

**STATE OF MINNESOTA
Office of the State Auditor**

**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

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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.

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.

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

- 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.

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

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

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