

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

YEAR ENDED DECEMBER 31, 2009

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**

Year Ended December 31, 2009



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, 2009**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS 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:

While maintaining strict segregation of accounting duties with only a small staff is a continuing concern, we do rely on the City of Minneapolis to manage all banking transactions and maintain all vendor information. The Youth Coordinating Board will continue to keep management and board members fully informed of the concerns regarding segregation of duties.

08-1 Audit Adjustments

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 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we identified the following material adjustments that were reviewed and approved by the Finance Director and are reflected in the financial statements.

- Cash and intergovernmental revenue were increased by \$129,606 to correct entries made by the City of Minneapolis in 2009 for duplicate receipts recorded in 2008. These entries were correctly reflected in the Minneapolis Youth Coordinating Board's 2008 financial statements; the entries made to the general ledger in 2009 needed to be reversed.
- Cash, intergovernmental revenue, and deferred revenue were adjusted by \$136,827 to correct a reversing entry; this entry did not need to be reversed.
- Deferred revenue and fund balance - unreserved were adjusted by a net amount of \$45,824 for the following entries:
 - \$34,045 to correctly state the beginning balances in both accounts;
 - \$136,827 to correct the client's reversing entry because deferred revenue should have been reversed instead of fund balance; and
 - \$56,958 to record the final year of the Local Collaborative Time Study (LCTS) payback activity.
- Fund balance was decreased and due to other governments was increased by \$179,940 to record an amount owed to the City of Minneapolis due to an overpayment in the prior year.

We recommend the Minneapolis Youth Coordinating Board modify internal controls necessary to determine that all adjusting entries are made to ensure the Board's annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

While reviewing quarterly financial reports, the Youth Coordinating Board will consult with the City of Minneapolis Finance Department to make sure that all adjustments are made in a timely manner. Many of the previous audit adjustments were due to the conversion to a new accounting system and therefore have been resolved.

08-3 Financial Statement Preparation

The Minneapolis Youth Coordinating Board is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements is the responsibility of the Youth Coordinating Board's management.

Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate financial statements, including the related notes to the financial statements.

The Youth Coordinating Board has established controls and procedures for recording, processing, and summarizing its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, the Youth Coordinating Board has relied on its independent auditors to assist in the preparation of the basic financial statements as part of its external financial reporting process. Accordingly, the Youth Coordinating Board's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance of its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the Youth Coordinating Board's decision to have the auditors adjust and balance the trial balance used in creating the financial statements. As a result of this condition, the government lacks internal control over the preparation and reporting of financial statements in accordance with GAAP.

We recommend the Youth Coordinating Board continue to work on preparing the trial balance and financial statements in accordance with GAAP. If the Youth Coordinating Board still intends to have staff from the Office of the State Auditor assist in preparation, then at a minimum, it must review, understand, and approve the Youth Coordinating Board's financial statements. As an alternative, the Youth Coordinating Board could hire an outside consultant to assist in preparing its basic financial statements.

Client's Response:

The Youth Coordinating Board will seek assistance from the City of Minneapolis Finance Department when questions arise while preparing financial statements so that the auditors can maintain their independence.

08-4 Monitoring of Financial Activity

Though it is not required to do so, the Minneapolis Youth Coordinating Board uses the City of Minneapolis' general ledger system for recording its financial transactions. On January 1, 2008, the City of Minneapolis implemented a new general ledger system that again included the Youth Coordinating Board. Although financial transactions are being entered into the general ledger on a daily basis, many adjustments are required off the books to record or correct general ledger balances.

We recommend that, since the Youth Coordinating Board has access to the general ledger system and is able to extract information on its financial transactions in the system throughout the year, monitoring of account balances should be performed to ensure that the correct activity is being recorded and reflected in the financial statements.

Client's Response:

Quarterly Financial reports are being reviewed by both the Finance Manager and the Executive Director to make sure that all transactions are reflected accurately and completely.

PREVIOUSLY REPORTED ITEM RESOLVED

Prior Period Adjustment (08-2)

The 2008 financial statements included a restatement to reflect the correction of a misstatement of the previous year's financial statements.

Resolution

No adjustments were necessary to restate the prior year's financial statements.

II. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as 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 reserved, unreserved, designated, and undesignated are being replaced by 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 requirements of GASB Statement 54 are effective for the Minneapolis Youth Coordinating Board for the year ending December 31, 2011.

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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, 2009, which collectively comprise the Youth Coordinating Board's basic financial statements, and have issued our report thereon dated April 27, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 08-1 to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 04-1, 08-3, and 08-4 to be significant deficiencies.

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 Local Government*, 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 Local Government* 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 it is reported for that purpose.

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

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

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/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 27, 2011