

**NORTHSIDE ECONOMIC DEVELOPMENT COUNCIL  
MINNEAPOLIS, MINNESOTA**

AGREED-UPON PROCEDURES

FOR THE PERIOD JUNE 1, 1996,  
THROUGH JUNE 30, 1999

**NORTHSIDE ECONOMIC  
DEVELOPMENT COUNCIL  
MINNEAPOLIS, MINNESOTA**

**For the Period June 1, 1996,  
Through June 30, 1999**



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

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**NORTHSIDE ECONOMIC DEVELOPMENT COUNCIL  
MINNEAPOLIS, MINNESOTA**

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**NORTHSIDE ECONOMIC DEVELOPMENT COUNCIL  
MINNEAPOLIS, MINNESOTA**

**EXECUTIVE SUMMARY**

In October 1999, the Office of the State Auditor (OSA) entered into an agreement with the City of Minneapolis (City) to perform certain agreed-upon procedures reviewing financial activities of the Northside Economic Development Council (NEDC) of Minneapolis, Minnesota. The NEDC is a nonprofit corporation created in 1995. The NEDC contracted with the City and the Minneapolis Community Development Agency (MCDA) to administer loan funds. The City's request arose from concerns that grant funds provided to the NEDC by the City were not being spent for their intended purpose. After several attempts by City officials to obtain information from the NEDC, a notice of termination of the NEDC grant agreements with the City and the MCDA was sent to the NEDC by the City Attorney's Office on April 7, 1999. The notice also requested a return of all program funds previously disbursed to the NEDC totaling \$589,397. To date, no funds have been returned to the City.

For six months, the OSA attempted to obtain documentation from the NEDC necessary to begin its agreed-upon procedures. After numerous requests, the OSA issued two subpoenas to Mr. Robert Woods, Executive Director of the NEDC, in an attempt to obtain the necessary documents. It was not until July 2000 that the OSA received the final documents available from third parties to conduct this engagement.

Funds provided to the NEDC by the City consisted of Empowerment Zones/Enterprise Communities (EZ/EC) Program funds (a federal program), and Neighborhood Revitalization Program (NRP) funds originating with the Minneapolis Neighborhood Revitalization Policy Board. The objective of our procedures was to determine if City program funds were spent in accordance with the terms of the grant agreements.

Our engagement covered the period June 1, 1996, through June 30, 1999. The overall results of our procedures found numerous records missing, expenses not authorized by the City or NRP Policy Board, inappropriate uses of City funds, and expenses incurred not in compliance with the EZ/EC and NRP grant agreements.

When the NEDC Board and its Executive Director executed the grant agreements, they accepted fiscal responsibility to ensure that these funds would be administered in accordance with the agreements. Based on our findings, the NEDC Board and Executive Director have failed to exercise due care in administering public funds. In April 1999,

the NEDC was notified by the Minneapolis City Attorney's Office that its agreements with the City and NRP were being terminated and that the NEDC must return all program funds totaling \$589,397. We concur with the City's demand for the return of all program funds.

Included within our findings are the following:

- S** Numerous records were not provided to us, including a general ledger, receipts journal, time sheets, and canceled checks. This information is crucial in understanding the financial activities of the organization. Records provided to us were incomplete. These conditions required us to obtain extensive information from third parties, delaying the completion of this engagement. Further, the failure to present sufficient records for review of City program activities resulted in noncompliance with the grant agreements for these funds.
- S** The primary use of City program funds was to issue loans to businesses. No ledgers or other records were provided to us that would account for the amount of loans issued together with collections on loans. Consequently, the documentation available did not allow us to determine the amount of outstanding loans for the period of our procedures.
- S** According to terms of the grant agreements, the NEDC was required to maintain a separate revolving loan fund to account for loan issuances and repayments. We found no evidence of a revolving loan fund. As such, this condition resulted in noncompliance with the grant agreements.
- S** The City approved loans to businesses totaling \$344,500 and disbursed that amount to the NEDC; however, loan proceeds issued by the NEDC to approved businesses totaled \$210,188, leaving \$134,312 in City funds not used for their intended purpose.
- S** Loans totaling \$56,700 were issued to businesses by the NEDC without approval from the City. One of these loans, in the amount of \$3,700, was issued to cover personal debts of a loan recipient.
- S** Two loans totaling \$75,000 were issued to businesses located outside the Minneapolis Northside geographical area for which program funds were intended to be used.

