

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**HOLLAND NEIGHBORHOOD
IMPROVEMENT ASSOCIATION
MINNEAPOLIS, MINNESOTA**

AGREED-UPON PROCEDURES

SEPTEMBER 29, 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.

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**HOLLAND NEIGHBORHOOD
IMPROVEMENT ASSOCIATION
MINNEAPOLIS, MINNESOTA**

September 29, 2010



Agreed-Upon Procedures

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

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**HOLLAND NEIGHBORHOOD IMPROVEMENT ASSOCIATION
MINNEAPOLIS, MINNESOTA**

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INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors
Holland Neighborhood Improvement Association

We have performed the procedures enumerated below, which were agreed to by the Holland Neighborhood Improvement Association (HNIA) 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 HNIA. These procedures were applied to the HNIA's records as of September 29, 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 HNIA 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 HNIA is current with required filings (Attorney General, Secretary of State, Internal Revenue Service, and Minnesota Department of Revenue).

Findings

Filings for the above items were found to be current.

2. Procedure

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

Findings

ITEM ARISING THIS YEAR

10-1 Policies and Procedures Manual

Our current review found that the policies and procedure manual being used by the HNIA is not up to date. The manual contains references to a finance committee, manual budget, check card, and petty cash. However, none of these items exist at this time.

We recommend that the HNIA update its policies and procedures manual and have it approved by the HNIA Board of Directors.

Client's Response:

The HNIA will review and update its Policies and Procedures manual to reflect these items. The final manual will be approved by the HNIA Board of Directors.

PREVIOUSLY REPORTED ITEM RESOLVED

Conflict of Interest Policy (07-1)

The HNIA staff were unable to provide us with the HNIA's conflict of interest policy. It appeared the HNIA did not have such a policy. The NRP encourages all neighborhood boards to adopt conflict of interest policies and to review them annually.

Resolution

During our current review, the client showed us the conflict of interest policy included in the by-laws.

3. Procedure

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

Findings

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-5 Segregation of Duties

Due to the limited number of office personnel within the HNIA, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the HNIA; 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:

The HNIA acknowledges the limited number of individuals available and will aim to segregate accounting functions as much as possible for an organization of its size to ensure financial controls. Our current protocol involves a staff person, the Treasurer and an independent-contractor accountant, as well as oversight by the whole HNIA Board of Directors reviewing financial reports at its monthly meetings.

02-1 Payroll Record Keeping

Improvements to payroll records, including maintenance of time records, record keeping for personal time and sick leave accruals, and monitoring personal time and sick leave usage, were recommended. Our current review found that the previous staff had left the organization, and now only one staff person is scheduled for six hours per week. This person does not receive any paid time off. The staff person has periodically completed time sheets, but not on a consistent basis. As such, there are few records to show time worked, as well as programs to be charged for the employee's time.

We recommend that time sheets be required for the employee and the time spent on each program be documented.

Client's Response:

The HNIA will institute a staff time sheet showing hours worked, date and to which contract/fund the payments should be charged. Currently the only employee works six hours per week, generally two days a week, and funds come from one contract/line item. No benefits are paid out, and there is no paid time off. For this employee, the HNIA will require a monthly time sheet; if hours or number of employees increase, this frequency will be revisited by the HNIA Board of Directors.

07-3 Coding of Invoices

Invoices were coded by the accounting service. We believe this task is a management function and should be performed by staff at the HNIA. Our current review found no change to previous conditions.

We recommend that invoices be coded by an HNIA employee.

Client's Response:

The HNIA currently codes all invoices with a descriptor (not a number) such as "NRP - Admin" or "General Fund." Staff will work with the accountant to ensure that more detail is included in keeping with the accountant's general numbering system.

ITEMS ARISING THIS YEAR

10-2 Check Signers

Our current review noted that 2 of the 15 disbursements reviewed had the same check signer as the individual to whom the check was issued. We recommend two different people, other than the person to whom the check is issued, sign the check.

