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October 19, 2010

The Honorable Mark Harig
Sheriff, Freeborn County
411 South Broadway
Albert Lea, Minnesota 56007

Dear Sheriff Harig:

The Office of the State Auditor (“OSA”) conducted a review of financial procedures in the Freeborn County Sheriff’s Department for petty cash, the cash register maintained in the Records Division, and civil process service and garnishment funds/fees, for the time period of January 2008 through February 2010. Based upon our review, the OSA is providing Freeborn County (“County”) with internal control recommendations.¹

I. Petty Cash Fund

Petty cash funds (also known as imprest funds) are allowed under Minnesota law for the payment of claims if “it is impractical” to pay the claims in any other manner.² Each petty cash fund must be established by the county board.³ The county board must appoint a custodian of the fund who is responsible for the fund and any disbursements from the fund.⁴ To replace money disbursed from the fund, a claim itemizing the disbursements must be presented to the county board at the next county board meeting after the month in which the disbursements have been made.⁵ If the county board approves the claim, a warrant from the county’s general revenue fund should be issued to

¹ A separate report containing not public information has been filed with the Freeborn County Attorney to institute such proceedings as the law and the public interest require. *See* Minn. Stat. §§ 6.48, 6.715, and 13.82.

² *See* Minn. Stat. § 375.162, subd. 1. A County Board may also authorize a petty cash fund for travel advances. *See* Minn. Stat. § 375.162, subd. 2.

³ *See* Minn. Stat. § 375.162, subd. 1.

⁴ *Id.*

⁵ *Id.*

the fund's custodian to replenish the fund.⁶ If the county board fails to approve the claim in full, the custodian is personally responsible for the difference.⁷

The Sheriff's Department maintained a petty cash fund. The OSA found no evidence that the petty cash fund in the Sheriff's Department was approved by the County Board.⁸ The County Auditor/Treasurer informed the OSA that the petty cash fund was closed on September 17, 2010.

The OSA was provided with and reviewed copies of Claims/Payment Vouchers submitted by the Sheriff's Department for replenishment of the petty cash fund in 2008 and 2009. The petty cash fund was primarily used to reimburse employees for expenses. Examples of expenses submitted to the petty cash fund for reimbursement included gas and/or meal expenses related to the transport of prisoners, training programs, and meetings; miscellaneous vehicle expenses and supplies; and postage.⁹

The OSA was also provided with and reviewed a handwritten log for the Department's petty cash fund for August 31, 2007, through March 16, 2010. According to the handwritten log, \$189.44 in petty cash funds were spent on Christmas gifts, gift cards, cards, a United Way basket, and a Christmas party. The OSA questions the public purpose of these expenditures.¹⁰

The petty cash fund was not replenished on a regular basis. The OSA was informed that, as a result, the fund at times did not contain sufficient money to reimburse employees for submitted expenses. The OSA found that some expense reimbursements were also made from a Sheriff's Department checking account.

⁶ *Id.* For a petty cash fund for travel advance, the employee who received advance money for travel must submit the claim to the County Board. *See* Minn. Stat. § 375.162, subd. 2. If the claim is approved, a warrant is issued to the employee who must use the funds to repay the amount advanced from petty cash. *Id.* If the amount approved by the County Board is insufficient to repay the advance, the employee is personally responsible for the difference. *Id.*

⁷ *See* Minn. Stat. § 375.162, subd. 1.

⁸ County Board Resolution 09-002 documented the creation of six change/imprest funds, including a \$100.00 change fund/imprest fund for the Sheriff's Department. *See* County Board Resolution 09-002 (January 6, 2009). The County Auditor/Treasurer informed the OSA that the approved fund was a change fund for the cash register maintained in the Sheriff's Department.

⁹ The payment of reasonable and necessary expenses for the transport of prisoners is expressly authorized by Minn. Stat. § 357.09, subd. 3. In County Board Resolution 09-002 (January 6, 2009), a \$500.00 petty cash fund held by the Auditor/Treasurer as custodian was created to reimburse various County departments for postage.

¹⁰ Information on public purpose expenditures may be found on the OSA's website at: <http://www.auditor.state.mn.us/default.aspx?page=statements>.

