

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**KINGFIELD NEIGHBORHOOD ASSOCIATION**  
**MINNEAPOLIS, MINNESOTA**

**AGREED-UPON PROCEDURES**

**NOVEMBER 10, 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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**KINGFIELD NEIGHBORHOOD ASSOCIATION  
MINNEAPOLIS, MINNESOTA**

**November 10, 2010**



**Agreed-Upon Procedures**

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

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**KINGFIELD NEIGHBORHOOD ASSOCIATION  
MINNEAPOLIS, 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  
Kingfield Neighborhood Association

We have performed the procedures enumerated below, which were agreed to by the Kingfield Neighborhood Association (KNA) 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 KNA. These procedures were applied to the KNA's records as of November 10, 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 KNA 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 KNA 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 KNA has written policies and procedures for financial operations (receipting, disbursing, purchasing, personnel, conflict of interest policy, etc.).

Findings

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

3. Procedure

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

Findings

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

01-3 Segregation of Duties

Due to the limited number of office personnel within the KNA, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the KNA; 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 KFNA Board understands the difficulty of having adequate segregation of duties with such a small staff, and furthermore understands their fiduciary responsibility to review Treasurer's Reports regularly and question any irregularities. The Board empowers the KFNA Executive Committee to review and modify financial reporting and tracking procedures, as necessary, to assure that clear segregation of duties and communication is maintained.*

07-1 Bank Reconciliation Process

In the previous audit, we found that the bank reconciliation process involved comparing checks and deposits from the bank statement to amounts recorded in the KNA's records. However, there was no comparison between the bank balance and the KNA's book balance. We also found that bank reconciliations were not initialed by the preparer, although the reconciliations were electronically dated when prepared. Initialing the reconciliations helps create accountability over the reconciliation process. The current review found that the bank reconciliations are comparing the bank balance and the book

balance. However, the ending register balance does not tie to the general ledger in 11 of the 12 months. We also found that the bank reconciliation for May 31, 2010, was not signed by the preparer and the approver.

We recommend that the bank reconciliations ending register balance tie to the general ledger. We also recommend that the bank reconciliations be signed and dated by the preparer and the approver.

Client's Response:

*As was noted, we have corrected the previous practice so that the bank balance and book balance are compared at the end of each month. We do know that the difference in the reconciliation of the ending register to the general ledger is due to the software we are using, as well as the date of the reconciliation which is at least one week or two after month end. The KFNA Bookkeeper will continue to initial the reconciliations after preparing them alongside the electronic date that the computer already places on each report, as will the approver.*

07-2 Receipt Log

In the previous audit, we found that a receipt log is not maintained for funds received at the KNA office. A receipt log should be kept by the person opening the mail. Amounts in the log should then be compared with bank deposits and recordings in the general ledger. Information in the log should include the date funds are received, remitter of the funds, program to be credited, and initials of the individual recording the entry. In the current audit, we noted no changes.

We recommend that the KNA implement a receipts log.

Client's Response:

*KFNA does not feel there is a need for a physical receipt log as all money brought into the organization is logged in by the Executive Director who makes sure it is attributed to the correct line item. We will continue to photocopy all checks that come into the office and itemize all direct deposits with the coding necessary for them to be allocated to the correct categories but do not feel the need to itemize cash deposits in a separate journal.*

## ITEMS ARISING THIS YEAR

### 10-1 Disbursements

During the review of disbursements, we noted that the KNA is not following its disbursement policy contained in the Kingfield Neighborhood Association Financial Policy. The policy states that prior to approval for payment, invoices from vendors and payment request vouchers, with receipts attached, submitted by employees requesting reimbursement for KNA expenses, will be reviewed and coded with the proper account code by the Executive Director. Depending on the size of the invoice/expense, different levels of approval are required prior to payment. Of the 15 payments reviewed, 4 did not contain coding, 6 did not contain a signature of approval, and 5 were missing supporting documentation (invoices or receipts).

We recommend the KNA follow the policies approved by its Board to ensure that payments made are for proper and approved expenses of the KNA.

#### Client's Response:

*Since the KFNA policy was written, communication with vendors and customers has changed. Some invoices are now paid through electronic funds transfers and other bills are submitted electronically. The payments for these often regular/expected bills have their coding memorized in the computer so this additional documentation and coding by the Executive Director is not always necessary. We will review and amend our policy concerning disbursements so these instances are clarified as to when coding and separate invoices are necessary.*

### 10-2 Safekeeping of Records

The KNA's bank statement for the month of February, including the images of canceled checks, could not be located.