- S The NEDC helped organize a community event called Marley Fest. We found that the NEDC used City funds, totaling approximately \$38,815, to pay for expenses of this event. City funds were not authorized to be used for this event. As such, the NEDC was in noncompliance with terms of the grant agreements.
- S A portion of NRP funds was to be used to reimburse the NEDC for administrative costs. A total of \$1,444 was reimbursed by the City to the NEDC for expenses ultimately not incurred by the NEDC because NEDC checks were returned due to insufficient funds and checks never cleared the bank.
- S We found several checks written for "cash" totaling \$24,323. No information was available to determine how these funds were intended to be used or why cash was needed. Therefore, we question the \$24,323 as eligible expenditures of City and NRP funds.
- S We found cashier's checks totaling \$5,193. Again, no information was available to determine the intended use of these funds. Therefore, we question the \$5,193 as eligible expenditures of City and NRP funds.
- S Payments noted as salary advances were paid to the Executive Director, Mr. Robert Woods, totaling \$12,900, and to a staff member, Ms. Katherine Lucas, totaling \$1,923. None of these advances were processed by the NEDC's payroll service, and no evidence existed to indicate that these advances were ever repaid. Finally, there was no indication that these advances were approved by the NEDC Board.
- S Payments noted as bonuses/benefits were paid to Mr. Woods, totaling \$13,697, and to Ms. Lucas, totaling \$16,132. Of these payments, \$5,406 paid to Mr. Woods and \$8,320 paid to Ms. Lucas were not processed through the NEDC's payroll service. Also, there was no evidence to indicate that the NEDC Board had approved these payments.
- S The City's EZ/EC Program provided funding for salary expenses of an office assistant. However, the office assistant terminated employment with the NEDC prior to the period for which the funding was to cover. We estimate that at least \$8,640 was provided for a period in which the position was vacant.
- S The NEDC spent \$16,882 to purchase real estate. Neither EZ/EC or NRP funds could be used for these purchases. As such, we believe the NEDC did not comply with terms of the grant agreements.

- S As of June 30, 1999, the NEDC's balances in its bank accounts was \$424, raising serious doubts about its ability to continue as a going concern.
- S The MCDA was responsible for processing NRP payments to the NEDC. We found that the MCDA employee assigned to review payment documentation, Mr. Willie Adams, was also a Board member of the NEDC. This condition created an appearance of a conflict of interest. Mr. Adams should not have been approving payments to an organization for which he was a Board member.
- S The NEDC issued checks made payable to JLS Productions, Inc., which were endorsed by Mr. James Stroud, a Board member of the NEDC. No invoices were provided to us for JLS Productions, Inc.; consequently, we were unable to determine the nature of services provided by JLS Productions, Inc. These payments totaled \$11,570.
- S The NEDC acquired the property located at 1504 Irving Avenue North in October 1997 for \$469. According to information obtained from the City Assessor's Office, the property was transferred by a quit claim deed on February 11, 2000, to Mr. James Stroud, a Board member of the NEDC.
- S Our review of available vendor invoices found a payment for auto repairs totaling \$296. The license plate listed on the vendor invoice was for a vehicle registered to Mr. Charles Graham, an NEDC Board member. Other payments to auto repair businesses were found totaling \$540. We were unable to determine who incurred these expenditures.
- S We found monthly payments to the NEDC by Mr. Charles Graham, an NEDC Board member, in the amount of \$132, between May 1998 and February 1999 totaling \$1,054. It is not clear as to the nature of these payments; however, some of Mr. Graham's personal checks contained a notation that the payments were for a car loan.
- S During the period covered by our procedures, the NEDC made payments to consultants totaling \$47,884. No invoices were provided to us for these payments that would document the nature of services provided. Also, despite our specific request, we were not provided with 1099 forms for the above consultants, thus precluding a verification of compliance by the NEDC with federal tax laws.

- S We found that the Secretary of State was unable to locate any registration information for many of the businesses authorized by the NEDC to receive loan proceeds. Minnesota law requires certain registrations. Also, none of these businesses could be identified as registered with the Minnesota Department of Revenue, raising questions as to their tax status in Minnesota. Loans to these businesses totaled \$121,700.



## **INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

City of Minneapolis

In October 1999, the Office of the State Auditor (OSA) entered into an agreement with the City of Minneapolis (City) to perform certain agreed-upon procedures reviewing financial activities of the Northside Economic Development Council (NEDC) of Minneapolis, Minnesota. The NEDC is a nonprofit corporation created in 1995. The NEDC contracted with the City and the Minneapolis Community Development Agency (MCDA) to administer loan funds. The City's request arose from concerns that grant funds provided to the NEDC by the City were not being spent for their intended purpose. After several attempts by City officials to obtain information from the NEDC, a notice of termination of the NEDC grant agreements with the City and the MCDA was sent to the NEDC by the City Attorney's Office on April 7, 1999. The notice also requested a return of all program funds previously disbursed to the NEDC totaling \$589,397. To date, no funds have been returned to the City.

For six months, the OSA attempted to obtain documentation from the NEDC necessary to begin its agreed-upon procedures. After numerous requests, the OSA issued two subpoenas to Mr. Robert Woods, Executive Director of the NEDC, in an attempt to obtain the necessary documents. It was not until July 2000 that the OSA received the final documents available from third parties to conduct this engagement.

We have performed the procedures listed below, which were agreed to by the City, solely to assist the City in determining if City funds provided to the NEDC for the period June 1, 1996, through June 30, 1999, were expended in accordance with terms of the grant agreements. This agreed-upon procedures engagement 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 City.

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. The procedures performed:

- S Review documentation relating to the receipts and disbursements by the NEDC of Neighborhood Revitalization Program (NRP) and Empowerment Zones/Enterprise Communities (EZ/EC) Program funds, including contracts, lease agreements, invoices, claims, loan documents, pertinent communications, and all information regarding real and personal property purchased with the funds.
- S Review any and all documentation from any financial institution accounts that these funds were deposited into or withdrawn/dispensed from, including signature cards, canceled checks, bank statements, deposit slips, and checkbook registers.
- S Review meeting minutes of the NEDC Board, Loan Committee, or any other committee or subcommittee at which these funds were discussed or referenced.
- S Review names of past and present NEDC employees and Board members.
- S Perform other procedures necessary to determine if the NRP and EZ/EC funds have been properly accounted for and the expenses as reported by the NEDC are eligible for reimbursement under those programs.

The objective of our procedures was to determine if funds provided to the NEDC by the City were spent in accordance with the related grant agreements. Our procedures were not designed to express an opinion on procedures and controls of the NEDC taken as a whole, and we do not express such an opinion. Because of inherent limitations in any system of controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

The following presents the results of our procedures.

**Review documentation relating to the receipts and disbursements by the NEDC of NRP and EZ/EC funds, including contracts, lease agreements, invoices, claims, loan documents, pertinent communications, and all information regarding real and personal property purchased with the funds.**

1. Records

The following records requested, and subsequently subpoenaed, by the OSA were not provided by the NEDC:

- S General ledger (only first half of 1997 was provided)
- S Receipts journal
- S Time sheets
- S Canceled checks

These records are needed to account for the financial activities of the NEDC. They are crucial in understanding the types of funds received by the organization as well as how those funds were used. The absence of these records precludes a complete understanding of the NEDC's financial activities.

In addition to the absence of certain records, the following documents provided by the NEDC to the OSA were incomplete:

- S Lease agreements
- S Invoices and claims
- S Loan documents
- S Bank statements
- S Deposit slips
- S Information relating to real and personal property purchased by the NEDC

As a result of the above conditions, we requested information from the NEDC's financial institutions relating to deposits and withdrawals. We also obtained information from third parties to the extent possible, including records obtained from the NEDC's private auditor for the year ended September 30, 1997. The records obtained from the private auditing firm were more complete than the records we obtained directly from the NEDC for our engagement. These sources, together with the information indicated above, serve as the primary basis for the findings in this report.

Regarding compliance with terms of funding agreements, both the NRP and City (EZ/EC Program) funding agreements call for the NEDC to maintain all necessary documentation and enforce sufficient internal controls as required by generally accepted accounting principles to properly account for expenses under the agreements. In addition, records for these programs were to be retained for a period of three years after the agreements are terminated or until a final accounting had been made of the work performed, whichever was later. Given the condition of the records provided to us, in our opinion, the NEDC has not complied with the funding agreements for the terms just noted.

2. Cash Collections and Disbursements for the NEDC

The length of time covered by this report is June 1, 1996, through June 30, 1999. We were informed by the NEDC that two checking accounts and one savings account maintained at two financial institutions accounted for all the organization's financial activities for this period. Based on the information provided to us by those financial institutions, and on verifications from the City, we identified the following amounts of cash collected by the NEDC from which we have based our findings in this report:

City of Minneapolis (EZ/EC Program)	\$ 139,900
Neighborhood Revitalization Policy Board (NRP Program)	449,497
Loan repayments (loans issued with EZ/EC and NRP funds above)	93,128
Marley Fest	6,485
Operating loan from bank	15,000
Unknown sources (unable to obtain any further information)	<u>23,090</u>
Total Cash Collected	<u><u>\$ 727,100</u></u>

Due to the absence of many records, determining the detail of cash disbursements by the NEDC was not fully possible. However, through a review of canceled checks, available vendor invoices, and reimbursement requests, the following were identified as cash disbursements:

Administration expenses (EZ/EC Program)	\$ 12,035
Administration expenses (NRP Program)	153,062
Loans issued to businesses	266,888
Marley Fest	38,815
Repayment of operating loan	15,000
Unknown uses (unable to obtain any further information)	<u>240,876</u>
 Total Cash Disbursed	 <u><u>\$ 726,676</u></u>

It is significant to note that a total of \$240,876 of NEDC expenses lacked sufficient information for us to determine how the funds were used.

### 3. NEDC Loan Program - Loans Authorized by the City and NRP

Funds were provided to the NEDC from the City and NRP for the purpose of issuing loans to local businesses based on selected criteria. We reviewed reimbursement requests submitted to the City and NRP by the NEDC to identify those businesses for which funds were requested. We found that a significant portion of the funds received from the City and NRP were not disbursed to those businesses previously identified by the NEDC as recipients of the loan proceeds. The following summarizes the source and use of loan proceeds for the period of our engagement:

