

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, 2008

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 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.

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**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

Year Ended December 31, 2008



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
MINNEAPOLIS, MINNESOTA**

Schedule 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of the City of Minneapolis.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of the City of Minneapolis and are reported in the "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*." Two of the significant deficiencies are material weaknesses.
- C. No instances of noncompliance material to the financial statements of the City of Minneapolis were disclosed during the audit.
- D. Significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." Two of the significant deficiencies are material weaknesses.
- E. The Auditor's Report on Compliance for the major federal award programs for the City of Minneapolis expresses an unqualified opinion.
- F. Findings relative to major federal award programs for the City of Minneapolis were reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Community Development Block Grants	CFDA #14.218
Lead Hazard Reduction Demonstration Grant	CFDA #14.905
Highway Planning and Construction	CFDA #20.205
Federal Transit Cluster	
Capital Investment Grants	CFDA #20.500
Formula Grants	CFDA #20.507
Capitalization Grants for Drinking Water State	
Revolving Fund	CFDA #66.468

Temporary Assistance to Needy Families	CFDA #93.558
Centers for Disease Control and Prevention	
Investigations and Technical Assistance	CFDA #93.283
Maternal and Child Health Block Grant to States	CFDA #93.994
Homeland Security Grant Program	CFDA #97.067

- H. The threshold for distinguishing between Types A and B programs was \$1,236,957.
- I. The City of Minneapolis was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Prior Period Adjustment

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 of the financial statements on a timely basis. One indication of a control deficiency that typically is considered significant is restatement of previously issued financial statements to reflect the corrections of a misstatement.

The City's 2008 financial statements include the following prior period adjustments identified by auditors:

- January 1, 2008, net assets of the governmental activities were restated by \$15,229,776 to recognize Operating Grants and Contributions for Municipal State Aid Allotment not recorded as revenue in the prior year.
- January 1, 2008, net assets of the Municipal Parking Enterprise Fund and of the business-type activities were restated by \$503,951 to account for the sale, and related gain, of a parking lot that occurred in a prior year.

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

We recommend the City review its procedures for preparation and disclosure of financial information to ensure accurate presentation in the financial statements.

Client's Response:

Over the next year, the City will review its processes for compiling financial reports along with its internal control structure related to financial reporting. The goal of this action will be to identify adjustments and accounting entries necessary for complete and accurate year-end financial reporting.

07-1 Monitoring Internal Controls

City management is responsible for monitoring its internal controls. This requires performing a risk assessment of existing controls over significant functions of its accounting system used to produce financial information for the Mayor and members of the City Council, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updated information systems, or changes to services being provided. Our inquiry of City management found that significant internal controls surrounding the accounting system have begun to be documented and that the risk assessment of those controls is done on an informal basis. Significant internal controls would cover such areas as:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing; and
- payroll.

The process of monitoring and risk assessment of significant internal controls by the City should be formally identified, documented, or otherwise evident to demonstrate what is reviewed and the results or conclusions.

We recommend that City Finance personnel document the significant internal controls in the accounting system. A formal plan should be developed that calls for assessing and monitoring significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required as a result of the risk assessment, and who performed the work.

Client's Response:

The City has undertaken a three-pronged approach to address its Internal Control Structure (ICS):

- 1. Review the ICS already in place for completeness and effectiveness. In some cases controls may need to be designed or redesigned. In all cases the control measures will be documented.*
- 2. Monitor and test the effectiveness of controls in operation, and*
- 3. Remedy any deficiencies identified during the test of control.*

This process is continual and quite extensive so the review and design of controls may not be completed during 2009.

07-3 City Payroll Procedures

Our previous report identified two significant weaknesses in the City's payroll policies and procedures. The first was that current payroll staff lacked sufficient knowledge and understanding of the City's payroll activities so that the City relied heavily on a retired, part-time individual for that knowledge. The second was that certain staff involved with the processing of payroll, and who are both a Departmental Representative and Payroll Representative, have the ability to create temporary employees, add hours to pay lines, and change banking information in the HRIS system, all without electronic approvals.

For the current year's audit, the City had taken steps which enabled us to obtain information from current City payroll staff about the recording of transactions from the payroll system into the general ledger without having to rely on the one retired, part-time individual. However, the lack of segregation of duties by City staff that have the ability to create employees, add hours to pay lines, and change banking information in the system, all without electronic approvals, remains unchanged.

In order to strengthen internal controls, we recommend the City determine whether any incompatible payroll activities can be further segregated. At a minimum, someone independent of the payroll processing function should review payroll edit reports for unusual or inappropriate activity.

