

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**McKINLEY COMMUNITY**  
**MINNEAPOLIS, MINNESOTA**

**AGREED-UPON PROCEDURES**

**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.

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**McKINLEY COMMUNITY  
MINNEAPOLIS, MINNESOTA**

**December 31, 2007**



**Agreed-Upon Procedures**

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

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors  
McKinley Community

We have performed the procedures enumerated below, which were agreed to by the McKinley Community 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 McKinley Community. These procedures were applied to the McKinley Community's records as of December 31, 2007. 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 McKinley Community 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 McKinley Community is current with required filings (Attorney General, Secretary of State, and Internal Revenue Service).

Findings

Filings for the above items were found to be current.

2. Procedure

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

Findings

We found that the McKinley Community has written procedures for its financial operations.

3. Procedure

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

Findings

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-2 Segregation of Duties

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

*Realizing that due to the small size of our organization, we realize that we will never have the adequate number of people involved to meet the standard set by the State Auditor's Office. However, we have in place financial procedures that split the duties four ways that include the Bookkeeper, Executive Director, Board Chair, and Board Treasurer. As an organization of our size, we feel that we have adequate controls in place to ensure quality financial segregation of duties.*

ITEM ARISING THIS YEAR

07-1 Review of Bank Reconciliations

It is the practice of the McKinley Community to have the Board's Treasurer review bank reconciliations prepared by the accounting service. For the reconciliations we reviewed, we found that the Treasurer's review was not always timely.

We recommend that the Treasurer review bank reconciliations on a timely basis and that the reconciliations be initialed and dated by the Treasurer.

Client's Response:

*Looking back in our records, it looks as if there was one month in which the Board Treasurer, who reviews and signs off on the bank reconciliations, was absent and was not able to sign the reconciliation on time. We will be adjusting our financial procedures to ensure that within a week of the bank reconciliations being generated by the bookkeeper the Treasurer will review and approve.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Coding and Approval of Invoices (01-7)**

Previous reports have recommended improvements to the approval and coding process for invoices. We recommended that invoices contain the initials and dates of individuals approving bills for payment and that they be marked with the appropriate general ledger coding.

**Resolution**

For the invoices reviewed, we found all were properly coded and approved.

**Time Sheet Records (03-5)**

Previous reports have recommended that all time sheets be signed by employees.

**Resolution**

For the time sheets reviewed, we found all were signed by the employee and his or her supervisor.

**Cancellation of Invoices (05-1)**

Our previous report recommended that all pages of vendor bills be marked with the check number and date paid to provide evidence of cancellation.

**Resolution**

For the invoices reviewed, we found all were properly cancelled.

**Documentation for Vendor Expenses (05-2)**

Our previous report noted instances of insufficient documentation to support payments to vendors. We recommended that procedures be implemented to ensure all payments to vendors are supported by adequate documentation and retained for future reference.

**Resolution**

For the invoices reviewed, sufficient documentation was provided to support payments to vendors.

### **Accounting for Vacation and Sick Leave (05-3)**

Our previous report found no record maintained by management to account for vacation and sick time earned, taken, and outstanding by employees. We recommended that a record be maintained and that it be compared to McKinley Community's policy on leave time.

#### **Resolution**

As of October 2007, accounting for paid time off was maintained on employee time sheets. All time sheets are reviewed by the Board Chair and approved with a sign-off. Starting on January 1, 2008, a separate record of paid time off will also be maintained; this record will be reviewed quarterly by the Board Chair.

#### 4. Procedure

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

#### Findings

Donations are accounted for through the McKinley Community's general ledger. Amounts viewed were not significant. The appropriate fixed asset information is maintained on a schedule, which we viewed. The McKinley Community had no long-term obligations.

#### 5. Procedure

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

#### Findings

The accounting records appeared to support amounts requested for reimbursement. A process was in place to request reimbursement of NRP funding on a regular basis.

### **PREVIOUSLY REPORTED ITEM RESOLVED**

#### **Double Billings to the Same Grant (03-1)**

Our previous reports noted double billings to grant #C98-12736. We recommended that the McKinley Community officials discuss the questioned cost amount with NRP officials to determine a resolution.

#### **Resolution**

We found that reimbursement number 25 submitted to the NRP was reduced by the amount of the double billing. No additional double billings were identified in this review.



**Double Billings to Different Grants (05-4)**

Our previous reports noted a double billing between an NRP grant and a CPED grant. We recommended that McKinley Community officials discuss with NRP and CPED officials to determine a resolution for the double billings to different grants.

**Resolution**

Records were provided to us that documented the resolution of this double billing. No additional double billings were identified in this review.

6. Procedure

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

Findings

ITEM ARISING THIS YEAR

07-2 Custody of Accounting Records

We found that the McKinley Community’s accounting records were being kept by the accounting service. We believe it is the responsibility of the McKinley Community to maintain custody of its accounting records.

We recommend that the McKinley Community take custody of all its records being kept by the accounting service and that they be maintained by the neighborhood in a secured location.

Client’s Response:

*Beginning with January 1, 2008, all financial records will be maintained in the McKinley office.*

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We were not engaged to and did not perform an audit of the McKinley Community’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 McKinley Community 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

December 31, 2007

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR