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June 23, 2010

The Honorable School Board Members
Superintendent Rick Herman
Wrenshall School District No. 100
207 Pioneer Drive
Wrenshall, Minnesota 55797

Dear School Board Members and Superintendent Herman:

The Office of the State Auditor (“OSA”) received concerns in 2009 about the possible misuse of student activity funds at Wrenshall Independent School District No. 100 (“District”). Specifically, the District found two checks from the District’s former Business Manager’s personal account among funds contained in the student activity cash box. The checks were made out to the District and totaled \$970.00. The student activity cash box should have only contained student activity funds such as food and beverage concession sales, student activity fees, and fundraising.

In response to these concerns, the OSA obtained and reviewed financial documents for the District’s student activity funds for the time period of July 1, 2008, through February 28, 2009. The OSA also contacted the District’s auditor.¹ The OSA found that the total amount of funds receipted generally matched the amount deposited. However, the amount of cash contained in the deposits did not consistently match the amount of cash received. The OSA was unable to confirm the source of this discrepancy due to weaknesses in the District’s internal control procedures.

This letter summarizes the OSA’s review and provides internal control recommendations to safeguard the District’s student activity funds in the future.

¹ The student activity funds are reported in Table 1 of the District’s annual audited Financial Statements. *See, e.g.*, Independent School District No. 100, Wrenshall, Minnesota, Basic Financial Statements for the Year Ended June 30, 2009, note 12 (pages 41-42) and Table 1 (page 52).

Background

The District's former Business Manager was responsible for all aspects of the student activity funds.² Specifically, he received deposits from student activity advisors, issued receipts, received the funds' bank statements, reconciled the accounts, prepared deposits, and created monthly activity fund balance statements for the School Board's meeting packets. The former Business Manager also provided activity advisors with activity fund information when requested.

Teachers and coaches serving as activity advisors would collect money from sales, fundraisers, and events, and submit these funds to the former Business Manager. Activity advisors would also obtain reimbursements or payments to vendors from student activity funds by providing the former Business Manager with receipts and invoices.

The former Business Manager's employment with the District ended on January 30, 2009. In February 2009, the District found two checks made out to the District from the former Business Manager's personal account among the funds contained in the student activity cash box. The first check was for \$520.00 and was dated November 20, 2008. The second check was for \$450.00 and was dated January 30, 2009. The District negotiated both of the checks.

Office of the State Auditor Review

The OSA reviewed the District's audits, spoke with the District's Superintendent, and reviewed financial documentation for the student activity funds. More specifically, the OSA obtained and reviewed copies of the following for the time period of July 1, 2008, through February 28, 2009:

- Deposit detail for the student activity account;³
- Supporting documentation maintained by activity advisors for student activity account disbursements and deposits;
- Bank statements for the student activity account;
- Checks written from the student activity account and/or supporting documentation maintained by the District for disbursements made from the student activity account.⁴

The OSA's review of deposits into the student activity account disclosed that five checks from the former Business Manager, totaling \$1,640.00, were deposited into the account

² The OSA confirmed the student activity fund procedures with the District's Superintendent.

³ Deposits were made on October 1, 2008, November 3, 2008, December 23, 2008, January 28, 2009, and February 19, 2009.

⁴ The District did not have copies of all the checks. The OSA received the available documentation for checks negotiated between August 1, 2008, and February 28, 2009.

or negotiated by the District during the OSA’s period of review. The checks are listed on the following chart.

Former Business Manager’s Personal Checks Deposited in Student Activity Fund or Negotiated by District (July 1, 2008 – February 28, 2009)					
Check No.	Check Date	Date Negotiated	Amount	Written To	Memo Field
3208	9/8/2008	10/01/2008	\$320.00	Wrenshall School	
3127	10/24/2008	11/03/2008	\$150.00	Wrenshall School	
3223	10/16/2008	11/03/2008	\$200.00	Wrenshall School	
4008*	11/20/2008	2/19/2009	\$520.00	Wrenshall School	Cash
4036*	1/30/2009	Unable to determine ⁵	\$450.00	Wrenshall School	
Total:			\$1,640.00		

* Checks found by the District in the student activity cash box and negotiated by the District after the former Business Manager was no longer employed by the District.

It appears the former Business Manager may have been cashing personal checks from un-deposited cash contained in the cash box. The OSA found that the total amount recorded on pre-numbered receipts issued by the former Business Manager matched the total amount deposited into the student activity account during the OSA’s period of review, except for one shortage of \$70.00 for the February 19, 2009, deposit made after the former Business Manager left employment with the District.

The OSA was unable to confirm that pre-numbered receipts were issued by the former Business Manager for all funds submitted to him for deposit in the student activity account. The OSA was unable to make this determination because deposits were not made intact and in a timely fashion, activity advisors did not maintain adequate supporting documentation of the funds submitted for deposit, and receipts issued by the former Business Manager did not consistently record the type of funds received (e.g., cash or check). As a result, the OSA was unable to identify un-receipted funds included in the deposits. More specifically, the OSA was unable to establish that cash was removed from the deposits and replaced with un-receipted checks, a process known as “lapping.”

⁵ It appears the District may have cashed this check.