The OSA recommends:

1. All petty cash funds should be County Board approved. Each petty cash fund should have a Board-appointed custodian and a stated purpose. Periodically, the County Board should review the funds to determine whether they are still necessary.
2. The County Board should determine whether the Sheriff's Department has claims that are impractical to pay in any other manner, thereby warranting a petty cash fund for the Sheriff's Department.¹¹ Petty cash funds should not be used for normal County employee expenses, such as training and meeting expenses. Where possible, Sheriff's Department employees should use the same employee expense reimbursement procedures used by other County employees.¹²

If the County Board determines that a petty cash fund in the Sheriff's Department is warranted, the OSA recommends:

1. The County Board should establish the petty cash fund, including the amount, stated purpose, and custodian of the fund.
2. Procedures should be established for payments made from petty cash. This should include the type of payments that will be reimbursed and the documentation required before payment is made. Original receipts should be maintained as supporting documentation for all disbursements made from the fund. Claimants should sign a declaration to the effect that the claim is just and correct and that no part of it has been paid.¹³ Advances and travel expense reimbursements should be made by the County Auditor/Treasurer, not from the petty cash fund.
3. Procedures should be established for the replenishment of the fund. A claim itemizing all disbursements from the petty cash fund should be presented to the County Board at its next meeting after the disbursements are made, so the petty cash fund is replenished at least once each month. The total of the receipts supporting disbursements made from petty cash should match the amount of the replenishment check. The replenishment check should state "petty cash" on the check so the County's financial institution(s) is/are able to confirm that the check may be cashed. No other source of funds should be used to replenish petty cash.
4. Procedures should be established for reconciliations of the petty cash fund. Reconciliations should be performed periodically by someone other than the

¹¹ Alternatively, the County Board could establish a Sheriff's Department Contingency Fund to pay sheriff office expenses. *See* Minn. Stat. § 387.212. Disbursements from the Fund must be made by the county treasurer, in accordance with rules and regulations set by the county board. *Id.* There is also a separate contingent fund for drug, alcohol, and DWI investigations, funded by fines imposed for certain drug and alcohol offenses. *See* Minn. Stat. § 387.213. The OSA did not review the separate contingent fund.

¹² For example, the OSA recognizes that, in some situations, data practice constraints may require redacting certain specific information contained on supporting documentation submitted by Sheriff's Department employees.

¹³ *See* Minn. Stat. § 471.38, subd. 1.

- person approving disbursements from the fund. At any time, the amount of cash on hand, plus receipts should equal the amount of the approved petty cash fund.
5. Petty cash should be secured in a locked box maintained in a locked desk, locked cabinet, or locked safe to which access is limited.

A copy of the OSA's Statement of Position on Petty Cash (Imprest) Funds is enclosed to provide additional guidance on this topic.¹⁴

II. Records Division Cash Register

The Sheriff's Department maintains a joint Police Records Division for the Sheriff's Department and the Albert Lea Police Department. A cash register is used for revenue received from the sale of copies of County and City of Albert Lea ("City") documents.¹⁵ The revenue received is split between the City and the County, depending on which entity's documents were sold.

The Sheriff was named as custodian of a \$100.00 change/imprest cash fund approved by the County Board on January 6, 2009.¹⁶ The County Auditor/Treasurer informed the OSA that the \$100.00 was approved as the starting balance/change fund for the cash register. The records in the Sheriff's Department, however, noted a starting cash balance of \$50.00 for the cash register that was obtained from petty cash.¹⁷

During our review, the OSA found that the funds in the cash register were not deposited on a regular basis. Cash register tapes were generated, but were not available for our review.

The OSA recommends:

1. The County Board should establish a change fund, identifying the amount, stated purpose, and custodian of the fund.
2. The concentration of financial duties in one person is not desirable from an accounting perspective. Duties for the receiving, depositing, and balancing of funds should be segregated, or other controls should be adopted.
3. Checks should be made payable to the Freeborn County Auditor/Treasurer or the City of Albert Lea, depending on the copies sold. Checks should be endorsed "For Deposit Only" immediately upon receipt. An endorsement stamp should be obtained from the City for checks made out to the City. For all other checks, the

¹⁴ The Statement of Position is also available on the OSA's website at:

http://www.auditor.state.mn.us/Other/statements/pettyCashFunds_0807_statement.pdf.

