

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**WEBBER CAMDEN NEIGHBORHOOD ORGANIZATION**  
**MINNEAPOLIS, MINNESOTA**

**AGREED-UPON PROCEDURES**

**OCTOBER 26, 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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**WEBBER CAMDEN NEIGHBORHOOD ORGANIZATION  
MINNEAPOLIS, MINNESOTA**

**October 26, 2010**



**Agreed-Upon Procedures**

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

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**WEBBER CAMDEN NEIGHBORHOOD ORGANIZATION  
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  
Webber Camden Neighborhood Organization

We have performed the procedures enumerated below, which were agreed to by the Webber Camden Neighborhood Organization (WCNO) 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 WCNO. These procedures were applied to the WCNO's records as of October 26, 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 WCNO 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 WCNO 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 WCNO has written policies and procedures for financial operations (receiving, disbursing, purchasing, personnel, conflict of interest policy, etc.).

Findings

ITEM ARISING THIS YEAR

10-1 Accounting Policies and Procedures

The written accounting policies and procedures are out of date and do not match the WCNO's current accounting practices. One example is related to the authorized check signers. The Executive Director is not listed as an authorized signer in the policy but does sign checks.

We recommend the WCNO update its accounting policies and procedures and have the Board of Directors approve the changes.

Client's Response:

*Webber-Camden Neighborhood Organization will update its accounting policies and procedures to match current accounting practices as appropriate and present the changes to the Board of Directors at the regular meeting in February 2011.*

3. Procedure

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

Findings

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

07-5 Recordings in the General Ledger, Audit Adjustments, and Restatements

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 of the financial statements on a timely basis. Statement on Auditing Standards No. 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the WCNO's financial statements will not be prevented, or detected and corrected, on a timely basis.



During the previous year's audit, several items were miscoded in the general ledger that had to be corrected on the financial statements. During the current agreed-upon procedures review, one item was noted. An accounts payable was recorded on December 31, 2009, in the amount of \$5,136. The corresponding receivable from the NRP was not recorded. The receivable should also be recorded in the period it is earned.

We recommend that procedures be established to strengthen the reliability of the general ledger information being presented. We also recommend that the Board review monthly financial reports of the WCNO for accuracy and appropriateness.

Client's Response:

*Webber-Camden Neighborhood Organization will employ accounting services to review the General Ledger information prior to presentation to the Board of Directors for approval at regular monthly meetings.*

07-6 Bank Reconcilements

In previous audits, we found bank balances did not reconcile with the general ledger or that bank reconcilements were not being maintained. The current review found that all reconcilements were accounted for relating to 2009. However, the December 2009 bank reconcilement did not reconcile to the general ledger. Upon review, two 2010 checks were included in the outstanding checks portion of the reconcilement that should not have been. Once these checks were removed, the reconcilements tied to the general ledger.

We recommend that any differences on bank reconcilements be examined and resolved. We also recommend that bank reconcilements be reviewed and signed by a member of the Board.

Client's Response:

*It will be proposed to the Board of Directors that the bank reconcilements be done as part of the Accountant's monthly services and presented to the Board for the Treasurer's signature prior to or during the regular monthly meeting. This will be reflected in the changes to the Financial Policy and Procedures.*

ITEM ARISING THIS YEAR

10-2 Expense Documentation

Supporting documentation could not be located for four of ten expenses reviewed. In addition, five of the ten checks were issued before the Treasurer reviewed and approved the expense. Expense documentation is a fundamental requirement of a sound

accounting system. It is the primary evidence used to support and explain the nature of the organization's cash outlays and expenses recorded in the general ledger. Without documentation, reliability of the information in the general ledger is severely diminished.

We recommend that the WCNO's Board implement procedures requiring documentation for all payments made to vendors and that the documentation follow a proper approval process prior to payment being made. All documentation should be filed in a secure location.

Client's Response:

*Folwell Neighborhood Association will present itemization of all expenses made on Webber-Camden's behalf per the Service Agreement. This practice was fully implemented in 2010 in response to the previous audit and additionally, copies of FNA expenses accompany all reimbursement requests to NRP from the Webber-Camden Neighborhood Organization*

4. Procedure

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

Findings

Donations are accounted for through the WCNO's general ledger. Amounts viewed were not significant. The WCNO had no fixed assets or long-term obligations.

