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### INDEPENDENT SCHOOL DISTRICT # 2215 NORMAN COUNTY EAST

#### Investigative Report December 18, 2008

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"). As a result, 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 a number 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";<sup>1</sup>
- An additional \$10,981.96 in checks to ISD 2215 were not deposited in ISD 2215's account and appear to have been cashed;<sup>2</sup> and
- An additional \$5,204.55 in cash collections were not receipted.<sup>3</sup>

This report will summarize our findings. In compliance with Minn. Stat. § 6.51, this report is being provided to the Norman County Attorney to take such steps as the law and public interest require. The OSA is also providing ISD 2215 with a separate letter containing internal control recommendations.

#### I. Funds Removed from Deposits Through "Lapping"

ISD 2215's accounting technician/bookkeeper ("bookkeeper") worked for ISD 2215 for a number of years.<sup>4</sup> Her duties included receiving all ISD 2215 monies, processing receipts, and making bank deposits. When the bookkeeper received funds to be deposited in ISD 2215's account, she should have issued a handwritten (manual) pre-numbered

<sup>1</sup> See Section I of this 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.

<sup>2</sup> See Section II of this report.

<sup>3</sup> See Section III of this report.

<sup>4</sup> The bookkeeper left her employment with ISD 2215 on March 24, 2008.

receipt for the funds. Each deposit should have then consisted of the cash and checks reflected in the pre-numbered manual receipts issued since the last deposit.

As part of our review, we compared the actual deposits made into ISD 2215's account, with the manual receipts supporting the deposits, for the time period of July 1, 2006 through March 31, 2008. While the amount reflected on the manual receipts for each deposit totaled the amount of the deposit, the checks and cash actually contained in the deposit did not match the supporting receipts. Our review disclosed that cash was removed from deposits. The cash was replaced with other funds that were not receipted, were partially receipted, or were receipted as part of a different deposit. This conduct is known as "lapping."

From the time period of July 1, 2006 through March 31, 2008, we identified a total of \$102,514.82 in checks and non-receipted funds that were used to fill in deposits as part of the lapping scheme, i.e. to replace cash removed from the deposit, or to replace checks previously deposited to replace cash removed from the deposit. A summary of our findings is presented in Attachment A.

Where sufficient supporting documentation was available, we were able to determine the specific funds that were part of this "lapping" scheme. The following specific instances are part of the total amount reflected in Attachment A. However, they are discussed separately to provide further understanding on how the "lapping" took place.

#### **A. Example: December 7, 2007 Deposit**

For each deposit, we compared the pre-numbered manual receipts provided as support for that deposit with the actual funds contained in the deposit.<sup>5</sup> Here is an example of our findings from the December 7, 2007 deposit:<sup>6</sup>

The December 7, 2007 deposit of \$7,757.04 consisted of \$404.65 in cash and \$7,352.39 in checks. According to the receipts supporting that deposit, the deposit should have consisted of collections obtained from gate receipts at two football games and one volleyball game, concession sales, an insurance payment by a retired ISD 2215 employee, funds from the sale of ISD 2215 vehicles, yearbook sales, and donations. However, when we reviewed the checks actually contained in the deposit, we found checks for student lunches and yearbook sales that were receipted as support for later deposits. These checks were deposited on December 7, 2007, instead of all of the cash from the gate receipts and concession sales. For the December 7, 2007 deposit, we found

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<sup>5</sup> For the time period of July 1, 2006 through March 31, 2008, we obtained copies of the deposit slips and supporting documentation for each deposit. The deposit slips individually listed each check contained in the deposit. In addition, for the time period of June 1, 2007 through April 25, 2008, we obtained copies of the front of all checks contained in each deposit.

<sup>6</sup> The amount discussed in this example is already included in the \$102,514.82 identified in Attachment A.

that \$2,354.00 of the deposit was comprised of funds that were receipted as support for later deposits.<sup>7</sup>

Our review of the December 7, 2007, deposit is reflected in the chart on the following page. The chart shows that cash from the deposit was removed and replaced with \$2,354.00 in checks that were then receipted as support for later deposits.

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<sup>7</sup> When we reviewed the later deposits supported by receipts for the checks contained in the December 7, 2008 deposit, we found that those deposits also contained checks that were either not receipted or receipted as support for subsequent deposits.

