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, 2014

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.

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA

Year Ended December 31, 2014

Management and Compliance Report

Audit Practice Division
Office of the State Auditor
State of Minnesota

This page was left blank intentionally.

CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA

TABLE OF CONTENTS

	Page
Schedule of Findings and Questioned Costs	1
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*	19
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 OMB Circular A-133	22
Schedule of Expenditures of Federal Awards	26
Notes to the Schedule of Expenditures of Federal Awards	29

This page was left blank intentionally.

CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **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? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unmodified for all major programs except for the Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program and Temporary Assistance for Needy Families, which were qualified.**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Community Development Block Grants/Entitlement Grants	CFDA #14.218
Emergency Solutions Grant Program	CFDA #14.231
Neighborhood Stabilization Program - ARRA	CFDA #14.256
Lead-Based Paint Hazard Control in Privately-Owned Housing	CFDA #14.900
Healthy Homes Production Program	CFDA #14.913

Workforce Investment Act (WIA) Cluster	
Workforce Investment Act Adult Program	CFDA #17.258
Workforce Investment Act Youth Activities	CFDA #17.259
Workforce Investment Act Dislocated Worker Formula Grants	CFDA #17.278
Highway Planning and Construction	CFDA #20.205
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	CFDA #93.505
Temporary Assistance for Needy Families	CFDA #93.558

The threshold for distinguishing between Types A and B programs was $925,687.

City of Minneapolis qualified as a low-risk auditee? **No**

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

<u>INTERNAL CONTROL</u>

<u>PREVIOUSLY REPORTED ITEMS NOT RESOLVED</u>

Finding 2013-001

<u>Bank Reconciliations</u>

Criteria: Reconciliations are control activities which involve the comparison of records or balances from different sources. Effective reconciliations properly account for any differences between the records or balances. This includes investigating why the differences exist and resolving them in a timely manner. Documentation resolving any differences should be retained.

Condition: The credit card account bank reconciliation is designed so that reconciling items are not carried forward from month to month and must be tracked separately. Some reconciling items are differences requiring additional follow-up and resolution. A query was created by City staff to verify that deposits are properly recorded in the system in order to assist with the reconciliation. This query is not utilized during the bank reconciliation process, and there is no evidence that departments are using this query to ensure deposits are properly recorded in the general ledger.

Context: Bank reconciliations are a tool to help ensure cash records are complete and accurate and a control designed to detect, and allow for correction of, errors or irregularities on a timely basis.

Effect: Stale and unresolved reconciling items may result in errors or irregularities going undetected.

Cause: The reconciliation for the credit card bank account is complicated by the credit card receipt transactions not clearing to cash in the bank account the same day as they are deposited. As a result, the credit card bank account reconciliation process was designed to eliminate reconciling items each month to simplify the process.

Recommendation: We recommend the City follow up and resolve differences between the credit card bank balance and the general ledger on a timelier basis. We further recommend that procedures be developed to incorporate the use of the queries from the general ledger that were designed to assist with stale or reconciling items identified during the credit card account bank reconciliation process. The credit card account bank reconciliation should also be redesigned so that reconciling items are not removed from the reconciliation until fully resolved.

<u>Client's Response</u>:

This finding relates to the current process of recording and reconciling credit card payment receivable transactions to the bank statement which is challenging because credit card payments do not clear the bank as cash on the same day as they are deposited. The City has developed a new process to reconcile these credit card bank account transactions that will be implemented in conjunction with its Financial System upgrade later this year. This process will allow the City to fully reconcile the credit card account to the bank statement in a timely manner. It will also allow for the identification and resolution of outstanding items.