<u>Loans Approved by City (EZ/EC) and NRP</u>	<u>Loan Amount Approved</u>	<u>Funding Source</u>	<u>Loan Proceeds Issued to Businesses</u>
Anytime Delivery	\$ 25,000	NRP	\$ 25,000
Battery Outlet	20,000	NRP	20,000
Brooke Personnel	50,000	NRP	-
Car-B-Q Grill	35,000	NRP	-
Hawk Video	15,000	NRP	10,000
JE Imaging	50,000	NRP	50,000
Lowry Electronics	20,000	EZ/EC	20,000
National Programming Network	35,000	NRP	-
Pride, Inc.	10,000	EZ/EC	-
Rainbow Country Bowling	30,000	NRP	30,000
Romeo Enterprises, Inc.	25,000	NRP	30,188
Value Added Concepts	25,000	EZ/EC	25,000
WVL Property Management	<u>4,500</u>	NRP	<u>-</u>
 Total	 <u><u>\$ 344,500</u></u>		 <u><u>\$ 210,188</u></u>

The above chart indicates that the NEDC received \$344,500 to be used for loans to local businesses. However, only \$210,188 in loan proceeds were issued to the approved businesses, with some businesses not receiving any proceeds. As a result, the NEDC received loan proceeds from the City and NRP totaling \$134,312 that were not used for their intended purpose. Therefore, the NEDC was not in compliance with the terms of the grants for the use of City and NRP funds. The remaining balance of \$134,312 should have been returned to the City and/or NRP.

In addition, the OSA questions the entire \$210,188 that was loaned to approved businesses.

S The NRP and City agreements called for the NEDC to maintain a revolving loan fund to be accounted for separately in the accounting records. Repayments of principal and interest were to be recorded in this fund and used to originate additional loans under the programs. No information on a revolving loan fund was provided to us. Further, we have documentation that indicates some loan repayments were received by the NEDC, but no evidence exists that the NEDC issued any additional loans with the repayments. These conditions lead us to conclude that the repayments of principal and interest on loans issued with EZ/EC and NRP Program funds were spent. Therefore, we conclude that the NEDC was not in compliance with the NRP and City requirements for maintaining loan records or originating additional loans with the repayments.

S The remaining unpaid balances on the loans totaling \$210,188 have not been collected by the NEDC, in violation of the grant agreements. To the best of our knowledge, no one has pursued collection on the outstanding loans.

#### 4. Unauthorized Loans Issued by the NEDC

Funds were provided by the City and NRP to the NEDC for loans to specific businesses identified by the NEDC as recipients of these funds. However, we found that loans were issued to businesses that were not approved by the City or NRP. Further, due to the absence of most Board minutes and Loan Committee minutes, it is unclear whether disbursements to the businesses listed below received approval from the NEDC Board. The following businesses received unauthorized loan proceeds:

By Golly Company	\$ 3,700
Cheese Hand Car Wash	3,000
PI Enterprises	<u>50,000</u>
 Total Unauthorized Loans	 <u>\$ 56,700</u>

The issuance of the above loans by the NEDC without approval from the City and NRP results in noncompliance by the NEDC with terms of the grant agreements.

5. Issuances of Certain Loans Questioned

As previously stated, we were provided with very limited records of the loans issued by the NEDC. However, from the information available for our review, we question the propriety of issuing loans to the following businesses previously identified in paragraphs three and four:

**S** Loans were made to PI Enterprises in South Minneapolis and Value Added Concepts in Eden Prairie. These businesses are located outside the geographical area for which the City and NRP funds were authorized. The grant agreements covered loans for businesses within the Minneapolis Northside area. The amounts of the loans issued to these businesses totaled \$75,000.

**S** Based on a loan confirmation obtained from the NEDC's previous auditor for the year ended September 30, 1997, it appears that loan proceeds provided to the By Golly Company were used to pay off personal debts. The reply on a confirmation from Mr. David Johnson, who represented himself as president of By Golly Company, states:

I did receive a business loan from Northside Economic Development in the amount of \$3,700 plus interest. This money was used to pay some outstanding personal bills made by me thus improving my chances toward being approved for a second business loan from a second lending institution.

**S** Based on our review of available Board minutes, it appears a loan to Lowry Electronics for \$20,000 is uncollectible because the business dissolved shortly after the loan was issued.

6. NEDC Loan Program - Loan Records

Mr. Robert Woods, the NEDC's Executive Director, provided the OSA with files of some of the prospective borrowers, including promissory notes. However, the files were incomplete. From our review of available information, the following was noted:

- S No ledgers or other records were provided to us that recorded individual loans issued together with payments received of principal and interest on the loans. Without such a record, we are unable to verify whether payments from borrowers were correctly deposited in the NEDC bank accounts. Also, we are unable to verify the amounts remaining outstanding on individual loans and whether there are any delinquent accounts.
- S From our review of bank deposits, it appears many cashier's checks were used to make payments on loans. However, because cashier's checks do not provide any indication of the remitter's name, we could not determine the correct application of these deposits to individual loan accounts.
- S Although some borrowers were required to sign promissory notes for the loan proceeds, indications were that the principal amount of the loan was not entirely paid over to the borrower at the time the note was signed. Rather, incremental payments were made to the businesses despite having signed a note for the full amount of the loan. Based upon procedures performed, this occurred on the loans issued by the NEDC to JE Imaging, PI Enterprises, Value Added Concepts, Romeo Enterprises, and Lowry Electronics.
- S For four of 11 loans issued, we were not provided with the related promissory notes. Therefore, we cannot be certain that promissory notes were required of the borrowers.
- S The period covered by our procedures extended through June 30, 1999. As such, it is unclear whether any ongoing loan repayments have been made to the NEDC. We do note, however, that in April 1999, the NEDC was notified by the City that the EZ/EC and NRP grant agreements were being terminated and that all funds previously disbursed to the NEDC should be returned to the City. As such, we conclude that any loan repayments collected by the NEDC should be returned to the City.



