

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**KINGFIELD NEIGHBORHOOD ASSOCIATION**  
**MINNEAPOLIS, MINNESOTA**

**AGREED-UPON PROCEDURES**

**JANUARY 3, 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.

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**KINGFIELD NEIGHBORHOOD  
ASSOCIATION  
MINNEAPOLIS, MINNESOTA**

**JANUARY 3, 2007**



**Agreed-Upon Procedures**

**Audit Practice Division  
Office of the State Auditor  
State of 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  
Kingfield Neighborhood Association

We have performed the procedures enumerated below, which were agreed to by the Kingfield Neighborhood Association (KFNA) 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 KFNA. These procedures were applied to the KFNA's records as of January 3, 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 KFNA 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 KFNA is current with required filings (Attorney General, Secretary of State, and Internal Revenue Service).

## Findings

### PREVIOUSLY REPORTED ITEM RESOLVED

#### **Required Filing with the Secretary of State (05-1)**

Our previous report noted that the KFNA was not current in its filing with the Secretary of State. Minn. Stat. § 317A.823 requires registration with the Secretary of State on an annual basis.

#### **Resolution**

Our review of the Secretary of State's website found that the KFNA was current with its annual registration.

## 2. Procedure

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

## Findings

### PREVIOUSLY REPORTED ITEM NOT RESOLVED

## 05-2 Update Written Procedures

Our previous report stated that the KFNA's Financial Management Policy document did not include the procedures to be followed in order to comply with the policies. We recommended that the Board examine its policies relative to financial operations to determine if they should be updated to more accurately reflect current conditions. We also recommended that the policies be expanded to include more detailed procedures currently being practiced for the KFNA's financial operations. Our current review found no change in this condition.

We again recommend that the Board review its Financial Management Policy document to determine if it should be updated to reflect current policies and procedures.

#### Client's Response:

*KFNA has reviewed its Financial Policy and rewritten the document. It will be reviewed by the full Board at the February 2007 meeting. Upon its adoption, a Financial Procedures Manual will also be created to complement this Policy.*

3. Procedure

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

Findings

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-3 Segregation of Duties

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

*The KFNA Board understands the difficulty of having adequate segregation of duties with such a small staff, and furthermore understands their fiduciary responsibility to review Treasurer's Reports regularly and question any irregularities. The Board empowers the KFNA Executive Committee to review and modify financial reporting and tracking procedures, as necessary, to assure that clear segregation of duties and communication is maintained.*

ITEM ARISING THIS YEAR

06-1 Allocation of Payroll Expenses

We found that the KFNA's payroll expenses for each pay period are allocated to three different programs on a relatively equal basis. As such, this allocation method may not reflect the actual amount of time incurred for each program. This process has not been approved by the KFNA's Board or its funding organizations.

We recommend that the KFNA's current practice for allocating payroll expenses be approved by the Board and noted in the meeting minutes. We also recommend that the KFNA receive approvals from its funding organizations to apply this method of allocating the expenses.

Client's Response:

*The KFNA Board has been made aware of this payroll allocation and understands how the payroll is divided between three NRP contracts that include administrative expense line-items and one grant from an outside funder that includes funding for staffing. The Board also recognizes that "real-time" time cards are maintained for both NRP and the outside funder. The Board approves of this procedure, which simplifies the reimbursement process from NRP.*

4. Procedure

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

Findings

None.

5. Procedure

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

Findings

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Timeliness of Reimbursement Requests

Previous reports have stated that the KFNA's requests for reimbursement of NRP expenses are not prepared in a timely manner. Timely requests for reimbursement help ensure adequate cash flows to fund current operations. Our current review found no change in this condition.

We again recommend that requests for reimbursement be submitted to the NRP at least quarterly.

Client's Response:

*KFNA manages their cash flow responsibly, typically having between \$50,000 and \$80,000 in their account this past year. KFNA began submitting quarterly reports on all NRP contracts with active spending contracts in the Spring of '06, except for one. This contract we have been asked by NRP to spend down and submit a final report on; this report will be filed within the calendar year.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Questioned Costs for Double Billings to Grants (02-1)**

Previous reports have questioned an expense item of \$150 because it was charged to two different NRP programs. We recommended that the KFNA work with the NRP to resolve the questioned amount.

**Resolution**

Our current review found that the amount of \$150 was reduced from a subsequent reimbursement by the NRP.

6. Procedure

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

Findings

Findings from the previous year's report are noted above.

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We were not engaged to and did not perform an audit of the KFNA'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 Kingfield 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*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

January 3, 2007