



Request for City Council Committee Action from the Neighborhood and Community Relations Department

Date: November 1, 2012
To: Council Member Robert Lilligren, Chair, Committee of the Whole
Referral to: City Council
Subject: Authorization for NCR to Contract Audit Services in Accordance with NRP Audit Policy

Recommendation: Provide authority to NCR Director to contract audit services , in an amount not to exceed the \$125,000 included in the NCR Budget, as necessary and as guided by the NRP Audit Policy to ensure appropriate use of NRP and CPP funds.

Previous Directives: On December 16, 2011, the City Council approved the revised NRP ordinance. Through the ordinance, the City Council assigned responsibility to NCR for administrative support for NRP Phase I and Phase II programs, and the Community Participation Program.

Department Information

Prepared by: Robert Thompson, Neighborhood and Community Relations Department
Approved by:
David Rubedor, Neighborhood and Community Relations Director _____
Paul Aasen, City Coordinator _____
Presenters in Committee: David Rubedor, Robert Thompson

Financial Impact

Funding for audit services is already included in the NCR budget. No additional appropriation is necessary.

Community Impact

Beginning in January 2012, the Neighborhood and Community Relations Department (NCR) assumed responsibility for continued administrative support of NRP Phase I and Phase II programs in addition to the Community Participation Program initiated in 2011. The administrative support included providing audit services for neighborhood organizations receiving NRP and CPP funds. NCR adopted existing NRP policies including the NRP Audit Policy adopted by the NRP Policy Board on September 22, 1997 and amended May 19, 2003. The financial and compliance audits, and limited reviews conducted following the Audit Policy ensure appropriate use of public funds and protect the integrity of the program.

Supporting Information

1. Purpose. The purpose of the NRP audit policy is to ensure that public funds allocated through strategies identified in approved neighborhood plans are being spent for the

purposes intended and that the organizations with whom it contracts to implement NRP funded strategies conduct themselves in accordance with the highest standards of integrity. All recipients that have received NRP or CPP funds in a given fiscal year, from any NRP or Consolidated TIF source, may be subject to either a financial and compliance audit of their activities or a more limited review of their financial activities.

2. Source of audits. According to the Audit Policy, a single source of quality expertise and uniform procedures for audits and reviews is essential for ensuring that the City's investment in Minneapolis neighborhoods is being used for its intended purpose. For these reasons, and because of its experience in working with recipients of public funds, the Office of the State Auditor will conduct financial and compliance audits and limited reviews of recipients for the NCR. The audit policy also provides that NCR may contract with other qualified auditors as needed to perform audits and limited financial reviews of recipients receiving NRP funds.
3. Other services. The Audit Policy also provides that the Office of the State Auditor will perform any additional services, such as completion of Federal IRS Form 990's or Minnesota Charitable Organization Report forms, requested by the recipient. They will also, as part of the audit process, conduct compliance tests for non-NRP revenue sources as requested by the recipient. The NCR will pay all costs for the additional services centrally.
4. Payment for services. The Audit Policy requires that audit services will be centrally paid for from the NCR administrative budget. Recipients may be responsible for paying the costs of their audit from their NRP or CPP funds or other sources if they do not have financial records prepared within 30 days of an entrance meeting with the auditors.
5. Operating procedures. The NCR has worked with the Office of the State Auditor as well as an independent auditor to conduct audits and limited financial reviews, as well as other services such as preparing Federal 990 filings.
6. Issues. The NCR is requesting this authority to help resolve three issues. First, the Office of the State Auditor uses a different protocol than the City for contracting services, making the standard contract process difficult. Ideally, the Office of the State Auditor identifies services through individual engagement letters with each client such as a neighborhood organization. Individual engagement letters can be the basis for a contract with the Office of the State Auditors. However, the aggregate costs of the individual audits can exceed the \$50,000 limit requiring council action for approval of contracts.

Second, several factors can lead to an unanticipated increase in costs of individual audits and limited reviews, including lack of records preparation by a recipient of NRP funds, lack of cooperation with auditors, or serious findings requiring additional follow up. Such responses can lead to aggregate costs of audits exceeding the \$50,000 cap.

Finally, to manage work load, assignments of neighborhood organization audits and limited financial reviews may be shifted between the Office of the State Auditor and the independent auditor to manage workload and to appropriately carry out audit procedures as required in a timely manner. Therefore, the NCR requests authority to contract for audit services as guided by the current NRP audit policy through 2013. Costs of audits will be paid for through the existing NCR administrative budget for neighborhood funding programs.