¹⁵ For example, copies of accident reports cost \$3.00; copies of other public reports cost \$0.25 per page; background checks cost \$10.00, payable in advance. See Freeborn County website at:

<http://www.co.freeborn.mn.us/sheriff/records/default.aspx>.

¹⁶ See County Board Resolution 09-002.

¹⁷ It appears that the \$50.00 starting balance has existed since at least 1999.

- endorsement should be stamped "For Deposit Only, Freeborn County Auditor/Treasurer."
4. All transactions should be entered into the cash register. All voids or refunds should be documented and approved by two employees. There should be no cashing of personal or third-party checks from the cash register. All checks should be written for the amount of the sale, with no cash being given back from checks received. The cashier receipting the check should initial the check.
 5. The cash register should be balanced at least weekly by Sheriff's Department cashiers for the total funds received, as well as for the subtotals of checks and cash received. A collection count sheet should be prepared including shortages/overages, cash and checks, and the split between the City and County. Cash register tapes and documentation regarding any voids/refunds should be attached to the sheets. Any discrepancies should be brought to the attention of the Sheriff's Department cashier supervisor and investigated.
 6. All funds should be deposited at least monthly with the County Auditor/Treasurer and the City. A receipt should be obtained from both the County and the City for all deposits.
 7. Copies of the Auditor/Treasurer and City receipts and the supporting weekly collection count sheets with attachments should be provided to the Sheriff's Department cashier supervisor for review and retained in accordance with the County's document retention schedule.

III. Civil Process Service and Garnishment Funds/Fees

The Sheriff's Department is authorized to collect a variety of fees, and in some cases mileage. As examples, the Sheriff's Department is authorized to collect fees for serving a summons, warrant, writ, subpoena, or other process issued by a court, for collecting on execution after levy or returning an execution unsatisfied when no service is made, and for selling foreclosed property.¹⁸ By law, fees collected by a sheriff must be paid to the county at least once each month.¹⁹

The following procedures had been established for the processing of these funds. The Sheriff's Department wrote pre-numbered receipts for funds received, including the fees and the amounts collected during garnishments, levies, or forfeiture sales. Requests for service, the fees charged, the fees received, and, where appropriate, the amounts collected, were recorded by the Sheriff's Department in a computerized Civil Process Management System and on a separate spreadsheet used to determine monthly deposits with the Auditor/Treasurer.

¹⁸ See, e.g., Minn. Stat. § 357.09, subd. 1. In most cases, the County Board must set the fee amounts. See Minn. Stat. § 357.09, subd. 8. The Sheriff's Department does not collect mileage for these services.

¹⁹ See Minn. Stat. § 387.20, subd. 5. The statute also allows fees to be collected before the services are performed.

Fees received for serving civil process were deposited in a US Bank checking account maintained by the Sheriff's Department (the "Collection Account").²⁰ Fees received and amounts collected for garnishments and levies were deposited into a Security Bank checking account maintained by the Sheriff's Department (the "Trust Account").²¹ When the period for garnishment/levy collection expired or the full amount had been collected, a check was written from the Trust Account to the Collection Account, transferring the fees and the amount collected to the Collection Account. Checks were then written from the Collection Account to the appropriate entity/person for the amount collected.²² Once each month, a check for the fees earned should have been written from the Collection Account to the Auditor/Treasurer for deposit.²³

During our review, however, the OSA found that the procedures established for the processing of these funds were not being followed. For example, checks from the Collection Account were written for such things as employee training expenses, vehicle license plates, peace officer license fees, and "cash" for alcohol and tobacco compliance activities. Not all fees received by the Sheriff's Department were receipted, and the separate spreadsheet was not maintained.

No deposits to the County Auditor/Treasurer from the Collection Account were made for eleven consecutive months in 2009. No checks from the Trust Account were written to the Collection Account for seven different months in 2009, although garnishment/levy checks were still being written from the Collection Account. As a result, some garnishment/levy payments may have been made from fee revenue.

Checks from the Collection and Trust Accounts contained only one signature. At times, the signature on the checks was a signature stamp. The signature stamps were not securely maintained.²⁴

A civil process clerk was responsible for receipting funds, writing checks, making deposits, maintaining the spreadsheet, and balancing the Accounts. The concentration of financial duties in one person is not desirable from an accounting perspective. Duties for the receiving, disbursing, depositing, and balancing of funds should be segregated, or other compensating controls should be adopted.

