

**Minneapolis Public Schools
Special District No. 1**

**Reports on *Government Auditing
Standards, Uniform Guidance,
and Legal Compliance***

June 30, 2017



**Minneapolis Public Schools
Special District No. 1
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**Minneapolis Public Schools
Special District No. 1
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017**

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
School Breakfast Program	10.553	\$ 4,328,612
National School Lunch Program	10.555	11,050,996
Commodities Programs - Cash	10.555	170,711
Commodities Programs - Non Cash	10.555	1,146,816
Summer Food Service Program for Children	10.559	795,679
Total Child Nutrition Cluster		<u>17,492,814</u>
Cash in Lieu of Child and adult Care Food Program	10.558	1,447,184
Farm to School Grant Program	10.575	13,519
Fresh Fruits and Vegetables Program	10.582	720,236
Total U.S. Department of Agriculture		<u>19,673,753</u>
 National Endowment for the Arts		
Direct		
Promotion of the Arts Grants to Organizations and Individuals	45.024	<u>10,000</u>
 U.S. Department of Education		
Through Minnesota Department of Education		
Adult Education - Basic Grants to States	84.002	573,719
Title I, Part A	84.010	21,024,809
Title I, Part D	84.013	114,712
Special Education		
Special Education	84.027	8,901,274
Special Education - Preschool Grants	84.173	373,458
Total Special Education		<u>9,274,732</u>
Special Education - Grants for Infants and Families	84.181	258,072
Career and Technical Education - Basic Grants to States		
Carl Perkins Vocational Basic Grant - Career and Technical Education	84.048	12,317
Carl Perkins Vocational Basic Grant	84.048	543,727
Experiential Learning	84.048	2,300
Total Career and Technical Education - Basic Grants to States		<u>558,344</u>
Education for Homeless Children and Youth	84.196	73,135
21st Century Community Learning Centers	84.287	655,191

**Minneapolis Public Schools
Special District No. 1
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017**

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Education (Continued)		
Through Minnesota Department of Education (Continued)		
Special Education - State Personnel Development		
Federal SPDG	84.323	\$ 25,110
SPDG Autism	84.323	25,752
IDEA - State Program Improvement Grants	84.323	29,255
State Personnel Development Grant	84.323	115,717
Total Special Education - State Personnel Development		<u>195,834</u>
English Language Acquisition		
Title III, Part A - Immigrant Child	84.365	3,715
Title III, Part A - Language Enhancement	84.365	1,057,849
Total English Language Acquisition		<u>1,061,564</u>
Title II, Part A - Supporting Effective Instruction	84.367	3,313,176
School Improvement Grants	84.377A	2,957,791
Through Minnesota Office of Higher Education		
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	2,202,378
Through ServeMinnesota		
21st Century Community Learning Centers	84.287	188,380
Through Children's Defense Fund		
CDF Afterschool	84.287	160,758
Through Community Action of Minneapolis		
ABE EL Civics Competitive Allocation	84.002	50,000
Through Regents of Minnesota		
Education Research Partnership	84.305H	1,073
Through Metropolitan Educational Cooperative Service Unit		
Paraprofessional SEA	84.027A	1,338
Direct		
Indian Education - First Lessons	84.299	195,756
Fund for Improvement of Education - Transition Counseling	84.215	356,900
Indian Education Grants to Local Educational Agencies	84.060	330,167
School Improvement Grant Turnaround School Leaders Program	84.377B	1,065,252
Total U.S. Department of Education		<u>44,613,081</u>

**Minneapolis Public Schools
Special District No. 1
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017**

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Through City of Minneapolis		
Temporary Assistance for Needy Families	93.558	\$ 21,183
Corporation for National and Community Service		
Through Serve Minnesota		
AmeriCorps 15-16	94.006	66,327
AmeriCorps 16-17	94.006	<u>223,253</u>
Total Corporation for National and Community Service		<u>289,580</u>
 Total Federal Expenditures		 <u>\$ 64,607,597</u>

**Minneapolis Public Schools
Special District No. 1
Notes to the Schedule of Expenditures of Federal Awards**

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

NOTE 3 – NONMONETARY ASSISTANCE

Nonmonetary assistance is reported in this schedule at the fair market value of commodities received and disbursed for the USDA Commodities Program (CFDA #10.555).