December 7, 2007 Deposit					
Amount Received	Receipt Number (Date)	Description According to Receipt	Checks in Deposit Matching Receipts	Additional Checks in Deposit	
				Amount	Description
\$ 451.00	7559 (12/7/2007)	Health insurance payment	\$ 451.00		
\$ 976.00	7558 (12/4/2007)	School bus purchase	\$ 976.00		
\$ 2,201.99	7557 (12/4/2007)	School van purchase	\$2,201.99		
\$ 100.00	7556 (12/4/2007)	Donation to "Archery in the Schools"	\$ 100.00		
\$ 509.40	7555 (12/3/2007)	Annual Staff: 14 yearbook sales	\$ 509.40		
\$ 260.00	7554 (12/3/2007)	Annual Staff: 6 yearbook ads	\$ 260.00		
\$ 500.00	7553 (12/3/2007)	Donation to "Archery in the Schools"	\$ 500.00		
\$ 886.00	7549 (11/30/2007)	NCE vs. Win-E-Mac FB (gate receipts 10/12/07)	0		
\$ 322.00	7551 (12/3/2007)	NCE vs. Win-E-Mac VB (gate receipts 10/15/07)	0		
\$ 1,006.00	7552 (12/3/2007)	NCE vs. Ada-Borup FB (gate receipts 10/17/07)	0		
\$ 544.65	7550 (11/30/2007)	Annual Staff: concession sales	0		
				\$ 1,297.35	Checks for 12/3/07-12/7/07 lunches received for 2/1/08 deposit, Receipt # 7642
				\$ 154.80	Yearbook sales received for 12/21/07 deposit, Receipt # 7572
				\$ 901.85	Checks for 11/26/07-11/30/07 lunches received for 1/18/08 deposit, Receipt # 7632
		<b>Subtotals:</b>	<b>\$4,998.39</b>	<b>\$ 2,354.00</b>	
<b>Total Deposit:</b>		<b>Total all checks in deposit:</b>			<b>\$ 7,352.39</b>
		<b>Plus cash in deposit:</b>			<b>\$ 404.65</b>
	<b>\$ 7,757.04</b>		<b>Total deposit:</b>		

### B. Sporting Events

We were informed that funds collected at sporting events were primarily cash. We observed that, in 24 instances, deposits supported by pre-numbered manual receipts from sporting events did not contain sufficient cash to cover the gate receipts and concession sales that should have been contained in the deposit. As previously described for the December 7, 2007 deposit, our review disclosed that unreceipted or elsewhere receipted checks were contained in deposits to cover the missing funds.

The following chart shows the instances where the gate receipts and concessions sales were greater than the total amount of cash deposited, for a total difference of \$17,469.78. This amount is part of the \$102,514.82 identified in Attachment A.

<b>Gate Receipts and Concession Sales Greater Than Total Cash in Deposit</b>			
<b>Date of Deposit</b>	<b>Gate Receipts and Concession Sales Per Manual Receipt(s)</b>	<b>Total Amount of Cash in Deposit</b>	<b>Difference</b>
3/7/08	\$ 481.00	\$ 124.72	\$ 356.28
2/29/08	\$ 1,478.00	\$ 319.85	\$ 1,158.15
2/8/08	\$ 1,112.00	\$ 526.73	\$ 585.27
2/1/08	\$ 1,006.00	\$ 891.45	\$ 114.55
1/25/08	\$ 660.00	\$ 474.95	\$ 185.05
12/7/07	\$ 2,758.65	\$ 404.65	\$ 2,354.00
11/21/07	\$ 668.00	\$ 76.55	\$ 591.45
11/9/07	\$ 1,364.00	\$ 137.51	\$ 1,226.49
10/9/07	\$ 974.00	\$ 216.91	\$ 757.09
9/10/07	\$ 306.00	\$ 66.20	\$ 239.80
4/13/07	\$ 1,913.50	\$ 249.46	\$ 1,664.04
3/30/07	\$ 1,552.00	\$ 13.07	\$ 1,538.93
3/12/07	\$ 1,821.00	\$1,320.56	\$ 500.44
2/23/07	\$ 1,108.00	\$ 143.85	\$ 964.15
2/16/07	\$ 1,199.00	\$1,085.16	\$ 113.84
2/9/07	\$ 761.00	\$ 116.55	\$ 644.45
1/29/07	\$ 307.00	\$ 188.26	\$ 118.74
1/19/07	\$ 397.00	\$ 168.87	\$ 228.13
1/12/07	\$ 397.00	\$ 119.43	\$ 277.57
1/5/07	\$ 492.00	\$ 369.13	\$ 122.87
11/24/06	\$ 796.00	\$ 213.17	\$ 582.83
11/13/06	\$ 1,641.75	\$ 77.79	\$ 1,563.96
10/27/06	\$ 879.00	\$ 309.42	\$ 569.58
10/13/06	\$ 3,160.00	\$ 2,147.88	\$ 1,012.12
<b>Totals:</b>	\$27,231.90	\$ 9,762.12	\$17,469.78

