

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

**SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS AND REPORTS OF SPECIAL CERTIFIED PUBLIC
ACCOUNTANTS AND OTHER REQUIRED REPORTS**

JUNE 30, 2013

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SPECIAL SCHOOL DISTRICT NO. 1
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SINGLE AUDIT AND OTHER REQUIRED REPORTS



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**INDEPENDENT AUDITORS' 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**

Board of Education
Special School District No. 1
Minneapolis Public Schools
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 Special School District No. 1 (the District), as of and for the year ended June 30, 2013, 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 19, 2013.

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 entity'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 as Finding 2013-001, 2013-002 and 2013-003 to be material weaknesses.

Internal Control Over Financial Reporting (Continued)

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 as Finding 2013-004, 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*.

Special School District No. 1's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 19, 2013



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Special School District No. 1
Minneapolis Public Schools
Minneapolis, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Special School District No. 1's (the District) compliance 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, 2013. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' 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 District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-009 and 2013-010. Our opinion on each major federal program is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the 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 were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-007 and 2013-008 to be material weaknesses.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-009 and 2013-010 to be significant deficiencies.

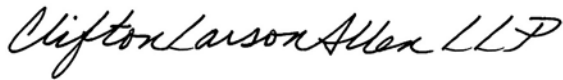
Report on Internal Control Over Compliance (Continued)

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 result 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 19, 2013, 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 19, 2013

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

FEDERAL AGENCY/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA #	Pass-Through	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM - CASH ASSISTANCE	10.553	MINNESOTA DEPT. OF EDUCATION	\$ 3,259,267
SCHOOL LUNCH PROGRAM:			
CASH ASSISTANCE	10.555	MINNESOTA DEPT. OF EDUCATION	9,186,028
NON-CASH ASSISTANCE (COMMODITIES)	10.555	MINNESOTA DEPT. OF EDUCATION	668,826
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN - CASH ASSISTANCE	10.559	MINNESOTA DEPT. OF EDUCATION	963,108
TOTAL CHILD NUTRITION CLUSTER			<u>14,077,229</u>
FRESH FRUIT AND VEGETABLES - CASH ASSISTANCE	10.582	MINNESOTA DEPT. OF EDUCATION	683,239
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>14,760,468</u>
U.S. DEPARTMENT OF LABOR			
WIA YOUTH	17.259	CITY OF MINNEAPOLIS	30,333
FAST TRACK ABE	17.226	MINNEAPOLIS ABE	68,300
TOTAL U.S. DEPARTMENT OF LABOR			<u>98,633</u>
NATIONAL ENDOWMENT FOR THE ARTS			
MINNESOTA RADIO BLUEGRASS REVIEW	45.024	N/A	10,664
U.S. DEPARTMENT OF EDUCATION			
ADULT EDUCATION - FEDERAL	84.002	MINNESOTA DEPT. OF EDUCATION	387,030
TITLE I CLUSTER:			
TITLE I AYP IMPROVEMENT GRANT II	84.010	MINNESOTA DEPT. OF EDUCATION	576,623
TITLE I, PART A	84.010	MINNESOTA DEPT. OF EDUCATION	23,264,581
TITLE I, HIGH 5	84.010	MINNESOTA DEPT. OF EDUCATION	3,680,258
TOTAL TITLE I CLUSTER			<u>27,521,462</u>
TITLE I FOR NEGLECTED AND DELINQUENT CHILDREN	84.013	MINNESOTA DEPT. OF EDUCATION	240,513
SPECIAL EDUCATION CLUSTER:			
IDEA CONTINUOUS IMPROVEMENT	84.027	MINNESOTA DEPT. OF EDUCATION	68,980
IDEA PART B SECTION 611	84.027	MINNESOTA DEPT. OF EDUCATION	7,768,359
MANDATORY CEIS SET-ASIDE	84.027	MINNESOTA DEPT. OF EDUCATION	588,277
IDEA - PRESCHOOL GRANT	84.173	MINNESOTA DEPT. OF EDUCATION	318,210
EARLY CHILDHOOD TITLE VI-B 437 PD	84.173	MINNESOTA DEPT. OF EDUCATION	13,320
TOTAL SPECIAL EDUCATION CLUSTER			<u>8,757,146</u>
CARL PERKINS VOCATIONAL BASIC GRANT	84.048	MINNESOTA DEPT. OF EDUCATION	555,548
INDIAN ED - FORMULA GRANT	84.060	N/A	346,022
EARLY INTERVENTION SERVICE FUNDS	84.181	MINNESOTA DEPT. OF EDUCATION	426,041
TITLE X, PART C MCKINNEY-VENTO HOMELESSNESS	84.196	MINNESOTA DEPT. OF EDUCATION	109,560

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

FEDERAL AGENCY/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA #	Pass-Through	Expenditures
U.S. DEPARTMENT OF EDUCATION (CONTINUED)			
21st CENTURY GRANTS			
21st CENTURY COMMUNITY LEARNING CENTERS: COHORT 4	84.287	MINNESOTA DEPT. OF EDUCATION	\$ 449,418
21st CENTURY COHORT	84.287	MINNESOTA DEPT. OF EDUCATION	229,352
BEACONS 21st CENTURY	84.287	YMCA	<u>182,871</u>
TOTAL 21st CENTURY GRANTS			861,641
STATE GRANTS FOR INNOVATIVE PROGRAM: MINNEAPOLIS DOORWAY			
	84.299	MINNESOTA DEPT. OF EDUCATION	490,109
STATE PROGRAM IMPROVEMENT GRANTS			
FEDERAL SPDG	84.323	MINNESOTA DEPT. OF EDUCATION	9,066
IDEA - STATE PROGRAM IMPROVEMENT GRANTS	84.323	MINNESOTA DEPT. OF EDUCATION	<u>548,389</u>
TOTAL SCHOOL IMPROVEMENT GRANTS CLUSTER			557,455
TITLE I, PART G ADVANCED PLACEMENT INCENTIVE PROGRAM			
	84.330	MINNESOTA DEPT. OF EDUCATION	94,677
GAINING EARLY AWARENESS AND READINESS FOR UNDERGRADUATE PROGRAMS			
	84.334	MINNESOTA DEPT. OF EDUCATION	357,220
ARTS IN EDUCATION MODEL GRANT			
	84.351	N/A	175,554
TITLE IIIA LEP			
	84.365	MINNESOTA DEPT. OF EDUCATION	1,248,959
TITLE II, PART A - TEACHER AND PRINCIPAL TRAINING AND RECRUITING			
	84.367	MINNESOTA DEPT. OF EDUCATION	4,564,524
SCHOOL IMPROVEMENT GRANTS CLUSTER			
ARRA - SCHOOL IMPROVEMENT GRANT SUPPLEMENT	84.388	MINNESOTA DEPT. OF EDUCATION	2,106,652
ARRA - TITLE I - SCHOOL IMPROVEMENT GRANTS	84.388	MINNESOTA DEPT. OF EDUCATION	<u>2,675,415</u>
TOTAL SCHOOL IMPROVEMENT GRANTS CLUSTER			4,782,067
ARRA - RACE TO THE TOP - EARLY LEARNING CHALLENGE			
TOTAL U.S. DEPARTMENT OF EDUCATION	84.412	MINNESOTA DEPT. OF EDUCATION	<u>18,192</u>
			51,493,720
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
ACTIVE RECESS PROJECT			
	93.531	CITY OF MINNEAPOLIS	49,159
HEALTH SVS - MFIP			
	93.558	HENNEPIN CTY	222,084
HEALTH CAREERS OPPORTUNITY PROGRAM			
	93.882	UNIVERSITY OF MINNESOTA	11,284
URBAN INITIATIVE			
	93.994	CITY OF MINNEAPOLIS	<u>20,062</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			302,589
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
AMERICORPS YOUTH SERVICES			
	94.006	N/A	<u>303,395</u>
TOTAL EXPENDITURES			<u><u>\$ 66,969,469</u></u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1:

The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Special School District No. 1.

NOTE 2:

The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 1 to the basic financial statements of the District.

NOTE 3:

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:

The pass-through entity identifying number is unknown.

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Special School District No. 1
Minneapolis Public Schools
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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Special School District No. 1 as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated December 19, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven main 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 other miscellaneous provisions. Our study included 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 questioned costs as items 2013-011 and 2013-012. However, our audit was not directed primarily toward obtaining knowledge of 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 District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Board of Education, management of the District, the Minnesota Department of Education, and the Office of the Minnesota State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 19, 2013

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Special School District No. 1.
2. Three material weaknesses and three significant deficiencies in internal control over financial reporting were disclosed during the audit of the financial statements of Special School District No. 1 and are reported in Part B of this schedule.
3. No instances of noncompliance material to the financial statements of Special School District No. 1 were disclosed during the audit.
4. Two material weaknesses and two significant deficiencies in internal control over compliance were disclosed during the audit of the major federal award programs and are reported in Part C of this schedule.
5. The independent auditors' report on compliance for the major federal award programs for Special School District No. 1 expresses an unmodified opinion.
6. The audit disclosed four findings which are required to be reported in accordance with Office on Management and Budget Circular A-133, Section .510(a)(1).
7. Two instances of noncompliance related to MN Legal Compliance were disclosed during the audit of the financial statements of Special School District No. 1 and are reported in Part D of this schedule.
8. The programs tested as major programs included:

U.S. Department of Agriculture – Child Nutrition Cluster:	
School Breakfast Program – Cash Assistance	CFDA #10.553
School Lunch Program:	
Cash Assistance	CFDA #10.555
Non-Cash Assistance (Commodities)	CFDA #10.555
Summer Food Service Program for Children – Cash Assistance	CFDA #10.559
U.S. Department of Education – Title I Cluster:	
Title I AYP Improvement Grant II	CFDA #84.010
Title I, Part A	CFDA #84.010
Title I, High 5	CFDA #84.010
U.S. Department of Education – Special Education Cluster:	
IDEA Continuous Improvement	CFDA #84.027
IDEA Part B Section 611	CFDA #84.027
Mandatory CEIS Set-Aside	CFDA #84.027
IDEA – Preschool Grant	CFDA #84.173
Early Childhood Title VI-B 437 PD	CFDA #84.173
U.S. Department of Education:	
ARRA - School Improvement Grant Supplement	CFDA #84.388
ARRA – Title I – School Improvement Grants	CFDA #84.388

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

A. SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

- 9. The threshold for distinguishing Types A and B programs was \$2,009,084.
- 10. Special School District No. 1 was not determined to be a low-risk auditee.

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING

CURRENT YEAR

Finding 2013-001

Material Weakness – Audit Adjustments

Criteria: 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 the performance of our audit procedures certain adjustments were proposed to management and made by management to adjust accrued liabilities, revenue and accounts receivable, and capital assets.

Cause: Accrued liabilities, revenue and accounts receivable, and capital assets were not adjusted to actual at year-end.

Effect: Accrued liabilities, revenue and accounts receivable, and capital assets were not properly reported at year-end.

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with the audit finding.

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.

Official Responsible for Ensuring CAP:

Deputy Chief Financial Officer and Controller

Planned Completion Date for CAP:

Ongoing review and monitoring will take place. The Deputy CFO and Controller will work with Food Service and Community Ed financial personnel to ensure proper cut offs for revenue recognition and the proper procedure for asset capitalization.

Plan to Monitor Completion of CAP:

The Finance Department management will be monitoring this corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

CURRENT YEAR (CONTINUED)

Finding 2013-002

Material Weakness – Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition: We noted during testing and review of the District's procedures 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 execute a transaction, has physical access to the related asset, and has responsibility or authority to record the transaction.

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

- **Purchasing Process:** School site requisitions for purchases are completed by the financial secretary at the school site. There is no documentation of approval of the requisition by the principal, though the principal may have given a verbal approval. Additionally, 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. We are aware that they have implemented a process for principal review of invoices near year-end.
- **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.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

CURRENT YEAR (CONTINUED)

Finding 2013-002 (Continued)

Condition (Continued):

- 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 initials and the date.

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

Effect: Controls are not in place to prevent or detect errors for these transaction flows of the District.

Recommendation: We recommend that the District continue to segregate duties as best it can within the limits of what the District considers to be cost beneficial and to review current procedures as staffing levels change.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with the finding.

Actions Planned in Response to Finding:

Purchasing Process – The Finance Department has developed a process for clerical support at school sites and departments to attach written authorization they receive from principals or department heads for the procurement of goods to be attached to the requisition in SAP. This was implemented in March 2013 in which three quarters of the fiscal year had past. 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 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 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 SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

CURRENT YEAR (CONTINUED)

Finding 2013-002 (Continued)

CORRECTIVE ACTION PLAN (CAP) (CONTINUED):

Official Responsible for Ensuring CAP:

Purchasing Process – Procurement Manager and Director of Finance/Controller

Accounts Payable Process – Accounts Payable Manager and Director of Finance/Controller

SAP User Rights – Chief Information Officer and Deputy CFO

Billing Process for High Five Program and Facility Rental Program – Director of Finance/Controller and Community Ed. financial staff

Planned Completion Date for CAP:

Purchasing Process – Ongoing

Accounts Payable Process – Ongoing

SAP User Rights – March 31, 2014

Billing Process for High Five Program and Facility Rental Program – February 28, 2014

Plan to Monitor Completion of CAP:

The Finance and IT Department management will be monitoring this corrective action plans.

Finding 2013-003

Material Weakness – Minneapolis Kids

Criteria: Management is responsible for ensuring that all revenue is recorded in the proper period and the internal control structure provides proper segregation of duties.

Condition: During our testing, we noted the following:

- **Revenue Cutoff Procedures:** The District has not implemented procedures to record revenue in the proper fiscal period. The current procedures used by the District are consistent with the cash basis of accounting for revenue, which is not consistent with U.S. generally accepted accounting principles (GAAP). We recommend the District implement procedures that are consistent with the accrual basis of accounting, in order to properly recognize revenue in the period it was earned.
- **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. Additionally, we recommend another individual review the reconciliations and document that review with initials and the date.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

CURRENT YEAR (CONTINUED)

Finding 2013-003 (Continued)

Condition (Continued):

- 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 performed by users with elevated permissions.

Cause: Accounting procedures and IT user access rights are not designed to provide for recording revenue in the proper period and IT segregation of duties in each area.

Effect: Controls are not in place to prevent errors in recording revenue in the proper period or detect errors for these transaction flows of the District.

Recommendation: We recommend that the District evaluate its procedures to record revenue in the proper period and continue to segregate duties as best it can within the limits of what the District considers to be cost beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with the audit finding.

Actions Planned in Response to Finding:

Revenue Cutoff Procedures – with the implementation on month end close the District does have revenue cutoff procedures in place. The Finance Team will work with Minneapolis Kids billing personnel to ensure procedures are followed.

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 were appropriate.

Official Responsible for Ensuring CAP:

Revenue Cutoff Procedures – Director of Finance/Controller

Reconciliation of Credit Card Receipts– Director of Finance/Controller

IT User Access Rights - Director of Finance/Controller and IT

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

CURRENT YEAR (CONTINUED)

Finding 2013-003 (Continued)

CORRECTIVE ACTION PLAN (CAP) (CONTINUED):

Planned Completion Date for CAP:

Revenue Cutoff Procedures – January 31, 2014

Reconciliation of Credit Card Receipts– January 31, 2014

IT User Access Rights – January 31, 2014

Plan to Monitor Completion of CAP:

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

Finding 2013-004

Significant Deficiency – Oversight of the Financial Reporting Process

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, changes in net position, cash flows, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP).

Condition: During our audit, we noted that the internal control system has been improved from prior years to include a process for preparing the annual financial statements and the related disclosures in accordance with GAAP. Management did purchase software to aid in preparation of the statements, and worked to prepare the statements this year in tandem with the auditors and with assistance from the auditors.

Cause: Management requested that CliftonLarsonAllen assist in preparing a draft of the audited financial statements, including the related footnote disclosures, while they worked to prepare the financial statements and learn the software and develop a process. This assistance was a result of management's cost benefit decision to use our accounting expertise rather than incurring an additional cost.

Effect: Departures from GAAP would not necessarily be detected by management.

Recommendation: We recommend that management prepare a full set of financial statements after developing the expertise with the software and financial statement model, along with related processes.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

CURRENT YEAR (CONTINUED)

Finding 2013-004 (Continued)

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with this finding. The District has tremendously improved its internal control in this area over past years.

Actions Planned in Response to Finding:

The Finance Team is continuing to learn the new software and is continuing to enhance monthly financial reporting during the fiscal to even further strengthen the internal control.

Official Responsible for Ensuring CAP:

Deputy CFO and Director of Finance/Controller

Planned Completion Date for CAP:

Implementing and fine tuning monthly financials will be ongoing.

Plan to Monitor Completion of CAP:

The Finance Team management will be monitoring this corrective action plan.

Finding 2013-005

Significant Deficiency – Payroll Process

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

Condition: During our testing, we noted the following:

- Of the 40 payroll disbursements tested, one employee's pay rate was not updated to reflect wage changes that were made in the middle of a payroll period.
- Numerous instances where the District paid employees the wrong amount of severance payments. During fiscal 2012-13, there were several significant overpayments and underpayments made; however, the net result was an underpayment of \$336.
- Numerous instances 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, 2013, there were close to 35 individuals who owed approximately \$18,100 to the District.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

CURRENT YEAR (CONTINUED)

Finding 2013-005 (Continued)

Cause: An error was made in regards to the input of the employee's pay rate and severance pay calculations. The District's current policies and procedures did not catch these errors.

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.

Effect: Improper rates could be paid to employees and employees could be paid after they have been terminated.

Recommendation: We recommend that the District evaluate its current policies and procedures related to the payroll process to ensure employees are paid for their correct rates and severance 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.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with this 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 not at the school site.

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, identifying 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.

Official Responsible for Ensuring CAP:

Director of Finance/Controller, Management Analyst and HR Personnel

Planned Completion Date for CAP:

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

Plan to Monitor Completion of CAP:

The Finance Team and HR Team will be monitoring this corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

B. FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

CURRENT YEAR (CONTINUED)

Finding 2013-006

Significant Deficiency – Budget Process

Criteria: 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 original and final budgeted amounts for the General Fund and the Debt Service Fund were not allocated to the correct accounts. Additionally, we noted numerous occasions where employees had manually adjusted the budget within SAP.

Cause: Budgets were not allocated to correct accounts. Additionally, the controls to safeguard against manual budget adjustments are not functioning properly.

Effect: Budget to actual variances could go undetected.

Recommendation: We recommend that the District improve its budget process within the finance system so that board approved budgets and amendments will reconcile to the finance system.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with this finding.

Actions Planned in Response to Finding:

There were three budget reallocations that weren't detected moving budget funds to grant funds. We have procedures in place to monitor this however, of the reallocations in excess of 5,000 during the year there were three reallocations the District missed.

Official Responsible for Ensuring CAP:

Director of Budgets

Planned Completion Date for CAP:

Ongoing

Plan to Monitor Completion of CAP:

Ongoing

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

CURRENT YEAR

Finding 2013-007

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

Criteria: A strong internal control environment should include controls surrounding federal program compliance requirements to ensure that the District is in compliance with all applicable requirements.

Condition: During our testing of Title I non-payroll disbursements, we noted no documentation of approval on 6 of 25 disbursements tested.

Cause: The District does not have procedures in place to ensure disbursements are approved.

Effect: Expenditures charged to the Title I program may not be allowable costs according to OMB A-133 if proper internal controls are not followed.

Recommendation: We recommend that the District review its policies and procedures surrounding cash disbursements to ensure that all disbursements are approved in accordance to the District's policies and the District is in compliance with allowable cost requirements.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with this finding.

Of the 25 disbursements tested totaling \$23,915.00 there were 6 without proper approval amounting to \$291.45.

Actions Planned in Response to Finding:

We will review our policies and procedures and workflow to ensure all disbursements are approved.

Official Responsible for Ensuring CAP:

Director of Finance/Controller and Purchasing Manager

Planned Completion Date for CAP:

January 31, 2014.

Plan to Monitor Completion of CAP:

The Finance Team will be monitoring this corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)**

CURRENT YEAR (CONTINUED)

Finding 2013-008

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

Criteria: A strong internal control environment should include controls surrounding federal program compliance requirements to ensure that the District is in compliance with all applicable requirements.

Condition: During our testing of Special Education non-payroll disbursements, we noted no documentation of approval on 4 out of 25 disbursements tested.

Cause: The District did not follow its policies and procedures to ensure disbursements are approved.

Effect: Expenditures charged to the Special Education program may not be allowable costs according to OMB A-133 if proper internal controls are not followed.

Recommendation: We recommend that the District review its policies and procedures surrounding cash disbursements to ensure that all disbursements are approved in accordance to the District's policies and the District is in compliance with allowable cost requirements.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with this finding.

The 25 transactions totaled a value of \$5,932.00 in which 4 valued at \$974.00 lacked proper approval. We do have the proper approval controls in place however, these 4 transactions were missed.

Actions Planned in Response to Finding:

We will review our policies and procedures and workflow to ensure all disbursements are approved.

Official Responsible for Ensuring CAP:

Director of Finance/Controller, Purchasing Manager and Special Education Staff

Planned Completion Date for CAP:

January 31, 2014

Plan to Monitor Completion of CAP:

The Finance Team and Special Education Staff will be monitoring this corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)**

CURRENT YEAR (CONTINUED)

Finding 2013-009

Significant Deficiency – 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

Criteria: OMB Circular A-133 requires that the District verify 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: During our testing of eligibility of free and reduced households, the District was not able to provide supporting documentation for 1 student. The student was receiving free meals during the fiscal year.

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

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

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with this finding.

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

Actions Planned in Response to Finding:

Review policies and procedures with the Nutrition Department.

Official Responsible for Ensuring CAP:

Food Service Director and Director of Finance/Controller

Planned Completion Date for CAP:

January 31, 2014

Plan to Monitor Completion of CAP:

Ongoing

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(CONTINUED)**

CURRENT YEAR (CONTINUED)

Finding 2013-010

Significant Deficiency – 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

Criteria: OMB Circular A-133 requires that all claims for reimbursement must be supported by accurate meal counts and records indicating the number of meals served by category and type.

Condition: During our testing of the Child Nutrition cluster, we noted that 2 of the meal claims tested out of a total population of 12 claims did not match the District's records of meals served.

Cause: The District was not aware that some claims were being rejected by the Minnesota Department of Education and did not adjust their records accordingly.

Effect: The District's claims for reimbursement were lower than the District's records of meals served.

Recommendation: We recommend the District review its policies and procedures to ensure that meal claims match their records of meals served.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with the finding.

Actions Planned in Response to Finding:

The Finance Team and Food Service will review its policies and procedures to ensure meals claimed match their records of meals served.

Official Responsible for Ensuring CAP:

Director of Finance/Controller and Food Service Director

Planned Completion Date for CAP:

February 28, 2014

Plan to Monitor Completion of CAP:

The Finance Team will be monitoring this corrective action.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

Finding 2013-011

Prompt Payment of Local Government Bills- Section 471.425

Finding: 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 7 of the 40 disbursements tested were not paid within the required payment period.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with the finding.

Actions Planned in Response to Finding:

The Budget Finance Specialist need ensure the school sites they support fully understand the Districts purchasing policies.

Official Responsible for Ensuring CAP:

Deputy Chief Financial Officer

Planned Completion Date for CAP:

This will be an ongoing process

Plan to Monitor Completion of CAP:

The Finance Team will be monitoring this corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE (CONTINUED)

Finding 2013-012

Uniform Municipal and Contracting Law- Section 471.345

Finding: Minnesota statute requires that for contracts over \$100,000, school districts solicit bids through a public notice. During our testing of bids, we noted that the District solicited for bids through the District's website; however, no documentation was retained to support the 2 of the 5 bids selected for testing were actually solicited through the District's website.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with the finding. The Purchasing Department is currently printing all bids from the website and placing the print shots in the bid documentation files effective October 29, 2012. These two bids were prior to October 29th.

Actions Planned in Response to Finding:

No action plan required

Official Responsible for Ensuring CAP:

No action plan required

Planned Completion Date for CAP:

No action plan required

Plan to Monitor Completion of CAP:

No action plan required

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

E. PRIOR YEAR FINDINGS

MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding 2012-5

Condition: During our testing of Title I non-payroll disbursements, the District was not able to provide supporting documentation, such as a receipt of purchase, for 1 out of the 25 disbursements selected for testing. The disbursement was for \$149.99.

Recommendation: We recommend that the District review its policies and procedures surrounding cash disbursements to ensure that supporting documentation, such as receipts of purchase, for Title I expenditures are retained in accordance to the District's policies and the District is in compliance with allowable cost requirements.

Current Status: During our testing, we noted all Title I program disbursements tested contained proper supporting documentation.

Finding 2012-6

Condition: During our testing of the Special Education Cluster, we noted 1 out of the 25 payroll disbursements tested was signed 10 months after the time period worked.

Recommendation: We recommend the District review its policies and procedures to ensure that all employees who work on a Federal award complete the time and effort reporting in a timely manner.

Current Status: During our testing, we noted all Special Education time and effort documentation was completed in a timely manner.

Finding 2012-7

Condition: During our testing, we noted the District did not follow its purchasing policy for checking the EPLS nor adding a certification clause to contracts for vendors or contractors paid through Federal dollars in excess of \$25,000. We did not note any instances of contracting with suspended or debarred vendors in our testing.

Recommendation: We recommend that the District review its policies and procedures to ensure that documentation over review of the EPLS is maintained and that a certification clause is added to all District contracts where distribution of Federal dollars in excess of \$25,000 to vendors or contractors occurs.

Current Status: During our testing, we noted all contracts for vendors or contractors paid through Federal dollars contained a certification clause.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

E. PRIOR YEAR FINDINGS (CONTINUED)

MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

Finding 2012-8

Condition: During our testing of the Child Nutrition cluster, we noted 1 out of 21 students tested was verified as being eligible for a reduced price meal; however, the student's status was stated as eligible for a free meal in the meal system.

Recommendation: We recommend the District review its policies and procedures to ensure that all changes are made to eligibility status based on documentation and other information obtained through the verification process.

Current Status: During our testing, we noted that the District did not make any incorrect eligibility determinations; however, we did note that the District was unable to provide supporting documentation for 1 out of 40 students tested. See finding 2013-009.

EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS

INDEPENDENT AUDITORS' REPORT ON EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS

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

Report on the Financial Statement

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Special School District No. 1 (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the regulatory basis of accounting described in the note to the financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in the note to the financial statements, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statements are prepared by the District in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in the note to the financial statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

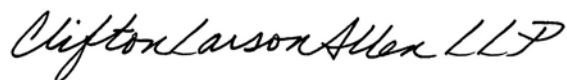
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of the District as of June 30, 2013, or changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

We were unable to audit cash receipts because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. We were unable to obtain sufficient appropriate audit evidence about the completeness of cash receipts by other auditing procedures.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds of the District as of June 30, 2013, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statements.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 19, 2013



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CliftonLarsonAllen LLP
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS**

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

In planning and performing our audit of the statement of cash receipts and disbursements of the extracurricular student activity funds of Special School District No. 1 (the District) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing 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 entity'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 discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material weaknesses

We consider the following deficiency as finding 2013-001 in the District's internal control to be a material weakness.

This communication is intended solely for the information and use of management, the School Board, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 19, 2013

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2013**

Elementary Schools	Balance June 30, 2012	Receipts and Transfers In	Disbursements and Transfers Out	Balance June 30, 2013
ANDERSEN ELEMENTARY	\$ 9,210	\$ 38,361	\$ 36,091	\$ 11,480
ANISHNABE (opened Fall03-part of Four Winds)	1,373	754	1,342	785
ARMATAGE	14,712	22,877	21,050	16,539
BANCROFT	825	-	825	-
BARTON	12,202	169,500	169,500	12,202
BETHUNE	1	-	1	-
BRYN MAWR PRIMARY	6,703	-	6,703	-
BURROUGHS	1,883	52,070	53,242	711
CITYVIEW	1,090	1,355	2,154	291
DOWLING	11,765	24,758	25,231	11,292
EMERSON SPANISH IMMERSION	5,395	13,523	11,424	7,494
FIELD	32,823	113,761	104,250	42,334
FOLWELL	8,768	68,097	53,346	23,519
HALE	3,082	9,458	10,779	1,761
HALL	883	-	827	56
JEFFERSON	394	-	394	-
KEEWAYDIN	2,441	10,027	10,327	2,141
KENNY	11,067	36,809	33,580	14,296
KENWOOD	8,108	36,118	34,855	9,371
LAKE HARRIET LOWER CAMPUS	5,939	8,098	8,477	5,560
JENNY LIND	611	-	611	-
LORING	11,671	11,499	17,355	5,815
LUCY CRAFT LANEY/CLEVELAND	-	1,784	1,656	128
LYNDALE	4,380	23,259	22,003	5,636
MARCY	14,562	40,433	44,365	10,630
NORTHROP	2,453	18,263	16,630	4,086
PRATT	371	-	371	-
RAMSEY	-	10,143	7,026	3,117
SEWARD	9,553	59,639	58,829	10,363
SHERIDAN	6,454	24,888	22,530	8,812
SULLIVAN	2,971	5,926	6,261	2,636
WAITE PARK	861	9,965	9,993	833
WENONAH	1,906	180	180	1,906
WHITTIER	1,282	7,792	8,208	866
WINDOM	4,741	38,667	40,060	3,348
Subtotal Elementary Schools	200,480	858,004	840,476	218,008

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2013**

Secondary Schools	Balance June 30, 2012	Receipts and Transfers In	Disbursements and Transfers Out	Balance June 30, 2013
ANTHONY	\$ 6,531	\$ 45,860	\$ 39,751	\$ 12,640
ANWATIN	17,654	13,395	17,789	13,260
EDISON	49,692	78,085	76,625	51,152
HENRY	46,806	134,161	148,839	32,128
WELLSTONE INT'L (FORMERLY ICALL)	924	827	614	1,137
NORTHEAST	4,009	14,972	11,720	7,261
NORTH	22,918	20,030	28,666	14,282
OLSON MIDDLE	5,862	1,231	2,482	4,611
ROOSEVELT	18,708	26,803	27,612	17,899
SANFORD	21,289	92,377	97,738	15,928
SOUTH	160,613	243,527	270,392	133,748
SOUTHWEST	153,635	496,712	500,318	150,029
TRANSITION PLUS	4,756	18,484	17,609	5,631
WASHBURN	85,412	335,560	320,946	100,026
Subtotal Secondary Schools	<u>598,809</u>	<u>1,522,024</u>	<u>1,561,101</u>	<u>559,732</u>
Total All Schools	<u>\$ 799,289</u>	<u>\$ 2,380,028</u>	<u>\$ 2,401,577</u>	<u>\$ 777,740</u>

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
NOTES TO EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
JUNE 30, 2013**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Student activity account transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the student, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fundraising events. These funds are not included in the combined financial statements of Special School District No. 1, and are restricted for the student activity uses, as established.

The accounts of the student activity funds are maintained, and the accompanying financial statement has been prepared, on the regulatory basis of accounting as described in the *Manual for Activity Fund Accounting* issued by the Minnesota Department of Education. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

NOTE 2 DEPOSITS AND INVESTMENTS

All cash and investments of the student activity accounts are held in demand accounts.

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance.

Authorized collateral includes certain state or local government obligations, obligations of the U.S. Treasury and U.S. agencies, irrevocable standby letter of credit issued by the Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard & Poor's Corporation, and certificates of deposit insured by the FDIC.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution (as agent for the District) other than that furnishing the collateral.

All student activity bank deposits are covered by deposit insurance or are collateralized by securities held by the District or its Agent in the District's name.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH THE MANUAL FOR ACTIVITY FUND ACCOUNTING**

School Board, Advisers, and Students
Special School District No. 1
Minneapolis Public Schools
Minneapolis, Minnesota

Report on Compliance

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the Student Activity Funds of Special School District No. 1 (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated December 19, 2013. We expressed an adverse opinion on accounting principles generally accepted in the United States of America because the financial statements are prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

The *Manual for Activity Fund Accounting* (MAFA), issued by the Minnesota Department of Education, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

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 *Manual for Activity Fund Accounting*, except as described in the schedule of findings and corrective action for Extracurricular Student Activity Accounts as findings 2013-001 through 2013-005. 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 District's responses to the findings identified in our audit are described in the accompanying schedule of findings and corrective action. We did not audit the District's responses and, accordingly, we express no opinion on them.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Manual for Activity Fund Accounting* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 19, 2013

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION
YEAR ENDED JUNE 30, 2013**

MINNESOTA LEGAL COMPLIANCE FINDINGS FOR STUDENT ACTIVITY ACCOUNTS

2013-001

Procedures to Provide Assurance that All Cash Collections Are Recorded in the Accounting Records

Condition – The District has not established accounting procedures to provide assurance that all cash collections are recorded in the accounting records. The District records student activity revenues on the cash basis and does not have an accounting system and internal controls in place to ensure all student activity revenues and receipts have been properly recorded. The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the District's internal controls.

Effect – The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the District's internal controls.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

The District agrees with the finding.

Actions Planned in Response to Finding:

The District records student activity revenues on the cash basis and does not have an accounting system and internal controls in place to ensure student activity revenues and receipts have been properly recorded. In consideration of the guiding principles under which the student activity funds were established, the District provides opportunities for substantial student involvement in the selection, direction, and management of fundraisers. This student involvement, although of great value to those students, is an inherent internal control weakness. The District has determined the costs of implementing controls over fundraising activities, in light of the multiple locations and times of these activities, outweigh the benefits; therefore, the District will continue to rely on activity fund advisors for appropriate oversight and supervision, but will not, at this time, implement procedures and policies to provide for detail internal control processes at each fund raising location and activity.

Official Responsible for Ensuring CAP:

The District's Controller is the school official responsible for carrying out the corrective action plan.

Planned Completion Date for CAP:

The CAP will be carried out as part of each annual audit, therefore, the CAP is ongoing.

Plan to Monitor Completion of CAP:

The corrective action plan will be monitored each year by the District financial staff and School Board as a part of the process of developing the annual audit report.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION (CONTINUED)
YEAR ENDED JUNE 30, 2013**

**MINNESOTA LEGAL COMPLIANCE FINDINGS FOR STUDENT ACTIVITY ACCOUNTS
(CONTINUED)**

2013-002

Tracking by Fund

Condition – At the District level, Student Activity funds are only tracked by school and not by underlying use. Therefore, review of propriety of funds at an individual level is not feasible.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with the finding.

Actions Planned in Response to Finding:

The District is currently working to create a new policy and procedures manual for school sites to follow. The manual will provide needed guidance for school sites on the appropriate documentation required for student activity account transactions, as well as guidance on how funds should be tracked and what activities should be included with the Student Activities accounts.

Official Responsible for Ensuring CAP:

Deputy Chief Financial Officer and Director of Finance/Controller

Planned Completion Date for CAP:

April 30, 2014

Plan to Monitor Completion of CAP:

The Finance team will be monitoring this corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION (CONTINUED)
YEAR ENDED JUNE 30, 2013**

**MINNESOTA LEGAL COMPLIANCE FINDINGS FOR STUDENT ACTIVITY ACCOUNTS
(CONTINUED)**

2013-003

Improper Student Activity Accounts

Condition – During our testing of student activity accounts, we noted that the District maintained accounts as part of its student activity fund which did not meet the state's guideline for inclusion as a student activity account in accordance with the Manual of Fund Accounting (MAFA) as they were not under the control of students.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with the finding.

Actions Planned in Response to Finding:

The District is currently working to create a new policy and procedures manual for school sites to follow. The manual will provide needed guidance for school sites on the appropriate documentation required for student activity account transactions, as well as guidance on how funds should be tracked and what activities should be included with the Student Activities accounts.

Official Responsible for Ensuring CAP:

Directors of Financial Systems and Financial Reporting

Planned Completion Date for CAP:

April 30, 2014

Plan to Monitor Completion of CAP:

The Finance team will be monitoring this corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION (CONTINUED)
YEAR ENDED JUNE 30, 2013**

**MINNESOTA LEGAL COMPLIANCE FINDINGS FOR STUDENT ACTIVITY ACCOUNTS
(CONTINUED)**

2013-004

Deposits

Condition – During our testing of cash receipts to Student Activity accounts, we noted instances where deposits were done on a monthly basis. We recommend deposits be done in a more timely manner, such as weekly, to reduce the likelihood that fraud may occur.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with the finding.

Actions Planned in Response to Finding:

The District is currently working to create a new policy and procedures manual for school sites to follow. The manual will provide needed guidance for school sites on the appropriate documentation required for student activity account transactions, as well as guidance on how funds should be tracked and what activities should be included with the Student Activities accounts. The manual will also stipulate requirements for monthly account reconciliations. Adherence to these policies and procedures will be monitored by the Finance Team, specifically the Budget Finance Specialists assigned to each school.

Official Responsible for Ensuring CAP:

Deputy Chief Financial Officer and Director of Finance/Controller

Planned Completion Date for CAP:

April 30, 2014

Plan to Monitor Completion of CAP:

The Finance team will be monitoring this corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL SCHOOL DISTRICT NO. 1
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION (CONTINUED)
YEAR ENDED JUNE 30, 2013**

**MINNESOTA LEGAL COMPLIANCE FINDINGS FOR STUDENT ACTIVITY ACCOUNTS
(CONTINUED)**

2013-005

Gaps in Receipt Numbers

Condition – During our walkthrough of controls at three school sites, we noted that one school was not issuing receipts in the pre-numbered sequence. This resulted in multiple gaps in the pre-numbered receipt sequence. We recommend school sites use the pre-numbered receipts in order to strengthen internal controls and reduce the likelihood that fraud may occur.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

The District agrees with the finding.

Actions Planned in Response to Finding:

The District is currently working to create a new policy and procedures manual for school sites to follow. The manual will provide needed guidance for school sites on the appropriate documentation required for student activity account transactions, as well as guidance on how funds should be tracked and what activities should be included with the Student Activities accounts. The manual will also stipulate requirements for monthly account reconciliations. Adherence to these policies and procedures will be monitored by the Finance Team, specifically the Budget Finance Specialists assigned to each school.

Official Responsible for Ensuring CAP:

Deputy Chief Financial Officer and Director of Finance/Controller

Planned Completion Date for CAP:

April 30, 2014

Plan to Monitor Completion of CAP:

The Finance team will be monitoring this corrective action plan.