

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**REPORTS ON GOVERNMENT AUDITING  
STANDARDS, OMB *CIRCULAR A-133* – SINGLE  
AUDIT AND LEGAL COMPLIANCE**

**For the Year Ended June 30, 2014**

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**TABLE OF CONTENTS**

<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....</b>	<b>1</b>
<b>NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....</b>	<b>3</b>
<b>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 .....</b>	<b>4</b>
<b>REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 .....</b>	<b>6</b>
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB CIRCULAR A-133 .....</b>	<b>9</b>
<b>REPORT ON LEGAL COMPLIANCE .....</b>	<b>21</b>
<b>SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLAN ON LEGAL COMPLIANCE.....</b>	<b>22</b>

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2014**

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
<b>U.S. Department of Agriculture</b>		
Through Minnesota Department of Education:		
Child Nutrition Cluster:		
School Breakfast	10.553	\$ 3,243,412
National School Lunch Program	10.555	9,433,543
Commodities Programs	10.555	1,117,010
Summer Food Services Program	10.559	1,030,144
Total Child Nutrition Cluster		<u>14,824,109</u>
Fresh Fruits and Vegetables	10.582	693,383
Total U.S. Department of Agriculture		<u>15,517,492</u>
<b>U.S. Department of Labor</b>		
Through City of Minneapolis		
WIA Youth	17.259	29,944
<b>National Endowment For The Arts</b>		
Promotion of the Arts Grants to Organizations and Individuals	45.024	11,250
<b>U.S. Department of Education</b>		
Through Minnesota Department of Education:		
Federal Adult Basic Education	84.002	498,249
Title I, Part A	84.010	26,668,329
Title I for Neglected and Delinquent Children	84.013	109,232
Special Education Cluster:		
Special Education	84.027	8,837,349
IDEA Part B CIMP	84.027	70,121
Total Special Education--Grants to States		<u>8,907,470</u>
Special Education - Preschool	84.173	374,749
Total Special Education Cluster		<u>9,282,219</u>
Special Education - Infants and Families	84.181	453,527
Carl Perkins Career and Technical Education	84.048	10,670
Carl Perkins Vocational Basic Grant	84.048A	574,062
Total Career and Technical Education--Basic Grants to States		<u>584,732</u>
Title X, Part C	84.196	103,095
21st Century Community Learning Centers: Cohort 4	84.287	427,314
State Program Improvement Grants:		
Federal SPDG	84.323A	32,131
IDEA - State Program Improvement Grants	84.323A	352,975
Total Special Education--State Personnel Development		<u>385,106</u>

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2014**

Federal Agency/Pass Through Agency/Program Title	Number	Expenditures
<b>U.S. Department of Education (Continued)</b>		
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	\$ 300,000
Title III, Part A:		
Title III, Part A - Part A Immigrant Child	84.365	70,773
Title III, Part A - Language Enhancement	84.365	1,108,026
Total Title III, Part A		<u>1,178,799</u>
Title II, Part A - Improving Teacher Quality	84.367	3,408,792
ARRA Targeted Funds School Improvement Grants	84.388	597,141
ARRA Race-to-the-Top Early Learning Challenge Title I Prekindergarten	84.412	97,713
Through YMCA:		
Beacons 21st Century	84.287C	159,284
Through Community Action of Minneapolis:		
21st Century Cohort	84.287C	268,504
Total Twenty-First Century community Learning Centers		<u>427,788</u>
ABE EL Civics Competitive Allocation	84.002A	60,932
Direct:		
College Prep Program	84.299	296,579
First Lessons	84.299	262,336
Total Indian Education--Special Programs for Indian Children		<u>558,915</u>
Indian ED - Formula Grant	84.060	328,964
Total U.S. Department of Education		<u>45,470,847</u>
<b>U.S. Department of Health and Human Services</b>		
Through Minnesota Department of Education		
Active Recess Project	93.531	37,140
Through City of Minneapolis:		
Urban Initiative	93.994	20,751
Total Department of Health and Human Services		<u>57,891</u>
<b>Corporation For National and Community Service</b>		
Through Community Action of Minneapolis:		
AmeriCorps 12-13	94.006	23,781
AmeriCorps 13-14	94.006	302,220
Total Corporation for National and Community Service		<u>326,001</u>
<b>Department of Transportation</b>		
Through Minnesota Department of Education		
Safe Routes to School	20.200	14,609
2013-2015 Safe Routes	20.200	48,842
Total Highway Research and Development Program		<u>63,451</u>
Total Federal Expenditures		<u>\$ 61,476,876</u>

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2014**

**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 U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. 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).



*Expert advice. When you need it.<sup>SM</sup>*

**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 ending June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 17, 2014.

