

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**HOLLAND NEIGHBORHOOD IMPROVEMENT
ASSOCIATION
MINNEAPOLIS, MINNESOTA**

AGREED-UPON PROCEDURES

JANUARY 7, 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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**HOLLAND NEIGHBORHOOD
IMPROVEMENT ASSOCIATION
MINNEAPOLIS, MINNESOTA**

January 7, 2008



Agreed-Upon Procedures

**Audit Practice Division
Office of the State Auditor
State of 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 January 7, 2008. 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, and Internal Revenue Service).

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 (receipting, disbursing, purchasing, personnel, conflict of interest policy, etc.).

Findings

We found that the HNIA has written policies and procedures for its financial activities, except for the following item.

ITEM ARISING THIS YEAR

07-1 Conflict of Interest Policy

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.

We recommend that the HNIA Board adopt a conflict of interest policy. The policy should be reviewed annually by Board members to ensure compliance with its terms.

Client's Response:

The HNIA By-laws cover conflict of interest. However, as suggested, HNIA will add a conflict of interest statement to its policy documents.

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:

HNIA will remain alert to this situation and endeavor to create systems of accountability to the extent practicable.

02-1 Payroll Record Keeping

Previous reports have recommended 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. Our current review found no change to previous conditions. For the employee who is salaried, no time sheet is prepared. As such, there is no record to show time worked or leave time taken, as well as programs to be charged for the employee's time. The HNIA Board is of the opinion that a time sheet is not needed because the employee is salaried and all of his time is charged to one NRP program. Record keeping for leave time is kept on personal calendars, which in our view, does not constitute an acceptable record. Also, the Board does not monitor leave time taken or earned. Finally, we question the method practiced to allocate the combined payroll costs of the two employees to the HNIA's programs. It appears the primary funders of the HNIA, the NRP, and Minneapolis Community Planning and Economic Development Department (CPED), have not officially approved the method.

We again recommend that time sheets be required for the salaried worker. We also recommend that the HNIA create a record, other than calendars, to maintain leave time earned and taken by employees. The record should be given to the Board for review at least quarterly. This could be accomplished by including leave information on the time sheets. Finally, we recommend that the NRP and CPED be requested to approve the allocation practice followed to charge payroll expenses to the respective programs.

Client's Response:

HNIA has instituted a revised system of tracking days off and time sheets: Hourly employees will maintain time sheets that also track earned/remaining time off, and an annual calendar of time off. Salaried employees will track hours by categories of activity that correspond to funding. These records will also reflect time accrued/time off. We are also currently up-to-date on time sheets and calendars and are confident we will continue in this regard. The Board personnel officer will be responsible for compliance.

04-1 Receipts Journal

Previous reports have noted that 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. Our current review found that a receipts journal was not being used. We recognize that the volume of HNIA collections in the office may not be significant. However, a formalized record should be established to account for those funds that are collected.

We again recommend that the HNIA implement a receipts journal.

Client's Response:

The journal went dormant as nearly all record keeping revolved around checks received via auto deposit. We will reinstitute manual record keeping of these checks as well as other miscellaneous deposits. The Board Treasurer will be responsible for compliance.

ITEMS ARISING THIS YEAR

07-2 Review of Bank Reconciliations

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

We recommend that bank reconciliations be initialed and dated by the Board's Treasurer when they have been reviewed.

Client's Response:

Board Treasurer will clearly sign and date statements when returned by the bookkeeper.

07-3 Coding of Invoices

We found that invoices were coded by the accounting service. We believe this task is a management function and should be performed by staff at the HNIA.

We recommend that invoices be coded by an HNIA employee.

Client's Response:

Staff will code invoices using accounts ledger.

4. Procedure

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

Findings

Donations are accounted for through the HNIA's general ledger. Amounts viewed were not significant. The HNIA had no long-term obligations.

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-3 Fixed Asset Records

Previous reports have indicated that 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:

HNIA obtained the most recent copy of assets and had our bookkeeper update the record. However, depreciation was not indicated. These records will be updated. The Board president will be responsible for compliance.

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.

6. 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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 7, 2008