We recommend the KNA retain its bank statements and check images to provide proper support for its disbursement process.

#### Client's Response:

*KNA will retain their bank statements and check images to provide proper support for their disbursement process.*

### 10-3 Preparation of Time Sheets

Our current review noted an absence of a consistent process for having the Executive Director's time sheets approved. Documentation to support expenses is fundamental to a sound accounting system. The absence of properly prepared time sheets can reduce the reliance placed on payroll expenses as recorded in the general ledger. The KNA Financial Policy says the KNA's President is responsible for approving the time log of the Executive Director on a monthly basis. Our current review found that time sheets of the Executive Director are not being approved.

We recommend that the Executive Director's time sheets be reviewed and approved with a sign-off by the President or a member of the KNA's Board of Directors.

#### Client's Response:

*KFNA will amend their process to have the Executive Director's timecards reviewed electronically by an officer for approval of payment and will maintain records of this also.*

### PREVIOUSLY REPORTED ITEM RESOLVED

#### **Allocation of Payroll Expenses (06-1)**

The KNA's payroll expenses for each pay period are allocated to three different programs on a relatively equal basis. As such, this allocation method may not reflect the actual amount of time incurred for each program. This process has not been approved by the KNA's Board or its funding organizations.

#### **Resolution**

The NRP verbally approved the process for the allocation of payroll expenses.

### 4. Procedure

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

#### Findings

We found that the KNA has procedures in place to account for donations, fixed assets, and long-term obligations.

5. Procedure

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

Findings

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Timeliness of Reimbursement Requests

The previous reports have stated that the KNA's requests for reimbursement of NRP expenses are not prepared in a timely manner. Timely requests for reimbursement help ensure adequate cash flows to fund current operations. Our current review found no change in this condition. For example, one reimbursement request covering an eight-month time period was created four months after the reporting period ended.

We again recommend that requests for reimbursement be submitted to the NRP at least quarterly.

Client's Response:

*KFNA reimbursement process has not caused a shortfall of cash during the past year; KFNA will continue to submit NRP reimbursements in a timely manner to assure adequate cash flow for the organization.*

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 KNA'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 Kingfield Neighborhood 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

November 10, 2010

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**KINGFIELD NEIGHBORHOOD ASSOCIATION  
MINNEAPOLIS, MINNESOTA**

**Schedule 1**

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

**Cash Inflows**

**Public support and other**

Government grants		
Minneapolis Community Planning and Economic Development (CPED)	\$	4,000
Neighborhood Revitalization Program (NRP)		107,009
City of Minneapolis		16,628
Hennepin County		2,449
Building Façade Improvement Program		49,026
Other donations		10,515

<b>Total public support</b>	<b>\$</b>	<b>189,627</b>
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**Other**

Events		9,403
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<b>Total Cash Inflows</b>	<b>\$</b>	<b>199,030</b>
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**Cash Outflows**

Payroll	\$	68,066
Payroll services		663
Professional services		1,145
Accounting services		1,868
Office rent		3,361
Bank charges		90
Advertising		3,798
Printing		5,566
Rebates		5,040
Insurance		1,515
Operating		1,267
Office supplies		517
Postage		2,272
Grants		18,127
Contract advance repayment		24,578
Artist compensation		3,737
Projects		6,050
Events		3,756

<b>Total Cash Outflows</b>	<b>\$</b>	<b>151,416</b>
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<b>Excess of Cash Inflows Over (Under) Cash Outflows</b>	<b>\$</b>	<b>47,614</b>
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**KINGFIELD NEIGHBORHOOD ASSOCIATION  
MINNEAPOLIS, MINNESOTA**

*Schedule 2*

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

<b>Grants Receivable</b>	
NRP Contract #25257	\$ 47,830
NRP Contract #14923	4,623
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<b>Total Grants Receivable</b>	<b><u>\$ 52,453</u></b>
<b>Advances Outstanding</b>	
NRP Contract #25257	\$ 30,000
NRP Contract #14923	6,213
NRP Contract #24718	3,750
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<b>Total Advances Outstanding</b>	<b><u>\$ 39,963</u></b>

**Accounts Payable**

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

**Long-Term Debt**

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