We also observed that receipts for sporting events were not written in a timely manner. For example, gate receipts for games held on February 7, 12 and 15, 2008, were not receipted until the March 14, 2008 deposit. In at least one instance, gate receipts from a volleyball game were receipted twice, as part of two different deposits.<sup>8</sup>

### **B. School Lunch Payments**

School lunch payments were collected by another ISD 2215 employee, who then turned the funds over to the bookkeeper for receipting and deposit. We were provided with computerized lists of lunch payments collected.<sup>9</sup>

We compared the school lunch payments collected with the receipted and deposited school lunch payments. In numerous cases, we found that the checks for lunch payments were deposited shortly after they were collected, but the payments were not receipted for several weeks. As previously discussed in this report, when the lunch payments were receipted late, often the checks associated with the pre-numbered manual receipt had been deposited earlier. As a result, other funds were used to cover the deposits supported by these receipts.

In some instances, we found that the lunch payments were not receipted at all. However, the non-receipted lunch payments were deposited and were used to cover deposits that would have been short if not for the lunch payment checks. The lunch payments that were not receipted, but were deposited, totaling \$24,703.38, are reflected in the following chart. This amount is part of the \$102,514.82 identified in Attachment A.

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<sup>8</sup> See receipt number 7520 supporting November 21, 2007 deposit, and receipt number 7482 supporting October 22, 2007 deposit, both for \$280 in gate receipts from the NCE v. Waubun volleyball game.

<sup>9</sup> We were provided with computerized lists for May 1, 2006 through March 20, 2008.

<b>Lunch Payments Deposited But Not Receipted</b>		
Dates of Lunch Payments	Amount Collected	Date Many or All Lunch Checks Were Deposited
<b>2007-2008 School Year:</b>		
3/10/08 – 3/14/08	\$ 871.70	3/14/08
3/3/08 – 3/7/08	\$ 1,078.85	3/7/08
2/25/08 – 2/29/08	\$ 2,181.40	2/29/08
2/18/08 – 2/22/08	\$ 1,918.60	2/22/08
2/11/08 – 2/15/08	\$ 1,555.75	2/22/08
2/4/08 – 2/8/08	\$ 2,284.25	2/8/08
<b>2006-2007 School Year:</b>		
6/4/07 – 6/30/07	\$ 458.00	6/12/07
5/28/07 – 6/1/07	\$ 154.70	6/1/07
5/21/07 – 5/25/07	\$ 1,998.85	5/29/07
5/14/07 – 5/18/07	\$ 1,031.39	5/21/07
5/7/07 – 5/11/07	\$ 1,178.35	5/21/07
4/30/07 – 5/4/07	\$ 2,186.24	5/4/07
4/23/07 – 4/27/07	\$ 1,506.70	4/27/07
4/16/07 – 4/20/07	\$ 1,040.50	4/27/07
4/9/07 – 4/13/07	\$ 2,153.55	4/13/07
4/2/07 – 4/6/07	\$ 1,156.05	4/13/07
1/29/07 – 2/2/07	\$ 1,948.50	2/5/07
<b>Total:</b>	<b>\$24,703.38</b>	

**C. Payments from Outside Entities**

ISD 2215 received a number of checks from outside entities. We found that some checks were deposited in ISD 2215's account, but the checks were not receipted. Similarly, we found that some of the checks were deposited into ISD 2215's account, but only a portion of the checks was receipted. The unreceipted and partially receipted checks were used for lapping – to complete deposits from which funds (cash) had been removed, and are included in the \$102,514.82 identified in Attachment A.