The OSA recommends that the separate Sheriff's Department checking accounts be closed. Funds would be receipted by the Sheriff's Department, but deposited with the County Auditor/Treasurer. The Sheriff's Department would then request the County Auditor/Treasurer to issue any necessary checks.

²⁰ The account was titled: "Office of Freeborn County Sheriff Collection Account."

²¹ The account was titled: "Office of Freeborn County Sheriff Trust Account."

²² The amount paid to the appropriate entity/person is also recorded on the separate spreadsheet.

²³ The separate spreadsheet is used to determine the monthly deposit amount.

²⁴ The OSA was informed that all signature stamps have been collected.

More specifically, the OSA recommends:

1. The Sheriff's Department would continue to receive funds and maintain its databases, but all funds would be deposited with the County Auditor/Treasurer on at least a weekly basis.
 - a. Pre-numbered receipts should be written for all funds received. The receipts should identify from whom the funds were received, whether the funds were paid by cash or check, the date the funds were received, the reason the funds were received, and which Sheriff's Department employee received the funds. Any voided receipts should be approved by a second person.
 - b. All checks received by the Sheriff's Department should immediately be endorsed "For Deposit Only, Freeborn County Auditor/ Treasurer." Any funds received should be secured pending deposit with the County Auditor/Treasurer. All funds received should be deposited with the County Auditor/Treasurer at least weekly.
 - c. When making a deposit, documentation should be provided to the County Auditor/Treasurer to support the amount received from fees and the amount collected from garnishments, levies, or forfeiture sales that will be payable to other entities/ persons.
 - d. A receipt should be obtained from the Auditor/Treasurer for all deposits.
2. The Sheriff's Department should work with the County Finance Department to establish an agency fund in the County's general ledger for collections received from garnishments, levies, or forfeiture sales that will be payable to other entities/persons. Liability accounts within the agency fund could be established to identify to whom the funds/monies belong. The Sheriff's Department should submit a claim to the County Finance Department, notifying the County Finance Department that a check should be issued to the appropriate entity/person for the amount collected.
3. If an adjustment to the fees paid is needed, the Sheriff's Department should submit a claim to the County Finance Department, notifying the County Finance Department that a check from the County's General Revenue Fund should be issued to the appropriate entity/person for the fee adjustment.
4. The County Finance Department should provide the Sheriff's Department at least monthly with reports of: 1) activity within the agency fund; and 2) any checks issued by the County Finance Department for fee refunds. The reports received from the County Finance Department should be used to update the Sheriff's Department databases to reflect the amounts paid to other entities/ persons.
5. On a monthly basis, someone other than the person receiving the payments and preparing the deposits for the Auditor/Treasurer should verify that all funds received were deposited with the Auditor/Treasurer.

IV. Additional Recommendations

The OSA recommends that the Sheriff's Department adopt written policies and procedures for all funds handled by the Sheriff's Department. The documentation should:

- Describe the procedures as they are intended to be performed;
- Indicate which employees are to perform which procedures; and
- Explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Written documentation will:

- Enhance employees' understanding of their role and function in the internal control system;
- Establish responsibilities;
- Provide guidance for employees;
- Improve efficiency and consistency of transaction processing;
- Improve compliance with established policies;
- Help prevent deterioration of key elements in the Sheriff's Department internal control system;
- Maintain consistency in procedures from year to year and during employee transitions; and
- Help decrease circumvention of Sheriff Department policies and procedures.

The written documentation should be shared with all Sheriff's Department employees. The Sheriff's Department may want to consider having employees sign a form acknowledging receipt of the policies and agreeing to adhere to the policies. On a regular basis, the Sheriff's Department should monitor the procedures to verify that they are being performed in compliance with the written procedures.

In addition, the County should work with the County's financial institution(s) to prevent employees from cashing checks made payable to the County, unless the checks are clearly identified as petty cash reimbursements.

Signature stamps should be secured in a locked box maintained in a locked desk, locked cabinet, or locked safe to which access is limited. A log should be maintained identifying who has possession of any signature stamps.

