

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

**HOLLAND NEIGHBORHOOD IMPROVEMENT
ASSOCIATION
MINNEAPOLIS, MINNESOTA**

AGREED-UPON PROCEDURES

JANUARY 30, 2006

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**HOLLAND NEIGHBORHOOD
IMPROVEMENT ASSOCIATION
MINNEAPOLIS, MINNESOTA**

January 30, 2006



Agreed-Upon Procedures

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

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STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors
Holland Neighborhood Improvement Association

We have performed the procedures enumerated below, which were agreed to by the Holland Neighborhood Improvement Association (HNIA) and the Minneapolis Neighborhood Revitalization Program Policy Board (NRP), solely to assist you with respect to ensuring adequate accounting procedures and other practices are being followed to account for and report on the use of NRP funding being provided to the HNIA. These procedures were applied to the HNIA's records as of January 30, 2006. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the HNIA and the NRP. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. Procedure

Determine if the HNIA is current with required filings (Attorney General, Secretary of State, and Internal Revenue Service).

Findings

Filings for the above items were found to be current.

2. Procedure

Determine if the HNIA has written policies and procedures for financial operations (receipting, disbursing, purchasing, personnel, etc.).

Findings

ITEM ARISING THIS YEAR

05-1 Accounting Policies and Procedures

The HNIA does not have formalized accounting policies and procedures. Written policies and procedures should exist to set forth requirements to account for such matters as the:

- receipt and deposit of funds,
- purchase of goods and services,
- approval and payment of bills,
- record keeping for payroll activities,
- reconciliation of bank accounts,
- accounting for fixed assets,
- accounting for the use of restricted funds and reimbursable grants,
- maintenance of various files, and
- interim financial reporting.

Without written policies and procedures to follow, there can be no assurance that accounting records and files will be maintained as intended and consistent from year to year.

We recommend that the HNIA develop written policies and procedures for its financial activities and that they be adopted by the Board.

Client's Response:

A written policy and procedure statement is in draft form, and once reviewed, the Board will ratify a final version.

3. Procedure

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

Findings

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-5 Segregation of Duties

Due to the limited number of office personnel within the HNIA, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the HNIA; however, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Client's Response:

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

02-1 Payroll Record Keeping

Previous reports have recommended improvements to payroll records including maintenance of the records, review and approval of time sheets, record keeping for vacation and sick leave accruals, and monitoring vacation and sick leave usage.

Our current review found the HNIA was beginning to implement the recommendations, but not to the extent we consider the conditions resolved. We found that supervisor approvals of time sheets was not current; also, review of vacation and sick leave usage was not performed on a regular basis.

We again recommend that approvals of time sheets and the monitoring of vacation and sick leave usage be performed in a timely manner.

Client's Response:

HNIA has instituted a system of tracking days off. We are also currently up-to-date on time sheets and are confident we will continue in this regard. The Board personnel officer will be responsible for compliance.

04-1 Receipts Journal

Our previous report noted that the HNIA did not maintain a receipts journal. A receipts journal serves as a source record for the recording of funds collected by the HNIA. Our current review found that a receipts journal was not being used. We recognize that the volume of HNIA collections in the office may not be significant. However, a formalized record should be established to account for those funds that are collected.

We again recommend that the HNIA implement a receipts journal. Information in the journal should include the date of collection, remitter of the funds, contract number (if available), program to be credited, and initials of the individual recording the entry.

Client's Response:

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

04-2 Cancellation of Vendor Bills

Our previous report noted that vendor bills were not being canceled to prevent a possible second payment for the same bill. Our current review found the same condition present. Though bills are marked with the general ledger coding, this in itself does not provide evidence that a payment has actually been made.

We again recommend that all pages of vendor bills be marked with the check number and date to provide evidence of cancellation.

Client's Response:

In general, once a check request has been processed, the invoice is regarded as paid. Additionally, we will now stamp invoices as "paid" to avoid duplicate payment. The Board treasurer will be responsible for compliance.

ITEM ARISING THIS YEAR

05-2 Debit Card

We found that the HNIA had acquired a debit card. Because purchases with a debit card can occur without following the normal approval process by the Board, policies should be in place to govern the use of the card.

We recommend that the HNIA Board adopt a comprehensive debit card policy. All purchases with a debit card must be supported with detailed receipts.

Client's Response:

Appropriate use of the debit card will be addressed in the financial policy and procedure statement. The Board treasurer will be responsible for compliance.

4. Procedure

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

Findings

The HNIA presently has no financial activities in the areas of donations and long-term obligations. Records are maintained for fixed assets.

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-3 Fixed Asset Records

Our previous report indicated that the HNIA's fixed asset records were not up to date. Our current review found the same condition present. The records had not been updated since the last fiscal year ended May 31, 2004.

We again recommend the HNIA Board establish procedures that call for a current schedule of fixed assets and related depreciation to be maintained.

Client's Response:

HNIA has obtained the most recent copy of asset/depreciation and the Board has been asked to update. Update will include the video camera. The Board president will be responsible for compliance.

5. Procedure

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

Findings

The accounting records appeared to support amounts requested for reimbursement. A process was in place to request reimbursement of NRP funding on a regular basis.

PREVIOUSLY REPORTED ITEM RESOLVED

Unallowed Expenses Charged to NRP Grant (03-1)

Our previous report identified an expense item valued at \$100 that was charged to NRP grant #C98-12839, and that did not appear to be allowable under terms of the grant.

Resolution

We found that \$100 was reduced from a subsequent reimbursement request under this grant.

6. Procedure

Follow up on previous year's report findings.

Findings

All findings from the previous report have been discussed above, except for the following item.

PREVIOUSLY REPORTED ITEM RESOLVED

Signing of Board Minutes (04-4)

Our previous report indicated that Board minutes were not signed by the preparer or a Board member. Minutes should be signed and dated to indicate that they are the official proceedings of the Board.

Resolution

Our examination of Board proceedings found that they were now signed and dated by the Board's Chair and Secretary.

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We were not engaged to and did not perform an audit of the Holland Neighborhood Improvement Association's financial statements, the objective of which would be the expression of an opinion on those financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Holland Neighborhood Improvement Association and the Minneapolis Neighborhood Revitalization Program Policy Board and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 30, 2006