7. Marley Fest

In 1997, a community event called Marley Fest was held. It appears that the NEDC helped organize the Marley Fest, which included providing financing for expenses of the event. Expenses of the Marley Fest were not, however, an eligible cost under either the City or NRP funded programs.

S According to available information, at least \$38,815 in expenses were incurred by the NEDC for this event. However, only \$6,485 in known receipts from the event were deposited into the NEDC's bank accounts. The difference between receipts and expenses resulted in a loss of approximately \$32,330. This loss amount exceeds the \$23,090 of "Unknown sources" referenced on page 8. Therefore, City or NRP funds would have been used to cover the expenses. Since these funding sources were not to be used for Marley Fest, if any City and NRP funds were used for this event, the funds were inappropriately spent.

S Tickets were sold for admission to this event. However, we were unable to determine if all ticket proceeds from the event were deposited into the NEDC's bank accounts. The records provided to us were insufficient to verify the total amount of collections for the event.

8. NRP Administrative Funding - Questioned Costs

NRP funding was provided to the NEDC as reimbursement for administrative expenses. Our procedures found the NEDC was reimbursed \$1,444 for administrative expenses by the NRP for which no expense was actually incurred. Rather, checks issued by the NEDC were returned by the bank or failed to clear the bank.

NSF checks of the NEDC

Check number	
2018	\$ 467
2020	434
2021	29

Checks which never cleared the bank

Check number	
2214	500
2480	4
2532	4
2598	6
	<hr/>

Total Questioned Costs \$ 1,444

9. Checks Written for Cash

In reviewing copies of the NEDC's canceled checks, we found that the following checks were written for cash and all signed by Mr. Robert Woods, Executive Director of the NEDC.

<u>Check Number</u>	<u>Date</u>	<u>Amount</u>
2043	September 30, 1996	\$ 374
2050	October 10, 1996	30
2008	February 13, 1997	2,700
2046	June 19, 1997	7,905
2369	June 20, 1997	620
2383	June 25, 1997	2,520
2394	June 30, 1997	1,725
2395	June 30, 1997	7,250
2403	June 30, 1997	15
2519	October 10, 1997	30
2499	February 3, 1998	650
2767	May 8, 1998	<u>504</u>
Total		<u><u>\$ 24,323</u></u>

From the records provided to us, we could find no information as to how these funds were spent. Therefore, we question the \$24,323 as eligible expenses of City and NRP funds. Due to the NEDC's limited funding sources, we believe either the EZ/EC or NRP Program funds must have been used for these checks. We find the writing of checks for cash, if used for the City's programs, to be highly unusual and irregular. Generally, program expenses are paid through the use of business checks, not cash.

10. Purpose of Cashier's Checks Unknown

The documentation available did not allow us to verify the use of the following cashier's checks purchased by the NEDC:

Eight checks dated October 9, 1996	\$ 3,483
Two checks dated October 18, 1996	340
One check dated June 19, 1997	620
One check dated June 27, 1997	<u>750</u>
Total	<u><u>\$ 5,193</u></u>

As with the checks above written for cash, we could find no information to explain why cashier's checks were purchased. Again, any expenses of City programs should be paid through the use of business checks. Therefore, we question the \$5,193 as eligible expenses of City and NRP funds.

11. Payroll and Related Expenses

As previously stated, we were not provided any source documentation, including time sheets, for the period under review. The grant agreements require source documents to be maintained to support payroll expenses. Time sheets represent the source documents that serve as the primary basis for charging salary-related costs to the organization's different programs. The absence of time sheets precludes any meaningful explanations as to how Mr. Robert Woods, Executive Director of the NEDC, and other NEDC staff incurred salary expenses relating to the City and NRP funded programs. Because no source documents, including time sheets, were provided to us to verify the validity of salary-related expenses charged, we are questioning all regular payroll expenses, totaling \$143,481, charged to the City and NRP funded programs.

In addition to regular payroll expenses noted above, we found the following conditions while reviewing payments to the NEDC's Executive Director and other staff members:

S     Payments noted as salary advances were paid to Mr. Robert Woods, Executive Director, and Ms. Katherine Lucas, a staff member of the NEDC, in the following amounts:

Robert Woods	
1998	\$ 4,000
1999	<u>8,900</u>
Total	<u>\$ 12,900</u>
Katherine Lucas	
1996	\$ 679
1998	994
1999	<u>250</u>
Total	<u>\$ 1,923</u>
Total Salary Advances	<u><u>\$ 14,823</u></u>

Of the above payments, there is no indication in available records that Mr. Woods and Ms. Lucas ever repaid these advances to the NEDC. Also, none of the above payments were processed through the NEDC's payroll service. Finally, no evidence exists to indicate that these advances had ever been presented to the NEDC Board for approval. For the years 1996 and 1998, Mr. Woods and Ms. Lucas received their regular salaries in addition to the salary advances. Therefore, we question whether the salary advances were appropriate.

