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December 18, 2008

The Honorable School Board Members
Superintendent Dean Krogstad
Norman County East Independent School District # 2215
P.O. Box 420
Twin Valley, Minnesota 56584

Dear School Board Members and Superintendent Krogstad:

The Office of the State Auditor ("OSA") received information regarding the possible misappropriation of funds at Independent School District # 2215, Norman County East ("ISD 2215"). The OSA obtained and reviewed financial documents from ISD 2215 concerning the possible misappropriation of funds. The OSA also contacted current and former staff members of ISD 2215 to obtain additional financial documents and to discuss some of the documents received.

Based upon our review for the time period of July 1, 2006 through March 31, 2008, it appears that \$118,701.33 in ISD 2215 funds were not deposited in ISD 2215's accounts:

- \$102,514.82 in ISD 2215 funds were removed from ISD 2215's deposits through a process known as "lapping";¹
- An additional \$10,981.96 in checks to ISD 2215 were not deposited in ISD 2215's account and appear to have been cashed;² and
- An additional \$5,204.55 in cash collections were not receipted.³

Our review is summarized in the enclosed public version of our Investigative Report dated December 18, 2008. In compliance with Minnesota law, we provided the complete report to the Norman County Attorney to take such steps as the law and public interest require.⁴

ISD 2215 received a number of recommendations from its private auditor during ISD 2215's annual audit. In this letter, the OSA is providing ISD 2215 with additional

¹ See Section I of the Investigative Report and Attachment A. As discussed in Section I, "lapping" is a technique by which an employee takes funds from an account and covers it by using other payments.

² See Section II of the Investigative Report.

³ See Section III of the Investigative Report.

⁴ See Minn. Stat. § 6.51.



internal control recommendations based upon our review to better protect ISD 2215 funds in the future.

Recommendations

We recognize that limited personnel make it difficult to segregate the accounting functions necessary to ensure adequate internal accounting control. While this situation is not unusual in school districts the size of ISD 2215, the School Board and the Superintendent 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 internal control point of view.

Generally, responsibilities among employees should be separated so a single employee is not able to authorize a transaction, record the transaction in the school district's accounts, and be responsible for the receipts resulting from the transaction. Someone other than the person collecting and receipting cash should review the monthly general ledger and make deposits of receipts. Where possible, the person collecting and receipting cash should not:

- Post receipts to or maintain the general ledger system;
- Make bank deposits or wire transfers;
- Make general journal entries; or
- Prepare billings.

In situations where it is not possible to segregate duties to a desirable level, implementation of proper management oversight procedures becomes an integral part of internal control. We believe that, even with the limited size of ISD 2215's staff, there are steps ISD 2215 should consider to improve internal control and better protect ISD 2215 funds. Suggested steps are listed below.

1. Receipt all funds collected by ISD 2215.

ISD 2215 receives funds from a variety of sources, including students, parents, and members of the community. As discussed in the Investigative Report, we found that manual (handwritten) pre-numbered receipts were not issued for all ISD 2215 funds received. We also found that, in numerous instances, manual receipts were written long after the funds were received.

ISD 2215's auditors recommended that a sequentially-numbered receipt be provided to the person turning in the payment. If a teacher/coach collects the payments, the teacher/coach should be provided with a receipt when the funds and supporting documentation are turned into the main office for deposit.⁵ The auditor further

⁵ Receipts should identify the payment form (cash, check, or other).

recommended that the teacher/coach should maintain a list of the individual payments received, including whether the payments were cash or check. We would like to add that the teacher/coach should keep the receipt with a copy of the supporting documentation. The teacher/coach should then be provided with periodic reports of collections posted to ISD 2215's general ledger for the specific activity (e.g., yearbook receipts, gate receipts, etc.). This will allow the teacher/coach to compare the retained documentation with the periodic general ledger report.

In addition, receipts should be prepared timely and the information on the receipt should include: date funds were received; amount received; from whom payment was received; method of payment (cash or check); check number if payment is by check; reason for payment; and the signature or initials of the person preparing the receipt.

2. Do not permit the bank to cash checks made out to ISD 2215.

As discussed in the Investigative Report, we found instances where it appears that checks made payable to ISD 2215 were cashed at the bank.

We recommend that all checks received by ISD 2215 be stamped "For Deposit Only" as soon as they are received. In addition, we recommend that ISD 2215 work with its bank to prevent the cashing of checks made payable to ISD 2215.⁶ If funds are needed to replenish petty cash or change funds, the funds should be paid out of ISD 2215's general fund for that specific purpose, rather than cashing checks that ISD 2215 received for other purposes.⁷

3. Use numbered tickets for events.

Many of the gate receipts from ISD 2215 sporting events that were turned in for deposit had a supporting reconciliation document showing the starting and ending numbers of the tickets sold at the event, but some did not contain the starting and ending ticket numbers. In addition, for some events, we were not provided with any supporting reconciliation document.⁸

⁶ We concur with the auditor's recommendation that ISD 2215 obtain a signed agreement with their financial institutions prohibiting the cashing of checks made payable to ISD 2215.

