

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT
PREPARED AS A RESULT OF THE AUDIT
OF THE FINANCIAL AFFAIRS OF THE

**LIBRARY BOARD OF THE
CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

The mission of the State Auditor's Office 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 160 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 730 public pension funds; and

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

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

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

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**LIBRARY BOARD OF THE
CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

Year Ended December 31, 2006



Management and Compliance Report

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

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**LIBRARY BOARD OF THE CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

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**LIBRARY BOARD OF THE CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Subsequent to the year ended December 31, 2006, actions were taken by the Library Board of Trustees, City Council members, Hennepin County Board of Commissioners, the State Legislature, and the Governor to approve a merger of the Library Board with the Hennepin County Library System. Based on these actions, it is possible that the year ended December 31, 2007, will be the final year of the Minneapolis Library Board's financial activities as a component unit of the City of Minneapolis. As a result, we recognize that our findings and recommendations listed below may have to be viewed in the context of looking ahead to the future operations of the Minneapolis Library, which may require consultation with Hennepin County officials, before an adequate resolution can be determined.

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

06-1 Timely Deposits by the Inform Department

In reviewing funds collected by the INFORM (Research) Department, we found that credit card transactions were not submitted to the Library Finance Department on a regular basis. Credit card transactions are usually submitted when Inform staff feel there are a sufficient number of them to submit. Credit card transactions should be submitted to the Finance Department on a regular basis, preferably either daily or weekly.

We recommend that a policy be established that calls for collections of the Inform Department to be submitted to the Library Finance Department on a regular basis.

Client's Response:

INFORM's practice with respect to credit card transactions is unchanged since credit card transactions became customary. INFORM will start submitting the credit card receipts to the Library Finance Office on a daily basis.

06-2 Accounts Payable Reporting

Our review of the year-end accounts payable balance in the Capital Projects Fund found that the balance was understated by \$399,059. As a result, an audit adjustment to the Capital Projects Fund financial statements was made to increase accounts payable and expenditures by \$399,059.

We recommend that internal controls over the Library Board's expenditure process be reviewed to ensure that bills are recorded in the correct fiscal year.

Client's Response:

The Library Finance Office's internal controls will be revised to include additional emphasis at year-end to make certain that expenditures are recorded in the proper year.

06-3 Parking Ramp Operations

The opening of the new Central Library in 2006 included a new underground parking ramp. The parking ramp is accounted for as an enterprise fund in the Library Board's general ledger. The ramp is automated, with no attendant on duty to receive parking fees. Collections can be either in the form of credit cards or by inserting cash into collection boxes, allowing the parkers to exit. Parkers may also have their parking tickets validated by participating businesses that, in turn, are billed for these parking fees. A private operator was retained to oversee parking ramp operations. Our review of the ramp's internal controls found the following conditions:

- There is no independent review of the daily collection reports to the deposits made with the City's Central Counting Facility. Daily collections are recorded on a spreadsheet and reconciled to deposits by the same individual who collects the funds from the pay stations.
- For parkers who pay on a monthly basis and those whose tickets are validated by businesses, the revenues from these sources are deposited into the operator's bank account, not the Library Board's account. Settlements to the Library Board of these funds are performed monthly by the operator. Also, no independent reconciliations are performed between these deposits and the records maintained to account for these transactions.
- Reconciliations are not performed between reports generated on credit card sales and funds received by the City Treasury Division from the sales.
- During 2006, Library personnel did not record collections in the general ledger from credit card sales. It appears no entries were made until December 2006 when collections for the entire year were recorded.

- We found that the operator destroys parking tickets after being held for six months. Parking tickets are considered a source document in accounting for ramp revenues. As such, the tickets should be retained in accordance with record retention requirements contained in state statutes.
- Recordings in the general ledger of monthly amounts received from or paid to the operator were based on net amounts--the differences between revenues deposited to the operator's bank account and operator expenses. Operating revenues and expenses of the parking ramp should be recorded at their gross amounts in the general ledger. At the Library Board's request, we prepared adjusting entries for the parking ramp financial statements and provided them to management.

The above conditions indicate significant internal control deficiencies in accounting for financial activities of the parking ramp. Library Board management needs to establish procedures to monitor operator performance over financial activities and ensure that recordings in the general ledger are timely and complete.

We recommend that the Library Board address these issues as soon as possible to strengthen internal controls and ensure accurate reporting throughout the year. We also recommend that the Library Board consider an amendment to the practice of the operator depositing collections from monthly and validation customers in its own bank account. We recommend that all revenues be deposited with the City as they are collected and that the operator bill the City for its monthly services. Finally, we recommend that the Library Board ensure compliance with state statutes relative to retention of tickets.

