

**LOWRY HILL EAST NEIGHBORHOOD ASSOCIATION**

**AGREED UPON PROCEDURES**

**MAY, 2014**

**PREPARED BY:**

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**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

To: The 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, solely to assist the specified parties in evaluating management's assertion that Lowry Hill East Neighborhood Association (LHENA) complied with City of Minneapolis requirements for January 2013 through May 28, 2014. The LHENA Board of Directors are responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. 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.

Our procedures were designed to assess the internal control environment related to the Neighborhood and Community Relations (NCR) awards. We have performed the procedures enumerated within this report which were agreed to by Lowry Hill East Neighborhood Association. The procedures we applied and our findings are described within this report.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on management's assertion. 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 Lowry Hill East Neighborhood Association and the City of Minneapolis' Neighborhood and Community Relations staff and is not intended to be and should not be used by anyone other than these specified parties.

*Michael S. Wilson, CPA*

Minneapolis, Minnesota

May 28, 2014

INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES

**I. Mission Statement**

The Lowry Hill East Neighborhood Association (LHENA) was established in 1976 to improve the social, economic, and general livability standards of the neighborhood.

**Program Highlights**

The 2013 fiscal year was a period of transition for LHENA. There was a significant turnover in staff as a long-term community organizer with over ten years of work experience left the Organization in April, 2013. The LHENA board chair served a leadership role by performing the leadership functions until April 2014 when a new staff was hired. As a result, the most significant accomplishments were organization improvements in having the board understand their fiduciary responsibilities. LHENA programs highlights included:

- LHENA promoted a neighborhood swap to reduce the amount of material directed to landfills. The neighborhood swap included over 200 participants.
- LHENA managed ongoing communications and education to residents of importance. This included a conversion from the neighborhood newsletter, the Wedge, into an online social media effort. As a result online communications increased approximately 150% and LHENA established a Facebook site with over 200 connections. The current neighborhood reach is 376 likes.
- Worked actively to improve the quality of life in LHENA through programs aimed at improving public park and green space, as well as events like the Ice Cream Social and National Night Out.

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**Findings**

LHENA provides programs that are consistent with their mission and also meets the contractual community engagement obligations with the Department of Neighborhood and Community Relations.

**Client Response:**

Initially, there was an increase in the number of Facebook page likes and people signing up for LHENA email notification. However, with only an online presence awareness of LHENA has dropped. Approximately 40% of LHENA residents move annually (based on 2010 census data). Many new residents do not know about LHENA. There is a desire by some neighborhood residents to have a quarterly newspaper or newsletter as a hard copy. The newsletter will be delivered or mailed to residents and place in neighborhood businesses to inform residents about their neighborhood association. The presence of a paper newsletter or newspaper will increase awareness of LHENA and serve to drive residents to LHENA information on Facebook, Twitter and website.

## **II. Corporate Governance**

The LHENA Neighborhood Organization is managed by an 11 board of directors. The Board of Directors is elected to serve by members of the community. Board terms are staggered in two year terms with approximately 4-6 members getting elected to serve each year at the annual meeting. Elections are held at an annual meeting.

Monthly board meetings are held regularly. The agenda for meetings are set prior to the meeting. An officer takes written minutes of each board meeting. The minutes are available to the public upon request. An annual budget is reviewed by and approved by the Board of Directors. The Board of Directors also reviews financial statements on a quarterly basis.

### **Findings**

Like many volunteer boards, the turnover in the LHENA board presents risks that LHENA board members may not be fully aware of their fiduciary responsibilities. As a result, the following recommendation is presented.

- LHENA access Neighborhood and Community Relations (NCR) board training. The NCR training identifies board responsibilities and increases awareness of board members to establish policies, approve contracts and purchases, and review the financial performance.

### **Client Response:**

The Board will consider holding training(s) in 2015.

## **III. Management**

The LHENA employed a community organizer during the first quarter of 2013. The position was unfilled with another employee until April, 2014. The previous staff person was a salaried employee with extensive institutional knowledge of the neighborhood including the status of contracts and key contacts to help facilitate the LHENA activities. When the position was unfilled, board members assumed responsibilities and experienced a learning curve associated with the position. The process helped the board function to better understand their responsibilities.

### **Findings**

The LHENA should consider a developing a manual to provide institutional knowledge about the organization and to reduce the cost of turnover.

### **Client Response:**

No steps had been taken to develop a manual prior to June 2013. A new board president took over in June 2013. LHENA is now in the early stages of developing a manual. Significant work on this issue is expected in 2015.

## **IV. Financial Reporting**

The LHENA relies on an outside accountant to prepare financial statements. The statements were prepared on a monthly basis but since the size of the annual budget is approximately \$50,000, the accounting services were reduced to a quarterly basis. The financial statement preparation includes timely reporting on a cash basis, and reporting budget to actual comparisons for more effective board review.

### **Findings**

Based on the financial statements reviewed, the LHENA has adequate financial reporting. It appears current board members have the skills to review the financial statements and investigate major differences between actual and budgeted results. However a new board may not have these skills and developing these skills. As a result, board training can help to build capacity.

### **Client Response:**

The board is considering having the accountant return to providing the board with monthly financials to stay well informed on LHENA's financial activities. A board decision on this issue is expected at the end of 2014 or early in 2015.

## **V. Internal Controls**

A summary of the internal controls over cash receipts, cash disbursements and payroll are as follows

### **A. Cash Receipts**

The LHENA has the following funding sources.

