

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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**MCKINLEY COMMUNITY**  
**MINNEAPOLIS, MINNESOTA**

**AGREED-UPON PROCEDURES**

**JANUARY 23, 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.

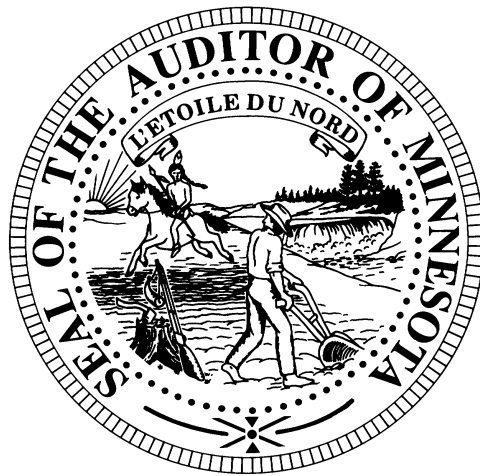
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MCKINLEY COMMUNITY  
MINNEAPOLIS, MINNESOTA**

**January 23, 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  
McKinley Community

We have performed the procedures enumerated below, which were agreed to by the McKinley Community 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 McKinley Community. These procedures were applied to the McKinley Community's records as of January 23, 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 McKinley Community 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 McKinley Community 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 McKinley Community has written policies and procedures for financial operations (receipting, disbursing, purchasing, personnel, etc.).

Findings

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

3. Procedure

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

Findings

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

01-2 Segregation of Duties

Due to the limited number of office personnel within the McKinley Community, segregation of the accounting functions necessary to ensure adequate internal control is not possible. This is not unusual in operations the size of the McKinley Community; 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:

*As noted we are a small organization, so the difficulties of segregating everything can be trying; but we have all financial duties split between five people (three Board members and our Bookkeeper and staff) since we updated the official segregation of duties roster in 2004/5.*

01-7 Coding and Approval of Invoices

Previous reports have recommended improvements to the approval and coding process for invoices. Our current review noted some improvement in this condition, but not to the extent to consider the matters resolved.

We again recommend that vendor invoices contain the initials and dates of individuals approving bills for payment and that they be marked with the appropriate general ledger coding.

Client's Response:

*We are continually trying to improve our invoice procedures, and feel we have made significant improvements after our procedures were rewritten and a new bookkeeper was hired in 2005. Also, we continually try to monitor the process to make sure it is working properly.*

03-5 Time Sheet Records

Our previous report noted that only a few time sheets from one employee were provided to us, and no time sheets were available for the Executive Director. Our current review found time sheets to be on hand and approved by the Board Chair. However, one employee is not signing his time sheets. As time sheets represent a source document for the employee claiming hours worked, they should also be signed by the employee acknowledging the hours as indicated.

We recommend that all time sheets be signed by employees.

Client's Response:

*We now require that all staff turn in time sheets weekly to the Board Chair. Procedures were more lax or just not followed previously, but those procedures were also tightened in 2005.*

ITEM ARISING THIS YEAR

05-1 Cancellation of Invoices

We found that 6 of 25 invoices tested were not canceled. Invoices should be canceled to prevent a possible second payment for the same bill.

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

Client's Response:

*Procedures will be put in place and/or clarified to make this process work better. We are also going to purchase a rubber stamp that states "cancel" to help this new process.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**General Ledger Accounting (01-3)**

Our previous report identified numerous documents not provided to us, creating uncertainty as to the accuracy of the general ledger. We disclaimed an opinion on the financial statements.

**Resolution**

Invoices, time sheets, and the content of the general ledger appeared to be complete.

**Timely Preparation of Bank Reconciliations (03-4)**

Our previous report recommended that bank reconciliations be performed on a timely basis, preferably within two weeks after statements are received.

### **Resolution**

We found that the timeliness of the reconciliations has improved, to the extent we consider the matter resolved. However, we recommend that McKinley Community's policy for processing bank statements be followed, which calls for the Treasurer to review and initial the reconciliations.

#### 4. Procedure

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

#### Findings

At the time of our fieldwork, the McKinley Community did not have any donations or long-term obligations. We found that a computer and a copy machine had been purchased. Records to account for these items seemed adequate.

#### 5. Procedure

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

#### Findings

### PREVIOUSLY REPORTED ITEM NOT RESOLVED

#### 03-1 Double Billings to the Same Grant

Our previous report noted that amounts totaling \$7,201.61 were billed twice to the same grant, under different request forms. Our current review found that amounts totaling \$3,161.51 were returned to the NRP. Adjustments totaling \$3,632.25 to grant #C98-12736 were approved by the NRP, leaving an outstanding balance of \$407.85 to be resolved with the NRP.

We again recommend that the McKinley Community officials discuss this questioned cost amount with the NRP officials to determine a resolution.

#### Client's Response:

*Bev Banks from NRP was the responsible party for getting this issue resolved, so most inquiries can be directed to her; however, we are attempting to help to get this issue cleared up. Issue was due to very poor reimbursement requests in previous years, but we have streamlined that process; and we do requests more often so these type of errors do not occur again.*

## PREVIOUSLY REPORTED ITEMS RESOLVED

### **Grant Expenses Reimbursed from the Wrong Program (03-2)**

Our previous report found that grant reimbursements received under a citizen participation grant from the Minneapolis Community Planning and Economic Development Department, totaling \$2,012.97, should have been charged to an NRP program. Funds received under grant #C98-12949, totaling \$1,133.50, should have been charged to other NRP programs and a citizen participation grant. We recommended that McKinley Community officials discuss these questioned costs with officials of the NRP Policy Board and Community Planning and Economic Development Department to determine a resolution.

### **Resolution**

Through discussions with the NRP Specialist for the McKinley Community, we were informed that because the expenses could have been charged to any of the grants involved, no further actions would be taken to reallocate the expenses to different grant programs.

### **Questioned Costs for Undocumented Expenses (03-3)**

Our previous report questioned amounts totaling \$495 under NRP grant #C98-12736 and \$1,301.56 under NRP grant #C98-12949, due to the absence of documentation to support the expenses reimbursed.

### **Resolution**

Through discussions with the NRP Specialist for the McKinley Community, we were informed that after reviewing the expenses involved no further action would be taken on this finding.

## 6. Procedure

Follow up on previous year's report findings.

### Findings

In addition to our follow-up on the items discussed above, we followed up on the remaining report findings from the previous audit, as noted below:

## PREVIOUSLY REPORTED ITEMS RESOLVED

### **Timeliness of Reimbursement Requests (03-6)**

Our previous report noted that delays in requesting reimbursement from the NRP for expenses incurred had caused a significant decline in cash flows. We recommended that procedures be implemented to improve the timeliness of submitting reimbursement requests to the NRP.

**Resolution**

Our current review of this condition found sufficient progress in submitting reimbursement requests to consider this condition resolved.

**Bank Charges Reimbursed by NRP Grants (03-7)**

Our previous report indicated that the McKinley Community was reimbursed for overdraft charges under NRP grant #C98-12736. Bank charges related to overdrafts are not an eligible cost under NRP grants. We recommended that the McKinley Community determine if bank officials will relieve the neighborhood of overdraft charges.

**Resolution**

We were informed that bank officials agreed to remove current bank charges from the McKinley Community's account, but did not agree to provide the account free of future charges. As a result, the McKinley Community has opened a new account in a different bank.

\* \* \* \* \*

We were not engaged to and did not perform an audit of the McKinley Community'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 McKinley Community 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 23, 2006