It appears that no federal or state taxes were withheld from these salary advances. In addition, it appears that the salary advances were not reported as wages to the appropriate tax authorities.

**S** Payments noted as bonuses/benefits were paid to Mr. Woods and Ms. Lucas in the following amounts:

Robert Woods	
February 25, 1997	\$ 3,728
May 9, 1997	1,678
January 5, 1998	4,153
April 15, 1998	<u>4,138</u>
Total	<u>\$ 13,697</u>
Katherine Lucas	
February 18, 1997	\$ 4,160
May 7, 1997	4,160
November 24, 1997	4,368
April 10, 1998	<u>3,444</u>
Total	<u>\$ 16,132</u>
Total Bonuses/Benefits	<u><u>\$ 29,829</u></u>

Of the above payments, \$ 5,406 paid to Mr. Woods and \$8,320 paid to Ms. Lucas were not processed through the NEDC's payroll service. There was no evidence to indicate that the NEDC Board had approved these payments totaling \$29,829.

Except for the withholding of FICA and Medicare on some of the payments to Mr. Woods and Ms. Lucas, it appears that no federal or state taxes were withheld from these bonuses/benefits. In addition, it appears that some of these bonuses/benefits were not reported as wages to the appropriate tax authorities.

- S The City, through its EZ/EC Program, provided funding to the NEDC to be used for salary expenses of an office assistant. From information included on the reimbursement request to the City, we found that the funds were to be used for NEDC staff member, Ms. Tameka Jefferson. The NEDC received two payments from the City for the following periods of time:

November 1, 1997, through January 31, 1998	\$ 4,320
February 2, 1998, through May 30, 1998	<u>8,640</u>
Total	<u><u>\$ 12,960</u></u>

Our review of Ms. Jefferson’s employment status found she terminated employment during the pay period ended January 9, 1998. Due to the absence of any time records, it is unclear as to her final day of employment. However, since she left prior to the end of January 1998, the NEDC received at least \$8,640 to cover the salary expense of Ms. Jefferson, who no longer worked at the NEDC. The position was vacant at least through May 1998, but there is no indication that these funds were returned to the City. Therefore, \$8,640 was not used for its intended purpose.

12. Purchase of Properties

The use of City and NRP Program funds to acquire property is inconsistent with terms of the grant agreements. We found that the NEDC purchased the following property:

- S Tax-forfeited land was purchased by the NEDC. According to Hennepin County’s records, the following properties in Minneapolis were purchased October 30, 1997:

<u>Address</u>	<u>Purchase Price</u>
208 Cedar Lake Road	\$ 1,142
2016 Glenwood Avenue North	1,678
610 Morgan Avenue North	469
2309 Golden Valley Road	572
2211 Illion Avenue North	6
	7
	6
1127 Humboldt Avenue North	<u>676</u>
Total Cost of Property Purchased	<u>\$ 5,213</u>

Hennepin County's records indicate that as of September 21, 2000, the NEDC still owned the properties located at 2211 Illion Avenue North and 1127 Humboldt Avenue North and that property taxes were paid on May 11, 2000. The other properties had reverted back to Hennepin County.

According to the director of the NRP Policy Board and City officials responsible for administering the EZ/EC Program, the use of their funds to purchase real property is not allowed. Due to the absence of sufficient records, it is unclear which funds the NEDC used to purchase these properties. However, because non-public funds collected by the NEDC were very minimal, and because the NEDC did not provide sufficient records to fully account for the use of various funding sources, we believe that public funds were used to purchase the above properties as well as pay the assessed property taxes.

- S** In addition to the above purchases on October 30, 1997, the NEDC also acquired the property located at 1504 Irving Avenue North. The purchase price was \$469. As with the properties above, we believe that public funds were used to purchase this property.

According to information obtained from the City Assessor's Office, we found that on February 11, 2000, this parcel was transferred by a quit claim deed to Mr. James Stroud. Mr. Stroud was an NEDC Board member since 1998. We found no evidence of compensation to the NEDC for this transfer of title to Mr. Stroud.

S Further, in 1997, the NEDC entered into a contract for deed for real property located at 1830 Glenwood Avenue North. On May 25, 2000, the contract for deed was canceled, and title was transferred to a third party for \$1. Prior to the transfer of title to a third party, payments on the contract for deed by the NEDC totaled \$11,200. We believe that public funds were used to make these contract for deed payments.

**Review any and all documentation from any financial institution accounts that these funds were deposited into or withdrawn/dispursed from, including signature cards, canceled checks, bank statements, deposit slips, and checkbook registers.**

1. Financial Institutions

We were informed by Mr. Robert Woods, Executive Director of the NEDC, that the organization's bank accounts were maintained at two financial institutions-- US Bank and Wells Fargo Bank. We were provided the account numbers for two checking accounts and one savings account. Mr. Woods was unable to provide us with the majority of bank statements, deposit slips, and canceled checks/withdrawal information for the period of our review. As a result, we had to obtain copies of available information directly from the financial institutions.