For example, the OSA was provided with a “Start Up Slip” dated November 4, 2008, for a cash drawer used to collect the proceeds of a Library Club sale. The document showed that the Library Club’s receipts for the day were \$2,731.85, consisting of 51 checks totaling \$1,245.61 and \$1,486.24 in cash. The Library Club’s receipts were deposited into the student activity fund on December 23, 2008. The December 23, 2008, deposit also contained receipts from other student activities, for a total deposit of \$5,613.21.⁶ However, the cash total for the December 23, 2008, deposit was only \$874.30. Therefore, even if all of the other receipted funds included in the December 23, 2008, deposit were checks, an additional \$611.94 in cash should have been included in the deposit. No personal checks from the former Business Manager were found in the December 23, 2008, deposit, although a personal check from the former Business Manager dated November 20, 2008, for \$520 was found in the cash box.⁷ Therefore, it appears that cash may have been removed from the deposit and replaced with un-receipted checks (“lapping”). However, due to the lack of detail in the supporting documentation, the OSA was unable to confirm the “lapping.”

Due to incomplete records, the OSA was unable to reconcile deposits into the student activity fund with the monthly activity fund balance statements for the School Board’s meeting packets or the District’s audited financial statements.

The OSA found more complete supporting documentation for disbursements from the student activity fund. The OSA found no evidence that the former Business Manager was writing checks to himself from the fund.

Recommendations

Since the former Business Manager’s employment with the District ended in early 2009, the District has opted to outsource its payroll and some of its financial management and reporting duties to a private company. The following recommendations are based solely on the issues found during the OSA’s review. While some of the OSA’s concerns may be mitigated by using an outside vendor, the District should still review its procedures to prevent the same concerns from arising despite the use of an outside vendor.⁸

⁶ Generally, the December 23, 2008, deposit should have contained all funds receipted since the previous deposit on November 3, 2008. However, according to notations made in the District’s receipt book, the deposit only consisted of funds received through November 26, 2008. According to notations made in the District’s receipt book, receipts from December 2008 were included in the next deposit on January 28, 2009.

⁷ The word “Cash” was written in the memo section of the check. The District deposited the former Business Manager’s \$520 check in the deposit made on February 19, 2009 (after the former Business Manager’s employment with the District had ended).

⁸ The District must adhere to the requirements set forth in the Minnesota Department of Education’s Uniform Financial Accounting and Reporting Standards (“UFARS”) for activities that are under Board control. *See* Minn. Stat. § 123B.49, subd. 4(d). According to the District’s annual audits, the student activity funds are considered under Board control. *See, e.g.*, Independent School District No. 100,

1. Segregate Duties

The District informed the OSA that the former Business Manager was responsible for all aspects of the school's student activity funds.

Generally, responsibilities among employees should be separated so no single individual is able to authorize a transaction, record the transaction in the school district's accounts, and be responsible for the receipts resulting from the transaction. Where possible, the individual collecting and receipting funds should not:

- Post receipts to or maintain the general ledger system;
- Make bank deposits; and
- Receive or reconcile the bank statements.

The OSA recommends that the District segregate these duties so someone other than the individual receipting the student activity funds is making the deposit, receiving the bank statements and reconciling the accounts. In addition, someone other than the individual preparing the deposit should verify that the description of the deposit on the supporting receipts agrees with the funds actually being deposited (e.g., cash vs. check amounts on the receipts match the deposit and the receipted checks are the checks actually being deposited).

2. Require Activity Advisors to Maintain Detailed Supporting Documentation For Receipts

Activity advisors were collecting funds and turning these funds over to the former Business Manager. However, the supporting documentation maintained by the activity advisors did not consistently list the individual payment amounts and the reason for the payment, or whether the payments were made by cash or check. Similarly, the former Business Manager issued pre-numbered receipts that often failed to identify the amount collected in cash and checks.

The OSA recommends that activity advisors use pre-numbered receipt books to maintain a list of all individual payments received, as well as a record of whether payments were received by cash or check. When the activity advisors turn in the funds for deposit with the business manager/outside vendor, they should provide the business manager/outside vendor with copies of the individual receipts and obtain a pre-numbered receipt for the deposit. The business manager/outside vendor can then confirm that the activity advisors submitted all receipts for deposit. In turn, the activity advisors should be provided with

Wrenshall, Minnesota, Basic Financial Statements for the Year Ended June 30, 2009, note 12 (page 42). If the funds are not under Board control, the revenues and expenditures for the student activities must be recorded in compliance with the Minnesota Department of Education's Manual for Activity Fund Accounting ("MAFA"). See Minn. Stat. § 123B.49 subd. 4(c).

periodic reports of collections posted for the specific activity (e.g., yearbook receipts, concession receipts, etc.). The activity advisors will then be able to confirm that all funds were deposited in the appropriate activity account.

3. *Do Not Permit the Cashing of Personal Checks from District Funds*

It appears that the former Business Manager may have cashed personal checks from the cash collections awaiting deposit. The OSA recommends that the District prohibit this practice.⁹ In addition, all funds collected by the District should be deposited intact so the composition of the deposits, in terms of the amount of cash and checks, reflects the actual receipts.¹⁰

4. *Make Timely Deposits*

Deposits of student activity funds were not made on a regular or timely basis. The OSA recommends that bank deposits be made as often as possible, and at least on a weekly basis.¹¹ Failing to make timely deposits increases the risk of error and the risk of misappropriation of funds.

Conclusion

The OSA encourages the District to work with its outside vendor and the District's auditor to review the policies and procedures used for student activity funds. Please feel free to contact me at 651-297-5853 or Heidi Holst at 651-297-8290 if you have any additional questions or concerns.

Sincerely,

/s/Nancy J. Bode

Nancy J. Bode
Assistant Legal Counsel

cc. Mr. Carl Nordquist, Jr., Althoff and Nordquist, LLC, District's Auditor
The Honorable Thomas H. Pertler, Carlton County Attorney

⁹ See also MAFA page 18 ("Checks cannot be cashed from activity money for anyone.")

¹⁰ *Id.* ("Deposits [should be] made in a timely manner and in the form that funds were received.")

¹¹ *Id.*