

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

*Management Letter
of the Student Activity Accounts
For the Fiscal Year Ended June 30, 2008*

PRELIMINARY

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

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PRELIMINARY



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**REPORT ON MATTERS IDENTIFIED AS A RESULT OF
THE AUDIT OF THE FINANCIAL STATEMENTS**

October 13, 2008

To the School Board,
Advisors and Students
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

In planning and performing our audit of the Statement of Receipts and Disbursements of the student activity accounts of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2008, we considered the District's student activity accounts internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the student activity accounts internal control. Accordingly, we do not express an opinion on the effectiveness of the student activity accounts internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. The deficiencies in internal control we identified, if any, are stated within this letter.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the student activity accounts ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the student activity accounts internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the student activity accounts internal control.



The accompanying memorandum includes findings on compliance with the *Manual for Activity Fund Accounting* and suggestions for improvement of accounting procedures and internal control measures that came to our attention as a result of our audit of the financial statements of the District's student activity accounts for the year ended June 30, 2008. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated October 13, 2008, on such statements.

This communication is intended solely for the information and use of the School Board, management, others within the District and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota

PRELIMINARY

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

MATERIAL WEAKNESS
June 30, 2008

INADEQUATE DESIGN OF INTERNAL CONTROL

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. In addition, the District does not have adequate segregation of accounting duties due to a limited number of office employees. Administration is aware of this condition and will take certain steps to compensate for the lack of segregation, but due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties exceeds the benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to achieve. Administration and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

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INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

CONTROL DEFICIENCY
June 30, 2008

RETAIN SUPPORTING DOCUMENTATION FOR RECEIPTS

During our audit, we noted receipts are not prenumbered and some of the receipts tested did not have adequate backup to determine the sources of the receipts.

In order to help strengthen internal controls over cash, we recommend the District attach adequate documentation to receipts and review the *Manual for Activity Fund Accounting* recommendations for internal control over receipts.

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INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

FINDINGS ON COMPLIANCE WITH THE *MANUAL FOR ACTIVITY FUND*
ACCOUNTING
June 30, 2008

ONLY ONE SIGNATURE REQUIRED ON CHECKS

During our audit, it was noted the District does not require two signatures for student activity checks. The *Manual for Activity Fund Accounting* states two signatures are required on all checks.

Requiring two signatures on all checks is required by the *Manual for Activity Fund Accounting* and is an added control that does not add cost to the District. We recommend the District implement a policy requiring two signatures on checks.

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