Finding 2013-002

<u>Loan C Documentation</u>

Criteria: Developmental Loans (Loan C) is an internal loan servicing system through the City's Community Planning & 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 received numerous copies of the Loan C population, each with differences in the loans that were included as additions or deletions for the current year. The final population provided had one loan duplicated. We selected 25 new loan files and 25 deleted loans for testing. Three loans tested for additions were found to have discrepancies related to the "development subsidy amount" that should have increased the loan receivable balance. One loan that was listed as deleted in the population was found to not have been deleted, and 11 deleted loans had no evidence of satisfaction or proper documentation for write-off. Another loan that was deleted during the current year was for a property that had gone into tax forfeit, but it was discovered the loan consisted of multiple properties, each with their own individual loan that made up the overall loan balance. Some of these individual loans had been satisfied in previous years and not recorded as a decrease in the overall total loan balance. The entire loan balance was not fully deleted until 2014. The loan balances recorded in MINS are for the full potential loan amount, not the amount actually disbursed, and there is no reconciliation between MINS and the general ledger system to ensure that the loan balances are accurately recorded.

Context: The population provided was not a true download of the MINS system as it was manually adjusted by the City to account for loan information not yet recorded in the system. The City hired an external accounting firm to test the year-end receivable balances for a sample of loans in order to provide assurance that the ending balance was materially correct. After further audit review, adjustments proposed were made by management and are reflected in the City's financial statements.

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. The City informed us that due to staff shortages, MINS is not always able to be updated on a timely basis.

Recommendation: We recommend the City implement policies and procedures to maintain a complete and accurate Loan C listing and loan documentation. These policies and procedures should include reconciliations of current year additions and deletions from the loan listing to the activity recorded in the City's general ledger.

<u>Client's Response</u>:

The current system (MINS) used to manage and track the loans in the Loan C Program requires a significant amount of manual input and engineering of loan data and information for tracking purposes. To address certain of these limitations, Finance & Property Services (FPS) staff in the Development Finance and Controller Divisions will work with program staff to develop policies and procedures for the management of, accounting for, and reporting on the Loan C program loans as well as loan transactions in other development and real estate loan programs. In addition, Accounting and Development Finance staff will maintain transaction schedules/spreadsheets to ensure that detailed accounting records for each loan are maintained in such a way as to ensure that proper accounts receivable, payment, and collectability balances can be ascertained and verified for purposes of audit reconciliation and financial reporting purposes. This will *include adequate information on terms of agreement to support loan payoff and other related transaction triggers. This is a project that will be developed in phases over the next two years in conjunction with the planning, development and implementation of a replacement for the MINS system.*

ITEMS ARISING THIS YEAR

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 material adjustments 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 adjustments were reviewed and approved by the appropriate City staff and are reflected in the financial statements:

- The Permanent Improvement Capital Project Fund intergovernmental receivables and related deferred inflows of resources were decreased by $7,000,000. This adjustment also affected the government-wide financial statements.

- The Sanitary Sewer Enterprise Fund prepaid items and accounts payable were decreased by $2,947,672.

Cause: The Permanent Improvement Capital Projects Fund had a new type of funding for bridge bonding from the Minnesota Department of Transportation, and it was unclear which amount, if any, was to be accrued. The Sanitary Sewer Enterprise Fund accrued an amount for services that were to be provided in 2015, and it was believed that the invoice had been paid in December 2014; however, it was not paid until January 2015.

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 will implement 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. The City continues to look at optimizing information provided by queries of various City and State information systems in an effort to improve timeliness of reporting these types of inter-government transactions.

Finding 2014-002

Capital Asset Reporting Process

Criteria: The City is required by generally accepted accounting principles to account for and depreciate its capital assets over their estimated useful lives. Capital assets acquired or removed from service throughout the year should be included as additions or deletions to the City's records of capital assets and properly recorded following generally accepted accounting principles for the financial statements.

Condition: During the City's reconciliation process from the Asset Management module in the general ledger system and records used for financial reporting, several discrepancies were noted. Construction in progress relating to specific projects was completed and finalized and was not removed and recorded as a depreciable asset in the proper year; assets were recorded twice in both the system and financial reporting records; assets owned by the City's discrete component units were recorded as City capital assets; assets in the system were recorded as a different value than what was used for financial reporting; and capital assets deleted in the City's system were not deleted from the records used for financial reporting.

