

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LYNDALE NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

AGREED-UPON PROCEDURES

December 5, 2013

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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**LYNDALE NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

December 5, 2013



Agreed-Upon Procedures

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

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**LYNDALE NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report on Applying Agreed-Upon Procedures		1
Statement of Financial Position	1	8
Statement of Activity	2	9
Statement of Functional Expenses	3	10

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REBECCA OTTO
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INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors
Lyndale Neighborhood Association

We have performed the procedures enumerated below, which were agreed to by the Lyndale Neighborhood Association (LNA) and the Neighborhood and Community Relations Department of the City of Minneapolis (NCR), 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 NCR funding being provided to the LNA. These procedures were applied to the LNA's records as of December 5, 2013. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the LNA and the NCR. 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 LNA is current with required filings (Attorney General's Annual Charitable Registration Report Form, Secretary of State's Annual Registration, Internal Revenue Service's Form 990 - Return of Organization Exempt From Income Tax and Form 941 - Employer's Quarterly Federal Tax Return, and Minnesota Department of Revenue's Income Tax Withholding).

Findings

ITEM REPORTED THIS YEAR

12-1 Secretary of State's Annual Registration

The LNA was not current with its Secretary of State's Annual Registration. Per the filing history on the Secretary of State's website, the LNA last completed an annual registration on March 17, 2011. Because the registration was not renewed in 2012, an involuntary dissolution occurred on February 27, 2013. The LNA updated its annual registration on September 17, 2013, and is now active on the Secretary of State's website. The renewal due date for this registration is now December 31, 2014. We recommend controls be implemented to ensure that the LNA continues to stay current with this annual registration.

Client's Response:

LNA has added the Secretary of State Registration to our schedule of annual reports. We mistakenly thought this report was completed as a part of the filings related to the audit the past couple of years and did not become aware of the issue until this fall during the financial review, since we had not received any correspondence from the Secretary of State's office that our report was overdue as required by statute.

2. Procedure

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

Findings

ITEM REPORTED THIS YEAR

12-2 Update Policies and Procedures

The following LNA policies should be updated to reflect current procedures:

- The LNA is using debit cards for its office checking account; however, these cards are not addressed in the Board-approved financial policies. One card is used by the Executive Director, and the second card is used by other employees at the discretion of the Executive Director. The financial policies and procedures should document the use of the debit cards and the approval process by the Executive Director for other employees' use of a debit card.

- Payroll is processed two business days before the direct deposit date in order for the funds to be in employees' accounts on pay day. Since there are LNA staff who are part-time, their hours need to be estimated before the end of the pay period in order to be paid on time. Employees may not work the exact hours that were estimated. In these cases, the employee will make an adjustment on their next time sheet. This process is not addressed in the financial policies.
- The LNA has a petty cash fund that is maintained by the bookkeeper. A cash request form is to be filled out to receive cash and a receipt or invoice is to be provided to the bookkeeper after the purchase. This process is not documented in the LNA's financial policies.

We recommend the LNA document these practices in its policies and procedures manual and also document the review and approval of the employee debit card purchases, the adjustments to the time sheets, and the petty cash usage.

Client's Response:

The aforementioned procedures are long-standing LNA practices. The use of the office checking account is noted in LNA's financial procedures. LNA believes that current practices do conform to the intention of the check signing provision currently listed in LNA's policies, since expenditures from this account require the Executive Director's permission. The addition of the debit card several years ago streamlined the use of the office account, which saves LNA staff time, and helps with stores that no longer accept checks. LNA will clarify the use of the debit card and petty cash fund in its policies.

The process of paying part-time employees will be added to the financial policies and procedures.

3. Procedure

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

Findings

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

10-1 Segregation of Duties

Due to the limited number of personnel performing the business functions of the LNA, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the LNA; 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 internal control point of view.

Client's Response:

LNA recognizes this issue exists due to the size of the organization; to the best of its ability LNA has established processes and systems to mitigate this issue.

10-3 Payroll Allocation

The LNA charges time to its funding sources using an allocation process. The allocation is based on the payroll expenses paid on a quarterly basis. The LNA uses a list of the grants they have received and budgets an equal amount to be realized each quarter. The payroll expenses will then be allocated to the different grants based on what is budgeted for that quarter and the appropriateness of the employee's job to that grant. The grant funds available for the allocation are documented on a spreadsheet along with the project or program they can be used for. However, the spreadsheet does not document which employees may work on these projects or programs. The spreadsheet could be improved by adding a column to document which employee's expenses are allowable to be charged to the grant.

Client's Response:

During the quarterly allocation process, the Executive Director and Office Coordinator use the spreadsheet as a guide in conjunction with the appropriate grant budgets to determine how to allocate employee expenses. LNA will add notes on eligible employee expenses to the spreadsheet.

ITEMS REPORTED THIS YEAR

12-3 Bank Reconciliations

The LNA financial policies state the bookkeeper will conduct bank reconciliations on all LNA bank accounts and the Executive Director will review them on a monthly basis. There is no evidence on the bank reconciliations to show who they were prepared by or if they were reviewed and approved. We recommend the preparer initial and date the reconciliation upon completion, and the Executive Director initial and date the reconciliation to document it was reviewed and approved.

Client's Response:

Currently the Office Coordinator prepares and the Executive Director reviews the bank reconciliations on a monthly basis. In the future, both parties will date and initial their work.

12-4 Transaction Not Recorded in General Ledger

A transaction was identified that was not included in the general ledger:

- The petty cash on hand does not reconcile to the general ledger balance by \$100. Per inquiry, these funds were used during the spring of 2013 for a welcome lunch for two new LNA employees. The receipts for this lunch were not received and given to the bookkeeper to record in QuickBooks, nor was a cash request form filled out, causing the \$100 difference.

We recommend an entry be made to the general ledger for this transaction so the general ledger will tie to the actual cash balance.

Client's Response:

LNA notes that the receipts for this one transaction did not get returned and will make the entry in the general ledger. The cash request form had been completed and was filed in the bookkeeper's "pending" file.

12-5 Payroll

During payroll testing, the following items were noted:

- Of the 14 permanent employee time sheets tested, one was not signed by the employee.
- As an exempt employee, the Executive Director does not complete time sheets.
- No documentation is maintained on the review of time sheets.
- The Executive Director reviews and approves the payroll only after it has been paid.

Time sheets should be completed and signed by all employees. Time sheets should be reviewed before payment is made to employees, and this review should be documented.

Client's Response:

LNA's current time sheet practices are consistent with the organization's Human Resources Policy and Financial Policies and Procedures. The Executive Director does review time sheets as a part of reviewing payroll, which includes initialing the payroll packet, which is filed by the Office Coordinator. LNA would like to note that the vast majority of its payroll expenses are for exempt staff who are paid the same amount each pay period.

LNA believes its current practices provide balance between employee accountability and making sure staff is spending as much time and energy as possible on accomplishing the organization's mission.

4. Procedure

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

Findings

Donations are accounted for through the LNA's general ledger. Fixed asset information is maintained on a schedule, which we viewed. Long-term obligations tied to payment schedules.

5. Procedure

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

Findings

Expenses requested for reimbursement tied to the accounting records and supporting disbursement documentation, except for the payroll allocation noted above.

6. Procedure

Prepare a Statement of Financial Position, Statement of Activity, and Statement of Functional Expense based on the LNA's accounting records.

Findings

The Statement of Financial Position, Statement of Activity, and Statement of Functional Expenses have been prepared based on the accounting records.

7. Procedure

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

Findings

The previous year's report findings have not been resolved for the LNA and are noted as such above.

8. Procedure

Assist with preparation of the Internal Revenue Service Form 990.

Findings

The Internal Revenue Service Form 990 is complete.

9. Procedure

Assist with preparation of the Minnesota Charitable Registration Form.

Findings

The Minnesota Charitable Registration Form is complete.

* * * * *

We were not engaged to and did not perform an audit of the LNA'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 Lyndale Neighborhood Association and the Neighborhood and Community Relations Department of the City of Minneapolis 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 5, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**LYNDALE NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012**

Assets

Current assets

Cash	\$ 64,365
Undeposited contributions	1,111
Grants and contracts receivable	129,222
Accounts receivable	707
Loans receivable	28,413
Prepaid items	1,349
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Total current assets **\$ 225,167**

Restricted assets

Restricted cash	43,789
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Property and equipment

Property and equipment net of depreciation	<hr/> 258,080
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Total Assets **\$ 527,036**

Liabilities and Net Assets

Current liabilities

Accounts payable	\$ 12,331
Accrued payroll	7,070
Deferred revenue	48,413
Security deposit	800
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Total current liabilities **\$ 68,614**

Long-term liabilities

Loans payable	<hr/> 71,609
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Total Liabilities **\$ 140,223**

Net Assets

Unrestricted	\$ 237,700
Temporarily restricted	<hr/> 149,113

Total Net Assets **\$ 386,813**

Total Liabilities and Net Assets **\$ 527,036**

**LYNDALE NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Unrestricted	Temporarily Restricted	Total
Public Support and Other Revenue			
Public support			
Government grants and contracts	\$ 245,727	\$ 14,876	\$ 260,603
Private grants and contributions	130,740	1,000	131,740
	\$ 376,467	\$ 15,876	\$ 392,343
Other revenue			
Ad sales	\$ 11,153	\$ -	\$ 11,153
Book sales	336	-	336
Rental income	12,610	-	12,610
Interest income	201	282	483
Miscellaneous	-	2,281	2,281
	\$ 24,300	\$ 2,563	\$ 26,863
Total Public Support and Other Revenue	\$ 400,767	\$ 18,439	\$ 419,206
Expenses			
Salaries and benefits	\$ 281,669	\$ -	\$ 281,669
Contracted services	3,666	-	3,666
Office	11,884	-	11,884
Program	95,175	-	95,175
Property	18,883	-	18,883
Depreciation	10,656	-	10,656
	\$ 421,933	\$ -	\$ 421,933
Increase (Decrease) in Net Assets	\$ (21,166)	\$ 18,439	\$ (2,727)
Net Assets - January 1	258,866	130,674	389,540
Net Assets - December 31	\$ 237,700	\$ 149,113	\$ 386,813

**LYNDALE NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<u>Expenses</u>				
Salaries and benefits				
Salaries	\$ 188,487	\$ 14,866	\$ 36,591	\$ 239,944
Payroll taxes	15,474	1,251	3,013	19,738
Benefits	15,520	-	6,030	21,550
Processing fees	-	437	-	437
Total salaries and benefits	\$ 219,481	\$ 16,554	\$ 45,634	\$ 281,669
Contracted services	2,550	1,116	-	3,666
Office	11,056	650	178	11,884
Program	95,175	-	-	95,175
Property	18,883	-	-	18,883
Depreciation	-	10,656	-	10,656
Total Expenses	\$ 347,145	\$ 28,976	\$ 45,812	\$ 421,933