

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

PETITION ENGAGEMENT

INDEPENDENT SCHOOL DISTRICT 294

FOR THE PERIOD DECEMBER 1, 2008,
THROUGH DECEMBER 31, 2010

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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INDEPENDENT SCHOOL DISTRICT 294

**For the Period December 1, 2008,
through December 31, 2010**



Petition Engagement

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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INDEPENDENT SCHOOL DISTRICT 294

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Petitioners
Superintendent and School Board
Independent School District 294

INTRODUCTION

Eligible voters of Independent School District 294 petitioned the Office of the State Auditor (OSA) to examine the books, records, accounts, and affairs of the District in accordance with Minn. Stat. § 6.54 for the period December 1, 2008, through December 31, 2010. The statute allows the OSA, in the public interest, to confine the scope of the examination to less than that requested by the petition. Through discussion and agreement with petitioner representatives, the scope of our review was limited to addressing the issues discussed below.

1. Non-Contractual Payments

Petitioner's Issue:

Review non-contractual payments made by the School District to the Superintendent and selected staff (non-contractual payments from January 30, 2009, to May 15, 2010, labeled "MNVA HS Pay" made to the Superintendent, the Director of Secondary Options, the Director of Finance, the Payroll Director, and the Human Resources Director) to determine if the payments were authorized by the School Board.

Finding:

The District made non-contractual payments to the above individuals for the fiscal years ended June 30, 2009 and 2010. Summarized below are the non-contractual payments made from January 1 through June 30, 2009, and from July 1, 2009, through May 15, 2010.

Non-contractual payments initially unauthorized and authorized non-contractual payments for the fiscal year ended June 30, 2009

We noted in our review that non-contractual payments from January 1 through March 2, 2009, were not authorized as part of the District’s approved budget for the year ended June 30, 2009, nor was there a budget amendment prior to incurring these payments. Minn. Stat. § 123B.77, subd. 4, “No funds shall be expended by any board or district for any purpose in any school year prior to the adoption of the budget document which authorizes that expenditure, or prior to an amendment to the budget document by the board to authorize the expenditure. Expenditures of funds in violation of this subdivision shall be considered unlawful expenditures.” On March 3, 2009, the School Board amended its fiscal year 2009 budget to include the non-contractual payments made prior to March 3, along with setting up a budgetary line item amount for non-contractual positions.

The table below shows non-contractual payments made from January 1 through March 2, 2009, and from March 3 through June 30, 2009, to the above individuals.

Position	Non-Contractual Payments for the Year Ended June 30, 2009			Amended Budget for Non-Contractual Expenditures for Fiscal Year 2009
	January 1 to March 2	March 3 to June 30	Total	
Superintendent (Ross)	\$ 5,000.00	\$ 10,000.00	\$ 15,000.00	\$ 15,000.00
Director of Secondary Options (Kerska)	5,000.00	10,000.00	15,000.00	15,000.00
Accounts Payable Accountant (Rydland)	1,023.32	2,046.68	3,070.00	3,070.00
Finance Director (Rostad)	2,377.32	4,754.64	7,131.96	7,132.00
Payroll Director (Benson)	1,474.32	2,948.64	4,422.96	4,423.00
Special Education Director (Dyar)	2,947.52	1,473.76	4,421.28	4,423.00
Human Resources Director (Warner)	2,198.68	4,397.32	6,596.00	6,596.00

Non-contractual payments from July 1, 2009, through May 15, 2010, for the fiscal year ended June 30, 2010

The table below shows non-contractual payments made to the Superintendent, Director of Secondary Options, Accounts Payable Accountant, Finance Director, Payroll Director, and the Special Education Director. As shown below, the School Board-approved budget contained a line item for non-contractual expenditures for each of these positions.

Position	Total Non-Contractual Payments July 1, 2009, Through May 15, 2010	Non-Contractual Expenditures Budgeted for in the Fiscal Year 2010 Approved Budget
Superintendent (Ross)	\$ 13,125.00	\$ 15,000.00
Director of Secondary Options (Kerska)	12,326.58	15,000.00
Accounts Payable Accountant (Rydland)	2,686.32	3,070.00
Finance Director (Rostad)	6,240.57	7,132.00
Payroll Director (Benson)	3,870.09	4,423.00
Special Education Director (Dyar)	3,868.62	4,423.00

2. Payments to Board Members

Petitioner's Issue:

Specifically review payments to School Board members not per Board policy.

Finding:

In general, Minnesota law provides that school board members receive "such compensation as may be fixed by the board." Minn. Stat. § 123B.09, subd. 12.

On August 22, 2006, the School Board approved a school board compensation rate in effect through February 14, 2011. The compensation rate provided that board members would be compensated at a rate of \$40 per meeting for regular board meetings, study sessions, special board meetings, committee meetings, and other board meetings.

According to District documents, School Board member Scheu was compensated for 104 meetings during the 2008 - 2009 school year and 143 meetings during the 2009 - 2010 school year. However, the next highest numbers of meetings compensated by any other board members were 39 and 52, respectively. During this time period, School Board member Scheu was compensated for 156 meetings from July 2008 through June 2010 for which no other Board member received compensation.

We note the Board has taken steps to correct this situation. On February 15, 2011, the Board approved two changes to clarify its compensation rates. The two changes were:

1. "\$40 per board meeting with a quorum or assigned committee meeting."
2. "All conventions, board training, etc. must be approved prior to attendance by the board."

In addition to this policy change, currently the district staff begins the meeting payment process by identifying the meetings for which meeting payments can be claimed by each Board member. This list is reviewed by individual Board members and approved by the Superintendent. These changes should bring uniformity to the application of the Board compensation policy and remove the disparity in compensation levels.

The table below summarizes the number of meetings for which each board member was compensated and the amount they were paid for the fiscal years ended June 30, 2009 and June 30, 2010. The School District's detailed listing of the types of meetings board members attended can be found in Attachment A.

School Board Member	Year Ended June 30, 2009		Year Ended June 30, 2010	
	Number of Meetings Compensated For	Total Meeting Payments Received	Number of Meetings Compensated For	Total Meeting Payments Received
Scheu	104	\$ 4,160	143	\$ 5,720
Evenson	39	1,560	47	1,880
Wilson	25	1,000	52	2,080
Hegland	24	960	29	1,160
Stillin	19	760	28	1,120
Carlson	17	680	25	1,000
Solum	12	480	-	-
Henk	11	440	21	840
Davis	5	200	-	-

In addition, based on meetings attended as listed on Attachment A and the compensation paid to School Board members, an error in the calculation of compensation to board members was made. Based on Attachment A, the following table summarizes additional amounts that could have been compensated to School Board Members.

School Board Member	Year Ended June 30, 2009		Year Ended June 30, 2010	
	Number of Meetings Not Compensated For	Additional Compensation Not Paid to Board Member	Number of Meetings Not Compensated For	Additional Compensation Not Paid to Board Member
Scheu	2	\$ 80	10	\$ 400
Evenson	-	-	1	40
Wilson	-	-	2	80
Hegland	-	-	2	80
Stillin	-	-	2	80
Carlson	-	-	2	80
Henk	-	-	2	80

3. Credit Card Usage for School District Business

Petitioner's Issue:

Review usage of the School District's credit cards by Board members, and the Superintendent, Director of Secondary Options, Director of Finance, Payroll Director, and Human Resources Director to ascertain whether the charges incurred during the petition period were for School District business.

Finding:

Board Members

Board members were not issued school district credit cards. However, we noted School Board members' hotel and conferences were charged to the Superintendent's school district-assigned credit card.

The Superintendent and Director of Secondary Options School District-Assigned Credit Cards

Based on our review of the charges listed on the monthly credit card statements, we could not determine whether some of the charges to the credit cards were for School District business because the District could not provide us the related vendor receipts. In addition, the Superintendent and the Director of Secondary Options did not complete the District's travel expense claim forms for travel expenses, nor did they complete the District's purchase orders for items they purchased with the credit cards. For the time period December 1, 2008, through June 30, 2010, the Superintendent school credit card had undocumented charges totaling \$5,777.48. *See* Attachment B. For the period January 1, 2009, through June 30, 2010, the Director of Secondary Options school credit card had undocumented charges of \$4,033.66. *See* Attachment C. *See* Attachment D for a copy of the District's Travel Expense Claim form.

The Director of Finance, Payroll Director, and Human Resources Director Credit Cards

Based on our review of credit card charges for these credit cards, we found adequate supporting information to ascertain that the charges incurred were for School District business.

Recommendation:

We recommend that School District management review the Office of the State Auditor Statement of Position entitled *Credit Card Use and Policies* and develop and implement a policy that addresses the use of District credit cards. *See* Attachment E. The Statement of Position can be found at: <http://www.auditor.state.mn.us/default.aspx?page=statements>.

We also recommend that the District develop and implement a detailed travel policy. The policy should require that all School District employees complete the District's travel claim form and attach to the claim form related vendor receipts when they travel for School District business. When a receipt is not available to support the expenditure on the travel claim form, the District should require the employee to complete and sign a declaration form that provides details of the expenditures and an explanation of the reason vendor receipts were not available. The District should review the Office of the State Auditor Statement of Position entitled, *The Importance of Internal Controls*, as they develop the travel policy. See Attachment F. The Statement of Position can be found at the same website link as above.

4. Other Items Noted as Part of Our Review of the School District's Credit Cards Usage by Superintendent Ross and Director of Secondary Options Steve Kerska

1. In October 2008, a registration fee for the National School Board Association conference for one individual for \$685 was charged on the Superintendent credit card. This registration was subsequently cancelled in March 2009. The credit card was refunded \$610, and \$75 was forfeited to the National School Board Association.
2. On October 10, 2009, a \$6,880 registration fee for eight individuals to attend the National School Board Association conference was charged on the Superintendent school credit card. The registrations were subsequently cancelled on March 11, 2010. The school district credit card was refunded \$6,280, and \$600 was forfeited to the National School Board Association.

On March 11, 2010, when the registrations to the National School Board Association conference were cancelled, the credit card company credited the Superintendent school credit card for the refund. Prior to this cancellation date, the School District had paid the credit card company for the \$6,880 registration fee. The refund of \$6,280 to the Superintendent school credit card left a positive balance on the card. Charges on the Superintendent school credit card from March 11, 2010, to the time the Superintendent left employment were \$673.42. These charges reduced the positive balance on the credit card to \$5,606.58. The \$673.42 of charges incurred were not recorded as expenditures in the District's financial records. On September 24, 2010, the net remaining balance of \$5,606.58 was credited against account code 01-005-640-000-308-366, travel expenditures.

3. In February 2009, a room at the Embassy Suites, Bloomington, Minnesota, was reserved for School Board Member Stilin. The Superintendent school credit card was charged \$157.42 for the reservation of this room. The reservation for the room was subsequently cancelled; however, the cancellation was not made within the time period for cancellation, which cost the School District \$157.42.

4. In January 2010, two rooms at the Hilton Hotel, Minneapolis, Minnesota, were reserved for School Board Members Henk and Carlson. The Superintendent school credit card was charged \$224 for the reservations. The reservations for the rooms were subsequently cancelled; however, the cancellations were not made within the time period for cancellation, which cost the School District \$224.
5. Two charges were made on the Superintendent school credit card at Spikes Bar and Grill dated December 14, 2009. The receipts did not provide adequate information to ascertain the appropriateness of the charges. We noted in our review of the receipts that the time stamped on the first receipt was 5:53 p.m. for \$46.00. The time stamped on the second receipt was 8:07 p.m. for \$36.02.
6. The following accessories for the iPhone supplied to the Superintendent by the School District were charged to the Superintendent school credit card. Although the District's Purchasing Procedure policy requires submission of a purchase order, we found no such purchase orders for these purchases.
 - December 2008, purchased at Best Buy a memory card for \$33.75.
 - February 2009, purchased at the Apple Store a Bluetooth headset for \$106.45.
 - July 2009, purchased at the Apple Store a Blue Snowball Mic for \$106.82.
 - August 2009, purchased at Mark/Space, Inc., online software for the I-Phone for \$39.95.
 - October 2009, purchased at the Apple Online Store other I-Phone accessories for \$115.42.
7. The following software and computer parts were purchased using the Superintendent school credit card, and the shipping address was the Superintendent's residence. Although the District's Purchasing Procedure policy requires submission of a purchase order, we found no such purchase orders for these purchases.
 - October 2009, purchased Other World Computing upgrade bundle for \$201.24.
 - The I-Phone accessories that were purchased at the Apple Online Store in October 2009.
 - November 2009, purchased at Microsoft Store the Windows 7 Home Premium software application for \$213.74.

We inquired with certain employees of the School District whether these items were returned to the District. The employees stated that they did not know if these items were returned or not, nor did they know that the Superintendent purchased these items.

8. On March 1, 2009, an airline ticket for the Dean of Students of the Minnesota Virtual Academy High School with Houston Public Schools was purchased using the Director of Secondary Options school credit card. The ticket cost \$249.20 and was for a round trip to Texas from November 13 to November 17, 2009. After the purchase of the ticket, it was determined that the Dean of Students could not go to Texas on November 13; instead he could go on November 15. We were not provided documentation to support any attempt to change the departure date of the ticket. This ticket remained unused. On October 8, 2009, another airline ticket was purchased for the Dean of Students with a November 15 departure and a return on November 17. The cost of the second ticket was \$241.
9. We noted in our review of charges on the District's credit cards, the Superintendent and Director of Secondary Options school credit cards were used to charge meals that did not require overnight travel. The cost of these meals was not reported as fringe benefits by the District as taxable wages on the Superintendent or Director of Secondary Options W-2 Forms for the petition period. Per IRS Publication 15-B, it appears these meals are taxable as wages to the employees because travel must be away from home overnight to be an excludable income. We recommend the School District review this issue with legal counsel.