Client's Response:

The City has taken steps to examine the business processes associated with employee maintenance and Payroll to identify and remedy any internal control issues associated with segregation of duties.

ITEMS ARISING THIS YEAR

08-1 Journal Entries

A limited number of staff have journal entry access rights to approve (post) journal entries to the accounting system. However, no controls are in place to prevent these staff from both initiating and approving the same journal entries. The system does not provide an audit trail to indicate which staff with approval access actually did the posting to the system. In addition, there is no formal oversight or review process of journal entry activity.

The ability to initiate and approve journal entries on the general ledger system is a powerful function. It allows staff with access the ability to make changes to the financial system.

The City's policies and procedures related to journal entries are in the process of being formally updated for the new general ledger system (Compass). To improve internal controls surrounding the journal entry function, we recommend that the formal policies and procedures include system access limitations that prevent the same person from initiating and approving journal entries along with identification of the person approving journal entries. A report should be generated monthly that shows all journal entries that have been posted to the accounting system. Review and monitoring of this report should be done to ensure proper oversight for unusual or inappropriate activity.

Client's Response:

The City has developed a draft process designed to address this issue and expects to have it finalized and implemented by the end of 2009.

08-2 Audit Adjustments

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 of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal controls.

In 2008, the City implemented new general ledger software that included a capital asset module. At that time, the decision was also made to eliminate salvage values. The effect of this change in accounting estimate is to depreciate the net book value of capital assets down to zero over their remaining useful lives. However, the new software failed to depreciate the old salvage values for assets already at the end of their useful lives. Also, because of system settings determined during the software's implementation, depreciation on assets whose lives extended beyond year 2050 failed to calculate correctly, resulting in depreciation amounts taken in some instances at up to twice the expected rate. These problems went unnoticed until we commenced our audit procedures relative to the capital assets and related depreciation accounts.

Because of the two problems mentioned above, during the audit, we proposed the following adjustments that resulted in significant changes to the City's financial statements:

- depreciation expense and related accumulated depreciation were adjusted in the internal service funds (except for the Self-Insurance Internal Service Fund, which has no capital assets) and enterprise funds in amounts ranging from (\$1,502,276) to \$3,938,349.

In our review of the City's compensated absences liability, we found an error in an amount used in calculating the liability for both the enterprise and internal service funds. Compensated absences liability amounts are prorated for these funds based on a percentage of the total payroll for the City. The total payroll amount used in this calculation was too low, resulting in an overstatement of the liability. We proposed the following adjustments that resulted in a significant change to the City's financial statements:

- personal services expenses and compensated absences liability (both short-term and long-term) were decreased in internal service funds and enterprise funds ranging from \$13,157 to \$384,259.

Our review of the Permanent Improvement Capital Projects Fund identified a receivable for unspent State Aid Allotment for Municipal State Aid that had not been recorded. We also identified a receivable related to a federal program that was not recorded. We proposed the following significant adjustments to the City's financial statements:

- intergovernmental receivable and related deferred revenue were increased in the Permanent Improvement Fund by \$15,592,079 for unspent State Aid Allotment, and
- intergovernmental receivable and related deferred revenue were increased in the Permanent Improvement Fund by \$2,771,746 for a federal grant.

Our review of the Convention Center Special Revenue Fund identified deferred revenue related to accrued interest receivable from a loan that has since been renegotiated and is no longer a separate receivable. We proposed the following material adjustment to the City's financial statements:

- deferred revenue was decreased and interest revenue was increased in the Convention Center Fund by \$596,699.

The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the City modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

Over the next year the City will review its processes for compiling financial reports along with its internal control structure related to financial reporting. The goal of this action will be to identify adjustments and accounting entries necessary for complete and accurate year-end financial reporting.

08-3 Reconciliations of Cash and Investment Accounts

Reconciliations between the bank balances and the cash and investment amounts in the general ledger were not being performed by Treasury on a timely basis. Some of the December 31, 2008, bank reconciliations were not provided for audit until May 2009. Bank reconciliations should be performed on a monthly basis to ensure accurate reporting of financial information.

We recommend the Treasury implement policies and procedures that ensure reconciliation of bank accounts to the accounting records on a monthly basis. Reviews of these reconciliations should document the ongoing monitoring of this process.

Client's Response:

The City's financial system implementation in 2008 created multiple issues in the cash management and general ledger modules that took months to understand and resolve. The Treasury division now has a process in place to perform monthly reconciliations and does not expect this problem to persist.

08-4 Compass Inventory Records

Unit costs for Traffic Stores inventory (recorded in the Public Works Stores Internal Service Fund) and for East Yard inventory (recorded in the Water Works Enterprise Fund) were subject to audit procedures that resulted in identification of an error. When inventory was received in partial shipments, the system overstated the unit cost, and thus, the inventory value as a whole. Once this was brought to the City's attention, staff performed a system process in Compass that corrected the unit costs.

We recommend the City monitor inventory unit costs to ensure calculations and inventory values are correct.

Client's Response:

The error causing the problem was corrected with the running of a process that matches amounts paid to amounts placed into inventory. This process now runs nightly to update any inventory values to the actual amount paid to the vendor vs. amounts on the receiver. In addition, listing of inventory values are being run on a periodic basis and reviewed by warehouse staff for errors or required adjustments.

PREVIOUSLY REPORTED ITEMS RESOLVED

Timely Accounting for CPED Activities (02-1)

Financial transactions occurring throughout the year were not recorded in a timely manner, especially in recording loan repayments in the "Loan C" program.

Resolution

Based on confirmation procedures of "Loan C" balances, no untimely recording of loan payments were noted.

Internal Controls Over Parking Facilities (07-2)

Several conditions were identified indicating the need to strengthen internal controls over collection, depositing, and reporting of parking ramp revenues by the private operator overseeing the City's parking ramps and indicating the need for Public Works management to enhance the monitoring of internal controls at the parking facilities.

Resolution

Policies and procedures were developed and implemented by the private operator. Our testing did not identify any issues relating to the accountability of tickets issued. Other improvements included the operator taking over the Central Count Facility and a newly formed Client Compliance Committee that allows Public Works' management to better monitor the internal controls at the parking facilities.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

08-5 Davis-Bacon Act - Highway Planning and Construction (CFDA #20.205) and Federal Transit Capital Investment Grants (CFDA #20.500)

When required by the Davis-Bacon Act, all laborers and mechanics employed by the contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project.

For the construction projects financed by Highway Planning and Construction funds and Transit Capital Investment funds administered by the City's Public Works Department, monitoring compliance with the Davis-Bacon Act was not being performed as required by the federal grants. The City's long-standing practice has been to assign monitoring of compliance with the Davis-Bacon Act to the City's Civil Rights Department.

We recommend the Department of Public Works and Civil Rights Department review and clarify their policies and procedures to ensure appropriate monitoring for compliance with the Davis-Bacon Act occurs and is documented.

Corrective Action Plan:

Contact Person:

*William Fellows; Project Engineer, Department of Public Works
(612) 673-5661*

Corrective Action Plan:

The City of Minneapolis, Department of Public Works contracts with URS who is responsible for Construction Administration services, including Davis-Bacon Act monitoring. The contract with URS started in April 2008. Construction and Davis-Bacon Act monitoring by URS began in August 2008 when construction began. URS maintains all certified payroll reports and tracking reports which are available for review.

Anticipated Completion Date:

Not applicable - already in place.

08-6 Identification of Federal Awards - Highway Planning and Construction (CFDA #20.205) and Federal Transit Capital Investment Grants (CFDA #20.500)

In the City's preliminary estimate of federal awards, funding relating to the Highway Planning and Construction program (CFDA #20.205) was identified. However, when trying to obtain grant agreements and expenditures by project covered by this funding for single audit purposes, the City had difficulty providing this information. Information had to be obtained from the Minnesota Department of Transportation to help identify the projects and amounts reimbursed under this program during 2008. In addition, it was while researching information for the Highway Planning and Construction program (CFDA #20.205) that the Federal Transit Capital Investment Grants program (CFDA #20.500) was identified. This federal program had not been included in the City's estimated federal awards.

Office of Management and Budget (OMB) Circular A-133, Subpart C, § .300. lists auditee responsibilities, which include identifying all federal awards received and expended and the federal programs under which they were received and preparing appropriate financial statements, including the Schedule of Expenditures of Federal Awards.

We recommend the City develop policies and procedures that effectively address its responsibility to properly identify all federal awards received and expended, identify the federal programs under which they were received, maintain grant agreements, and identify expenditures and funding sources by project in order to effectively administer federal programs and monitor for compliance.

