

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BOTTINEAU NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

AGREED-UPON PROCEDURES

SEPTEMBER 5, 2007

Description of the Office of the State Auditor

The mission of the State Auditor's Office 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**BOTTINEAU NEIGHBORHOOD
ASSOCIATION
MINNEAPOLIS, MINNESOTA**

September 5, 2007



Agreed-Upon Procedures

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

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors
Bottineau Neighborhood Association

We have performed the procedures enumerated below, which were agreed to by the Bottineau Neighborhood Association (BNA) 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 BNA. These procedures were applied to the BNA's records as of September 5, 2007. 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 BNA 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 BNA is current with required filings (Attorney General, Secretary of State, and Internal Revenue Service).

Findings

07-1 Annual Filing with the Secretary of State

There was no evidence at the BNA to indicate the filing status was current with the Secretary of State. Upon checking on the Secretary of State's website, the BNA Coordinator found that the BNA was classified as inactive. The Coordinator indicated he would be mailing in the required form to have the BNA classified as active.

Client's Response:

During the interview with representatives from the State Auditor, Bottineau Neighborhood Association staff did renew the organization's filing online with the Minnesota Secretary of State. BNA is currently classified as active.

2. Procedure

Determine if the BNA has written policies and procedures for financial operations (receipting, disbursing, purchasing, personnel, conflict of interest policy, etc.).

Findings

PREVIOUSLY REPORTED ITEM RESOLVED

Written Policies and Procedures (02-3)

We previously reported that the BNA did not have any written policies and procedures to address accounting and personnel matters. We recommended that the BNA Board adopt written policies and procedures for its accounting and personnel activities.

Resolution

We found that the BNA now has a policies and procedures manual.

3. Procedure

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

Findings

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

02-1 Designation of Depositories

We previously reported that the BNA does not designate its depositories on an annual basis. Authorizations for depositories should be designated by the BNA Board annually to ensure all Board members are aware and in agreement as to which financial institutions should have custody of its funds. We found that the Board still does not designate its depositories annually.

We again recommend that the BNA designate its depositories annually and that such actions be noted in the Board minutes.

Client's Response:

The Bottineau Neighborhood Association will designate its depositories as well as authorizations for such at its November Board meeting immediately after its election of Officers for the year. BNA will also include this action (designation) in its Board Member Manual as an item needing attention annually.

02-2 Segregation of Duties

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

BNA is aware that its procedures do not meet the established standards. However, due to the small size of the organization, heavy reliance on volunteer Board members, and limited funding, there are few other options.

02-4 Bank Reconciliations

We previously reported that bank reconciliations were not initialed or dated at the time of the reconciliation. Our current review found that the reconciliations still were not signed or dated by the preparer. Initials and dates strengthen internal control by identifying responsibility for the reconciliations and their timeliness.

We again recommend that bank reconciliations be initialed and dated by the person performing the reconciliation.

Client's Response:

Currently, BNA staff reconciles the bank statements with the organization's electronic records and dates and initials those statements. Due to organizational capacity challenges in the last year, the Treasurer was often unable to double check these reports against a duplicate set of records. BNA staff has provided copies of the electronic reports to the Board as part of the monthly Board meeting packets.

ITEMS ARISING THIS YEAR

07-2 Documentation for Collections

In our review of the BNA's procedures for funds collected in the office, we found a general ledger transaction for which there was no evidence of actual receipt. The deposit slip for this transaction could not be located, either, though the item was recorded in the general ledger. The absence of supporting documentation can reduce the reliance placed on general ledger recordings.

We recommend that efforts be made to strengthen control over documentation for the BNA's collections.

Client's Response:

BNA believes this is an isolated incident. However, the organization will review its procedures and make any needed changes that may reduce the likelihood of this occurring in the future.

07-3 Approvals for Disbursements

The BNA's policy for approving disbursements calls for the approval and sign-off on the expense tracking form by two Board members. We found that the sign-off by two Board members was not always occurring. In a small organization, such as the BNA, this procedure would provide an added safeguard in determining the appropriateness of the expense.

We recommend that the BNA Board follow the procedures that have been established for approving expenses.

Client's Response:

The BNA Board of Directors is aware that the procedure was not consistently followed. This was a result of organizational capacity challenges faced in the last year; challenges that often face small, primarily volunteer organizations. To help address this shortcoming, BNA staff has included monthly reports for all disbursements to all Board members as part of the monthly Board meeting packet. Returning to adequately and consistently following this procedure is a priority of the BNA Board of Directors.

07-4 Approval of Time Sheets

We found that the employee's time sheets are not being signed off by a Board member. The time sheets are emailed to the Board's Treasurer for review, who then notifies the payroll service to process payment. However, the Treasurer is not signing the original time sheets as being approved for payment. Sign-offs on time sheets strengthen overall control in documenting the basis for incurring the expense.

We recommend that the Treasurer sign all time sheets as being approved for payment.

Client's Response:

This was the result of organizational capacity challenges faced in the last year; challenges that often face small, primarily volunteer organizations. BNA will consider changes to the procedure to allow any Board member to sign off on timesheets in order to strengthen this control.

PREVIOUSLY REPORTED ITEMS RESOLVED

Coding on Invoices (02-5)

Previously, we recommended that invoices be marked with the program, functional expense, and NRP contract to be charged with the expenses.

Resolution

Our current review found that invoices are now coded with the appropriate information.

Time Sheet Reporting (02-6)

We previously found that the BNA had just hired its first employee, and a time sheet form was not yet in place to account for the employee's time. We recommended that the BNA establish procedures for the preparation and maintenance of time sheets.

Resolution

We found that the employee is now completing time sheets for the time worked. A policy relating to payroll and time sheet reporting has also been established.

4. Procedure

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

Findings

Donations are accounted for through the BNA's receipting and general ledger process. We traced donated amounts from receipts to bank deposits and the general ledger. See comment 07-2, relating to documentation for collections. The BNA had no long-term obligations.

ITEM ARISING THIS YEAR

07-5 Fixed Asset Record

The BNA has a capitalization policy that calls for items exceeding \$500 to be capitalized as fixed assets. We found that the fixed asset listing provided to us was dated from 2003. There was no list of current fixed assets, which appeared to consist of just one computer.

We recommend that the BNA maintain a current listing of its fixed assets. The listing should include a brief description of the item, serial number (if applicable), purchase date, cost, and the funding source used for the purchase.

Client's Response:

BNA has updated its fixed asset listing to include the only qualifying item purchased since the list was last updated - one computer.

PREVIOUSLY REPORTED ITEM RESOLVED

Capitalization Policy (02-7)

We previously recommended that the BNA develop a policy for recognizing certain purchases or donations as fixed assets.

Resolution

We found that the BNA has established a capitalization policy as part of its accounting policies and procedures.

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.

6. Procedure

Follow up on previous year's report findings, if applicable.

Findings

The findings from the previous year's report are noted above.

* * * * *

We were not engaged to and did not perform an audit of the BNA'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 Bottineau Neighborhood 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 5, 2007