Context: The City maintains its capital assets records using the Asset Management module. Capital asset additions and deletions are entered into this system, and depreciation is calculated by the system. While preparing the financial statements for 2014, corrections were made by the City for the discrepancies noted above; however, some of the discrepancies were discovered by the City only while responding to our audit inquiries. This included a project that was recorded in infrastructure twice.

Effect: Improperly recorded items from capital asset records resulted in the misstatement of City assets, depreciation, accumulated depreciation, and net position amounts.

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 which were also due in part to technical issues.

Recommendation: We recommend the City review internal controls currently in place and design and implement procedures to improve internal controls over the recordkeeping of its capital assets and related depreciation to ensure that its capital assets records are complete and accurately prepared.

Client's Response:

During the audit and throughout the year-end process for 2014, new procedures were put into place to eliminate the capital asset reporting issues identified in the condition of this finding. Examples of new procedures addressing this finding include the following:

- *Construction in progress will be reviewed prior to year end to remove any projects placed in service during the year, including those projects listed in the capital project close-out letter presented to Council. Additionally, the City will reconcile construction in progress ending balances with active, incomplete projects to ensure accurate reporting.*

- *Duplicate asset entry will be eliminated through timely reconciliation and review of the current year additions to the full asset listing. Capital assets that are owned and reported by the City's discrete component units will be recorded in unique funds within the General Ledger and Asset Management module which will eliminate the possibility of duplication in the City's financial statements.*

- *When an adjustment is made to an asset's value, it will be recorded as a unique transaction in the capital asset management module. Any such adjustments noted on reports generated from the system will be added to the already existing asset and properly recorded in the reconciling work papers.*

- *Asset disposals will be reviewed for accuracy and reconciled to the complete asset listing. Capital asset activity will be reconciled using a combination of system generated reports, system queries and the complete capital asset listing used in the audit process.*

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. Access to the financial general ledger system is then 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 three instances where terminated employees' access had not been disabled and the user account not deleted within 32 days of their termination dates. Our testing of 5 terminated employees' removal from the general ledger system revealed access for 2 City employees and 2 Minneapolis Park and Recreation Board employees had not been removed. Although access had not been removed timely, none 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 is responsible for disabling and subsequently removing the network access. 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, Unisys received a change form for one of the terminated employees; however, the employee's last name had changed and did not match any current network users, therefore, Unisys closed the request. For the remaining two terminated employees, Unisys was not provided a change form to remove their network access. The general ledger system relies on the network access removal in order to remove terminated employees from the system.

Recommendation: We recommend the City implement additional procedures that allow for 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 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.

<u>Client's Response</u>:

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 are being reviewed and documented. Furthermore, as the City transitions to a new managed services provider for information technology services toward the end of 2015, the process for managing and coordinating user access to all City systems and software is being reviewed and updated. The user provisioning process will be examined and improvements made to ensure formal procedures for changes in access are adopted and secure access to the City's financial and human resources system is maintained.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2011-002

Identification of Federal Awards

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205)

Pass-Through Agency: Minnesota Department of Transportation

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended and the federal programs under which they were received.

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 did not include three projects totaling $729,251, and included one project totaling $117,815 that related to another federal program.

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 and that testing of the federal expenditures were only related to the Highway Planning and Construction Program.

Cause: The City informed us that projects not identified in the expenditure population were believed to have been completed or were new for the current year. The project identified during the audit as belonging to the other federal program was 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.

Corrective Action Plan:

Name of Contact Person Responsible for Correction Action:

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

Corrective Action Planned:

Though 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, an additional analysis comparing the prior year's grant awards to the current year's listing will be made to help ensure that no grants are omitted. The Accounting Manager, Grants will provide additional oversight and review of the information during the audit process to ensure that the information provided is accurate.