Corrective Action Plan:

Contact Person:

*Bill Schroeder; Manager, Finance Department
(612) 673-3490*

Corrective Action Plan:

The City will begin a collaborative effort between Public Works and Finance staff to identify federal awards as they become available. Finance staff will work with Public Works contract managers to obtain copies of the grant agreements and related documentation to insure that federal revenue is properly reflected in the financial statements. Finance staff will utilize the State's payment report to reconcile payment information from the Minnesota Department of Transportation with the City's financial records.

Anticipated Completion Date:

December 31, 2009

08-7 Reporting - Homeland Security Grant Program (CFDA #97.067)

Agreements for a Metropolitan Medical Response Systems (MMRS) grant and an Urban Area Security Initiative (UASI) grant between the City and the Minnesota Department of Public Safety require reporting to be done quarterly. The reporting is the basis for reimbursement of the City's grant expenditures. For the MMRS grant reviewed, reporting of 2008 expenditures was submitted by the City to the state one time in early April 2009. For the UASI grant reviewed, no reporting of 2008 expenditures was submitted by the City to the state as of June 2009.

Implementation of a new general ledger system in 2008 and having adequately reconciled grant charges and allocated costs appear to have affected the timeliness of the grant reporting and subsequent reimbursement of expenditures.

We recommend the City comply with grant reporting requirements. Timely and accurate reporting and reimbursement of expenditures also minimize the possibility that the period of availability of funds expires and improves cash management at the City.

Corrective Action Plan:

Contact Person:

*Jacob Cherucheril; Manager of Financial Accounting and Reporting,
Finance Department
(612) 673-2300*

Corrective Action Plan:

In 2008, staff changes occurred in both the program managing department and in the Finance staff. The transition led to some delays in reporting while Finance staff obtained access to the electronic reporting system and systems were put in place to gather the required supporting documentation for eligible grant expenditures. Program managers and Finance staff now meet monthly to review the status of all Homeland Security Grants. The monthly meetings are used to review and discuss the grant status, spending plans, and other grant related reporting requirements. As of July 30, 2009, all Homeland Security Grant reports for the quarter ending June 30, 2009 have been completed.

Anticipated Completion Date:

July 31, 2009



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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*

Mayor and Members of the City Council
City of Minneapolis

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Minneapolis as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 28, 2009. 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 Meet Minneapolis, which represents less than 1 percent, a negative 3 percent, and 10 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units, as described in our report on the City of Minneapolis' 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 Meet Minneapolis were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Minneapolis' 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 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 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 City'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 City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-1, 07-1, 07-3, and 08-1 through 08-4 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 City of Minneapolis' 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 items 06-1 and 08-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Minneapolis' 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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the City of Minneapolis complied with the material terms and conditions of applicable legal provisions.

The City of Minneapolis' written responses to the significant deficiencies and material weaknesses identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, Mayor, management, others within the City of Minneapolis, and federal awarding agencies and pass-through entities 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

July 28, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mayor and Members of the City Council
City of Minneapolis

Compliance

We have audited the compliance of the City of Minneapolis with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City of Minneapolis' financial statements include the operations of the Minneapolis Park and Recreation Board (Park Board), a component unit of the City, which expended \$911,705 in federal awards during the year ended December 31, 2008, 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 OMB Circular A-133.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Minneapolis complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the City of Minneapolis is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City of Minneapolis' internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies and material weaknesses.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 08-5 through 08-7 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of Minneapolis' internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 08-5 and 08-6 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Minneapolis as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 28, 2009. We did not audit the financial statements of Meet Minneapolis, which represent less than 1 percent, a negative 3 percent, and 10 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the City of Minneapolis' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The City of Minneapolis' corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's corrective action plans and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, Mayor, management and others within the City of Minneapolis, and federal awarding agencies and pass-through entities 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