5. Procedure

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

Findings

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-3 Service Agreement with Folwell Neighborhood Association

The WCNO has an agreement with the Folwell Neighborhood Association (FNA), which calls for the FNA to provide administrative services and carry out program activities of the WCNO. The agreement states that the FNA shall submit itemized billings each month for services performed. We found that, in 2007, the FNA began taking draws against the WCNO's bank accounts rather than submitting itemized accounts of expenses incurred. This practice continued in 2008 and 2009. We are not aware of any subsequent accounting of expenses compared to the draws that were taken. This condition is not in compliance with the service agreement.

We recommend that the WCNO's Board require the FNA to submit to the Board itemized expenses. The Board should determine if the expenses submitted are allowable under terms of the service agreement and authorize their payment. We further recommend that the WCNO's Board prohibit the practice of allowing unsupported draws against the WCNO's bank account by the FNA. The WCNO's Board should only allow payments to the FNA based on terms of the service agreement.

Client's Response:

*The reimbursement requests are accompanied by itemizations of expenses. Evert effort will be made to synchronize authorization for payments, in writing on approved vouchers prior to payout.*

ITEM ARISING THIS YEAR

10-3 Over-Reimbursement

Our review found the support for reimbursement request number 41 for the NRP Phase I contract showed expenses of \$10,078.42. This amount was transposed when it was put on the reimbursement request form. The amount requested and received was \$10,708.42. This resulted in an over-reimbursement of \$630.

We recommend the WCNO review this over-payment with the NRP Policy Board to determine a resolution.

Client's Response:

*WCNO did review this finding and \$630.00 was reimbursed to the NRP on Reimbursement Request #4, dated October 16, 2010.*

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

Except for the adjustment to grants receivable listed in finding 07-5, the schedules of grants receivable, accounts payable, and advances outstanding tied to the accounting records. There were no 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, with the exception of the following item. This item did not fall under any of the agreed-upon procedures for this engagement and will be carried forward for the next audit.

08-1 Internal Control/Financial Statement Preparation

Management is responsible for establishing and maintaining internal control. This responsibility includes internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the adequacy 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 WCNO and its staffing limit the internal control that management can design and implement in the organization.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that the Office of the State Auditor prepare the annual financial statements and related notes. This arrangement is not unusual for an operation the size of the WCNO. This decision was based on the availability of the WCNO's staff and the cost benefit of using our expertise.

We recommend the WCNO be mindful that limited staffing causes inherent risks in safeguarding the WCNO's assets and the proper reporting of its financial activity. We recommend the WCNO's Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

*No response.*

\* \* \* \* \*

We were not engaged to and did not perform an audit of the Webber Camden Neighborhood Organization'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 Webber Camden Neighborhood Organization 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

October 26, 2010

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**WEBBER CAMDEN NEIGHBORHOOD ORGANIZATION  
MINNEAPOLIS, MINNESOTA**

**Schedule 1**

**STATEMENT OF CASH INFLOWS AND OUTFLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**Cash Inflows**

**Public support and other**

**Public support**

Government grants	\$	2,000
Minneapolis Community Planning and Economic Development		106,192
Neighborhood Revitalization Program - Phase I		9,686
Neighborhood Revitalization Program - Phase II		<u>9,686</u>

**Total public support** **\$ 117,878**

**Other**

Race fees		<u>1,100</u>
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**Total Cash Inflows** **\$ 118,978**

**Cash Outflows**

**Functional**

Accounting fees	\$	332
Contract services		71,093
Supplies		1,061
Program expense		13,396
Printing and copying		3,716
Postage and mailing service		418
Books and subscriptions		1,477
Other		1,565
Rent		3,799
Telephone		3,599
Insurance		79
Bank fees		7
Program administration		<u>21,043</u>

**Total Cash Outflows** **\$ 121,585**

**Excess of Cash Inflows Over (Under) Cash Outflows** **\$ (2,607)**

**WEBBER CAMDEN NEIGHBORHOOD ORGANIZATION  
MINNEAPOLIS, MINNESOTA**

*Schedule 2*

**SCHEDULE OF RECEIVABLES AND PAYABLES  
DECEMBER 31, 2009**

<b>Grants Receivable</b>	
NRP Phase I	<u>\$ 5,136</u>
<b>Advances Outstanding</b>	
NRP Phase I	\$ 990
NRP Phase II	<u>5,400</u>
<b>Total Advances Outstanding</b>	<u>\$ 6,390</u>
<b>Accounts Payable</b>	
Folwell Neighborhood Association	<u>\$ 15,172</u>

**Long-Term Debt**

The Webber Camden Neighborhood Organization had no long-term debt outstanding at year-end.