

**BRYN MAWR NEIGHBORHOOD ASSOCIATION**

**AGREED UPON PROCEDURES**

**JULY 2019**

**PREPARED BY:**

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

To: The Board of Directors, Bryn Mawr Neighborhood Association,

We have performed the procedures enumerated below, which were agreed to by the Bryn Mawr Neighborhood Association, solely to assist the specified parties in evaluating management's assertion that Bryn Mawr Neighborhood Association complied with City of Minneapolis requirements for the year ending December 31, 2018. The Bryn Mawr 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 Bryn Mawr 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 Bryn Mawr 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

June 20, 2019

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

### *1. Identify the major program accomplishments for the year.*

The Bryn Mawr Neighborhood Association (BMNA) was established in 1976 to improve the social, economic, and general livability standards of the neighborhood.

#### **Program Highlights**

Bryn Mawr is largely demographically homogenous with a small percentage of rental units. BMNA reaches out to everyone in the neighborhood through social media and hand delivery of the neighborhood newspaper (the Bugle) to every home and apartment. The Bugle is the official communication of events and activities undertaken by the association, as well as the vehicle in which draft versions of the official minutes of Board meetings are published. BMNA also have a website and an email list and undertake to get as many residents on the list as possible for communications between Bugle editions. BMNA set up greeting and information tables at events to meet new residents. BMNA uses the Annual meeting and website to solicit feedback from neighbor on a variety of topics. BMNA holds special meetings as needed to address specific issues of concern to the neighborhood.

BMNA social activities draw well, particularly the annual Festival of Garage Sales, annual Ice Cream Social, and annual Sip and Stroll in "downtown" Bryn Mawr. The BMNA garden/beautification efforts attract quite a number of volunteers. The BMNA board is full and has attracted participation from new and younger neighbors as well as those who have been involved for years.

BMNA also annually allocate funds for "Community Projects" and solicit ideas from neighbors on projects that may enhance the neighborhood. The neighbor who submits the idea must be willing to spearhead the implementation of the idea if funded. Neighborhood improvement activities funded in the past have included bee habitat (bee hotels), pet waste stations, a "Nature Preschool" summer events for kids, public art, etc.

#### **Findings**

Bryn Mawr provides programs that are consistent with their mission and also meets the contractual obligations of their relationship with the Department of Neighborhood and Community Relations.

**2. Describe the corporate governance structure and determine if organization's practices support the fiduciary responsibility of board members.**

The Bryn Mawr Neighborhood Organization is a membership organization. Membership is available to all residents and property owners in the neighborhood. There are 25 director positions defined with 4 officers among them on the Board. Board representation is divided into 7 areas. Each area has 1 to 3 representatives. Currently, 14 area seats and 4 officer seats are filled. All of the area representatives and the four officers are elected by the members. Elections are held at an annual members meeting. The board terms are staggered with 2-year terms.

The board of directors is aware of their fiduciary responsibilities. 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.

The BMNA's board invested time to develop a set of policies that are recommended for non-profit organizations such as a comprehensive financial management policy and updated by-laws

The current treasurer is also employed as the contract bookkeeper

**Findings**

When board members serve in a paid role, it may be perceived as a conflict of interest. Most oversight organizations, like the Charities Review Council asks if board members are paid because of this concern. I recommend board members be separated from paid positions.

**Client Response**

Because of the large number of financial transactions that BMNA incurs, we determined that a volunteer treasurer was not adequate to our needs and did, with due consideration, create this arrangement as one of several options. We do understand the issues involved with such an unadvised arrangement and the BMNA Board will continue to monitor and evaluate this to verify that it is still to our advantage and is properly executed to mitigate any issues or problems it might bring. BMNA may determine to continue, alter, or terminate this arrangement as is in our best interest.

Background and supporting information:

BMNA investigated the option of hiring a bookkeeping professional and received an estimate. The treasurer, who had been keeping the books to date on a volunteer basis, consulted with NCR regarding the option of paying the treasurer for keeping the books. We were advised that though this is usually a frowned upon practice, if the job was well-defined and narrow, an obvious candidate for outsourcing to a vendor or contractor, and it was deemed to be a distinct advantage to the organization, it can be permitted to pay a board member or officer for these specifically defined duties.