NOTE 4 – PASS-THROUGH GRANT NUMBERS

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 5 – INDIRECT COST RATE

The District has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. The District elected to use the restricted 8 percent indirect cost rate established by the Minnesota Department of Education for Minneapolis Public Schools for the year ended June 30, 2017.



**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

To the School Board
Minneapolis Public Schools
Special District No. 1
Minneapolis, Minnesota

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of Minneapolis Public Schools, Special District No. 1 Minneapolis, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 30, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 in accordance with the Uniform Guidance, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.



Internal Control over Financial Reporting (Continued)

A deficiency in internal control 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs in accordance with the Uniform Guidance as Audit Findings 2013-001, 2013-002, and 2015-001 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control 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 in accordance with the Uniform Guidance as Audit Findings 2013-005 and 2013-006 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's 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*.

District's Response to the Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District'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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BerganKDV Ltd.

Minneapolis, Minnesota
November 30, 2017

**Report on Compliance for each Major Federal Program and on Internal
Control Over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

To the School Board
Minneapolis Public Schools
Special District No. 1
Minneapolis, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the compliance of Minneapolis Public Schools Special District No. 1, Minneapolis, Minnesota, with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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 District's 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 District's compliance.



Opinion on Each Major Federal Program

In our opinion, Minneapolis Public Schools Special District No. 1 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 major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs in accordance with the Uniform Guidance as item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in accordance with the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the District 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 District'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 the Uniform Guidance, 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 District'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 have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

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 did not identify any material weaknesses in internal control over compliance.



Report on Internal Control over Compliance (Continued)

A significant deficiency in internal control over compliance is a deficiency, or a 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 attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs in accordance with the Uniform Guidance as item 2017-001 to be a significant deficiency.

The District's response to internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 30, 2017, which contained unmodified opinions on those financial statements. 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 is presented for purposes of additional analysis as required by the Uniform Guidance 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BerganKDV Ltd.

Minneapolis, Minnesota
November 30, 2017

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Findings 2013-001, 2013-002, and 2015-001
• Significant deficiency(ies) identified?	Yes, Audit Finding 2013-005 and 2013-006
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes, Audit Finding 2017-001
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	Yes, Audit Finding 2017-001

Identification of Major Programs

CFDA No.:	10.553, 10.555, and 10.559
Name of Federal Program or Cluster:	Child Nutrition – Cluster
CFDA No.:	84.002 and 84.002A
Name of Federal Program or Cluster:	Adult Education – Basic Grants to States
CFDA No.:	84.027 and 84.173
Name of Federal Program or Cluster:	Special Education – Cluster
CFDA No.:	84.367
Name of Federal Program or Cluster:	Title II, Part A – Supporting Effective Instruction

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION I – SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

Identification of Major Programs (Continued)

Dollar threshold used to distinguish between type A and type B programs:	\$1,938,227
Auditee qualified as low risk auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2013-001 – Material Audit Adjustments

Criteria or Specific Requirement:

Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

Condition:

During our audit, material audit adjustments were proposed to ensure accurate financial reporting for state aid revenue and property tax revenue. In addition to these general ledger adjustments, reclassification of revenue by finance codes were also proposed.

Context:

This finding impacts the District's internal control over financial reporting.

Effect:

The District's financial position was misstated.

Cause:

A complete and accurate reconciliation of these revenue streams was not performed sufficiently.

Recommendation:

We recommend management review all accounts closely at year-end to detect and correct misstatements of balances.

