

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

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

June 30, 2019

**Minneapolis Public Schools
Special District No. 1
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**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 did not elect to use the 10 percent de minimis indirect cost rate.

**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, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 11, 2019.

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 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, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 following deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness: audit finding 2019-001.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as audit finding 2019-002 to be a significant deficiency.

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.

Minneapolis, Minnesota
November 11, 2019

**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 U.S. *Office of Management and Budget (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, 2019. 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, 2019.

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.

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. 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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

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, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 11, 2019, 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.

Minneapolis, Minnesota
November 11, 2019

**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 Finding 2019-001
• Significant deficiency(ies) identified?	Yes, Audit Finding 2019-002
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?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No:	84.377
Name of Federal Program or Cluster:	School Improvement Grants
CFDA No:	84.287
Name of Federal Program or Cluster:	21st Century Community Learning Centers
CFDA No:	84.010
Name of Federal Program or Cluster:	Title I
Dollar threshold used to distinguish between type A and type B programs:	\$1,878,862
Auditee qualified as low risk auditee?	No

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

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2019-001 – 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.

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

- 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.
- Financial Closing Process: Certain employees record transactions and reconcile balances at the end of the year without evidence of review by another employee.

Context:

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

**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 2019-001 – Segregation of Duties (Continued)

Effect or Potential 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. Financial information could contain inaccurate information if reconciliations are not reviewed timely.

Cause:

Process flows and SAP user access rights are not designed to provide for proper segregation of duties in each area. Changes in roles and responsibilities of finance staff contributed to reconciliations of account balances not being reviewed timely.

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

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

Financial Closing Process – The process for the financial closing process will improve after changes in roles and responsibilities in the Finance Department.

3. Official Responsible for Ensuring CAP

SAP User Rights – Executive Director – IT

Financial Closing Process – Chief Financial Officer

4. Planned Completion Date for CAP

The planned completion date for the CAP is June 30, 2020.

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 2019-002 – Budget Reporting Process

Criteria or Specific Requirement:

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

Condition:

During our audit, we noted significant variances between budgeted amounts and actual amounts for expenditures by program and revenue classifications. Upon further investigation, amounts presented in the original budget and final budget did not appear to follow UFARS or GAAP reporting requirements. As a result, some budget amendments were proposed that were not necessary. There was also an error identified in budget to actual reports provided to the Board of Education during the year. This calls into question the District administration's and governing body's ability to adequately monitor the budget-to-actual results effectively throughout the year.

Context:

This finding impacts the internal control over the financial reporting process.

Effect or Potential Effect:

Budget to actual variances may be inaccurate.

Cause:

Budgets were not prepared in accordance with UFARS and GAAP.

Recommendation:

We recommend that the District improve its budget process and ensure UFARS and GAAP reporting requirements are followed.

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 budgeted amounts to financial statement classifications that were not consistent with UFARS or GAAP. We have procedures in place to monitor this; however, during the year, there were reallocations the District missed.

**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 2019-002 – Budget Reporting Process (Continued)

CORRECTIVE ACTION PLAN (CAP): (CONTINUED)

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 Chief Financial Officer will be monitoring the corrective action plan.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FINDINGS

**Audit Finding 2018-004 – Cash in Lieu of Child and Adult Care Food Program (CFDA 10.558)
Grant Period – Year Ended June 30, 2018; Department of Agriculture, passed through Minnesota
Department of Education**

During the prior year audit, we noted 3 out of 72 meal claim reimbursements tested were underreported to the state.

CORRECTIVE ACTION TAKEN:

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

Minnesota 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, 2019, and the related notes to financial statements, and have issued our report thereon dated November 11, 2019.

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*. 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.

Minneapolis, Minnesota
November 11, 2019

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

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Audit Finding 2018-005 – 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 the prior year audit, we noted invoices in our sample selection were not paid within the standard payment period.

CORRECTIVE ACTION TAKEN:

During the current year audit, invoices reviewed in our sample selection appeared to be paid within the standard payment period.