July 28, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Housing and Urban Development			
Direct			
Community Development Block Grants/Entitlement Grants	14.218	\$ 15,147,588	\$ 4,486,138
Emergency Shelter Grants Program	14.231	254,320	215,000
HOME Investment Partnerships Program	14.239	4,204,265	-
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	988,355	988,355
Empowerment Zones Program	14.244	896,357	716,058
Community Development Block Grants - Brownfields Economic Development Initiative	14.246	35,376	-
Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)	14.866	176,444	-
Lead Based Paint Hazard Control in Privately-Owned Housing	14.900	2,039	-
Healthy Homes Demonstration Grant	14.901	357,411	-
Lead Technical Studies Grant	14.902	2,039	-
Passed Through Hennepin County			
Lead Hazard Reduction Demonstration Grant	14.905	<u>446,247</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 22,510,441</u>	<u>\$ 6,405,551</u>
U.S. Department of the Interior - National Park Service			
Passed Through Minnesota Historical Society			
Historic Preservation Fund Grants-In-Aid	15.904	<u>\$ 20,000</u>	<u>\$ 20,000</u>
U.S. Department of Justice			
Direct			
Grants to Encourage Arrest Policies and Enforcement of Protection Orders			
	16.590	\$ 365,548	\$ 132,124
Public Safety Partnership and Community Policing Grants	16.710	52,344	-
Gang Resistance Education and Training	16.737	405	-
Congressionally Recommended Awards	16.753	7,908	-
Passed Through Minnesota Department of Public Safety			
Juvenile Accountability Block Grants	16.523	71,542	71,542
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	309,438	-
Edward Byrne Memorial Formula Grant Program	16.579	163,133	136,094
Enforcing Under Age Drinking Laws Program	16.727	3,918	-
Passed Through Fox Valley Technical College			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	125,988	-
Passed Through Pillsbury United Communities			
Community Capacity Development Office	16.595	79,276	-

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Justice (Continued)			
Passed Through Powderhorn Park Neighborhood Association Community Capacity Development Office	16.595	36,671	-
Passed Through Hennepin County Edward Byrne Memorial Justice Assistance Grant Program	16.738	<u>226,101</u>	-
Total U.S. Department of Justice		<u>\$ 1,442,272</u>	<u>\$ 339,760</u>
U.S. Department of Labor			
Passed Through Minnesota Department of Employment and Economic Development WIA Cluster			
Workforce Investment Act - Adult Program	17.258	\$ 623,539	\$ 561,702
Workforce Investment Act - Youth Activities	17.259	1,051,021	946,817
Workforce Investment Act - Dislocated Workers	17.260	<u>652,285</u>	<u>582,073</u>
Total U.S. Department of Labor		<u>\$ 2,326,845</u>	<u>\$ 2,090,592</u>
U.S. Department of Transportation			
Passed Through Metropolitan Council Federal Transit Cluster			
Federal Transit Capital Investment Grants	20.500	\$ 4,988,097	\$ -
Federal Transit Formula Grants	20.507	333,843	-
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	1,858,336	770,321
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	15,670	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>25,785</u>	<u>-</u>
Total U.S. Department of Transportation		<u>\$ 7,221,731</u>	<u>\$ 770,321</u>
U.S. Environmental Protection Agency			
Direct			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	\$ 1,983	\$ -
Passed Through Minnesota Public Facilities Authority Capitalization Grants for Drinking Water State Revolving Fund	66.468	3,267,519	-
Passed Through Hennepin County Environmental Education Grants	66.951	<u>124,002</u>	<u>-</u>
Total U.S. Environmental Protection Agency		<u>\$ 3,393,504</u>	<u>\$ -</u>

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services			
Direct			
Maternal and Child Health Federal Consolidated Programs	93.110	\$ 221,913	\$ -
Healthy Start Initiative	93.926	876,944	301,685
Family Planning Service Delivery Improvement Research Grants	93.974	218,243	173,690
Passed Through Hennepin County			
Temporary Assistance for Needy Families (TANF)	93.558	498,889	375,454
Passed Through Minnesota Department of Health			
Mental Health National Service Awards for Research Training Centers for Disease Control and Prevention Investigations and Technical Assistance	93.282	597,280	168,440
Temporary Assistance for Needy Families (TANF)	93.283	537,837	-
Temporary Assistance for Needy Families (TANF)	93.558	954,613	857,306
Maternal and Child Health Services Block Grant to the States	93.994	888,452	480,770
Total U.S. Department of Health and Human Services		\$ 4,794,171	\$ 2,357,345
U.S. Department of Homeland Security			
Passed Through Hennepin County			
Emergency Management Performance Grant	97.042	\$ 84,233	\$ -
Passed Through Minnesota Department of Public Safety			
Public Assistance Grants (Presidentially Declared Disasters)	97.036	181,447	-
Homeland Security Grant Program	97.067	2,424,777	-
Buffer Zone Protection Program	97.078	100,013	-
Total U.S. Department of Homeland Security		\$ 2,790,470	\$ -
Total Federal Awards		\$ 44,499,434	\$ 11,983,569

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the City of Minneapolis. The City's reporting entity is defined in Note 1 to the basic financial statements. This schedule does not include \$911,705 in federal awards expended by the Minneapolis Park and Recreation Board component unit, which had a separate single audit.
2. The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 1 to the City of Minneapolis' basic financial statements.
3. Pass-through grant numbers were not available.