

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LOWRY HILL EAST
NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA

AGREED-UPON PROCEDURES

DECEMBER 13, 2006

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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**LOWRY HILL EAST
NEIGHBORHOOD ASSOCIATION
MINNEAPOLIS, MINNESOTA**

December 13, 2006



Agreed-Upon Procedures

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

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INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors
Lowry Hill East Neighborhood Association

We have performed the procedures enumerated below, which were agreed to by the Lowry Hill East Neighborhood Association (LHENA) 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 LHENA. These procedures were applied to the LHENA's records as of December 13, 2006. 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 LHENA 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 LHENA is current with required filings (Attorney General, Secretary of State, and Internal Revenue Service).

Findings

None.

2. Procedure

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

Findings

PREVIOUSLY REPORTED ITEM RESOLVED

Additional Items to be Included in Processes and Procedures (05-1)

In addition to items set forth in the LHENA's Accounting Processes and Procedures document, we recommended the following:

- procedures should address personnel matters, such as preparation and approval of time sheets, record keeping to account for leave time, documentation for wage adjustments, and other employee benefits; and
- a capitalization policy for the determination of items to be recorded as fixed assets.

Resolution

Our current review found that the above items had been added to the Accounting Processes and Procedures document.

3. Procedure

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

Findings

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-2 Segregation of Duties

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

We are aware of the limited number of people involved in accounting functions and try to distribute the segregation of duties as much as possible among our staff, the Board treasurer, and our accountant.

ITEMS ARISING THIS YEAR

06-1 Coding of Invoices

We found that vendor invoices were not marked with account codes for posting to the general ledger. Invoices should contain account codes to support the manner in which expenses are presented in the general ledger.

We recommend that vendor invoices be marked with the program, functional expense, and NRP contract to be charged with the expenses.

Client's Response:

We are working to implement this recommendation and aim to maintain all records as accurately as possible.

06-2 Time Tracking

Our review found that the LHENA's one staff person does not have a formal method for tracking time worked. No time sheets are in use. The staff person uses a personal calendar to record hours worked and leave time taken. All time is charged to the NRP administration grant. According to the staff person, a new time tracking system may be implemented soon. Salary expenses, including leave time earned and taken, represent significant costs to the LHENA and NRP program. As such, there should be adequate records maintained to support the amounts being paid to the staff person and charged to the administration grant. A personal calendar is not adequate.

We recommend that a formal method to account for the staff person's time worked and leave time earned and taken be implemented. The staff person's time should be approved by a Board member prior to payment being made. Leave records, including amounts earned, taken, and outstanding should also be reviewed periodically by a Board member.

Client's Response:

Our staff and personnel committee have worked to resolve this issue and implement a system of time tracking which notes days of leave taken as well as vacation hours, sick hours, and holidays used and remaining. The log will be signed monthly by our NRP Steering Committee Chair.

4. Procedure

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

Findings

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-2 Fixed Asset Records

Our previous report noted that the LHENA's staff was unable to provide us with a fixed asset record. Our current review found the same condition present. The fixed assets appear to be few in number; however, a record should be kept for those items determined to be fixed assets.

We again recommend that the LHENA maintain a listing of its fixed assets, which would include a brief description, serial number, purchase date, cost, estimated useful life, and the funding source used for the purchase.

Client's Response:

LHENA has kept records of our fixed assets in the past, but the previous list seems to have been misplaced. We have taken steps with our accountant to recreate the list and will update it as needed.

5. Procedure

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

Findings

None.

6. Procedure

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

Findings

Findings from the previous report are included above.

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We were not engaged to and did not perform an audit of the LHENA'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 Lowry Hill East 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

December 13, 2006