Anticipated Completion Date:

September 30, 2015 and ongoing

Finding 2011-004

Subrecipient Monitoring

Program: U.S. Department of Housing and Urban Development (HUD)'s Community Development Block Grants/Entitlement Grants (CFDA No. 14.218)

Pass-Through Agency: None.

Criteria: OMB Circular A-133, Subpart C, § .400, indicates auditee responsibilities for entities that provide federal awards to subrecipients as a pass-through entity. Included in these responsibilities are: (1) at the time of the award, identifying to the subrecipient the federal award information (CFDA title and number, award name, name of federal agency, and applicable compliance requirements); (2) monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements; (3) ensuring that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings; and (4) evaluating the impact of subrecipient activities on the entity's ability to comply with applicable federal regulations.

Condition: The City passed federal funding for the Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) to subrecipients, including the state of Minnesota, other local units of government, and nonprofit organizations. Based on our review of subrecipient monitoring for program and financial compliance, we noted inconsistencies in the identification of subrecipients. Five subrecipients identified as part of the financial subrecipient monitoring were not identified during the audit of the federal program, and one subrecipient identified during the audit of the federal program was not considered a subrecipient as part of the financial subrecipient monitoring.

Questioned Costs: None.

Context: The City passes through federal awards to subrecipients and is required to perform financial and program monitoring of those subrecipients. Of the $9.8 million federally awarded for this program, $2.0 million was passed through to subrecipients.

Effect: The City is not consistently identifying its subrecipients for this program at both the program and financial level. This could result in a failure to monitor the subrecipients' administration of federal award programs for compliance with applicable requirements.

Cause: Program monitoring is completed by program managers, and they determine who the subrecipients are at the program level. The financial monitoring is completed by the Finance and Property Services Department who has made efforts to create a comprehensive list by using the general ledger to identify subrecipients. The list provided during the audit of the federal program did not incorporate all of the funding years where federal funds were used to pay subrecipients as well as those subrecipients who received only administration reimbursements.

Recommendation: We acknowledge that the City has made improvements identifying subrecipients at both the program and financial subrecipient monitoring levels, and we encourage the City to continue its efforts in developing a system with written policies and procedures to ensure compliance requirements over subrecipients are met and subrecipients are monitored in accordance with OMB Circular A-133 consistently between program and financial monitoring.

<u>Corrective Action Plan</u>:

<u>Name of Contact Person Responsible for Correction Action</u>:

- *Accounting Manager, Grants*
- *Director, Accounting and Financial Reporting*
- *Controller and IGR Director*

Corrective Action Planned:

As indicated above, the Finance and Property Services Department (FPS), in cooperation with the Intergovernmental Relations Department (IGR), has made substantial improvements in identifying subrecipients at both the program and financial subrecipient monitoring levels for all grants. The CDBG grant is expended by multiple departments across the City and may include multiple CDBG years during any given audit year. FPS and IGR will work with all the departments expending the CDBG grant funds to ensure that all subrecipients are appropriately identified at the time the grant awards are made and to communicate that information to the appropriate FPS accountant and FPS staff responsible for financial monitoring. FPS and IGR staff will meet semi-annually to reconcile subrecipient information on all grants, and CDBG in particular, to ensure that at year end there is a consensus on the subrecipient payments during that calendar year.

Other corrective actions that will be implemented include the following:

- *Continue to provide training on compliance requirements and subrecipient monitoring through such activities as the Grant User's Group meetings, individual department meetings, webinars, etc.;*
- *Continue to assist departments in appropriately identifying subrecipient contracts;*
- *Create a grant contract form for departments to complete for all new grants entered into the financial system; and*
- *Work with FPS Contract Management to ensure that contracts for new federal funds include all of the elements required by the new Uniform Grant Guidance.*

Anticipated Completion Date:

September 30, 2015 and ongoing

ITEMS ARISING THIS YEAR

Finding 2014-004

Cash Management

Programs: U.S. Department of Health and Human Services' Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program (CFDA No. 93.505) and Temporary Assistance for Needy Families (CFDA No. 93.558)

Pass-Through Agency: Minnesota Department of Health

Criteria: The Affordable Care Act (ACA) Maternal, Infant, Early Childhood Home Visiting and Temporary Assistance for Needy Families programs award funding on a reimbursement basis. The 2014 OMB Circular A-133 Compliance Supplement, Part 3 C., Cash Management, states that, when entities are funded on a reimbursement basis, the costs for which reimbursement was requested should be paid prior to the date of the reimbursement request.

Condition: The City requested reimbursement from the Minnesota Department of Health for costs which had not already been paid by the City in the aggregate amount of $269,122 for the Affordable Care Act (ACA) Maternal, Infant, Early Childhood Home Visiting Program and $123,536 for Temporary Assistance for Needy Families.

Questioned Costs: None.

Context: Reimbursement requests were prepared based on invoices from subrecipients for services provided, not based on costs actually paid by the City.

Effect: Noncompliance with federal cash management requirements for a reimbursement grant program. Failure or lack of an internal control designed to ensure compliance with federal cash management procedures.

Cause: Procedures for preparing reimbursement requests do not include using the general ledger system, but invoices submitted by subrecipients for services provided. The review of the reimbursement requests did not include verifying costs were paid per the general ledger system.

Recommendation: We recommend the City develop improved control procedures to ensure compliance with federal cash management requirements and request reimbursement only for those costs that have been incurred and paid prior to requesting reimbursement from the Minnesota Department of Health.

Corrective Action Plan:

Name of Contact Person Responsible for Correction Action:

- *Controller*
- *Accounting Manager/Finance Manager*
- *Health Department Director of Administration*
- *Health Department Contract Managers*

Corrective Action Planned:

The Controller's Division and the Health Department staff have worked together to ensure that all future requests for reimbursement made for the U.S. Department of Health and Human Services' Affordable Care Act (ACA) Mother, Infant, Early Childhood Home Visiting Program (CFDA No. 93.505) and Temporary Assistance for Needy Families (CFDA No. 93.558) are reimbursements for invoices that have actually been paid. Accounting staff will review grant expenditures to verify that the costs have been paid prior to the date of the request. When this was discovered during the audit, there were immediate discussions with the Health Department, Director of Administration and the Contract Manager to ensure that this would not occur again on future reimbursement requests.

Anticipated Completion Date:

Completed February 2015

Finding 2014-005

Procurement, Suspension and Debarment

Programs: U.S. Department of Housing and Urban Development's Lead-Based Paint Hazard Control in Privately-Owned Housing (CFDA No. 14.900) and Healthy Homes Production Program (CFDA No. 14.913)

Pass-Through Agency: None.

Criteria: Federal Regulation 45 C.F.R. § 92.35 prohibits any state or agency from purchasing goods and services with federal money from vendors who have been suspended or debarred by the federal government.

Condition: The City entered into contracts with vendors for projects that were federally funded. For both programs, no verification was performed to determine that the vendor was not suspended or debarred at the time the contract was awarded. In addition, one contract under the Lead-Based Paint Hazard Control in Privately-Owned Housing program did not include the suspension or debarment language.

Questioned Costs: None.

Context: The contractors hired by the City to work on federally funded projects may have been suspended or debarred, yet payments were made to these contractors. The City's policy is to have suspension and debarment language included in federally funded contracts and to have the project managers check for suspension and debarment prior to the awarding of the contract.

Effect: The City did not ensure that its contractors on projects funded with these federal awards had not been suspended or debarred by the federal government.

Cause: Project managers were not aware of the requirement to check for suspension and debarment and believed that the Purchasing Department performed this check. The contract that did not have the suspension and debarment language included was due to oversight.

Recommendation: We recommend the City of Minneapolis review the written policies and procedures in place and communicate with project managers their responsibility to check for suspension and debarment. Procedures to ensure compliance with the requirements over suspension and debarment should be completed prior to awarding contracts to vendors on federally funded projects, and documentation should exist to support the monitoring of and compliance with this requirement.

<u>Corrective Action Plan</u>:

<u>Name of Contact Person Responsible for Correction Action</u>:

- *Controller*
- *Accounting Manager, Grants*
- *Director, Accounting and Financial Reporting*
- *Assistant Director, Procurement Division*

<u>Corrective Action Planned</u>:

The Controller's Division, in cooperation with the City's Procurement Division and the various City departments, will review with contract managers the requirement to check for suspension and debarment prior to awarding contracts to vendors on federally funded projects, and will develop procedures to ensure that in compliance with federal regulations and the requirements associated with the programs in each grant area, these vendors are checked for suspension and debarment prior to awarding federally funded contracts and there is documentation that it was done. In addition, the City Procurement Division will ensure appropriate language regarding suspension and debarment identification by the *vendor on a federally funded project is incorporated in contract language. Finally, the Accounting Manager, Grants will coordinate training on suspension and debarment requirements with the contract managers in the various City departments.*

Anticipated Completion Date:

September 30, 2015

PREVIOUSLY REPORTED ITEM RESOLVED

Cash Management (CFDA No. 20.205) (2013-003)

The City requested reimbursement for $687,310 in federal program costs before payments to the vendors were actually made.

Resolution

Based on a technical interpretation received from the Minnesota Division of the Federal Highway Administration, if the City is operating under an approved Delegated Contract Process (DCP) with the Minnesota Department of Transportation and the City has an approved payment process assuring the contractor is paid promptly upon receiving reimbursement of the federal share, requests for reimbursement can be made when the costs are incurred rather than paid. We verified the City has a DCP as well as an approved payment process in place.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. 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: Seventeen of the 164 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 improvements have been 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:

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 has gathered some momentum with vendors and City staff and 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 should also help in this regard.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the City's government-wide statement of financial position. The City's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in the City of Minneapolis' financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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*

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, 2014, 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 22, 2015. Our report includes a reference to other auditors who audited the financial statements of Meet Minneapolis as described in our report on the City of Minneapolis' 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 were not audited in accordance with *Government Auditing Standards*.

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 a deficiency in internal control over financial reporting that we consider to be a material weakness 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

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 2013-001, 2013-002, 2014-002, 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 Political Subdivisions*, 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 Political Subdivisions*, 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.

Other Matters

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the City, and it is reported for that purpose.

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 Political Subdivisions* 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

June 22, 2015

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
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 COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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) *Circular A-133 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, 2014. 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 $1,320,297 in federal awards during the year ended December 31, 2014, 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance with those requirements.

Basis for Qualified Opinions on Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program (CFDA No. 93.505) and Temporary Assistance for Needy Families (CFDA No. 93.558)

As described in the accompanying Schedule of Findings and Questioned Costs, the City of Minneapolis did not comply with requirements regarding CFDA #93.505 Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program and CFDA #93.558 Temporary Assistance for Needy Families as described in finding number 2014-004 for Cash Management. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

Qualified Opinions on Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program (CFDA No. 93.505) and Temporary Assistance for Needy Families (CFDA No. 93.558)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, 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 Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program and Temporary Assistance for Needy Families for the year ended December 31, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed an other instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-005. Our opinion on each major federal program is not modified with respect to this matter.

The City of Minneapolis' responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. The City of Minneapolis' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 OMB Circular A-133, 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 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-004 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-002, 2011-004, and 2014-005 to be significant deficiencies.