Conclusion

The Office of the State Auditor conducted a review of the financial procedures in the Freeborn County Sheriff's Department for petty cash, the cash register maintained in the Records Division, and civil process service fees and garnishment funds/fees. In this letter, the OSA provided the County with internal control recommendations based upon our review.

If the OSA can provide the County with additional assistance in this matter, please feel free to contact me at 651-297-5853, or Carla Blahnik at 507-280-5055.

Sincerely,

/s/ Nancy J. Bode

Nancy J. Bode
Assistant Legal Counsel

Enclosure

cc. The Honorable Christopher Shoff, Chair of County Board of Commissioners
John Kluever, County Administrator
Dennis Distad, County Auditor/Treasurer
William Helfritz, County Finance Manager
The Honorable Craig Nelson, County Attorney
Gene Arnold, Chief Deputy, Sheriff's Department



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Statement of Position Petty Cash (Imprest) Funds

By law, school districts, towns, counties, and cities are allowed to establish petty cash (imprest) funds.¹ These funds are cash funds, with currency in the form of coins and bills, not separate checking accounts. Using an “imprest system,” you can only spend what you have in the fund and can only be reimbursed if you have receipts. Petty cash funds are allowed for the payment of claims if “it is impractical” to pay the claims in any other manner. The law prohibits their use for salaries or personal expenses of an officer or employee.

Each petty cash fund must be established by the governing body, and a “custodian” of the fund must be appointed. Meeting minutes should document the creation and amount of any petty cash fund. Periodically, the governing body should review these funds to determine whether they are still necessary. The designated petty cash custodian is personally responsible for the cash entrusted to the fund.

Disbursements from Petty Cash

There are two permissible methods of disbursing petty cash funds: 1) the reimbursement method, and 2) the advance method.

When using the reimbursement method, an individual purchases an authorized item with personal funds, provides the original detailed vendor receipt to the petty cash custodian, and is then reimbursed from the petty cash fund. This method is less complicated than the advance method. There is no risk of loss of petty cash funds due to the purchaser failing to buy the item and/or failing to submit supporting documentation for the purchase. It also allows the petty cash fund to be replenished more quickly than with the advance method. For these reasons, the reimbursement method is generally preferred.

¹ Minnesota law on petty cash (imprest) funds is found at Minn. Stat. §§ 123B.11, subd. 1 (school districts), 366.01, subd. 12 (towns), 375.162, subd. 1 (counties), and 412.271, subd. 5 (cities). School districts and counties are also authorized to establish an imprest fund for travel. Minn. Stat. §§ 123B.11, subd. 2 and 375.162, subd. 2. Money may be advanced to pay actual and necessary expenses for school district officers and employees traveling to attend school district meetings outside the school district, and for county officers and employees for travel related to the performance of their job duties or for attending meetings outside the county.

When the advance method is used, the petty cash custodian advances petty cash funds to an individual for the purchase of a specific item. The custodian should document the date and the person to whom the funds were provided, the amount provided, and the purpose for the advance. The individual receiving the advance then purchases the authorized item, returning the original detailed vendor receipt and any remaining change to the petty cash custodian. Under the advance method, the custodian may need to follow-up if the individual does not return the receipt and change in a timely manner.

Replenishing the Petty Cash Fund

To replace the petty cash fund, a claim itemizing all disbursements from the petty cash fund must be presented to the governing body at its next meeting after the disbursements are made. If the governing body approves the claim, the fund's custodian should be given payment to replenish the fund. If the governing body fails to approve the claim in full, the fund's custodian is personally responsible for the difference. When replenishing petty cash funds, the total of the original receipts maintained by the custodian should match the amount of the replenishing check.

Controls Over the Petty Cash Fund

Because these are cash funds, extra security precautions need to be taken to safeguard these funds. The petty cash custodian should properly secure petty cash funds in a metal lock box that is maintained in a locked desk, locked cabinet, or locked safe to which access is limited.

Reconciliations of the petty cash fund should be done by someone other than the person approving disbursements from the fund. At any time, the amount of cash on hand plus the receipts (plus any outstanding advances if the advance method of disbursement is used) should equal the amount of the approved petty cash fund. The original receipts should be maintained and filed as supporting documentation.

The governing body should consider adopting a petty cash policy. The policy could describe when petty cash funds may be used, items that may not be purchased with petty cash funds, proper petty cash documentation, and petty cash replenishing procedures.