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2013-001 – Material Audit Adjustments (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the finding.
2. Actions Planned in Response to Finding
The District will develop a process for ensuring that all standard year-end entries are completed before the auditors begin their fieldwork.
3. Official Responsible for Ensuring CAP
Director – Financial Systems
4. Planned Completion Date for CAP
Ongoing review and monitoring will take place throughout the year and at fiscal year-end.
5. Plan to Monitor Completion of CAP
The Chief Financial Officer will be monitoring the corrective action plan.

Audit Finding 2013-002 – Segregation of Duties

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

We noted during review of the District's internal controls that there is a lack of segregation of duties over certain processes. A lack of segregation occurs when there is an individual who has responsibility to perform multiple functions in four key areas: initiation/authorization, processing/recording, reconciling/reporting of financial data, and custody of assets.

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2013-002 – Segregation of Duties (Continued)

Condition: (Continued)

We noted lack of segregation of duties, to various degrees, in the following areas:

- Purchasing Process: Purchases that are made with a District-issued purchasing card (P-Card) are not always approved prior to payment and are sometimes not approved at all. We recommend either documentation of the approval by the principal or other administrator on the invoice, or that the principal or administrator use a password protected approval within the financial software to approve invoices and P-Card purchases online. We also noted some purchases did not have itemized supporting documentation. We recommend the District only allow purchases when itemized supporting documentation is maintained.
- Accounts Payable Process: The Accounts Payable Supervisor processes certain invoices, prepares the check run, and reconciles accounts payable. We recommend the District review this process and consider where these steps can be segregated.
- SAP User Rights: A number of employees have excessive access to Accounts Payable functions, Purchasing functions, and the general ledger. Also, there were instances identified where individuals have excessive access to perform many responsibilities within a process (e.g. create a vendor, enter an invoice for payment, and cut a check). There are also some employees who have the ability to make journal entries without review as a result of SAP user rights allocated to them. We recommend that the District review all user roles and the permissions granted to each role for appropriateness, taking into consideration adequate segregation of duties. The District should also validate that adequate compensating controls are implemented to review and detect irregular or fraudulent activity performed by users with elevated permissions. Additionally, individuals in a position of authority should have limited transactional ability within the SAP application to further prevent management override of controls.

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Cause:

Process flows and SAP user access rights are not designed to provide for proper segregation of duties in each area.

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2013-002 – Segregation of Duties (Continued)

Recommendation:

We recommend that the District continue to evaluate segregation of duties within the parameters of what the District considers to be cost beneficial and to review current procedures as staffing levels change.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the finding.

2. Actions Planned in Response to Finding

Purchasing Process – We have engaged a staff member who does P-Card administration and enforces approvals for the district. We already have a password protected process of approving P-Cards within SAP and going forward it will be enforced.

Accounts Payable Process – The Accounts Payable manager is responsible for reconciliation and the Accounts Payable Supervisor and her staff are responsible for invoice processing and check runs. The Accounts Payable Manager will not be responsible for invoice processing and check runs going forward.

SAP User Rights – The Interim CIO has been working on system audits and some corrective action has already been implemented on user rights and we will keep monitoring the process.

3. Official Responsible for Ensuring CAP

Purchasing Process – Director - Financial Systems.

Accounts Payable Process – Director – Financial Systems and Accounts Payable Manager.

SAP User Rights – Interim Chief Information Officer.

4. Planned Completion Date for CAP

The planned completion date for the CAP is June 30, 2018.

5. Plan to Monitor Completion of CAP

The Finance and IT Department management will be monitoring the corrective action plan.

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2013-005 – Payroll Process

Criteria or Specific Requirement:

The District should have a properly designed payroll process that ensures all employees are paid the correct amounts and are active employees in the District.

Condition:

Instances were noted where employees remained on the payroll after they had been terminated or took a leave of absence. There were also employees who were paid the wrong full-time employee percentage. Employees are then required to repay the District these overpayments. There were also instances during our testing where we could not verify employment information or verify the correct rate of pay. These deficiencies are result of ineffective communication between sites, the human resources department, and the payroll department. Effective communication is necessary to ensure the payroll department is receiving accurate information timely to make the necessary changes in the payroll system to ensure employees are being paid accurately. Employees involved in the recording and processing of payroll also had system access to change payroll input information. Documentation was not retained to verify that payroll specialists were reviewing and approving payroll edit reports.

