

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**STEVENS SQUARE COMMUNITY
ORGANIZATION, INC.**

MINNEAPOLIS, MINNESOTA

AGREED-UPON PROCEDURES

OCTOBER 13, 2010

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**STEVENS SQUARE COMMUNITY
ORGANIZATION, INC.
MINNEAPOLIS, MINNESOTA**

October 13, 2010



Agreed-Upon Procedures

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

This page was left blank intentionally.

**STEVENS SQUARE COMMUNITY ORGANIZATION, INC.
MINNEAPOLIS, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Independent Auditor's Report on Applying Agreed-Upon Procedures		1
Schedule of Cash Inflows and Outflows	Schedule 1	9
Schedule of Receivables and Payables	Schedule 2	10

This page was left blank intentionally.



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)

INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors
Stevens Square Community Organization, Inc.

We have performed the procedures enumerated below, which were agreed to by the Stevens Square Community Organization, Inc. (SSCO) and the Minneapolis Neighborhood Revitalization Program Policy Board (NRP), solely to assist you with respect to ensuring adequate accounting procedures and other practices are being followed to account for and report on the use of NRP funding being provided to the SSCO. These procedures were applied to the SSCO's records as of October 13, 2010. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the SSCO and the NRP. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. Procedure

Determine if the SSCO is current with required filings (Attorney General, Secretary of State, Internal Revenue Service, and the Minnesota Department of Revenue).

Finding

Filings for the above items were found to be current.

2. Procedure

Determine if the SSCO has written policies and procedures for financial operations (receiving, disbursing, purchasing, personnel, conflict of interest, etc.).

Finding

The SSCO maintains written policies and procedures for its financial operations.

3. Procedure

Determine if the procedures the SSCO has in place over cash accounts, payroll, receipts, and disbursements are adequate for its operation.

Findings

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Segregation of Duties

Due to the limited number of office personnel within the SSCO, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the SSCO; however, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Client's Response:

SSCO has limited personnel to perform these duties, however we feel safeguards are in place to ensure proper transparency.

04-1 Preparation of Bank Reconciliations

Previous reports have noted that bank statements did not reconcile with the SSCO's book balance. In our current review, we were not able to perform this step because the reconciliations were not kept. The reconciliations should be maintained to document that all transactions have been accounted for. These reconciliations should be initialed and dated by the preparer and the individual reviewing the document. Initials and dates help create accountability over the SSCO's banking activities.

We recommend the bank reconciliations be maintained for the SSCO's records and that the preparer and reviewer of bank reconciliations initial and date the forms.

Client's Response:

Our accountant performs bank reconciliations as he receives a copy of the bank statement and adjusts records as needed. However, our new accountant took over the books at mid-point through our transition and adjusted our books from the previous accountant who we terminated. This procedure has been fixed.

05-1 Preparation of Time Sheets

Previous reports noted an absence of a consistent process for having the time sheets approved. Documentation to support expenses is fundamental to a sound accounting system. The absence of properly prepared time sheets can reduce the reliance placed on payroll expenses as recorded in the general ledger. Our current review found that time sheets are still not being approved by supervisors.

We recommend that the employee's time be reviewed and approved by the Executive Director and the Executive Director's time sheets be reviewed and approved with a sign-off by a member of the SSCO Board of Directors.

Client's Response:

The Board is in discussion about this item. Our two main staff members are on salary and keep daily logs of their activities within their schedule. Time is billed upon these schedules, however, this is an item which will be discussed in our January meeting.

ITEMS ARISING THIS YEAR

10-1 Disbursement Policy

During our review of the disbursements, we noted that the SSCO is not following its disbursement policy. The policy states that invoices will be reviewed by the Executive Director, be coded with the proper account code and program area, have the check number and date written on them, be stamped "Paid," and be initialed by the Executive Director. Of the 10 disbursements tested, none followed all of the steps listed above.

We recommend that the SSCO follow the policies approved by its Board to ensure the accuracy of its financial statements.

Client's Response:

This policy is now being followed. It should be noted that the classification and other coding is maintained within our computer system.

10-2 Check Signatures

The SSCO's policy requires two Board member signatures on checks for expenses over \$300. During our review of disbursements, one check over \$300 was created by the SSCO with the signature of only one Board member.

We recommend that the SSCO follow the policies approved by its Board to ensure the accuracy of its financial statements and reduce the possibility of theft.

Client's Response:

This was the only check within the entire year in which this occurred. The Executive Director missed it, the finance committee missed it and the bank missed the mistake. We will ensure that two signatures will be performed in the future.

10-3 Disbursement Coding

During our review of the disbursements, we noted that five disbursements for professional services were coded as salaries. Independent contractors are not employees of the SSCO, and their time should not be coded to salaries.

We recommend that the SSCO create an additional code for professional services to separate these expenses from payroll.

Client's Response:

An additional code for professional services, non-salary has been created in our coding system.

PREVIOUSLY REPORTED ITEMS RESOLVED

Authorized Expenditures (09-2)

The SSCO policies adopted on November 10, 1999, require approval on the originating documentation (invoice, bill, or check request) before disbursements are processed. However, we noted the fee for the one vendor (accountant) was processed through a "pull" system where the vendor has the authority to pull funds from the SSCO account without proper approval or authorization. In addition, it was difficult to determine how much the vendor was charging the SSCO for the services performed.