2. Summary of Financial Activities

Due to the absence of a general ledger, receipts journal, and disbursements journal, extensive time was spent to review deposit slips, canceled checks, and other account information in an effort to gain an understanding of the financial activities of the NEDC during the period covered. The Wells Fargo Bank account was opened on June 26, 1996; the US Bank checking and savings accounts were opened November 20, 1996. Our procedures cover all financial activities of these accounts from inception through the ending balances on June 30, 1999. Those financial activities are summarized as follows:

	Beginning Balance June 1, 1996	Deposits	Withdrawals	Ending Balance June 30, 1999
Wells Fargo Bank checking	\$ -	\$ 658,555	\$ 658,555	\$ -
US Bank checking	-	375,478	375,175	303
US Bank savings	-	8,539	8,418	121
Total	<u>\$ -</u>	<u>\$ 1,042,572</u>	<u>\$ 1,042,148</u>	<u>\$ 424</u>

Included in the above totals for deposits and withdrawals are numerous transfers between the three bank accounts totaling \$323,444. Due to the number of transfers and the absence of documentation to explain their nature, it was not possible to separate any of the bank accounts by funding sources.

As noted in the chart above, most of the NEDC's funds had been spent as of June 30, 1999. This condition raises doubt over the ability of the organization to continue as a going concern.

**Review meeting minutes of the NEDC Board, Loan Committee, or any other committee or subcommittee at which these funds were discussed or referenced.**

1. Missing Minutes

No record was provided to indicate how many times the NEDC Board and Loan Committee met during the period covered. However, if meetings occurred monthly, we estimate that the NEDC Board and Loan Committee would have each held 37 meetings. The Board minutes provided to us covered only eight meetings, and the Loan Committee minutes covered only two meetings.

Minutes of the NEDC Board and Committee meetings are essential in determining the actions of the organization relative to the approvals of loans to businesses, as well as approving other contracts and expenses of the organization. Board minutes should also present information on current program activities and how they are funded.

The minutes we were provided contained no discussions on loans to be issued to businesses in the community. In fact, they contained little substance at all. Therefore, it is unclear whether all Board members were aware of the loans to be issued by the organization or whether other matters that should have been important to Board members were ever discussed. Also, because so few meeting minutes were provided to us, it is unclear exactly how many times the Board actually met during the period covered. We have some evidence of agendas being prepared, but such information is not conclusive in knowing whether meetings were actually held.



**Review names of past and present NEDC employees and Board members.**

1. Related Party Activities

S We learned that Mr. Willie Adams, an employee of the Minneapolis Community Development Agency (MCDA), was responsible for approving requests for reimbursement of funds submitted by the NEDC. We also found that Mr. Adams was an NEDC Board member between 1996 and 1998. This situation created an appearance of a conflict of interest. As a Board member of the NEDC, Mr. Adams should not have been in a position to approve payments to the NEDC from the MCDA.

S During the period covered, the NEDC utilized the services of several consultants, including JLS Productions, Inc. Payments to JLS Productions, Inc., were:

1998	\$ 10,270
1999	<u>1,300</u>
Total	<u>\$ 11,570</u>

Our review of the NEDC's canceled checks made payable to JLS Productions, Inc., found that the checks were endorsed by Mr. James Stroud, Incorporator of JLS Productions, Inc. Mr. Stroud was an NEDC Board member since 1998. Due to the absence of records, we were unable to determine what services may have been provided by JLS Productions, Inc.

According to available records, it also appears that JLS Productions, Inc., received a loan from the NEDC in the amount of \$1,550, which was subsequently repaid.

S As previously stated under the heading "Purchase of Properties," the NEDC acquired the property located at 1504 Irving Avenue North in October 1997. According to information obtained from the City Assessor's Office, the property was transferred by a quit claim deed on February 11, 2000, to Mr. James Stroud.

- S We found four NEDC checks totaling \$1,614 that were made payable to TST Travel. The endorsement on the back of the checks was signed by Mr. Charles Graham. Mr. Graham was an NEDC Board member during the period under review. The Secretary of State was unable to locate any registration information for TST Travel.
- S From our review of available vendor invoices, we found a payment of \$296 made by the NEDC for automobile repairs. The license plate number listed on the vendor invoice was for a vehicle registered to Mr. Charles Graham at that time. In addition, other payments to auto repair businesses were found totaling \$534. We were unable to determine who incurred these expenditures.
- S From deposit information received from financial institutions, we found monthly payments to the NEDC by Mr. Charles Graham in the amount of \$132 between May 1998 and February 1999 totaling \$1,054. It is not clear as to the purpose for these payments. However, some of Mr. Graham's checks contained the notation that the payments were for a car loan. Our review of available records found no payments to Mr. Graham that would be indicative of a loan.