The City of Minneapolis' responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. The City of Minneapolis' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2014, 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 22, 2015, which contained unmodified opinions on those financial statements. We did not audit the financial statements of Meet Minneapolis, which is a component unit and 1 percent, negative 1 percent, and 10 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 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. The 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

June 22, 2015

CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Federal Grantor **Pass-Through Agency** **Grant Program Title**	**Federal CFDA Number**	**Expenditures**
U.S. Department of Housing and Urban Development		
Direct		
Community Development Block Grants/Entitlement Grant	14.218	$ 9,837,155
Emergency Solutions Grant Program	14.231	1,035,432
HOME Investment Partnerships Program	14.239	2,519,343
Housing Opportunities for Persons with AIDS	14.241	852,766
Neighborhood Stabilization Program - ARRA	14.256	1,161,555
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	1,138,645
Healthy Homes Demonstration Grants	14.901	704
Healthy Homes Production Program	14.913	978,834
Passed Through Minnesota Department of Health		
Asthma Interventions in Public and Assisted Multifamily Housing	14.914	4,299
Passed Through Minnesota Housing Finance Agency		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	322,393
Passed Through Hennepin County		
Lead Hazard Reduction Demonstration Grant Program	14.905	27,201
Total U.S. Department of Housing and Urban Development		**$ 17,878,327**
U.S. Department of the Interior		
Passed Through Minnesota Historical Society		
Historic Preservation Fund Grants-In-Aid	15.904	**$ 5,911**
U.S. Department of Justice		
Direct		
Joint Law Enforcement Operations (JLEO)	16.111	$ 48,463
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	250,508
Public Safety Partnership and Community Policing Grants	16.710	139,399
(Total Public Safety Partnership and Community Policing Grants CFDA 16.710 - $139,740)		
National Forum on Youth Violence Prevention	16.819	50,563
Equitable Sharing Program	16.922	115,509
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Block Grants	16.523	29,745
Violence Against Women Formula Grants	16.588	49,079
Public Safety Partnership and Community Policing Grants	16.710	341
(Total Public Safety Partnership and Community Policing Grants CFDA 16.710 - $139,740)		
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	12,688
Passed Through Hennepin County		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	295,622
Total U.S. Department of Justice		**$ 991,917**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Labor			
Passed Through Minnesota Department of Employment and Economic Development			
Incentive Grants - WIA Section 503	17.267	$	17,269
Workforce Investment Act (WIA) Cluster			
Workforce Investment Act Adult Program	17.258		551,371
Workforce Investment Act Youth Activities	17.259		962,039
Workforce Investment Act Dislocated Worker Formula Grants	17.278		778,008
Total U.S. Department of Labor		**$**	**2,308,687**
U.S. Department of Transportation			
Passed Through Metropolitan Council			
Federal Transit Cluster			
Federal Transit Capital Investment Grants	20.500	$	149,380
Federal Transit Formula Grants	20.507		170,620
Alternatives Analysis	20.522		358,933
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205		2,351,464
Clean Fuels	20.519		37,400
Passed Through Minnesota Department of Public Safety			
State and Community Highway Safety	20.600		24,445
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		89,099
National Priority Safety Programs	20.616		40,749
Total U.S. Department of Transportation		**$**	**3,222,090**
U.S. Department of Treasury			
Direct			
National Foreclosure Mitigation Counseling	21.000	**$**	**41,081**
National Endowment for the Arts			
Direct			
Promotion of the Arts - Grants to Organizations and Individuals	45.024	**$**	**92,444**
U.S. Environmental Protection Agency			
Direct			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	**$**	**750**
U.S. Department of Energy			
Direct			
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	**$**	**75,000**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Direct		
Maternal and Child Health Federal Consolidated Programs	93.110	$ 103,909
Healthy Start Initiative	93.926	670,094
Passed Through Hennepin County		
Teenage Pregnancy Prevention Program	93.297	285,377
PPHF: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	93.531	331,987
Temporary Assistance for Needy Families	93.558	178,531
(Total Temporary Assistance for Needy Families CFDA 93.558 - $1,213,376)		
Passed Through Minnesota Department of Employment and Economic Development		
Temporary Assistance for Needy Families	93.558	24,871
(Total Temporary Assistance for Needy Families CFDA 93.558 - $1,213,376)		
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	313,937
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	997,534
Temporary Assistance for Needy Families	93.558	1,009,974
(Total Temporary Assistance for Needy Families CFDA 93.558 - $1,213,376)		
Maternal and Child Health Services Block Grant to the States	93.994	817,014
Total U.S. Department of Health and Human Services		**$ 4,733,228**
U.S. Department of Homeland Security		
Direct		
Assistance to Firefighters Grant	97.044	$ 382,415
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	220,421
Emergency Management Performance Grants	97.042	30,000
Port Security Grant Program	97.056	238,346
Homeland Security Grant Program	97.067	635,609
Total U.S. Department of Homeland Security		**$ 1,506,791**
Total Federal Awards		**$ 30,856,226**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

