needy Families 93.558 \$1,046,309)</i> | 93.558 | 6107400 | 16,870 | 16,870 |
| Passed through Hennepin County | | | | |
| Teenage Pregnancy Prevention Program | 93.297 | A0100011-SR | 158,245 | - |
| Teenage Pregnancy Prevention Program <i>(Total Teenage Pregnancy Prevention Program 93.297 \$193,232)</i> | 93.297 | A153906-SR | 34,987 | - |
| PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds | 93.531 | A112135 | 6,375 | - |

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures | Amount Provided to Subrecipients |
|--|------------------------------------|---|----------------------|---|
| U.S. Department of Health and Human Services | | | | |
| (Continued) | | | | |
| Passed through Regents of the University of Minnesota Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | P004828001 | 6,509 | - |
| Total U.S. Department of Health and Human Services | | | \$ 4,924,374 | \$ 3,278,837 |
| U.S. Department of Homeland Security | | | | |
| Direct | | | | |
| Assistance to Firefighters Grant | 97.044 | | \$ 7,177 | \$ - |
| Passed through Minnesota Department of Public Safety | | | | |
| Emergency Management Performance Grants | 97.042 | A-EMPG-2015- MPLSEMER-00050 | 30,000 | - |
| Homeland Security Grant Program | 97.067 | A-SHSP-2014- MPLSBOMB-00014 | 60,910 | - |
| Homeland Security Grant Program | 97.067 | A-SHSP-2013- HSEM6MIN-0013 | 6,250 | - |
| Homeland Security Grant Program | 97.067 | A-SHSP-2014- HSEM6MIN-00010 | 32,474 | - |
| Homeland Security Grant Program | 97.067 | A-UASI-2013- MPLSEMER-00010 | 439,820 | - |
| Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$1,050,730) | 97.067 | A-UASI-2014- MPLSEMER-00009 | 511,276 | - |
| Total U.S. Department of Homeland Security | | | \$ 1,087,907 | \$ - |
| Total Federal Awards | | | \$ 37,712,925 | \$ 10,441,587 |

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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 \$3,173,668 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, 2015. 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 modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City of Minneapolis has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

| | |
|--|----------------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ 35,497,099 |
| Federal Fixed Price Contracts | |
| Equal Employment Opportunity Commission | (28,233) |
| Metro Medical Response System | (24,000) |
| Minnesota Family Investment Program | (95,613) |
| Minnesota Cold Case Investigations Task Force | (12,199) |
| Drug Enforcement Administration Task Force | (27,990) |
| Minnesota Cyber Crime Task Force | (15,654) |
| Safe Streets Violent Crime Task Force | (113,208) |
| U.S. Marshals Overtime - Predatory Offenders Unit | (10,038) |
| U.S. Marshals Overtime May - December 2015 | (8,858) |
| Joint Law Enforcement Operation (JLEO) | (2,098) |
| Joint Terrorism Task Force | (10,368) |
| Violent Crimes Investigation - ATF | (37,227) |
| Violent Crimes Investigation - HIS | (40,434) |
| Healthy Housing Solutions | (6,377) |
| Toward Zero Deaths Partners | (168,304) |
| Timing Differences Between Expenditures and Related Reimbursements | (24,865) |
| Expenditures occurring prior to 2015 but reimbursed in 2015 | (410,969) |
| Federal Program Income | |
| Neighborhood Stabilization Program - ARRA | 309,112 |
| Lead-Based Paint Hazard Control in Privately-Owned Housing | 84,799 |
| Neighborhood Stabilization Program | 85,425 |
| Community Development Block Grants/Entitlement Grants | 768,230 |
| Home Investment Partnerships Program | 2,004,695 |
| | <hr/> |
| Expenditures Per Schedule of Expenditures of Federal Awards | <u>\$ 37,712,925</u> |

**MUNICIPAL BUILDING COMMISSION
MANAGEMENT AND COMPLIANCE REPORT**

YEAR ENDED DECEMBER 31, 2015

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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 supplementary information, the financial statements of the Municipal Building Commission, a discretely presented component unit, as of and for the year ended December 31, 2015, 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 15, 2016.

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. However, material weaknesses 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 Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six 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, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories; however, they 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 Other Political Subdivisions*. 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 Other Political Subdivisions* 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 15, 2016