- City of Minneapolis
- Wine taster special event

LHENA collected approximately \$50,000 in 2013. Over 95% of the funds collected were related to government awards from the City of Minneapolis. Since Minneapolis awards are based on a cost reimbursement basis, LHENA provides their financial records to support a payment request. An officer or member of the board is responsible for preparing these requests and providing support. After approval by NCR staff, the LHENA receives ACH deposits from the City of Minneapolis. These deposits are filed with supporting documentation to minimize delays and errors in the depositing of funds. No exceptions were noted.

The wine taster special event generates approximately \$2,000 in funds. Less than \$1,000 of the cash receipts are collected in cash. Tickets are distributed to board members, and board members collect the cash for the tickets. However there is no reconciliation between the total population of tickets and the number of sold and unsold tickets. The Treasurer endorses the checks and makes the deposits. The accountant records the ticket sales based on the amount of the deposits.

### **Findings**

I recommend LHENA consider three ways to improve the control environment.

1. Maintain a cash receipts log for all cash receipts. The log can be as simple as a spiral bound notebook. The log serves the purpose of recording amounts when received and provides an easy method to review cash receipts to help identify misplaced checks and quickly reference cash receipt items.
2. Require all checks should be restrictively endorsed as payable to LHENA when received.
3. Require two people to collect, handle and count the cash when events include cash collections.
4. Perform a reconciliation between the total number of tickets available for sale and the total number sold and unsold. By using prenumbered tickets, the process can be more efficient.

**Client Response:**

LHENA will implement controls for cash and checks. Reconciliations of tickets sold and unsold can be performed.

**B. Cash Disbursements**

The LHENA has procedures to authorize and record the disbursement of funds. The LHENA board of directors has a history of approving an annual budget that is an important and effective form of control. Cash disbursements include written checks for purchases requiring approval, and a check card for recurring expenses. Staff asks the board for authority to spend money. After the board approves a purchase, checks are prepared manually by the staff with supporting invoices attached. The Treasurer and Chair are authorized to sign checks. Checks are signed by authorized check signers before they are returned to staff for distribution. Supporting documentation is placed in a file for the accountant to enter into the accounting records.

The check stock is maintained in the LHENA office. Blank checks are not signed, and no checks are made to cash.

A check card that is controlled by an officer is used for recurring expenses. The LHENA has the ability to push payments from their account. The transaction is recorded in the accounting records when the bank reconciliation is performed.

Bank reconciliations are prepared on a regular basis by the outside accountant. The LHENA is currently reconciling bank statements quarterly by the accountant. There is no formal review of the bank reconciliation by an officer.

**Findings**

The LHENA may find the move towards requiring a payment request form is a better and more effective control for disbursements. Payment request forms can be easily prepared in as document to document payments are authorized and approved. In addition, the check request form can be filed with checks to provide more efficient storage and retrieval process. The payment request forms should be approved by an officer before payment is made.

Additional improvements can be made with the following recommendations.

1. Identify the individuals that are authorized to approve check requests.

2. Recognize the staff has significant control over transactions since the staff can prepare a check and maintain the check stock. I recommend that an officer receive the unopened bank statement and also review the bank reconciliation.
3. Require all disbursements to be authorized and approved with the check request form.
4. Require that all equipment purchased be recognized as property of LHENA

**Client Response:**

LHENA will implement the recommended improvements.

**C. Staffing Costs**

LHENA employs a community organizer to perform staff functions. In 2013, the employee was paid a salary and there was no requirement to document hours worked on a timesheet. In 2014, staff is paid on an hourly basis. An officer approves the time sheet, and calls in the hours worked to the payroll provider. There is no paid time off for employees.

The use of timesheets helps to provide more accurate financial information since salary is the largest expense. Staff time should be allocated to contracts based on time spent, and timesheets are used to document the allocation. Timesheets that itemize dates and activities is a good format to provide an audit trail

LHENA files 1099s with the IRS for contract workers.

**D. Contract Status**

Based on a contract evaluation from May, the following is the status of contracts with the City of Minneapolis.

<b>Contract</b>	<b>Description</b>	<b>Contract amount</b>	<b>Advance</b>	<b>City Payments</b>	<b>Balance</b>	<b>Comments</b>
<b>20597</b>	<b>CEE Housing programs</b>	<b>1,149,143.02</b>		<b>933,820.36</b>	<b>215,322.66</b>	<b>Loan program is being voted on and the funds will be encumbered at the Nov board meeting</b>
<b>28353</b>	<b>Phase II Home Improvement program</b>	<b>460,000.00</b>		<b>270,016.07</b>	<b>189,983.93</b>	<b>Loan program is being voted on and the funds will be encumbered at the Nov board meeting</b>

26476	Façade Improvement Program	16,500.00		8,146.16	8,353.84	
25965	Phase II Administration	169,500.00		169,472.18	27.82	
26385	Phase II Program Activities	26,000.00		37,733.66	22,266.34	Project Allotments: Volunteer Walking Patrol \$1,100; Bike Racks \$6,450; N'hood Clean Sweep \$3,350; Trash Receptacles \$1,100; Green Seminars \$2,000; Explore Historic District \$10,000; Neighborhood Signs \$2000. Total program allotments exceed city balance by \$3,733.66.
14783	Police buy back Program	167,470.00		1,624,661.41	4,295.02	
37886	CPP Engagement Efforts	30,000.00		7,500.00	22,500.00	

**Findings**  
[none]

**Client Response:**

This is believed to be the status of contracts in May 2014.