

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

Management Letter
of the Student Activity Accounts
For the Fiscal Year Ended June 30, 2009

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

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

October 9, 2009

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, 2009, in accordance with U.S. generally accepted auditing standards, we considered the 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 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 student activity accounts 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 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, 2009. 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 9, 2009, 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.

A handwritten signature in cursive script that reads "Kern DeWenter, Viere, Ltd.".

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

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

**MATERIAL WEAKNESS
June 30, 2009**

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
Buffalo-Hanover-Montrose, Minnesota**

**CONTROL DEFICIENCY
June 30, 2009**

RETAIN SUPPORTING DOCUMENTATION FOR RECEIPTS

During our audit, we noted some of the receipts tested did not have adequate backup to determine the sources of the receipts. We also noted there was no activity advisor or District Accounting Clerk signature noted on the receipt verifying they counted the deposit.

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.

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

**FINDINGS ON COMPLIANCE WITH THE *MANUAL FOR ACTIVITY
FUND ACCOUNTING*
June 30, 2009**

ACTIVITY REPORTS RECEIVED BY THE SCHOOL BOARD

During our audit, it was noted the School Board is not receiving an annual report regarding the activity in the student accounts. The *Manual for Activity Fund Accounting* states if the fund is not under the control of the school board, the school board should receive an accounting of those funds at least once a year. An effective practice would be to have quarterly reports received by the School Board. These reports are supplemented by the annual student activity fund audit that is received and approved by the School Board.

We recommend the District provide the School Board with student activity reports in accordance to be with the *Manual for Activity Fund Accounting*.

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

REQUIRED COMMUNICATION
June 30, 2009

We have audited the financial statements of the District's student activity accounts for the year ended June 30, 2009, and have issued our report dated October 9, 2009. 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. 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 2009. 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.

**INDEPENDENT SCHOOL DISTRICT NO. 2387
Howard Lake-Waverly-Winsted, Minnesota**

**REQUIRED COMMUNICATION
June 30, 2009**

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.

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.