Context:

This finding impacts the internal control for the payroll and human resources functions.

Effect:

Improper amounts could be paid to employees and employees could be paid after their employment has terminated.

Cause:

The termination or leave of absence of an employee is an individual school decision and the District's Human Resources department did not receive the paperwork from the individual school in several cases until months after the employee termination occurred. Human Resources is not aware of terminations or leave of absences until they receive the paperwork from the school.

Recommendation:

We recommend that the District evaluate its current policies and procedures related to the payroll process to ensure employees are paid the correct amounts. Additionally, we recommend that the District review the means of communication between the departments and implement procedures to ensure employees are removed from the payroll system within a reasonable time period when terminated or take a leave of absence.

**Minneapolis Public Schools
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Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2013-005 – Payroll Process (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the finding.

Currently, the HR department does not have an exit interview process. There is no systematic way for the information to go from the school site to the HR department for terminations. All terminations and LOAs should be handled at the district office and not at the school site.

2. Actions Planned in Response to Finding

We are currently in the process of implementing an HR/Payroll task force to redefine the HR to Payroll processes, identify inefficiencies, and recommend solutions to various overpayment issues. As part of this task force, we will recommend and implement an exit interview process that will get paperwork to the HR department in a timely basis. In addition, we will redefine the process and steps for LOAs.

3. Official Responsible for Ensuring CAP

Director – Financial Systems and Payroll Manager, HR.

4. Planned Completion Date for CAP

This will be an ongoing process and implementation will be in stages.

5. Plan to Monitor Completion of CAP

The Director of Finance Systems will be monitoring the corrective action plan.

Audit Finding 2013-006 – Budget Process

Criteria or Specific Requirement:

The District should use budgets within SAP to provide meaningful budget to actual reports and analyze variances on a regular basis.

Condition:

During our audit, we noted questions about adequate budget compliance communication with the board as well as accurate transcription of the budget between board approved documents and the general ledger.

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2013-006 – Budget Process (Continued)

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

Budget adjustments could be made without approval and budget to actual variances may be inaccurate.

Cause:

Budgets were not allocated to correct accounts.

Recommendation:

We recommend that the District improve its budget process within the finance system so that board approved budget adjustments reconcile within the finance system.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
The District uses budgets within SAP and provide meaningful budget to actual reports with variance analysis on a weekly basis to all schools and departments.
2. Actions Planned in Response to Finding
There were budget reallocations to move budget funds to grant funds that weren't detected. We have procedures in place to monitor this; however, during the year, there were reallocations the District missed.
3. Official Responsible for Ensuring CAP
Director of Budgets.
4. Planned Completion Date for CAP
This will be an ongoing process.
5. Plan to Monitor Completion of CAP
The Director of Finance Systems will be monitoring the corrective action plan.

Audit Finding 2015-001 – Preparation of Financial Statements and Related Note Disclosures

Criteria or Specific Requirement:

Statement on Auditing Standards (SAS) No. 112 states entities should be able to adequately prepare and/or understand their financial statements.

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

**Audit Finding 2015-001 – Preparation of Financial Statements and Related Note Disclosures
(Continued)**

Condition:

The District does not have a process, including the related internal control, established to provide for the internal preparation of the financial statements being audited. This deficiency could result in a misstatement to the financial statements that would not be prevented, or detected and corrected. Therefore, District management has requested BerganKDV, Ltd. draft the financial statements and accompanying notes to financial statements.

Context:

This finding impacts the District's ability to internally prepare the financial statements.

Effect:

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected, in a timely manner.

Cause:

District personnel have not had the training necessary to ensure financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

Recommendation:

Obtain additional training on accounting principles generally accepted in the United States of America to adequately apply them internally.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Administration will review current processes and related internal controls to determine if training could be provided to current employees to prepare the financial statements.
3. Official Responsible for Ensuring CAP
Director – Financial Systems
4. Planned Completion Date for CAP
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP
The Chief Financial Officer will be monitoring this CAP.