Client's Response:

Check recipients will not be allowed to be one of the two signers on checks. The HNIA has four eligible check signers in place now; all are Board members.

10-3 Disbursement Approval

Our current review noted that 6 of the 15 disbursements reviewed were missing a signature of approval. The HNIA's policies and procedures manual noted that the invoices should be reviewed and signed off with approval to verify the accuracy of the financial information.

We recommend that the HNIA follow its policy and have the person who reviews the invoice sign the invoice noting his or her approval.

Client's Response:

The two staff people who worked at the HNIA during the major portion of time reviewed in this audit are no longer employed by the HNIA. Current staff has instituted changes that bring the HNIA into compliance for check approvals and documentation of those approvals on the invoice. In addition, staff reviews each invoice for accuracy before preparing documentation for payment by the HNIA Board's authorized signers. All approvals are now noted in writing on the invoice.

10-4 Disbursement Support

Our current review found that 1 of the 15 disbursements reviewed were missing supporting documentation. In searching for the documentation missing for this disbursement, we found an additional 3 disbursements where supporting documentation was missing. Invoices or receipts should be maintained for each disbursement. If these are not available, a declaration form should be used to document the disbursement.

We recommend that the HNIA require support for each disbursement and that this supporting documentation be kept on file at the HNIA office.

Client's Response:

The two staff people who worked at the HNIA during the major portion of time reviewed in this audit are no longer employed by the HNIA. Current staff has instituted changes that bring the HNIA into compliance. No invoices or requests are processed for payment without appropriate supporting documentation, such as a dated receipt or invoice or a suitable declaration or copy of the item in question. All documentation is filed by vendor name/recipient name in a secure place at the HNIA office. The HNIA also uses a request for payment stamp (including date, check number, source of funding to be paid out, amount to be paid, who approved it, who requested it) on each invoice prior to signing/approval by the authorized HNIA Board members. Upon payment, invoices are then stamped "PAID" and filed.

10-5 Fiscal Agent Activities

The HNIA acts as a fiscal agent for several activities at Edison High School. No agreement between the two parties exists to explain why or what the expectations are for each party. The HNIA collects donations for events at the school. The donations were used for food and supplies at a barbeque and at the Summer Jam event. Donations were also used to purchase a 50-inch plasma television as a prize for a contest during half-time at the Edison High School basketball games. No one won the prize, and staff were told the television is being held at the high school. The HNIA does not have custody of the television.

We recommend the HNIA review this relationship with Edison High School to determine if the donations could go directly to the school. Also, the plasma television should be located and should be in the custody of the HNIA as long as it is the fiscal agent.

Client's Response:

The HNIA Board of Directors has voted to inform the person doing this fundraising on behalf of the HNIA to cease because the HNIA will not serve as fiscal agent, at least until he hears otherwise from the HNIA. A HNIA Board member was to contact the person on October 22, 2010, and to make arrangement for the television set to be located at the HNIA office pending an agreed-upon method of divesting the HNIA of it.

PREVIOUSLY REPORTED ITEMS RESOLVED

Receipts Journal (04-1)

The HNIA did not maintain a receipts journal. A receipts journal serves as a source record for the recording of funds collected by the HNIA.

Resolution

Our current review found that the HNIA is now preparing a receipts journal.

Review of Bank Reconciliations (07-2)

Bank reconciliations are prepared by the HNIA's accounting service. We were informed that the reconciliations are reviewed by the Treasurer; however, there was no evidence that the reviews took place since the reconciliations did not contain a sign-off.

Resolution

Our current review found that the HNIA Treasurer is now reviewing and signing the bank reconciliations.

4. Procedure

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

Findings

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-3 Fixed Asset Records

The HNIA's fixed asset records were not up to date. Our current review found no change in this condition. The records had not been updated since May 31, 2005.

We again recommend that the HNIA Board take steps to ensure that its fixed asset information is kept current.