**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 OMB *Circular A-133*, 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 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 OMB *Circular A-133* as Audit Findings 2013-001 and 2013-002 to be material weaknesses.



A significant deficiency is a deficiency or 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 OMB *Circular A-133* as Audit Findings 2013-003, 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 OMB *Circular A-133*. 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 result 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.

A handwritten signature in cursive script that reads "Kern DeWenter, Vice Ltd".

KERN, DEWENTER, VIERE, LTD.  
Minneapolis, Minnesota  
December 17, 2014



*Expert advice. When you need it.<sup>SM</sup>*

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB  
CIRCULAR A-133**

**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 *Circular A-133 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, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 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 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 compliance of Minneapolis Public Schools Special District No. 1.





## **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, 2014.

## **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 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 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.

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 OMB *Circular A-133* as item 2013-009 to be a significant deficiency.

The District's response to internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. 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 OMB *Circular A-133*. Accordingly, this report is not suitable for any other purpose.



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

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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 17, 2014, 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 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 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.

A handwritten signature in cursive script that reads "Kern, Dewenter, Viere Ltd".

KERN, DEWENTER, VIERE, LTD.  
Minneapolis, Minnesota  
December 17, 2014

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2014**

**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 and 2013-002
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 2013-003, 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 that are not considered to be material weakness(es)?	Yes, Audit Finding 2013-009
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	No

**Identification of Major Programs**

CFDA No.:	10.553, 10.555, and 10.559
Name of Federal Program or Cluster:	Child Nutrition – Cluster
CFDA No.:	84.027 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 – Improving Teacher Quality
CFDA No.:	84.010
Name of Federal Program or Cluster:	Title I, Part A

**Identification of Major Programs (Continued)**

Dollar threshold used to distinguish between type A and type B programs:	\$ 1,844,306
Auditee qualified as low risk auditee?	No

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 2013-001 – Material Audit Adjustment**

*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, certain adjustments were proposed to management and made by management to adjust contracts payable.

*Context:*

This finding impacts the District's ability to rely on their financial system.

*Effect:*

Contracts payable was not properly reported at year-end.

*Cause:*

Contracts payable was not adjusted to actual at year-end.

*Recommendation:*

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

*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  
Deputy Chief Financial Officer and Controller.
4. Planned Completion Date for CAP  
Ongoing review and monitoring will take place. The Deputy CFO and Controller will work with accounts payable to ensure all year end adjustments are made.
5. Plan to Monitor Completion of CAP  
The Finance 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 OMB *CIRCULAR A-133*  
June 30, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**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.

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, or "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 on the invoice, or that the principal use a password protected approval within the financial software to approve invoices and "P-Card" purchases online.
- 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). 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.
- Billing Process for High Five Program: There is a lack of segregation of duties over billing procedures for the High Five Program. We recommend the District segregate duties between the individual who receives cash receipts, processes the payments and reconciles the billing. Additionally, we recommend another individual review the reconciliations and document that review with initials and the date.
- Billing Process for Facility Rental Program: There is a lack of segregation of duties over billing procedures for the public rental of the District's facilities. We recommend the District segregate duties between the individual who creates customer invoices, receives cash receipts, processes the payments and reconciles the billing. Additionally, we recommend another individual review the reconciliations and document that review with the initials and the date.

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 2013-002 – Segregation of Duties**

*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.

*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** – The Purchasing department continues to monitor and audit the P-Card approval process on a monthly basis. When approvals don't exist, the Purchasing Department does follow up on the purchaser and approver.

**Accounts Payable Process** – Due to the limited staff and complexity, the Accounts Payable Supervisor is only processing payments pertaining to Human Resources. All other processing is currently being performed by other personnel. Also, the reconciliations will be prepared by the Accounts Payable Supervisor and reviewed and signed by the Controller.

**SAP User Rights** – The interim Chief Information Officer and Deputy Chief Financial Officer will work on a plan to further the efforts to limit certain access to individuals.

**Billing Process for High Five Program and Facility Rental Program** – The Director of Finance/Controller will work with personnel in these areas to segregate duties and put the proper controls in place.

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 2013-002 – Segregation of Duties**

**CORRECTIVE ACTION PLAN (CAP):**

3. Official Responsible for Ensuring CAP  
Purchasing Process – Procurement Director and Director of Finance/Controller.  
  
Accounts Payable Process – Accounts Payable Manager and Deputy CFO.  
  
SAP User Rights – Interim Chief Information Officer and Deputy CFO.  
  
Billing Process for High Five Program and Facility Rental Program – Director of Finance/Controller and Community Education Financial staff.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2015.
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 OMB *CIRCULAR A-133*  
June 30, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 2013-003 – Minneapolis Kids Program**

*Criteria or Specific Requirement:*

Management is responsible for ensuring that the internal control structure provides proper segregation of duties.

*Condition:*

During our audit, we noted the following:

- Reconciliation of Credit Card Receipts: There is a lack of segregation of duties over the credit card receipt and recording process. We recommend the District segregate duties between the individual who receives credit card receipts, processes the payments and reconciles the billing. Additional, we recommend another individual review the reconciliations and document that review with initials and the date.
- IT User Access Rights: An employee who regularly records transactions to accounting software also has IT administrative rights and is able to add or remove IT user access rights without oversight. 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 by users with elevated permissions.

*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:*

Accounting procedures and IT user access rights are not designed to provide for segregation of duties in each area.

*Recommendation:*

We recommend that the District evaluate segregation of duties within the parameters of what the District considers to be cost beneficial.



**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 2013-003 – Minneapolis Kids Program**

*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

Reconciliation of Credit Card Receipts – The Finance Team will work with Minneapolis Kids personnel to segregate the duties between who receives credit card receipts, processes the payments and reconciles the billing.

IT User Access Rights – The District will review user rights and correct where appropriate.

3. Official Responsible for Ensuring CAP

Reconciliation of Credit Card Receipts – Director of Finance/Controller.

IT User Access Rights – Director of Finance/Controller and IT.

4. Planned Completion Date for CAP

Reconciliation of Credit Card Receipts – June 30, 2015.

IT User Access Rights – June 30, 2015.

5. Plan to Monitor Completion of CAP

The Finance Team 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 OMB *CIRCULAR A-133*  
June 30, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**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:*

During the audit, we noted the following:

- Numerous instances were noted where employees remained on the payroll after they had been terminated or took a leave of absence. Employees are then required to repay the District these overpayments. At June 30, 2014, there were 28 individuals who owed approximately \$ 20,605 to the District.
- There were instances noted during the year where one individual, with authority to approve time entries, entered and approved the same time entry and there was no evidence that the employees were present at the time of entry.
- Employees involved in the recording and processing of payroll also had system access to change payroll input information.
- One employee's PERA contributions were not made for seven months after the hire date and the current internal controls structure did not find the error for nine months after the hire date.
- 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 they have been terminated.

*Cause:*

An error was made in regards to the input of the employee's benefits and termination information. The District's current policies and procedures did not catch these errors timely.

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 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  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 2013-005 – Payroll Process**

*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 of Finance/Controller, Management Analyst and HR Personnel.

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 Finance Team and HR Team will be monitoring the corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**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 instances where budgets were not maintained and reconciled in the Finance system (SAP). For instance, the final budgeted amounts for the General Fund was not allocated to the correct accounts. Additionally, we noted occasions where employees had manually adjusted the budget within SAP.

*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. Additionally, the controls to safeguard against manual budget adjustments are not functioning properly.

*Recommendation:*

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

*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  
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 Finance Team will be monitoring the corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2014**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Audit Finding 2013-009 – Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559); Grant Period – Year Ended June 30, 2014; Department of Agriculture, passed through Minnesota Department of Education**

*Criteria or Specific Requirement:*

OMB Circular A-133 requires that the District verify and maintain documentation on the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals.

*Condition:*

The District did not maintain current-year documentation for three students who had been directly certified in the prior year.

*Context:*

This finding impacts the internal control for eligibility for the Child Nutrition Program.

*Effect:*

The District does not have documentation to support providing free meals to the student.

*Cause:*

The District did not follow its procedures for ensuring supporting documentation is retained.

*Recommendation:*

We recommend that the District review its policies and procedures to ensure that documentation of determination of free and reduced households is retained.

*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

January 31, 2015.

5. Plan to Monitor Completion of CAP

Director of Finance/Controller will monitor CAP.

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
June 30, 2014**

**SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS**

**Audit Finding 2013-007 - Title I Cluster (CFDA 84.010); Grant Period – Year Ended June 30, 2013; Passed Through Agency – Minnesota Department of Education**

During prior year testing of Title I non-payroll disbursements, it was noted that no documentation of approval was present on 6 of 25 disbursements tested.

**CORRECTIVE ACTION TAKEN:**

The District reviewed their policies, procedures, and workflow to ensure approval was present for disbursements tested for fiscal year 2014.

**Finding 2013-008 - Special Education Cluster (CFDA 84.027, 84.173); Grant Period – Year Ended June 30, 2013; Passed Through Agency – Minnesota Department of Education**

During prior year testing of Special Education non-payroll disbursements, no documentation of approval was noted on 4 out of 25 disbursements tested.

**CORRECTIVE ACTION TAKEN:**

The District reviewed their policies, procedures, and workflow to ensure approval was present for disbursements tested for fiscal year 2014.

**Audit Finding 2013-010 - Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559); Grant Period – Year Ended June 30, 2013; Department of Agriculture, passed through Minnesota Department of Education**

During prior year testing of the Child Nutrition cluster, two of the meal claims tested out of a total population of 12 claims did not match the District's records of meals served.

**CORRECTIVE ACTION TAKEN:**

The Finance Team and Food Service reviewed the policies and procedures to ensure meals claimed matched the District's records of meals served for FY 2014 for items tested.



Expert advice. When you need it.<sup>SM</sup>

## 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, 2014, and the related Notes to the Financial Statements, and have issued our report thereon dated December 17, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to *Minnesota Statutes Sec. 6.65*, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts and miscellaneous provisions. 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 Political Subdivisions*, except as described in the Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. 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 results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

KERN, DEWENTER, VIERE, LTD.  
Minneapolis, Minnesota  
December 17, 2014

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDING AND CORRECTIVE ACTION  
PLAN ON LEGAL COMPLIANCE  
June 30, 2014**

**CURRENT YEAR LEGAL COMPLIANCE FINDINGS:**

**Audit Finding 2013-011 – Prompt Payment of Local Government Bills – Section 471.425**

Minnesota statute 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 testing of disbursements, we noted a disbursement tested that was not paid by the terms of the contract or within the standard payment period. In addition, the late payments did not include interest.

**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 Budget Finance Specialist needs to ensure the school sites they support fully understand the District's purchasing policies.
3. Official Responsible for Ensuring CAP  
Deputy Chief Financial Officer.
4. Planned Completion Date for CAP  
This will be an ongoing process.
5. Plan to Monitor Completion of CAP  
The Finance Team will be monitoring this corrective action plan.



**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS  
ON LEGAL COMPLIANCE**

**June 30, 2014**

**CURRENT YEAR LEGAL COMPLIANCE FINDINGS:**

**Audit Finding 2014-001 – Conflicts of Interest**

*Minnesota Statutes 471.88, subd. 21* states a local school board may contract with a class of school district employees where the spouse of a school board member is a member of the class of employees contracting with the school board and the employee spouse receives no special monetary or other benefits that are substantially different from the benefits that other members of the class receive under the employment contract.

Under these statutes, a school board using this exception must have a majority of disinterested school board members vote to approve the contract, direct the school board member spouse to abstain from voting to approve the contract and publicly set out the essential facts of the contract at the meeting where the contract is approved.

During our audit, we noted one of the School Board Members did not abstain from voting on approval of a contract in which the School Board Member's spouse was a covered member of the bargaining group.

**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  
All School Board Members will abstain from voting on all contracts or transactions in which they are directly involved or have a controlling or financial interest.
3. Official Responsible for Ensuring CAP  
Deputy Chief Financial Officer.
4. Planned Completion Date for CAP  
This will be an ongoing process.
5. Plan to Monitor Completion of CAP  
The Finance Team will be monitoring this corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS  
ON LEGAL COMPLIANCE**

**June 30, 2014**

**CURRENT YEAR LEGAL COMPLIANCE FINDINGS:**

**Audit Finding 2014-002 – Subcontractor Verbiage**

Per *Minnesota Statutes* 471.425 subd. 4a, each contract between the government entity and a prime contractor must require the prime contractor to pay subcontractors within 10 days of receipt of payment from the government entity or pay interest at the rate of 1.5% per month.

During 2014 the District entered into contracts for its construction project; however, contracts did not contain the payment verbiage as required in *Minnesota Statutes* 471.425 subd. 4a.

**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 this verbiage is included in all future contracts.
3. Official Responsible for Ensuring CAP  
Deputy Chief Financial Officer.
4. Planned Completion Date for CAP  
This will be an ongoing process.
5. Plan to Monitor Completion of CAP  
The Finance Team will be monitoring this corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS  
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS  
ON LEGAL COMPLIANCE**

**June 30, 2014**

**PRIOR YEAR LEGAL COMPLIANCE FINDING:**

**Finding 2013-012 - Uniform Municipal and Contracting Law- Section 471.345**

Minnesota statute requires that for contracts over \$ 100,000, school districts solicit bids through a public notice. During prior year testing of bids, it was noted that the District solicited for bids through the District's website; however, no documentation was retained to support the two of the five bids selected for testing were actually solicited through the District's website.

**CORRECTIVE ACTION TAKEN:**

For items tested for the year ending June 30, 2014, documentation was retained to support solicitation of bids through a public notice.