Client's Response:

The Library Finance Office has been working on some of these issues since March 2007.

Even though a significant amount of the 2006 collections were recorded in the Enterprise Fund's General Ledger in December 2006, these funds were in a City bank account.

The Parking Ramp is a new function for the Library and has been a learning experience. In addition, the Library Finance Office has experienced some staff changes which have had an impact on the amount of time that has been available to address some of the issues with the Parking Garage. The Library Finance Office is in the process of resolving each of these recommendations and is committed to this process.

06-4 Fund Accounting for Special Revenue Fund

The Private Contributions Special Revenue Fund exists under a special law that allows the Library Board to collect private donations and invest those funds outside of the control of the City's Treasury Division. These funds remain in the custody of the Library Board throughout the year.

During the year, it has been the practice of the Library Board to rely on bank statements and trustee statements as the primary source for its accounting activities. At year-end, these statements are used to prepare financial statements and schedules for annual reporting. Due to increased accounting responsibilities with the new Parking Ramp Enterprise Fund and current staffing issues in the Accounting Department, we believe the accounting activities of this fund should be maintained in a general ledger in order to retain a more formal and accurate understanding of the fund's activities. Accounting entries would consist, at a minimum, of monthly summaries from the bank and trustee statements. Annual reporting of the fund would be enhanced with less work needed at year-end. The Library Board's separate control over the fund's investments would not be affected by this process.

We recommend that the Library Board consider establishing a fund in the City's general ledger system to account for its Private Contributions Special Revenue Fund.

Client's Response:

In 2000, the Library Finance Office hired a consultant to customize an accounting software program to record and monitor the Library's revenues and expenditures for the Library's Private Contributions Special Revenue Fund. Reports are prepared on a monthly basis using the information from this software program. The system has worked well for the Library's Finance Office.

However, in the current 2007 budget, there are funds budgeted to purchase a more complete General Ledger system. These dollars can be saved by using the City's Financial System, even though in the past there had been a deliberate effort to keep the Library's Private Contributions Special Revenue Fund separate from the City's Financial System.

The Library's Finance Office will establish a fund in the City's general ledger system to account for its Private Contributions Special Revenue Fund.

06-5 Prior Period Adjustment

The Library Board's 2006 financial statements included prior period adjustments to (1) reclassify the parking ramp operation from governmental activities to business-type activities in an enterprise fund, and (2) recognize a capital lease payable in the amount of \$10,100,000. The lease was with the City of Minneapolis and was omitted from previous financial statements because a lease document had not been prepared by the City. As a result, finance personnel of the Library Board were not aware that a lease arrangement existed.

We recommend that, when the Library Board is dependent on outside assistance affecting financial transactions, procedures be established to monitor the progress and completion of the assistance so that financial transactions can be recorded as they occur. Also, it is recommended that additional consideration be given to the determination of fund types when the new financial activities begin to occur.

Client's Response:

It was the understanding of the Library's Finance Office that the Library's Parking Ramp would be owned by the City of Minneapolis and sold to the Library Board in 2028 for \$1.00. This information was presented to the Library Board in October 2002.

Therefore, based on this information, the Library Finance Office set up an Enterprise Fund for the Parking Ramp Operations. This Enterprise Fund started in 2006 when the Parking Ramp opened.

The Library Finance Office accepts the State Auditor's recommendations and will take the recommended actions if a similar situation occurs again in the future.

II. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB.

These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees, such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the Library Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Library Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Library Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Library Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the Library Board will have to decide whether to hire an actuary.

If applicable for the Library Board, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2006 and 2007, respectively.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Library Board of the City of Minneapolis
Minneapolis, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Library Board of the City of Minneapolis as of and for the year ended December 31, 2006, and have issued our report thereon dated June 29, 2007. Our report was modified to include a reference to other auditors. We conducted our audit 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. Other auditors audited the financial statements of the Friends of the Minneapolis Public Library, as described in our report on the Library Board's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Friends of the Minneapolis Public Library were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library Board's internal control over financial reporting as a basis for designing our auditing procedures 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 Library Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Library Board's financial statements that is more than inconsequential will not be prevented or detected by the Library Board's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 06-1 through 06-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-3 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library Board's financial statements are free of 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the Library Board complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 06-3, relating to the retention of records - parking tickets.

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this recommendation and information to be of benefit to the Library Board and is reported for that purpose.

The Library Board's written responses to the significant deficiencies, material weaknesses, and legal compliance findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the Library Board and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 29, 2007