

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT
PREPARED AS A RESULT OF THE AUDIT
OF THE FINANCIAL AFFAIRS OF THE

**LIBRARY BOARD OF THE
CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

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**LIBRARY BOARD OF THE
CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

Year Ended December 31, 2007



Management and Compliance Report

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**LIBRARY BOARD OF THE CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

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**LIBRARY BOARD OF THE CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Subsequent to the year ended December 31, 2006, actions were taken by the Minneapolis Library Board of Trustees, the Minneapolis City Council, the Hennepin County Board of Commissioners, the State Legislature, and the Governor to approve a merger of the Library Board with the Hennepin County Library system. Based on these actions, the year ended December 31, 2007, was the final year that the financial activities of the Minneapolis Library Board were included as a component unit of the City of Minneapolis. As a result, we recognize that our findings and recommendations listed below may have to be viewed by Hennepin County officials in the context of looking at the merged operations of the two library systems when determining an appropriate resolution of the findings.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-3 Parking Ramp Operations

The following matters remained unresolved from the previous audit report involving the parking ramp operations:

- There is no independent comparison of the daily collection reports to the deposits made with the City's Central Counting facility. Daily collections are recorded on a spreadsheet and reconciled to deposits by the same individual who collects the funds from the pay stations.
- For parkers who pay on a monthly basis and those whose tickets are validated by businesses, the revenues from these sources are deposited into the operator's bank account, not the Library Board's account. Settlements to the Library Board of these funds are performed monthly by the operator. Also, no independent reconciliations are performed between these deposits and the records maintained to account for these transactions.
- Reconciliations are not performed between reports generated on credit card sales and funds received by the City Treasury Division from the sales.

- Recordings in the general ledger of monthly amounts received from or paid to the operator were based on net amounts--the differences between revenues deposited to the operator's bank account and the operator expenses. Operating revenues and expenses of the parking ramp should be recorded at their gross amounts in the general ledger. At the Library Board's request, we assisted in preparing adjusting entries for the parking ramp financial statements.

We recommend that Hennepin County officials review these findings to determine if they could affect the County's current operation of the Minneapolis parking facility. We also recommend that consideration be given to the practice by the operator of depositing monthly and validation revenues into its own bank account. All revenues should be deposited with the County as they are collected, and the operator should bill the County for its services.

Client's Response:

The Library is working on improving the internal controls over the Parking Ramp. Some internal control changes have already taken place in 2008.

- *A reconciliation is being performed by an individual rather than the same individual who collects the funds from the pay stations.*
- *The monthly and validated parker revenue is managed by the Parking Operator's Corporate Office. We will work with them on depositing the monthly and validated parker revenue directly into Hennepin County's bank account. Also, independent reconciliation is being performed since May 2008.*
- *As of May 2008, reconciliations are being performed between reports generated on credit card sales and funds received by the Treasury Division.*
- *Beginning in May 2008, Hennepin County started receiving a check for the gross sales that were received by the operator.*

06-4 Fund Accounting for Special Revenue Fund

The Private Contributions Special Revenue Fund has existed under a special law that allows the Library Board to collect private donations and invest those funds outside of the control of the City's Treasury Division. Because of their unique nature, it has been the practice to exclude these financial transactions from the City's general ledger. However, we believe the accounting activities of this fund should be maintained in a general ledger in order to retain a more formal and accurate understanding of the fund's activities. We previously recommended that the Library Board consider establishing a fund in the City's general ledger system to account for the Private Contributions Fund. However, this did not occur in 2007.

We now recommend that Hennepin County officials consider including the Private Contributions Fund in the County's general ledger.

Client's Response:

The Minneapolis Public Library's Private Contributions Special Revenue Fund is now part of the Hennepin County Library's Operating Fund in the County's general ledger.

ITEM ARISING THIS YEAR

07-1 Monitoring Internal Controls

Library Board management is responsible for monitoring its internal controls. This requires performing a risk assessment of existing controls over significant functions of its accounting system used to produce financial information for management, the Board, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updated information systems, or changes to services being provided. Our inquiry of Library Board management found that significant internal controls of its accounting system were assessed on an informal basis. Internal controls and financial reports may be reviewed periodically; however, the significant internal controls have not been documented. Significant internal controls cover such areas as:

- cash;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing; and
- payroll.

Risk assessments performed by the Minneapolis Library Board lacked a formal process, as they were not documented to demonstrate what was reviewed and their results.

We recommend that Hennepin County officials review the significant internal controls of the Minneapolis Library system to ensure they have been documented. We also recommend that a formal plan be developed for the Minneapolis Library system that calls for the monitoring of the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, changes required as a result of the risk assessment, and who performed the work.

Client's Response:

We will begin the process to follow the State Auditor's recommendations on monitoring internal controls. We will document our major business processes with the assistance/review of Hennepin County's Internal Audit Department. Annually these will be reviewed and updated.

PREVIOUSLY REPORTED ITEMS RESOLVED

Timely Deposits by the INFORM Department (06-1)

Our previous report recommended that a policy be established calling for credit card collections of the INFORM Department to be submitted to the Library Finance Department on a regular basis.

Resolution

The Library Board's response was that credit card collections would be submitted on a daily basis. We found no exceptions to this policy in our current audit.

Accounts Payable Reporting (06-2)

Our previous report noted that accounts payable in the Capital Projects Fund were understated by a significant amount. We recommended that internal controls be reviewed to ensure that bills were recorded in the correct fiscal year.

Resolution

Our current year's audit found improvement in this area, to the extent we consider the matter resolved.

Parking Ramp Operations (06-3)

Item

Our previous audit found that credit card collections were not recorded in the general ledger in a timely manner.

Resolution

Our current year's audit found improvement in this area, to the extent we consider the matter resolved.

Item

Our previous report noted that parking tickets were being destroyed after being held for six months. Tickets should be retained in accordance with record retention requirements contained in state statutes.

Resolution

We found that tickets were being retained in accordance with state statute requirements.

Prior Period Adjustment (06-5)

Our previous report noted two prior period adjustments that were required to restate the Library Board's net asset balance. Such conditions can reflect on the reliability of financial information being presented.

Resolution

There were no prior period adjustments reported in the current period.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Commissioners
Hennepin County, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Library Board of the City of Minneapolis as of and for the year ended December 31, 2007, which collectively comprise the Library Board's basic financial statements, and have issued our report thereon dated June 16, 2008. Our report was modified to include a reference to other auditors. We conducted our audit 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. Other auditors audited the financial statements of the Friends of the Minneapolis Public Library, a discretely presented component unit, as described in our report on the Library Board's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Friends of the Minneapolis Public Library were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library Board's internal control over financial reporting as a basis for designing our auditing procedures 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 Library Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Library Board's financial statements that is more than inconsequential will not be prevented or detected by the Library Board's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 06-3, 06-4, and 07-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the Library Board complied with the material terms and conditions of applicable legal provisions.

The written responses to the significant deficiencies identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, and others within the Hennepin County Library system and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 16, 2008