This page was left blank intentionally.

CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Minneapolis, Minnesota. The City's reporting entity is defined in Note 1 to basic financial statements. This schedule does not include $1,320,297 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, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 basis of accounting used by the individual funds of the City of Minneapolis. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Workforce Investment Act (WIA) Cluster	$ 2,291,418
Federal Transit Cluster	320,000

5. Subrecipients

Of the expenditures presented in the schedule, the City of Minneapolis provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	$ 2,034,013
14.231	Emergency Solutions Grant Program	524,569
14.241	Housing Opportunities for Persons with AIDS	822,355
14.914	Asthma Interventions in Public and Assisted Multifamily Housing	1,469
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	94,660
16.819	National Forum on Youth Violence Prevention	20,000
16.588	Violence Against Women Formula Grants	12,098
17.258	Workforce Investment Act Adult Program	330,576
17.259	Workforce Investment Act Youth Activities	828,803
17.278	Workforce Investment Act Dislocated Worker Formula Grants	527,321
20.507	Federal Transit Formula Grants	170,620
20.205	Highway Planning and Construction	47,834
93.110	Maternal and Child Health Federal Consolidated Programs	38,049
93.926	Healthy Start Initiative	331,231
93.531	PPHF: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	158,157
93.558	Temporary Assistance for Needy Families	1,163,325
93.069	Public Health Emergency Preparedness	66,000
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	997,534
93.994	Maternal and Child Health Services Block Grant to the States	375,542
	Total	$ 8,544,156

6. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$ 27,799,243
Federal Fixed Price Contracts	
Equal Employment Opportunity Commission	(30,459)
Metro Medical Response System	(12,794)
Minnesota Family Investment Program	(94,387)
Criminal Investigations Division Sex Task Force	(4,388)
Drug Enforcement Administration Task Force	(52,994)
Minnesota Cyber Crime Task Force	(19,678)
Safe Streets Violent Crime Task Force	(207,257)
U.S. Marshalls OT - Predatory Offenders Unit	(12,888)
U.S. Marshalls OT May - Dec 2014	(11,338)
Joint Terrorism Task Force	(10,510)
Violent Crimes Investigation - ATF	(35,962)
Violent Crimes Investigation - HIS	(9,937)
Violent Crimes Investigation - ICE	(25,035)
Healthy Housing Solutions	(6,875)
Toward Zero Deaths Partners	(175,745)
Timing Differences Between Expenditures and Related Reimbursements	(26,258)
Expenditures occurring prior to 2014 but reimbursed in 2014	(809,181)
Federal Program Income	
Neighborhood Stabilization Program - ARRA	645,424
Healthy Homes Demonstration Grants	6,653
Lead-Based Paint Hazard Control	96,435
Community Development Block Grants/Entitlement Grants	3,104,745
HOME Investment Partnerships Program	749,412
Expenditures Per Schedule of Expenditures of Federal Awards	$ 30,856,226

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.