Since the current treasurer also has an ongoing business of providing bookkeeping services to other neighborhood associations and small nonprofit organizations, the Board agreed to engage the current holder of the treasurer's position as its outsourced bookkeeping service. It should also

be noted that BMNA does have a Conflict of Interest policy in place and that this arrangement is in full compliance with that policy.

A detailed and signed independent contractor contract is in place. The bookkeeping service is offered to BMNA at a 55%-70% discount of its basic and advanced rates, providing a distinct financial advantage to the Association since these rates are lower by a factor of 2 or 3 than even the lower cost other professional bookkeeping services in the area. Communication effort and transfer time of materials typically required between a treasurer and the bookkeeper is minimized, also reducing cost.

Invoices from the bookkeeping service are submitted to the President each month. Time is charged at the previously mentioned reduced hourly rate. All time spent on bookkeeping, treasurer, and general board activities is tracked, described, and documented on the invoice, with only the bookkeeping time charged. This provides a clear documented separation of paid vs unpaid time spent on BMNA activities with detailed descriptions of the activities taken in each category. The President gives specific written approval to pay the invoice after review.

### ***3. Discuss how board meetings encourage community participation***

Monthly board meetings are usually held on the 2<sup>nd</sup> Wednesday of each month. Monthly meeting minutes are publicly available via posting on the organization's web site along with the bylaws.

Meetings are announced well in advance in the monthly Bugle and on the web site. When the agenda is available, it is sent to our own member mailing list and via the Next Door community bulletin board service, to which many in the neighborhood subscribe. Residents/members are encouraged to come and participate. Residents/members can then decide if they wish to attend based on the agenda, and indeed, when there is proposed construction activity, or in the past, light rail presentations, several residents do attend.

Residents/members are given floor rights and may speak at the meeting or ask questions and even participate in discussions.

Meeting minutes are posted on the web site when approved by the Board. All of this is designed to keep all residents/members fully informed of BMNA activities and allow them to participate at the level they desire.

### ***4. Determine if the internal controls over financial reporting are adequate.***

The BMNA relies on the bookkeeper to prepare financial statements. Processing accounting transactions and preparing financial statements have been maintained by the bookkeeper which is consistent with best practices. In the past, BMNA Treasurers have had different skill levels and attempted to fill the role of a bookkeeper by entering transactions, paying bills, preparing financial statements and presenting financials at board meetings with varied levels of skills

Since the previous review, there have been improvements in financial record-keeping and reporting. The accounting records have been maintained in Quickbooks Online for the past 8

years. The BMNA uses Quickbooks Online to avoid the necessity of acquiring computers and to allow access to records from different authorized personnel in different locations. Also, since the last review, the chart of accounts has been restructured to more accurately and clearly reflect the various business operations and activity areas of the Association.

**5. Determine if the procedures in place are adequate for financial management of the operation by documenting the process for the following types of transactions.**

- ***Income Receipts***
- ***Expense Disbursements***
- ***Payroll***

**A. Income Receipts**

The BMNA has the following funding sources.

- City of Minneapolis
- Member or other donations
- Bugle advertising and subscriptions
- Program & Project fees, admissions or sales

Minneapolis allocations are collected with a draw request. BMNA provides financial records that are used to support a payment. An officer or member of the board, currently the Treasurer, with some delegation to the bookkeeper, is responsible for preparing these requests and providing support. The BMNA 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.

Newspaper ads are charged based on a published rate for ads. The Editor (or associate) sells the ads with most of them recurring. A monthly invoice from the Editor is used to document the ad receipts, checks received, and commissions due. Advertising payments are sent directly to the Editor's address and the Editor endorses them in the name of BMNA and its bank prior to mailing them to the Treasurer with the monthly invoice. When the invoice arrives, the Bookkeeper enters the sales receipts into the books, reconciling the information on the invoice and the checks received. The Bookkeeper makes the deposits, and accounting records are updated.