⁷ See Minn. Stat. § 123B.11, subd. 1 (money for imprest funds, also known as petty cash accounts, should be taken from the general fund).

⁸ Minn. Stat. § 15.17, subd. 1, requires all officers of school districts to make and preserve all records necessary for a full and accurate knowledge of their official activities. The chief administrative officer is responsible for the preservation and care of the agency's government records, which include all written or printed books, papers, letters, contracts, documents, maps, plans, computer-based data, and other records made or received pursuant to law or in connection with the transaction of public business. Minn. Stat. § 15.17, subd. 2.

We recommend that ISD 2215 consistently use numbered tickets at sporting events, and consistently use a supporting reconciliation document/report. The supporting reconciliation report should consistently contain:

- The activity involved and the date of the activity;
- Beginning and ending ticket numbers sold;
- The amount of money collected;
- A reconciliation between the tickets sold and the money collected;
- Whether cash was short or over;
- The signature of the individual preparing the report; and
- The date the report was prepared.

We concur with your auditor's recommendation that someone other than the ticket seller should reconcile the number of tickets sold with the money collected. We would like to add that the person turning in the funds to the main office for deposit should turn in a copy of the supporting reconciliation document. A receipt should be obtained and should be maintained with the supporting reconciliation document. That way, a second person is able to compare receipts with periodic updates of collections posted to ISD 2215's general ledger for specific accounts (e.g., yearbook receipts, gate receipts, etc.). A copy of the supporting reconciliation document/report should be maintained in the athletic department or with the activity advisor, and a copy should be kept with the receipts maintained by the bookkeeper.

4. *Verify that deposits match receipts.*

During the period of our review, the same person who prepared the deposit also collected and receipted funds. We concur with your auditor's recommendations that the person preparing the deposit should be someone other than the person collecting/receipting the money. In addition, someone other than the person preparing the deposit should verify that the description of the deposit on the supporting receipts and documentation agrees with the funds actually being deposited (e.g., cash vs. check amounts on the receipts match the deposit; the receipted checks are the checks actually being deposited).

5. *Do not permit cashing of personal checks or "borrowing" of school funds.*

In some cases, it appears that ISD 2215 may have allowed employees to cash personal checks from the cash collections awaiting deposit. We also were informed that, from time to time, an employee would temporarily take cash, replacing it with an "IOU."

We recommend that ISD 2215 prohibit these practices. School districts should not function as banks for their employees or third parties. Cashing personal or third-party checks increases the school district's risk of losses due to insufficient funds. In addition, all funds collected by the school district should be deposited intact. The composition of the deposits, in terms of the amount of cash and checks, should reflect the actual receipts.

An environment should be created that prohibits the use of public funds for any personal reason – even in an emergency. Employees should not be allowed to “borrow” funds temporarily from petty cash or from cash receipts, even if the funds are promptly repaid.

6. *Consolidate cash collection points.*

We observed that cash and checks were collected at a number of locations at ISD 2215.

We recommend that ISD 2215 review whether it is necessary for money to be collected by individual teachers/coaches. It may be more appropriate for some funds to be collected at central locations where internal control procedures are fully implemented. If an entity has multiple cash collection points, each collection point – even those that handle a small volume of cash – must implement basic internal control procedures, such as segregation of duties, the use of numbered receipts, and the frequent deposit of funds with the main office.

7. *Make timely deposits.*

During our review, we noted that bank deposits were not consistently made on a weekly basis.

We recommend that bank deposits be made as often as possible, and at least on a weekly basis. Failing to make timely deposits increases the risk of error and the risk of misappropriation of funds.

Conclusion

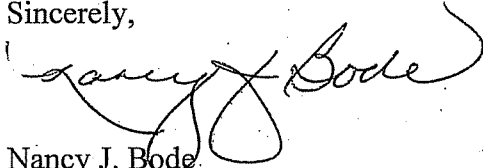
ISD 2215 received a number of recommendations from their auditors in the “Schedule of Findings” issued as part of the annual audit. The Schedule of Findings also described ISD 2215’s corrective action plan. We acknowledge that changes have already been implemented to better safeguard public assets.

To continue improving internal control procedures and to safeguard public assets, we encourage ISD 2215 to implement the additional recommendations contained in this letter. ISD 2215’s auditors have been provided with a copy of this letter and our Investigative Report. As a result, ISD 2215 will be able to work with its auditors to further refine its policies and procedures to protect its assets.

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We appreciate the assistance we received from ISD 2215 during our review. If the Office of the State Auditor can provide ISD 2215 with additional assistance, please feel free to contact Kathy Docter at 651-282-2388 or me at 651-297-5853.

Sincerely,

A handwritten signature in cursive script that reads "Nancy J. Bode". The signature is written in black ink and is positioned above the typed name.

Nancy J. Bode
Assistant Legal Counsel
Office of the State Auditor

Enclosure

cc: Ms. Rebecca A. Trapp, Assistant Norman County Attorney
Mr. Richard Munter, Norman County Auditor-Treasurer
Mr. Joseph P. Martin, Brady, Martz & Associates, P.C., ISD 2215's Auditor