



Office of the State Auditor – City of Minneapolis Management and Compliance Report – Year ended December 31, 2015

CITY OF MINNEAPOLIS

Audit Committee Meeting

July 19, 2016

CITY OF MINNEAPOLIS

Auditor Update

Audit Plan and Projects Update

Projects Completed:

- Employee Separation Analysis
- Neighborhood Programming and Support Audit (2015)
- DMTMO Third-Party Audit
- CPED Loan Programs (2015)
- IT Projects Management
- PeopleSoft Web Portal

Projects in Progress:

- License Plate Reader Readiness – Reporting Phase
- PeopleSoft Finance Access & Security – Reporting Phase
- Procure to Pay – Fieldwork Phase
- Police Records Management Implementation – Planning Phase
- MPD Third-Party Audit – Planning Phase
- Park and Recreation Board Worker Safety – Planning Phase

Projects Not Started:

- Civil Rights Contract Compliance
- Police Body Camera Pre-Requirement Review (potential deferral)

State Auditor Findings Update

The 2014 State Auditor Report identified 10 findings related to financial statements audited in accordance with government auditing standards. 5 findings were listed as resolved in the 2015 State Auditor Report. 5 findings remain and are shown on the next slide.

Finding	Status
• Bank Reconciliations: 2013-001	Corrected
• Loan C Documentation: 2013-002	Ongoing
• Audit Adjustments: 2014-001	Corrected
• Capital Asset Reporting Process: 2014-002	Corrected
• Network and System Access Termination: 2014-003	Ongoing
• Identification of Federal Awards: 2011-002	Ongoing
• Subrecipient Monitoring: 2011-004	Corrected
• Cash Management: 2014-004	Corrected
• Procurement, Suspension and Debarment: 2014-005	Corrected
• Prompt Payment of Invoices: 2009-001	Ongoing

State Auditor Findings Update, cont.

The 2015 State Auditor Report identified 6 findings related to financial statements audited in accordance with government auditing standards. 5 findings were listed in the 2014 State Auditor Report and 1 new finding is listed below.

Finding	Status
• Loan C Documentation: 2013-002	Ongoing
• Audit Adjustments: 2014-001	Corrected
• Network and System Access Termination: 2014-003	Ongoing
• Identification of Federal Awards: 2011-002	Ongoing
• Prompt Payment of Invoices: 2009-001	Ongoing
• Prior Period Adjustment: 2015-001	Corrected

Audit Findings Follow Up

Audit Name	Findings	Findings resolved	Findings Open	Due Date Range
Application Security Review	4	3	1	Sept 2016
Construction Contract Review	3	2	1	Sept 2016
Records Management Audit	16	1	15	Sept 2016 to Dec 2019
Records Management Audit Addendum	4	4	4	Dec 2016
HR File Maintenance and Retention Audit Report	13	3	10	July 2016 to July 2017

Audit Findings Follow Up – Prior Team

- There are two outstanding findings from the prior audit team.
 - Four findings were incorporated into findings from the Records Management audit.
 - One finding was incorporated into a finding from the State Auditor.

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CPED Loans Audit

CPED Loans Audit - Background

- Minneapolis Community Development Agency (MCDA) was established by City Council in 1986 to conduct projects and programs, including development and redevelopment activities such as loans. In 2003, MCDA merged with the City and Community Planning and Economic Development department was established.
- CPED operations include programs that provide financing for business and housing development projects in the form of loans.
- There is currently \$260 million in outstanding loans that were initiated under MDCA and CPED, of which, \$46 million is deemed collectible (18%).

CPED Loans Audit - Background

- Loans with standard terms are generally administered externally, while more complicated loans are administered by the City in the 'Loan C portfolio'. As of 2015:
 - External business loan balance was \$7.3 million; 100% collectable.
 - Other external loan balance was \$9.0 million; 75% collectable.
 - Loan C loan balance was \$243.9 million; 13% collectable.
- Starting in the 2011 Comprehensive Annual Financial Report, the City has had to report information on the Loan C balance.
- Loans are managed using the Management Information System (MINS), a custom tool developed for MCDA in the mid 1990s. IT is beginning a project to assess and develop a successor to MINS.

CPED Loans Audit - Objectives & Scope

- The objectives were to:
 - Assess how effectively CPED issues, manages and terminates loans.
 - Evaluate the use of MINS to ensure it adequately facilitates the process, meets needs of users and appropriately safeguards data and records.
- The audit scope included a review of:
 - Reporting on the loan portfolio and program results to management and the CD&RS Committee.
 - Issuing of loans, including authorization, documentation and accounting.
 - Management and monitoring of CPED loans.
 - Loan satisfaction, restructure and write-off processes and documentation.