For example, Tri-Valley Opportunity Council, Inc., ("Tri-Valley") reimbursed ISD 2215 for food, milk, and some field trips connected with the preschool Head Start school readiness program. We obtained from Tri-Valley a listing of checks that Tri-Valley had issued to ISD 2215.<sup>10</sup> We found that some of the Tri-Valley checks were deposited, but

<sup>10</sup> Tri-Valley provided us with a listing of checks written to ISD 2215 for the time period January 17, 2001 through May 28, 2008.

the checks were not receipted or were only partially receipted, as reflected in the following chart:

<b>Checks from Tri-Valley Deposited, but Only Partially or Not Receipted</b>					
Vendor	Date of Check	Amount of Check	Amount Receipted	Difference	Date Check Deposited
Tri-Valley	2/27/08	\$715.22	0	\$715.22	3/14/08
Tri-Valley	2/13/08	\$523.17	\$23.52	\$499.65	2/22/08
Tri-Valley	1/30/08	\$635.61	\$21.56	\$614.05	2/8/08
Tri-Valley	10/26/07	\$557.96	\$36.51	\$521.45	1/11/08
Tri-Valley	6/13/07	\$161.24	0	\$161.24	6/29/07
Tri-Valley	5/16/07	\$836.85	0	\$836.85	5/29/07
Tri-Valley	4/13/07	\$898.50	0	\$898.50	4/27/07
Tri-Valley	3/14/07	\$736.80	0	\$736.80	3/19/07
Tri-Valley	2/23/07	\$820.70	0	\$820.70	3/12/07
Tri-Valley	11/29/06	\$569.00	0	\$569.00	1/5/07
			<b>Total:</b>	<b>\$6,373.46</b>	

**E. Payments from Students and Families**

ISD 2215 students and their families paid a variety of fees for programs provided by ISD 2215. We found that many of those payments were receipted and deposited, but were used for lapping purposes, and are therefore included in the \$102,514.82 identified in Attachment A.

For example, ISD 2215 adopted a fee structure, effective January 2008, for children enrolled in early childhood/family education (“ECFE”). Under the fee structure, families would pay a total of \$580 each month for the program. Payments made by check for the January 2008 ECFE were found in the January 11 and February 1, 2008 deposits. However, the January 2008 ECFE payments were not receipted until the March 7, 2008 deposit. Because the January 2008 ECFE checks had already been deposited, other checks were used to fill the March 7, 2008 deposit.

We found that manual receipts for some sports clothing payments were not written. For example, in January 2008, eighteen students paid \$74 each for football jerseys. According to the order lists and related records provided to us, \$1,332 was collected, turned in to the bookkeeper, and should have been deposited for football jersey payments. No manual receipt was issued for the payments. Instead, some of the checks for the jerseys were used to fill in various deposits as part of the lapping scheme. When the bookkeeper left her employment with ISD 2215 at the end of March 2008, seven checks



and \$6.00 in cash (totaling \$512.00) in football jersey payments were found in the bookkeeper's desk.

## **II. Checks Not Deposited in ISD 2215 Account**

During our review, we contacted people and entities that had written checks to ISD 2215. We found \$10,981.96 in checks that were written out to ISD 2215, but were not deposited in ISD 2215's account. The back of these checks contained a non-restrictive stamp and a handwritten endorsement in the name of the bookkeeper. Therefore, it appears the checks were cashed by the bookkeeper.

Generally, checks that were deposited in ISD 2215's account contained the following stamp on the back of the check:

FOR DEPOSIT ONLY  
NCE SCHOOL DIST. #2215  
408 WEST MAIN BOX 420  
TWIN VALLEY, MN 56584

We found checks written to ISD 2215 that were not deposited into ISD 2215's account and contained the following non-restrictive stamp on the back of the check:

NORMAN COUNTY EAST SCHOOLS  
P.O. BOX 420  
TWIN VALLEY, MN 56584

Below the stamp, the checks contained a handwritten endorsement in the name of the bookkeeper. The checks, totaling \$10,981.96, are reflected in the following chart. These missing funds are in addition to those reflected in Attachment A.

<b>Non-Deposited Checks With Handwritten Endorsement</b>				
<b>Vendor/Payor</b>	<b>Purpose</b>	<b>Date of Check</b>	<b>Amount</b>	<b>Receipt Number (Date of Receipt)</b>
Employee 1	Health Insurance	11/1/07	\$ 451.00	Receipt # 7521 (11/12/07)
Employee 2	Health Insurance	9/27/07	\$ 1,468.00	Receipt #7483 (10/12/07) and #7493 (11/1/07) each for \$734.00
Employee 3	Health Insurance	8/31/07	\$ 451.00	Receipt #7431 (9/10/07)
Employee 3	Health Insurance	8/2/07	\$ 451.00	Not received
Employee 1	Health Insurance	8/1/07	\$ 451.00	Not received
Employee 4	Health Insurance	7/31/07	\$ 1,103.50	Not received
Employee 1	Health Insurance	7/1/07	\$ 451.00	Not received
Employee 3	Health Insurance	6/29/07	\$ 451.00	Not received
Employee 4	Health Insurance	6/28/07	\$ 1,103.50	Receipt # 7481 (10/9/07)
Tri-Valley	Head Start - Reimbursement	6/13/07	\$ 676.01	Not received
Employee 5	Health Insurance	5/31/07	\$1,921.00	Not received
Tri-Valley	Head Start - Reimbursement	11/29/06	\$ 811.45	Not received
Employee 1	Health Insurance	11/1/06	\$ 416.50	Not received
Employee 6	Health Insurance	8/25/06	\$ 359.50	Receipt #6927 (9/18/06)
Employee 1	Health Insurance	8/1/06	\$ 416.50	Not received
		Total:	\$10,981.96	