The membership donations go through a similar process. The Bookkeeper retrieves member donation checks from the BMNA office mailbox. The Bookkeeper records membership donations into the sales receipts feature of Quickbooks Online. The Bookkeeper endorses the checks in the name of BMNA and its bank, assembles the sales receipts into a deposit, writes the deposit slip and makes the deposit.

Event income includes Garden Tour admission, Garage Sale registration fees and donations from the Ice cream social. A new fundraising event to raise funds included admission fees and silent auction revenue primarily for in-kind donated items. Program and project revenue are limited

sources of funding and include limited cash collections. Most pre-registration funds for events come in the mail or via Paypal. Paypal activity is directly connected to the BMNA books where transactions are semi-automatically recorded. The bookkeeper can transfer balances directly to the BMNA checking account at any time and this transaction is also sent to Quickbooks. Checks that are received are endorsed immediately, entered into the books, and deposited.

When cash to be received for events, a cash box is provided by the Treasurer preloaded with \$150 for change. The cash box is overseen by two responsible people. Collected cash at the end of the event is put into a sealed envelope with signatures of the cash box overseers across the seal. The cash box with the sealed envelope of receipts is returned to the Treasurer. The Bookkeeper then prepares a separate deposit slip for the cash, takes the envelope to the bank where the teller initials the envelope to attest that it was received still sealed. The teller counts the cash receipts and deposits the cash. The Bookkeeper then uses this deposit amount to complete the deposit transaction in the books. Amount collected to date at each event has been less than \$2,000.

### **Findings**

To improve the control environment, I recommend that BMNA consider the maintenance of a cash receipts log. A spiral notebook is an example of a cash receipts log because it serves the purpose of recording checks immediately when they are received, and minimizes the potential for lost or missing checks. This process works best when one person (office staff) receives the checks and a bookkeeper records the checks.

### **Client Response**

BMNA does recognize this as a good practice, but because of the small size of the organization's financial staff and the large volume of transactions, this is a practice that would be impractical or expensive. There is not a good separation of duties for sales receipts paid by checks and there is not yet an apparent practical solution in light of the limited resources available.

## **B. Expense Disbursements**

The BMNA has procedures to authorize and record the disbursement of funds. The BMNA board of directors has a history of approving an annual budget that is an important and effective form of control. These procedures have been improved immediately following the previous review.

The BMNA Financial Management Policy requires a payment request form for better planning and control of disbursements. This replaces a process that involved reimbursements after the fact to contractors or individuals responsible for managing events or making other purchases. The emphasis in processing has been to document approval before funds are spent. Payment Receipt forms are now used to document payments to vendors who do not provide invoices or receipts. The Payment Request forms must be approved by someone with budgetary authority before orders are placed or purchases made. Payments are made at point of sale or after invoices are provided by the merchant. This change since the last review has reduced to near zero the number of items in the check register filled with checks to individuals for expense reimbursements. Authorized signers for check requests are individuals known by the Treasurer. When a check is prepared by the Bookkeeper, the Treasurer and Chair are authorized to sign checks. The Treasurer maintains the check stock. However, most checks are sent via the Quickbooks Bill.com service by the bookkeeper after authorization by the Treasurer. Blank checks are not signed, with a few exceptions. Sometimes signed blank checks made out to the vendor for point of sale purchases are provided to authorized purchasers. No checks are made to cash. A corporate credit card is held in the Association's and Treasurer's name.

The Treasurer has also moved to more online transactions. Some invoices are paid via ACH direct transfer to recipients' bank accounts if they provide such information to BMNA. These payments are also handled by the Quickbooks Bill.com service. By using the Quickbooks Bill.com service rather than the bank's bill payment facility for sending out payments via physical check or ACH direct deposit, BMNA has reduced error rates since the transaction need only be entered in the books and triggered to make a payment. A duplicate entry, that is sometimes missed, does not have to be done at the bank's bill payment facility to send the payment. The Bill.com service will make a draw on the BMNA checking account for each payment sent. The record of this draw will be sent to Quickbooks to match the existing transaction already entered and thus easing reconciliation effort.

