STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT
OF THE

MINNEAPOLIS YOUTH COORDINATING BOARD
MINNEAPOLIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2008
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.

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MINNEAPOLIS YOUTH COORDINATING BOARD
MINNEAPOLIS, MINNESOTA

Year Ended December 31, 2008

Management and Compliance Report

Audit Practice Division
Office of the State Auditor
State of Minnesota
MINNEAPOLIS YOUTH COORDINATING BOARD
MINNEAPOLIS, MINNESOTA

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization’s accounting system. The size of the Minneapolis Youth Coordinating Board and its staffing limits the internal control that management can design and implement into the organization. This situation is not unusual in operations the size of the Youth Coordinating Board, but the Board 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 internal control and accounting point of view.

Generally, segregation of duties can be attained with the hiring of additional personnel; however, this becomes a significant cost consideration to entities such as the Youth Coordinating Board. Under the above conditions, the most effective system of control lies in the knowledge of the Board regarding the Youth Coordinating Board’s operations and the periodic review of those operations. We recommend the Board be mindful that limited staffing causes inherent risks in safeguarding the Youth Coordinating Board’s assets and the proper reporting of its financial activity.

Client’s Response:

The Youth Coordinating Board will make management and YCB Board members aware of the concerns regarding segregation of accounting functions. While the Youth Coordinating Board has only 4.6 EFT, the functions of cash management and vendor set up are handled by the City of Minneapolis.
ITEMS ARISING THIS YEAR

08-1  Audit Adjustments

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 of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity’s internal controls.

At the end of 2007, the City of Minneapolis Health Department transferred money to the Minneapolis Youth Coordinating Board. In 2008, the City implemented new general ledger software, and a check was issued to the Minneapolis Youth Coordinating Board in the same amount as the transfer that occurred in 2007. This resulted in an overstatement of revenues and an understatement of liabilities in the Youth Coordinating Board’s financial statements. We proposed the following adjustment that resulted in a significant change to the Minneapolis Youth Coordinating Board’s financial statements:

- Other local revenue was decreased and due to other governments was increased by $179,940.

In 2007, the Minneapolis Youth Coordinating Board was overpaid Local Collaborative Time Study (LCTS) revenue from Hennepin County. In June 2008, the Minneapolis Youth Coordinating Board opted to have future LCTS revenue withheld as its form of repayment and recorded a liability (due to other governments) in the amount of the overpayment, $549,123 in the 2007 financial statements. The amount of the LCTS revenue withheld as repayment and the subsequent reduction of the liability were not recorded in the 2008 financial statements. We proposed the following adjustment that resulted in a significant change to the Minneapolis Youth Coordinating Board’s financial statements:

- Due to other governments was increased by $56,958, the net effect of setting up the LCTS payback again for 2008 and reducing the liability for the amount “repaid” during 2008. Deferred revenue was increased by $492,165, the amount of the payback during 2008 that was recorded as revenue, but because it was not spent in 2008, was then reclassified as deferred revenue. Fund balance was decreased by $549,123 to reflect the above-mentioned increases in liabilities.

At the end of 2008, in order to correct and properly reflect activities, we proposed the following adjustment that resulted in a significant change to the Minneapolis Youth Coordinating Board’s financial statements:

- Cash was increased by $871,767, payables were increased by $321,397, and fund balance was increased by $550,370.
The inability to detect a material misstatement in the financial statement increases the likelihood that the financial statements would not be fairly presented.

We recommend that the Minneapolis Youth Coordinating Board modify internal controls over financial reporting to detect misstatements in the financial statements.

**Client’s Response:**

_The Youth Coordinating Board will monitor and review all financial transactions on a quarterly basis to ensure that any needed adjustments are completed before the financial statements are made._

### 08-2 Prior Period Adjustment

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 of the financial statements on a timely basis. One indication of a control deficiency that typically is considered significant is restatement of previously issued financial statements to reflect the corrections of a misstatement.

The Minneapolis Youth Coordinating Board’s 2008 financial statements include the following prior period adjustment identified by auditors:

- January 1, 2008, fund balance of the General Fund and net assets of the governmental activities were restated by $550,017 to account for revenue recognized in the prior year that should have been deferred as unearned revenue.

The need for prior period adjustments can raise doubts as to the reliability of the Youth Coordinating Board’s financial information being presented.

We recommend the Board review its procedures for preparation and disclosure of financial information to ensure accurate presentation in the financial statements.

**Client’s Response:**

_The Youth Coordinating Board will review and verify all financial information on a quarterly basis to ensure the accuracy prior to making the financial statements._

### 08-3 Financial Statement Preparation

The Minneapolis Youth Coordinating Board is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements is the responsibility of the Youth Coordinating Board’s management.
Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate financial statements, including the related notes to the financial statements.