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding 2017-001 – Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559); Grant Period – Year Ended June 30, 2017; Department of Agriculture, passed through Minnesota Department of Education

Criteria or Specific Requirement:

Internal control that assures meal claims are properly submitted for reimbursement.

Questioned Costs: Known questioned costs determined through audit test work totaled \$1,153. Based on the sample size and the total population, this amount extrapolates to \$157,256.

Condition:

During our audit, we noted 2 out of 40 meal claim reimbursements tested were overreported to the state.

Context:

The District could be requesting higher reimbursements than they are entitled to.

Effect:

The reimbursements from the federal government could be overstated.

Cause:

District personnel did not ensure claims submitted for reimbursements matched what was reported in their system.

Recommendation:

Review claims submitted for reimbursement to ensure that they match what is reported in the District's system.

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding 2017-001 – Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559); Grant Period – Year Ended June 30, 2017; Department of Agriculture, passed through Minnesota Department of Education (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the finding.

The District does have proper controls in place but will review its policies and procedures again with Food Service.

2. Actions Planned in Response to Finding

Review policies and procedures with the Nutrition Department.

3. Official Responsible for Ensuring CAP

Food Service Director is responsible for CAP.

4. Planned Completion Date for CAP

June 30, 2018.

5. Plan to Monitor Completion of CAP

The Chief Financial Officer will be monitoring this CAP.

SECTION IV – PRIOR YEAR FINDINGS

Audit Finding 2016-001 – Title I, Part A (CFDA 84.010); Grant Period – Year Ended June 30, 2016; Department of Education, passed through Minnesota Department of Education

During our prior year audit, we noted 10 of 40 employees coded to the program did not have supporting documentation for lane changes.

CORRECTIVE ACTION TAKEN:

The District maintained supporting documentation for lane changes during the current year under audit.

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION IV – PRIOR YEAR FINDINGS (CONTINUED)

Audit Finding 2015-002 – Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559); Grant Period – Year Ended June 30, 2016; Department of Agriculture, passed through Minnesota Department of Education

During the prior year audit, we noted one of the 60 applicants tested was approved for reduced lunch when in actuality qualified for free lunch.

CORRECTIVE ACTION TAKEN:

District personnel ensured that all free and reduced applicants were properly placed into appropriate reimbursement categories during the current year.



Report on Legal Compliance

Independent Auditor's Report

To the School Board
Minneapolis Public Schools
Special District No. 1
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, each major fund, and the aggregate remaining fund information of Minneapolis Public Schools Special District No. 1, Minneapolis, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated November 30, 2017.

The *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, 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 uniform financial accounting and reporting standards for school districts. 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 District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the Schedule of Findings and Corrective Action Plans on Legal Compliance. 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 District's noncompliance with the above referenced provisions.

The purpose of this report is to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

BerganKDV Ltd.

Minneapolis, Minnesota
November 30, 2017

**Minneapolis Public Schools
Special District No. 1
Schedule of Findings and Corrective Action
Plans on Legal Compliance**

CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDING:

Audit Finding 2016-002 – Prompt Payment of Local Government Bills

Minnesota Statute 471.425 requires that school districts must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period. For school districts with governing boards that have regular meetings at least once a month, the standard payment period is within 35 days of the date of receipt.

During our audit, we noted that 13 out of 90 disbursements sampled were not paid within the standard payment period of 35 days.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the finding.
2. Actions Planned in Response to Finding
The District will ensure that payments are made promptly in accordance with *Minnesota Statute 471.425*.
3. Official Responsible for Ensuring CAP
The Director – Financial Systems is responsible for ensuring corrective action.
4. Planned Completion Date for CAP
This will be an ongoing process.
5. Plan to Monitor Completion of CAP
The Chief Financial Officer will be monitoring this corrective action plan.