

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

WEBBER CAMDEN NEIGHBORHOOD ORGANIZATION
MINNEAPOLIS, MINNESOTA

AGREED-UPON PROCEDURES

NOVEMBER 17, 2011

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**

November 17, 2011



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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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 November 17, 2011. 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

PREVIOUSLY REPORTED ITEM RESOLVED

Accounting Policies and Procedures (10-1)

The written accounting policies and procedures were out of date and did not match the WCNO's accounting practices.

Resolution

The WCNO revised its accounting policies and procedures and received Board approval 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 on a timely basis. A material weakness is 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.

In previous years, we noted items were incorrectly entered in the general ledger that had to be corrected for financial reporting. During the current agreed-upon procedures review, we noted a receivable was recorded on September 19, 2011, for reimbursement request No. 9 on the NRP Phase II contract which credited the related expenses instead of revenue. This resulted in both the revenues and expenses being understated by \$10,797.

We recommend the entry be corrected and 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:

The entry will be corrected and the monthly financial reports will be reviewed by the organization's accountant prior to presentation.

07-6 Bank Reconcilements

In previous years, we found bank balances did not reconcile with the general ledger and bank reconcilements were not maintained. The current review found bank balances reconciled to the general ledger and reconcilements were maintained on file. However, only one bank reconciliation for the current year was reviewed and signed by a member of the Board. Reviewing bank reconcilements is an oversight control designed to detect errors or irregularities in a timely manner.

We recommend that bank reconcilements be reviewed on a regular basis and signed by a member of the Board.

Client's Response:

Bank reconciliations will be prepared by the accountant and reviewed and signed by the Treasurer prior to the creation of monthly financial reports.

10-2 Expense Documentation

In the previous year, supporting documentation for expenses could not be located in several instances, and some checks were issued before the supporting documentation was reviewed and approved by the Treasurer. The current review found supporting documentation could not be located for one of ten expenses reviewed. In addition, two of five checks were issued before the Treasurer reviewed and approved the expense, one of which was never reviewed and approved by the Treasurer. Six of ten electronic funds transfers to the Folwell Neighborhood Association had documentation that was not reviewed and approved by someone other than the preparer. 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:

Every effort will be made to insure expense documentation (vouchers and supporting documents) are properly executed as required by current financial policies.

ITEM ARISING THIS YEAR

11-1 Late Expense Payments

The WCNO's accounting policies and procedures address the timeframe to pay expenses of the neighborhood. They state, "under no circumstances should payment be delayed beyond 30 days of receipt of an invoice and/or an approved payment request." Two of five disbursements tested were paid more than 30 days after the invoice date. Paying expenses after the due date could lead the WCNO to incur late fees and other penalties.

We recommend the WCNO follow its accounting policies and procedures and pay its expenses within 30 days of receipt of the invoice and/or approved payment request form.

Client's Response:

Every effort will be made to pay expenses in a timely manner and according to the existing financial policy and coordinated with reimbursement requests to maintain cash flow.

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 ITEMS 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 through 2010. 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. The Executive Director stated that a new service agreement is being developed.

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 allow payments to the FNA only based on terms of the service agreement. The WCNO is currently working on a new agreement with the FNA that will include new procedures for billing the WCNO.

Client's Response:

The new service agreement that will be presented for approval early in 2012 will address this issue including specification for the invoice procedure.

10-3 Over-Reimbursement

Our previous review found the support for reimbursement request No. 41 for the NRP Phase I contract showed expenses of \$10,078. This amount was transposed when it was put on the reimbursement request form. The amount requested and received was \$10,708. This resulted in an over-reimbursement of \$630. No documentation was provided during this review for the repayment of funds to the NRP.

We recommend the WCNO review this overpayment with the NRP Policy Board to determine a resolution.

Client's Response:

The over-reimbursement will be adjusted in the first reimbursement request of 2012.

ITEM ARISING THIS YEAR

11-2 Reimbursement of Voided Checks

An expense of \$300 recorded on October 26, 2010, on reimbursement request No. 4 of the NRP Phase II contract and an expense of \$847 recorded on December 8, 2010, on reimbursement request No. 5 of the NRP Phase II contract were later voided. The WCNO was reimbursed \$1,147 for expenses it did not incur.

We recommend the WCNO review this overpayment with the NRP Policy Board to determine a resolution.

Client's Response:

The overpayment will be reviewed and adjusted as required in the first reimbursement request of 2012.

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

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 report are noted above, with the exception of the following item. This item did not fall under any of the other agreed-upon procedures for this engagement.

08-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes internal control over the various accounting cycles, the fair presentation of financial reporting, 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 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 for financial reporting.

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:

The Board of Directors will continue to implement oversight of the financial procedures and make changes as may be required to insure accuracy and completeness of financial records.

* * * * *

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

November 17, 2011

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**WEBBER CAMDEN NEIGHBORHOOD ORGANIZATION
MINNEAPOLIS, MINNESOTA**

Schedule 1

**SCHEDULE OF CASH INFLOWS AND OUTFLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Cash Inflows

Public support and other

Public support

Government grants	\$ 9,708
Neighborhood Revitalization Program (NRP) - Phase I	100,968
Neighborhood Revitalization Program (NRP) - Phase II	5,025
Contributions	<u>5,025</u>

Total public support **\$ 115,701**

Other

Race fees	<u>1,130</u>
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Total Cash Inflows **\$ 116,831**

Cash Outflows

Functional

Accounting fees	\$ 718
Contract services	85,976
Supplies	935
Program expense	15,190
Printing and copying	3,111
Postage and mailing service	199
Books and subscriptions	800
Other	2,167
Rent	10,174
Telephone	4,427
Meeting	48
Insurance	219
Bank fees	<u>125</u>

Total Cash Outflows **\$ 124,089**

Excess of Cash Inflows Over (Under) Cash Outflows **\$ (7,258)**

**WEBBER CAMDEN NEIGHBORHOOD ORGANIZATION
MINNEAPOLIS, MINNESOTA**

Schedule 2

**SCHEDULE OF RECEIVABLES AND PAYABLES
DECEMBER 31, 2010**

Grants Receivable

Community Development Block Grant - CDBG	\$ 2,000
NRP Phase I	<u>6,763</u>
Total Grants Receivable	<u>\$ 8,763</u>

Advances Outstanding

NRP Phase I	\$ 990
NRP Phase II	<u>5,400</u>
Total Advances Outstanding	<u>\$ 6,390</u>

Accounts Payable

Folwell Neighborhood Association	\$ 11,645
Pillsbury United Communities	2,125
American Family Insurance	<u>219</u>
Total Accounts Payable	<u>\$ 13,989</u>

Long-Term Debt

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