The Youth Coordinating Board has established controls and procedures for recording, processing, and summarizing its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, the Youth Coordinating Board has relied on its independent auditors to assist in the preparation of the basic financial statements as part of its external financial reporting process. Accordingly, the Youth Coordinating Board’s ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance of its external auditors, who cannot by definition be considered part of the government’s internal control. This condition was caused by the Youth Coordinating Board’s decision to have the auditors adjust and balance the trial balance used in creating the financial statements, as well as adjusting the government-wide financial statements in accordance with GAAP. As a result of this condition, the government lacks internal control over the preparation and reporting of financial statements in accordance with GAAP.

We recommend the Youth Coordinating Board continue to work on preparing the trial balance and financial statements in accordance with GAAP. If the Youth Coordinating Board still intends to have staff from the Office of the State Auditor assist in preparation, then at a minimum, it must review, understand, and approve the Youth Coordinating Board’s financial statements. As an alternative, the Youth Coordinating Board could hire an outside consultant to assist in preparing its basic financial statements.

Client’s Response:

_The Youth Coordinating Board recognizes the audit independence issue, and therefore in the future will prepare the basic financial statements without relying on the auditor for assistance._

08-4 Monitoring of Financial Activity

Though it is not required to do so, the Minneapolis Youth Coordinating Board uses the City of Minneapolis’ general ledger system for recording its financial transactions. On January 1, 2008, the City of Minneapolis implemented a new general ledger system that again included the Youth Coordinating Board. The implementation of the new general ledger system was not without problems, especially with accessing and extracting information from the system. Although financial transactions were being entered into the general ledger during 2008, it was not until the start of our audit in October 2009, that
management was able to extract account activity and year-end balances from the system. The main cause of this is the lack of communication between the City and the Youth Coordinating Board on how to access its information.

We recommend that, since the Youth Coordinating Board can now access and extract information on its financial transactions in the system throughout the year, monitoring of this information should be performed to ensure that the correct activity is being recorded and reflected in the financial statements.

Client’s Response:

*Now that the Youth Coordinating Board has full access to the reporting capabilities of the new accounting system, reports will be run quarterly to ensure that financial information is being recorded correctly.*

II. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under GASB Statement 45, accounting for OPEB is now similar to the accounting used by governments for pension plans.

In 2008, the Legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both revocable and irrevocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.
Some of the issues that the Youth Coordinating Board will need to address in order to comply with the statement are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Youth Coordinating Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Youth Coordinating Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Youth Coordinating Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the Youth Coordinating Board will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the Youth Coordinating Board will have to decide whether to hire an actuary.

If applicable for the Minneapolis Youth Coordinating Board, GASB Statement 45 would be implemented for the year ending December 31, 2009.
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 Members
Minneapolis Youth Coordinating Board

We have audited the financial statements of the governmental activities and the General Fund of
the Minneapolis Youth Coordinating Board as of and for the year ended December 31, 2008,
which collectively comprise the Youth Coordinating Board’s basic financial statements, and
have issued our report thereon dated April 30, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Minneapolis Youth Coordinating
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 Youth Coordinating Board’s internal control
over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the
Youth Coordinating 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 Youth Coordinating 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 Youth Coordinating Board’s financial statements that is more than inconsequential will not be prevented or detected by the Youth Coordinating Board’s internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 04-1 and 08-1 through 08-4 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 Youth Coordinating 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, of the significant deficiencies described above, we consider items 08-1 and 08-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Minneapolis Youth Coordinating 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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in the areas of contracting and bidding, deposits and investments, public indebtedness, and tax increment financing. The contracts entered into by the Minneapolis Youth Coordinating Board are for services; the legal compliance guide does not pertain to this type of contracting. The City of Minneapolis has custody of the Minneapolis Youth Coordinating Board’s deposits and is responsible for compliance. Relative to public indebtedness and tax increment financing, the Youth Coordinating Board is not authorized to issue debt or to use tax increment financing.

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

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the Minneapolis Youth Coordinating Board, and it is reported for that purpose.

The Minneapolis Youth Coordinating Board’s written responses to the significant deficiencies and material weaknesses identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Youth Coordinating Board’s responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Minneapolis Youth Coordinating Board, management, and others within the Youth Coordinating Board and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto          /s/Greg Hierlinger
REBECCA OTTO         GREG HIERLINGER, CPA
STATE AUDITOR         DEPUTY STATE AUDITOR

April 30, 2010