**Perform other procedures necessary to determine if the NRP and EZ/EC funds have been properly accounted for and the expenses as reported by the NEDC are eligible for reimbursement under those programs.**

In the course of our procedures, the following additional matters came to our attention:

1. The NEDC's articles of incorporation filed with the Minnesota Secretary of State's Office, specifically states that "[t]he Corporation [NEDC] is organized exclusively for charitable, educational, religious, or scientific purposes within the meaning of section 501(c)(3) of the Internal Revenue Code." A "charitable organization" is defined as an organization that "engages in or purports to engage in solicitation for a charitable purpose." See Minn. Stat. § 309.50. Pursuant to Minnesota law, certain charitable organizations must file a registration statement and annual reports of activities with the Minnesota Attorney General's Office. See Minn. Stat. §§ 309.515 and 309.52.

We contacted the Attorney General's Office and were informed that the NEDC did not file a registration statement and annual reports of activities. During our review of NEDC records, we were unable to determine the purpose for which the NEDC received various non-government funds. If the NEDC solicited funds for charitable purposes, it may have been required to file a registration statement and annual reports of activities with the Attorney General's Office.

2. Filing With the Internal Revenue Service (IRS)

We were provided an IRS Form 990 (Return of Organization Exempt from Income Tax) for the NEDC's fiscal year 1996. However, the form was not signed by any NEDC officials. In addition, we were not provided any information regarding the NEDC's tax exempt status under the Internal Revenue Code, nor were we provided any 990 forms for 1997, 1998, and 1999, raising further questions whether any filings with the IRS occurred for any period of time during the period covered.

3. Consultant Payments

For the period under review, the NEDC made payments to the following vendors for consultant services:

JLS Productions, Inc.	\$ 15,570
Larry Tucker & Associates, Inc.	1,185
Jeanette Davenport	10,400
Al Brown	1,084
PFW Consulting, Inc.	2,275
Houston Tolbert	5,000
Chris Boik	1,575
Chris Kirksey	2,961
George Sanger	250
Net & Trust	1,034
Associates By Design	400
Robert Schleeter	5,000
John Lai	1,100
Lonnie Gaine	<u>50</u>
Total	<u><u>\$ 47,884</u></u>

For the above vendors, no invoices were provided to us by the NEDC to support the payments. Also, despite our specific requests and subpoenas, we were not provided with any 1099 forms for the above vendors, thus precluding a verification of compliance by the NEDC with federal and state tax laws.

4. Loan Recipients Not Registered With the Secretary of State

We found that the following businesses were authorized by the NEDC to receive loans or received loan proceeds from the NEDC. However, the Minnesota Secretary of State was unable to locate any registration information for these businesses.

<u>Recipient</u>	<u>Amount of Loan</u>
By Golly Company	\$ 3,700
Car-B-Q Grill	35,000
Cheese Hand Car Wash	3,000
Rainbow Country Bowling	30,000
Romeo Enterprises, Inc.	25,000
Value Added Concepts	<u>25,000</u>
Total	<u>\$ 121,700</u>

Minnesota Statutes § 302A.151 requires all corporations to file articles of incorporation. It is possible, however, that these businesses were entities not required to be incorporated with the Secretary of State, such as a sole proprietorship. This does not exempt a business from filing a certificate with the Secretary of State when operating the business under an assumed name. Minnesota Statutes § 333.01 requires such filings when operating with an assumed name.

We also found that none of the above businesses could be identified as being registered with the Minnesota Department of Revenue, raising questions as to their tax status in Minnesota.

5. Fiscal Year-End

The NEDC's by-laws provided to the OSA call for its fiscal year-end to be December 31. However, its last annual audit covered the period ended September 30, 1997.

Conclusion

Throughout the entire examination, we have been hampered by the absence of significant number of records that would explain how City funds were used by the NEDC. The findings presented above can identify, only in part, the nature of the expenses incurred by the NEDC.

By accepting funds from the City's EZ/EC and NRP Programs, the NEDC was required to retain all records necessary to account for program expenses until a final external review of program activities had been completed. The NEDC has failed to comply with this requirement. Given the extent of questionable expenses disclosed in our findings, and due to the limited resources of the NEDC other than City funding, it is clear that public funds were used inappropriately. As a result of these conditions, it is our conclusion that the NEDC Board and its Executive Director did not administer funds of the City's EZ/EC Program and the NRP Policy Board's Program in accordance with the terms of the grant agreements.

In its April 7, 1999, letter, the Minneapolis City Attorney's Office notified the NEDC that the EZ/EC and NRP agreements were being terminated and that all funds previously disbursed to the NEDC should be returned. Based on our findings enumerated in this report, we concur with the City's demand for the return of funds totaling \$589,397. The NEDC Board and Executive Director have failed to account for and expend public funds in accordance with grant agreements.

\* \* \* \* \*

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. 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 use and information of officials of the City of Minneapolis, who requested the work, and the Minneapolis Neighborhood Revitalization Policy Board and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/ Judith H. Dutcher*

JUDITH H. DUTCHER  
STATE AUDITOR

October 30, 2000

*/s/ Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR