

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

**MANAGEMENT LETTER  
OF THE STUDENT ACTIVITY ACCOUNTS**

**For the Fiscal Year Ended June 30, 2011**

**INDEPENDENT SCHOOL DISTRICT NO. 877**

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

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, 2011, in accordance with U.S. generally accepted auditing standards, 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 and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. Material weaknesses and significant deficiencies identified, if any, are stated within this letter.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the student activity accounts financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The accompanying memorandum includes findings on compliance with the *Manual for Activity Fund Accounting* and recommendations 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 student activity accounts for the year ended June 30, 2011. 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 September 30, 2011, on such statements.



The *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education, provides uniform financial accounting and reporting standards for student activities. We performed auditing procedures to test compliance with the provisions of this Manual.

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.*

KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota  
September 30, 2011

## **INDEPENDENT SCHOOL DISTRICT NO. 877**

### **MATERIAL WEAKNESS**

**June 30, 2011**

#### **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.

**INDEPENDENT SCHOOL DISTRICT NO. 877**

**FINDINGS ON COMPLIANCE WITH THE  
MANUAL FOR ACTIVITY FUND ACCOUNTING  
June 30, 2011**

**RECEIPT PROCEDURE**

The *Manual for Activity Fund Accounting* requires two different people count deposits.

During our audit, it was noted there were no signatures verifying counts of deposits. In addition, the only documentation for receipts was the deposit slip from the bank and an activity fund deposit page which detailed the activity receiving the revenue.

In order to be in compliance with the *Manual for Activity Fund Accounting* Manual, we recommend two counts on deposits and signatures on the receipt/deposit forms to verify the counts. We further recommend that in order to help strengthen internal controls over cash, the District attach adequate documentation to receipts and review the *Manual for Activity Fund Accounting* recommendations for internal control over receipts.

**CONTRACT AGREEMENTS**

The *Manual for Activity Fund Accounting* states no contract shall be made or authorized, except at a regular school board meeting.

During our audit, it was noted the prom rental agreement was paid under the Junior Class student activity.

In order to be in compliance with the *Manual for Activity Fund Accounting* Manual, we recommend expenditures under a contract agreement be paid by the General Fund which is under School Board control and complies with *Minnesota Statutes* 123B.06, subdivision 6. The student activity may then subsequently reimburse the District.

## **INDEPENDENT SCHOOL DISTRICT NO. 877**

### **REQUIRED COMMUNICATION**

**June 30, 2011**

We have audited the financial statements of the District's student activity accounts for the year ended June 30, 2011, and have issued our report dated September 30, 2011. Professional standards require that we provide you with the following information related to our audit.

#### **OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with the cash basis of accounting. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Since the District has not established procedures to provide assurance that cash collections are not recorded in the accounting records, it is not practical for us to extend our audit of such cash collections beyond the amounts recorded. As part of our audit, we considered the internal control of the student activity accounts. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

#### **PLANNED SCOPE AND TIMING OF THE AUDIT**

We performed the audit according to the planned scope and timing previously communicated to you.

#### **QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in the note to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2011. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

The disclosures in the financial statements are neutral, consistent and clear.

#### **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no difficulties in dealing with management in performing and completing our audit.

#### **CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

**INDEPENDENT SCHOOL DISTRICT NO. 877**

**REQUIRED COMMUNICATION**

**June 30, 2011**

**DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**MANAGEMENT REPRESENTATIONS**

We requested certain representations from management which were provided to us in the management representation letter.

**MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's student activity account's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. We are not aware of any consultations by the District's management with other accountants during the course of our audit.

**OTHER ISSUES**

We generally discuss a variety of matters, including the application of accounting principals and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**

We have not reviewed, and it is our understanding, that no other published documents exist that contain audited financial statement information, for which we are currently auditing. As stated in our engagement letter, if you publish or reproduce the financial statements or make reference to our Firm name in relation to such documents, you agree to provide us with a copy of the final reproduced material for our approval before it is distributed.