CPED Loans Audit - Findings

Finding 1 – Loan Program Reporting

- Reports on CPED's loan programs did not include complete information on key loan portfolio measures, and did not clearly lay out achievement of all program goals.
 - Reporting on achievement of goals was focused on City and department goals and initiatives. However, the City approves and funds loan programs with stated goals that are more specific, or more expansive, than the larger City and department initiatives.
 - Since reporting did not uniformly cover goals at the program level, it was more difficult to use those reports to assess the effectiveness of individual programs.

CPED Loans Audit - Findings

Finding 2 – Loan C Portfolio Completeness

- The report generated showing receivable and collectable amounts for loans serviced internally by the City was incomplete.
 - 6 of 153 loan tested Loan C files, totaling \$9.8 million, were excluded from the \$243.9 million Loan C balance due to incomplete MINS entry or report generation issues.
 - 1 of 14 inactive program files tested, totaling \$100,000, was not entered in MINS and excluded from the \$243.9 million Loan C balance.
 - 6 of 30 tested single family program projects had data that was incorrectly tracked and recorded in MINS, with a net Loan C balance effect of \$59,824.
 - Accrued interest was not captured as part of the receivable total.

CPED Loans Audit - Findings

Finding 3 – Process Improvement

Opportunities for improvements in CPED's loan related processes were observed:

- Processes for similar CPED loan activities diverged between business lines, providing a challenge for the development of a comprehensive MINS update.
- Documents generated as part of CPED's Loan activities were stored in different ways and locations.
- Processing payments was done by different CPED and Finance staff and was tracked in COMET in different ways, some not tying to loans. A uniform process would reduce the risk for mishandling funds, and consistent COMET tracking could simplify data entry and ease COMET and updated MINS integration.
- Inefficient secondary systems and processes existed that could be integrated into a MINS update.

CPED Loans Audit - Findings

Finding 4 – Roles and Responsibilities

Opportunities to improve the tracking of City staff roles and responsibilities as they relate to CPED Loans were observed

- Identifying City staff responsible for compliance with loan conditions throughout their duration was difficult because project coordinator and loan oversight responsibilities were not systematically tracked. This could result in the City inadequately managing loan agreement terms.
- Individuals had unnecessary access permissions in MINS. Information on loans could be accessed by staff that did not need access to this information.

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IT Projects Management – Privacy and Security Consultation

IT Projects Management

Background

- The IT PMO was established in 2006 and has evolved their project management methodology in '08, '10 and '14.
- The IT PMO team currently has 32 active projects that are supported by \$34 million in implementation funding.
- 19 projects were finished in the past four quarters.

IT Projects Management

Acknowledgments

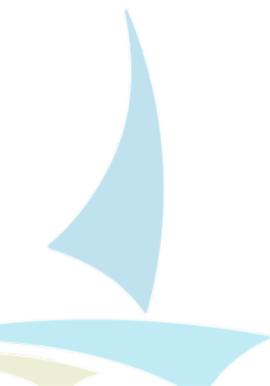
- The IT PMO had a well organized and user-friendly approach to guiding departments through each step of an IT project.
- The IT PMO used a best-in-class IT project management framework.



IT Projects Management

Observation 1 – Request for Proposal – Vendor Selection

The IT PMO group should incorporate questions on vendor security and privacy practices in the RFP vendor evaluations. Key factors to consider are vendor access to the City network, secure data transmission protocols, independent audit reports on the vendor security and data breaches they may have had in the past.



IT Projects Management

Observation 2 – Project Definition and Risk Assessment

The IT PMO group should consider formalizing a section for security and privacy within the Project Definition phase and requiring a formal security and privacy risk assessment for each IT project.



IT Projects Management

Observation 3 – Project Access Management and Communications Plan

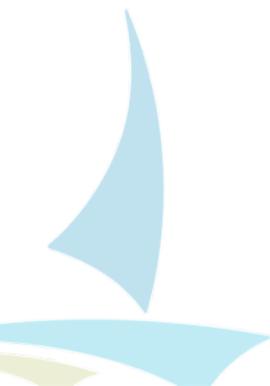
IT Project Managers, in collaboration with the business lines should be required to define an access management plan for a project team for the entire project lifecycle.

The IT PMO group should also define a formal secure communication protocol that enables a secure mode for data transmission among team members and vendors.

IT Projects Management

Observation 4 – Approval Gates

The IT PMO group should consult the IT Security team after the completion of key milestones within a project. This will help to note if there have been any changes to project scope or risk profile from the initial security and privacy risk assessment performed.



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Audit Committee Meeting July 19, 2016