Monthly bank reconciliations are completed by having bank statements mailed to the office. These are then reconciled as a bookkeeping service.

### **Findings**

Additional improvements can be made with the following recommendation:

1. Develop a consistent process to process transactions. Most financial professionals prefer a check request form that documents transactions are authorized and approved before disbursement.
2. Recognize in small organizations one person may have control over all phases of a transaction. By separating the Treasurer from approving transactions as evidenced with a signed check request form, the process includes important segregation of duties.



## **Client Response**

We have developed practices to demonstrate transactions are authorized and approved. This process includes the approval of individual transactions with some exceptions for recurring transactions. There is a separation between budget and authorization, in that the budget is used as a planning and forecast tool only. Prior to the time of planned or proposed purchase, separate authorization is required by a person with delegated budgetary authority.

As a recent improvement, because the reconciliation function and transaction entry functions are done by the same Treasurer/Bookkeeper person, thus preventing a proper separation of duties, the bank statement and the reconciliation report are sent to the President each month for examination and approval.

## **C. Staffing Costs**

BMNA uses contracted individuals to provide staff functions. Present contractors are paid against their invoice which may be a fixed monthly stipend, an hourly rate, or a combination of the two. Instead of mailing checks, monthly stipend contract payments are done by ACH direct deposit.

BMNA files 1099s with the IRS for independent contractors receiving more than \$600 in a calendar year.

The BMNA has contracted individuals to perform staff functions. The staff includes the following positions:

1. Bugle editor and publisher
2. Fundraising and communications
3. Event coordinator
4. Webmaster
5. Bookkeeper

## **Findings**

BMNA should reassess their staffing arrangement to determine if key roles should be converted from contractors to employees. The factors to consider include.

- An employee is a person who works in the service of an organization under an express or implied contract of hire, under which the employer has the right to control the details of work performance. When you hire an employee, you get the advantage of being able to control and direct that person's work during work time, to train the person in the way you want the job done, and to require that person to work only for your organization. You have few restrictions or limitations on what you can assign to the employee or about your ability to terminate the employee without paying out a contract.
- On the other hand, employees come with a laws and regulations attached to them. Both the federal government and your state regulate the payment of wages or salaries,

overtime, and other work rules. Employers must also comply with payroll tax requirements, including paying half of FICA taxes for each employee and collecting the other half from the employee. Other responsibilities include payment of unemployment and worker's compensation insurance.

- You can assign duties to an independent contractor and impose a deadline and work product, but you can't tell the person how to get the job done. An independent contractor can work for others, can often set his or her hours of work, and often provides his/her own tools. There are few reporting or tax responsibilities for independent contractors. You must report his/her the amount you have paid each year for that person on a form 1099-Misc, but you don't have to withhold or pay FICA taxes on these payments. The payroll responsibilities for an independent worker are significantly less than for an employee.

The decision to hire a worker as an employee or independent contractor is done on a case-by-case basis, but you should be aware that the IRS considers a worker to be an employee unless you can prove otherwise.

Each position should have a description that identifies their contractual responsibilities. The BMNA should evaluate each position to determine if the position should be considered a contractor or employee. Each position should be required to prepare an invoice if a contractor or a timesheet if an employee to document the work performed. In conclusion, you should consider hiring an employee if:

1. If this work is essential to your business and not a peripheral job. For example, a marketing person is essential, while a cleaning crew may not be.
2. The work needs to be done under your supervision
3. You want to control the hours of work and the tools and equipment used by the worker
4. If this is a long-term need and not a project that will be completed in a defined period of time.

BMNA should be aware that the IRS leans towards staff being considered employees as the default with the requirement that an employer demonstrate why an individual should be a contractor. In addition, management theory suggests that key roles should be performed by employees and not contractors to reinforce the importance of board oversight.

In addition all contractors should be asked to waive their right to pursue a worker's compensation claim against the Organization.

