

# STATE OF MINNESOTA

## Office of the State Auditor



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

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MANAGEMENT AND COMPLIANCE REPORT  
PREPARED AS A RESULT OF THE AUDIT OF THE  
**MINNEAPOLIS YOUTH COORDINATING BOARD**  
**MINNEAPOLIS, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 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.

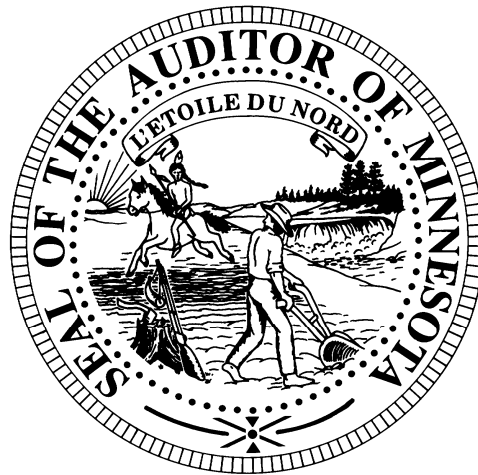
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MINNEAPOLIS YOUTH COORDINATING BOARD  
MINNEAPOLIS, MINNESOTA**

**For the Year Ended December 31, 2010**



**Management and Compliance Report**

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

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**MINNEAPOLIS YOUTH COORDINATING BOARD  
MINNEAPOLIS, MINNESOTA**

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**MINNEAPOLIS YOUTH COORDINATING BOARD  
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Minneapolis Youth Coordinating Board and its staffing limits the internal control that management can design and implement into the organization. This situation is not unusual in operations the size of the Youth Coordinating Board, but the Board 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 internal control and accounting point of view.

Generally, segregation of duties can be attained with the hiring of additional personnel; however, this becomes a significant cost consideration to entities such as the Youth Coordinating Board. Under the above conditions, the most effective system of control lies in the knowledge of the Board regarding the Youth Coordinating Board's operations and the periodic review of those operations. We recommend the Board be mindful that limited staffing causes inherent risks in safeguarding the Youth Coordinating Board's assets and the proper reporting of its financial activity.

Client's Response:

*Although bank transactions and vendor maintenance tasks are completed by the City of Minneapolis, strict segregation of duties within the Youth Coordinating Board itself is difficult to obtain due to limited staff. While the Youth Coordinating Board of Directors will be notified of the concerns regarding segregation of duties, staff will continue to explore ways to alleviate these concerns.*

## PREVIOUSLY REPORTED ITEMS RESOLVED

### **Audit Adjustments (08-1)**

The 2009 financial statements included several material audit adjustments that were identified during the audit.

### **Resolution**

No audit adjustments were identified during our audit of the 2010 financial statements.

### **Financial Statement Preparation (08-3)**

In 2009, the Youth Coordinating Board relied on its independent auditors to assist in the preparation of the basic financial statements as part of its external financial reporting process.

### **Resolution**

The Youth Coordinating Board prepared its own trial balance and financial statements.

### **Monitoring of Financial Activity (08-4)**

Adjustments were required off the books to record or correct general ledger balances for financial statement preparation.

### **Resolution**

Entries were recorded in the general ledger systems leaving few off-books adjustments for financial statement preparation.

## **II. OTHER ITEM FOR CONSIDERATION**

### GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for the Minneapolis Youth Coordinating Board for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.



## Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The Youth Coordinating Board should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The Youth Coordinating Board can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balance and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Youth Coordinating Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Additional implementation steps could include deciding on how fund balance will be presented in the financial statements, such as detailed vs. aggregate methods, and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:

[http://www.auditor.state.mn.us/other/Statements/fundbalances\\_postGASB54\\_1012\\_statement.pdf](http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf).



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## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board Members  
Minneapolis Youth Coordinating Board

We have audited the financial statements of the governmental activities and the General Fund of the Minneapolis Youth Coordinating Board as of and for the year ended December 31, 2010, which collectively comprise the Youth Coordinating Board's basic financial statements, and have issued our report thereon dated November 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Minneapolis Youth Coordinating Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Youth Coordinating Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Youth Coordinating Board's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Youth Coordinating Board's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Recommendations as item 04-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Minneapolis Youth Coordinating Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in the areas of contracting and bidding, deposits and investments, and public indebtedness. The contracts entered into by the Minneapolis Youth Coordinating Board are for services; the legal compliance guide does not pertain to this type of contracting. The City of Minneapolis has custody of the Minneapolis Youth Coordinating Board's deposits and is responsible for compliance. Relative to public indebtedness, the Youth Coordinating Board is not authorized to issue debt.

The results of our tests indicate that, for the items tested, the Minneapolis Youth Coordinating Board complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the Minneapolis Youth Coordinating Board, and we are reporting it for that purpose.

The Minneapolis Youth Coordinating Board's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the Youth Coordinating Board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Minneapolis Youth Coordinating Board, management, and others within the Youth Coordinating 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

November 28, 2011