Resolution

Our current review found that the SSCO is no longer using this vendor and all other vendors are paid by check.

Payroll Processing (09-3)

The SSCO relies on its outside accountant to process its payroll. We noted that, on at least three occasions, the payroll was not properly prepared either due to incomplete information or errors in the calculations.

Resolution

Our current review found no similar situations.

Internal Controls Over Financial Reporting (09-5)

The SSCO was unable to prepare financial statements that supported revenue recognition on NRP contracts. Since the SSCO performs NRP duties on an expense reimbursement basis, it is required to show how expenses were used to support each NRP contract.

Resolution

Our current review found that the SSCO is now coding its NRP expenses to the funding source that will reimburse them.

Paid Time-Off (09-6)

The SSCO's personnel practices policy statement states that employees may carry over a maximum of one year's worth of paid time off (PTO) to the next year. However, this policy has not been practiced due to the financial records having accrued paid time off at a higher amount.

Resolution

Our current review found that the SSCO updated its policy in August 2010.

4. Procedure

Determine if the SSCO has procedures in place to account for donations, fixed assets, and long-term obligations.

Finding

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-7 Fixed Assets

The previous report noted the SSCO's fixed asset listing did not match the fixed assets in the financial statements. Our current review noted the same issue. We recommend the fixed asset listing be updated along with the general ledger.

Client's Response:

The fixed asset list has been adjusted by our new accountant. Our previous accountant did not adjust the records.

5. Procedure

Determine if accounting records support the NRP amounts requested for reimbursement.

Finding

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-4 Contract Management

The previous report noted that the NRP was double-billed because the supporting invoices included the same expenses twice. Our current review found that the NRP was billed, on both requests #16 and #17, for the April through July 2009 periods. This double billing error was detected by the NRP and corrected.

We recommend that the SSCO finance committee review the reimbursement requests for clerical accuracy before they are submitted to the NRP.

Client's Response:

SSCO actually found these items and reported them to the NRP. This occurred when our old accountant was creating our NRP reports. If anything, this action shows NRP and SSCO have internal controls to fix these types of problems.

Also, our finance committee now reviews all NRP reimbursement requests prior to submission.

ITEM ARISING THIS YEAR

10-3 Questioned Cost

During our review of the reimbursement requests, we noted that the SSCO requested reimbursement for ineligible expenses. On reimbursement request #17, from contract #22518, four items ineligible for reimbursement were included. The NRP found three of the items and removed them from the reimbursement request. The fourth item is check #7451 written on July 16, 2009, in the amount of \$50.

We recommend that the SSCO work with the NRP to resolve the questioned cost.

Client's Response:

This expense was removed from another NRP request. It should be noted that this request was conducted by our previous accountant. This has been resolved.

6. Procedure

Tie the schedule of cash inflows and outflows to the accounting records.

Findings

The schedule of cash inflows and outflows tied to the accounting records.

7. Procedure

Tie the schedules of grants receivable, accounts payable, advances outstanding, and long-term obligations to the accounting records.

Findings

The schedules of grants receivable and advances outstanding tied to the accounting records. There were no accounts payable or long-term obligations at year-end.

8. Procedure

Follow up on previous year's report findings, if applicable.

Findings

Findings from the previous year's report are noted above.

* * * * *

We were not engaged to and did not perform an audit of the Stevens Square Community Organization, Inc.'s, financial statements, the objective of which would be the expression of an opinion on those financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Stevens Square Community Organization, Inc., and the Minneapolis Neighborhood Revitalization Program Policy Board 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

October 13, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

**STEVENS SQUARE COMMUNITY ORGANIZATION, INC.
MINNEAPOLIS, MINNESOTA**

Schedule 1

**SCHEDULE OF CASH INFLOWS AND OUTFLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

Cash Inflows

Public support and other

Government grants	\$ 9,400
Minneapolis Community Planning and Economic Development	122,718
Neighborhood Revitalization Program	7,321
Other contributions	<u>7,321</u>

Total public support **\$ 139,439**

Other

Events and projects	\$ 4,435
Interest income	<u>13</u>

Total other **\$ 4,448**

Total Cash Inflows **\$ 143,887**

Cash Outflows

Payroll	
Salaries	\$ 112,650
Taxes	10,017
Benefits	12,805
Professional services	2,969
Accounting services	2,470
Payroll services	524
Office rent and utilities	3,886
Office supplies	1,252
Postage	420
Printing	860
Other	5,725
Insurance	582
Dues and subscriptions	25
Projects and events	6,037
Bank fees	657
Interest expense	<u>23</u>

Total Cash Outflows **\$ 160,902**

Excess of Cash Inflows Over (Under) Cash Outflows **\$ (17,015)**

**STEVENS SQUARE COMMUNITY ORGANIZATION, INC.
MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF RECEIVABLES AND PAYABLES
JUNE 30, 2010**

Grants Receivable
NRP Contract #22518

\$ 45,368

Advances Outstanding
NRP Contract #22518

\$ 10,000

Accounts Payable

The Stevens Square Community Organization, Inc., had no accounts payable at year-end.

Long-Term Debt

The Stevens Square Community Organization, Inc., had no long-term debt outstanding at year-end.