### **Client Response**

A BMNA Board committee will research and discuss the contractor vs employee issue for all of its contractors. Current contracts do specify that access to worker's compensation claims is not available.

### ***6. Discuss the number of bank accounts for the Organization to ensure board members are aware of these accounts.***

The BMNA has two three bank accounts with two officer signatories (President and Treasurer) all approved by the Board. The first bank account is the BMNA primary checking account and is used for operations but kept at a moderate balance to ensure minimal exposure to ACH errors or fraud. The second is a special purpose checking account to hold, deposit, and disburse the funds of a sponsored organization (Parents of Anwatin School Students). The third is a money market savings account to hold the bulk of BMNA's cash reserves. The accounts are held at Sunrise Banks.

**7. Describe policy and oversight of petty cash accounts.**

BMNA Financial Management Policy prohibits the use of cash for purchases except in authorized special circumstances. Petty cash is limited to the \$150 cash box for events. Sometimes multiple cash boxes are maintained for differing uses at events. Currently, there are 4 cash boxes in the possession of the Treasurer with \$150 in each. This is recorded and visible on the Association's balance sheet. Otherwise transactions are planned and approved through the disbursement policy described above. A corporate credit card in the name of the Association and the Treasurer is used for online purchases and some point-of-sale purchases.

**8. Determine if the Neighborhood is current with proper filings with the Secretary of State, IRS and Attorney General's office.**

The BMNA is current with proper filings with the Secretary of State, IRS and Attorney General's office. A 990 and a MN AG report was filed for BMNA as an independent organization.

**9. Determine that minutes are prepared and approved for proceedings of the Board and they are available to the public**

Board minutes are prepared and approved for the proceedings of the board and are available on the BMNA website.

**10. Determine that the proper quarterly reports on salary withholdings have been filed in a timely manner with the state and federal governments.**

Payroll tax filings are not relevant for BMNA since the organization is staffed with contractors.

**11. Determine if vendor invoices are on hand to support disbursements for CPP contract 2017-2019.**

A sample of vendor invoices were tested for compliance with BMNA policies. No exceptions were noted.

**12. Determine if records are kept on equipment, donations, or long-term obligations, and that any equipment purchased with NRP funds is specifically identified as such.**

BMNA uses serialized inventory tags and an inventory list to mark items of substantive value. Items may be stored at various locations which are noted on the list.

**13. Determine if neighborhood complied with the terms and scopes of service on its contracts and with any laws and regulations.**

BMNA appears to be in compliance with laws and regulations including insurance laws for the following:

- General Liability
- Directors and Officers

**14. Confirm the status of BMNA contracts with the City of Minneapolis and describe any notes received from the Minneapolis Neighborhood and Community Relations Department.**

Based on a contract evaluation at December 31, 2018, the following is the status of contracts with the City of Minneapolis that was confirmed by the Neighborhood and Community Relations Department.

<b>Contract Number</b>	<b>Contract Name</b>	<b>Contract Amount</b>	<b>Advance</b>	<b>Total City Payments</b>	<b>Balance</b>
44558	2017-19 CPP	77,700.00	-	-	77,700.00

**Findings**

NCR recognized the contract was not finalized until February 2019. I recommend BMNA work with Neighborhood and Community Relations to finalize contracts in a more timely manner in the future.

**Client Response**

BMNA was slow to initiate an application and contract for the CPP 2017-2019 funds. This was part resource availability and part procrastination. BMNA cash reserves were more than adequate to cover operational needs, and focus was placed on cleaning out all remaining NRP funds first.

15. *Review the BMNA policies and procedures and identify areas for improvement if applicable.*

Bryn Mawr Neighborhood Association has the following policies and governing documents.

Bylaws	Current
Personnel Policies	Not applicable (no employees)
Financial Management Policy	Current
Conflict of Interest	Current
Document Retention	Current
Grievance Policy	Current
Procurement and Competitive Bidding.	Within Financial Management Policy
ADA Policy	Current
EEO Policy	Current