Client's Response:

The current fixed asset record was received from our accountant in January 2010 and shows fixed assets "as of November 30, 2009." The last item entered is from September 2007. We believe this record is accurate and no major purchases have been made since November 2009. We will continue to ensure that this record is kept up to date. A copy of the current record is being sent to the auditors via U.S. mail.

5. Procedure

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

Findings

ITEM ARISING THIS YEAR

10-6 Ineligible Charges

Our current review noted that 1 of the 15 disbursements reviewed had late fees that were requested for reimbursement from the NRP. Late fees are not eligible for reimbursement by the NRP.

We recommend the HNIA review its procedures so that bills can be paid on time. If late fees are incurred, funding sources other than the NRP should be used.

Client's Response:

The two staff people who worked at the HNIA during the major portion of time reviewed in this audit are no longer employed by the HNIA. Past practice appears to have involved online accounts, online billings and password-protected accounts that neither the new staff nor the HNIA Board was aware of or had access to, resulting in a number of late payments and late fees. These paperless or computer-based systems have all been discontinued and moved to paper billing via U.S. mail to the office so that there is more transparency via a paper trail. The HNIA also discontinued credit/debit card(s). The HNIA discontinued a cell phone account in December 2009, resulting in some billing and payment issues with the vendor and the new account holder that have now been resolved after repeated calls by the HNIA to the unhelpful vendor. In addition, some payments were late due to not receiving paper bills from vendors in a timely fashion due to a relocation of the HNIA office in late 2009 under the supervision of the two staff people who no longer work for the HNIA. Vendors are now aware of our current address. Also, the HNIA Board has undergone a substantial change of members over the past year, leaving a time when only one of two authorized signers was available, causing delays in payments. In the unlikely event that late charges occur again, we will charge the late fees to our general fund of unrestricted income, not to NRP or other city grants.

6. Procedure

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

Findings

The 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 HNIA'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 Holland Neighborhood Improvement Association 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

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 29, 2010

**HOLLAND NEIGHBORHOOD IMPROVEMENT ASSOCIATION
MINNEAPOLIS, MINNESOTA**

Schedule 1

**SCHEDULE OF CASH INFLOWS AND OUTFLOWS
FOR THE YEAR ENDED MAY 31, 2010**

Cash Inflows

Public support and other

Public support

Government grants	\$	11,951
Minneapolis Community Planning and Economic Development (CPED)		84,962
Neighborhood Revitalization Program (NRP)		2,000
University of Minnesota		2,110
Other contributions		2,110
		2,110
Total public support	\$	101,023

Other

Events	\$	2,608
Reimbursements		1,666
		1,666
Total other	\$	4,274

Total Cash Inflows

\$ 105,297

Cash Outflows

Functional

Payroll		
Salaries and wages	\$	38,633
Taxes		3,093
Benefits		500
Payroll services		1,906
Office rent		20,308
Telephone		2,559
Office supplies		1,163
Utilities		1,667
Insurance		4,385
Equipment rental		2,351
Incentives and awards		177
Printing and copying		5,029
Postage		1,004
Advertising		6,242
Repair and maintenance		1,130
Accounting services		6,531
Contract administration services		400
Purchased services		680
Special events		2,415
Transportation		26
Bank charges		90
		90
Total Cash Outflows	\$	100,289

Excess of Cash Inflows Over (Under) Cash Outflows

\$ 5,008

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MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF RECEIVABLES AND PAYABLES
MAY 31, 2010**

Grants Receivable

NRP Contract #12839	\$ 3,413
CPED Contract - Year 36	<u>1,178</u>
Total Grants Receivable	<u><u>\$ 4,591</u></u>

Advances Outstanding

NRP Contract #12839	\$ 10,000
CPED Contract - Year 36	<u>4,000</u>
Total Advances Outstanding	<u><u>\$ 14,000</u></u>

Accounts Payable

The Holland Neighborhood Improvement Association had no accounts payable at year-end.

Long-Term Debt

The Holland Neighborhood Improvement Association had no long-term debt outstanding at year-end.