We believe that ISD 2215 may have received additional checks that were not deposited in ISD 2215's account. For example, we have been unable to talk to a retired ISD 2215 employee to obtain a copy of the front and back of a check for \$618.00 that was receipted on May 28, 2007, but was not contained in a deposit. Similarly, we have been unable to obtain a check for \$1,677.00 corresponding to a receipt dated September 18, 2006, recorded as a health insurance payment from Employee 5. Finally, we have also been unable to confirm that a check for \$1,677.00 identified on the July 31, 2006 bank deposit slip as being from Region V, but receipted as a health insurance payment from Employee 5 on July 11, 2006, was actually a health insurance payment for Employee 5.

### III. Additional Cash Collections Not Received

Our review disclosed an additional \$5,204.55 in cash collections that were not manually received. Because the manual receipts were the support for the deposits, these missing funds are in addition to those reflected in Attachment A.

We obtained a list of sporting events from ISD 2215 for the 2006-2007 and 2007-2008 school years. For the 2007-2008 school year, we also obtained the total in gate receipts from all but one event. When we compared the list of sporting events with the manual receipts and the general ledger entries, we found that \$3,550 in gate receipts were not received in ISD 2215's books.

We also were informed that concession sales were held for the yearbook at four football games. However, manual receipts were written for only three yearbook concession sales. We located a general ledger entry of \$554.55 for an additional yearbook concession sale that was not manually received.<sup>11</sup>

<b>Gate Receipts and Concession Sales – Not Received</b>		
Date of Event	Event	Amount
3/11/08	Boys Basketball Tournament	\$1,950.00
2/26/08	Boys Basketball - NCW	\$ 522.00
2/21/08	Girls Basketball & Boys Basketball – Climax-Fisher	\$ 610.00
2/19/08	Girls Basketball & Boys Basketball - Fosston	\$ 468.00
Fall 2007	Yearbook Concession Sales	\$ 554.55
	<b>Total:</b>	<b>\$4,104.55</b>

We were provided with lists of students enrolled in classes that required the payment of a fee, such as driver's education and art classes. Some of the lists disclosed whether the student paid for the class with a check or in cash. We compared the lists with the pre-numbered manual receipts and the general ledger. We found that \$1,100 in cash payments for those classes were not received, as reflected in the chart on the following page.<sup>12</sup>

<sup>11</sup> The general ledger entry references manual receipt number 7500. However, manual receipt number 7500 is dated November 5, 2007, in the amount of \$552.00, for gate receipts from the NCE v. Fergus Falls football game.

<sup>12</sup> We also found \$115 in checks for art classes that were not received. Because those unreceipted checks may have been used for the lapping reflected in Attachment A, we are not separately reporting them here.

<b>Cash Payments for Class Fees Not Received</b>		
<b>Payment Date</b>	<b>Class (Student)</b>	<b>Amount</b>
3/12/08	Driver's Ed (Student 1)	\$ 200.00
1/25/08	Driver's Ed (Student 2)	\$ 200.00
2007-2008	Art Classes (Various)	\$ 100.00
6/4/07	Driver's Ed (Student 3)	\$ 200.00
5/2/07	Driver's Ed (Student 4)	\$ 200.00
4/30/07	Driver's Ed (Student 5)	\$ 200.00
	<b>Total:</b>	<b>\$1,100.00</b>

#### **IV. Prior Years**

Our review covered the time period of July 1, 2006 through March 31, 2008. Given our findings for this period of time, we believe that a review of prior years could disclose additional missing funds. However, due to resource limitations, our review was limited to the above time period at this time.

#### **V. Conclusion**

Our review disclosed that \$118,701.33 in ISD 2215 funds were not deposited in ISD 2215's accounts during the time period of July 1, 2006 through March 31, 2008. This report is being provided to the Norman County Attorney to institute such proceedings as the law and public interest require, in compliance with Minn. Stat. § 6.51.