CONCLUSION

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on specified elements, accounts, or items relating to the petitioners' concerns as identified in this report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that we would have reported to you.

This report has been prepared solely for the information and use of the petitioners and the Superintendent, School Board, and management of Independent School District 294, but is a matter of public record, and its distribution is not limited.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 5, 2012

INDEPENDENT SCHOOL DISTRICT 294

ATTACHMENTS

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2008-2009 MEETINGS ATTENDED

TYPE OF MEETING	DATE	RON EVENSON	STEVE SCHEU	KATHY SOLUM	TOM STILLIN	CINDY DAVIS	AUDREY HEGLAND	GARY WILSON	MIMI CARLSON	DAWN HENK
Agenda Planning	07/04/08		1							
Facilities Comm.	07/07/08		1							
Regular Board Mtg	07/08/08	1	1	1	1		1	1		
Agenda Planning	08/07/08		1							
Study Session	08/12/08	1	1	1			1	1		
Mtg w/Chris Hoiland	08/14/08		1							
Regular Board Mtg	08/19/08	1	1	1			1	1		
Agenda Planning	08/29/08		1							
Grievance Meeting	09/02/08	1	1	1	1	1	1	1		
Mtg w/Kim & Todd	09/02/08		1							
Negotiations mtg	09/02/08	1	1							
Study Session	09/02/08	1	1	1	1		1	1		
Audit Conference	09/04/08		1							
Special Board Mtg	09/08/08	1	1	1		1	1	1		
Agenda Planning	09/12/08		1							
Listening Session	09/16/08		1							
Regular Board Mtg	09/16/08	1	1	1			1	1		
Continuing Ed Mtg	09/18/08		1							
New Bd Candidate mtg	09/29/08		1							
Agenda Planning	09/30/08		1							
Special Board Mtg	09/30/08	1	1	1	1	1		1		
Negotiations mtg	10/07/08	1	1							
Study Session	10/07/08	1	1	1				1		
Agenda Planning	10/15/08		1							
Facilities Comm.	10/20/08		1							
Regular Board Mtg	10/20/08	1	1		1	1	1	1		
Russians	10/28/08		1							
Board meeting	10/29/08		1							
Agenda Planning	11/06/08		1							
Special Canvas Election	11/10/08	1	1	1			1			
Agenda Planning	11/11/08		1							
E Childhood Initiatives	11/13/08		1							
Regular Board Mtg	11/18/08	1	1	1	1			1		
Agenda Planning	11/24/08		1							
Negotiations mtg	12/02/08		1							
Truth in Taxation	12/02/08		1							
Study Session	12/02/08	1	1	1	1	1	1	1		
Finance Meeting	12/09/08	1	1							
New Bd Member Mtg	12/09/08	1	1							
Listening Session	12/16/08		1							
Regular Board Mtg	12/16/08	1	1	Last mtg	1	Last mtg		1		
Agenda Planning	12/30/08		1							
Special Organizational M	01/06/08	1	1		1		1	1	1	1
Finance Meeting	01/06/09		1						1	
Agenda Planning	01/12/09		1							
HCFSC meeting	01/14/09		1							
Listening Session	01/20/09		1							
Regular Board Mtg	01/20/09	1	1		1		1	1	1	1
Agenda Planning	01/27/09		1							
Bid Walk	01/31/09		1							
Finance Meeting	02/03/09		1							
Study Session	02/03/09	1	1		1		1	1	1	1
Meeting w/Kim & ACE	02/09/09		1							
Special Meeting (Erate)	02/09/09	1	1				1	1	1	1
Agenda Planning	02/10/09		1							

2008-2009 MEETINGS ATTENDED

TYPE OF MEETING	DATE	RON EVENSON	STEVE SCHEU	KATHY SOLUM	TOM STILLIN	CINDY DAVIS	AUDREY HEGLAND	GARY WILSON	MIMI CARLSON	DAWN HENK
Facilities Comm.	02/13/09		1							
Negotiations mtg	02/16/09	1	1							
Regular Board Mtg	02/17/09	1	1		1		1	1	1	1
Agenda Planning	02/23/09		1							
Facilities Comm.	02/23/09		1							
Facilities Comm.	02/26/09		1							
Negotiations mtg	03/03/09	1	1							
Special Board Mtg	03/03/09	1	1		1		1	1	1	
Conference Call	03/10/09		1							
Agenda Planning	03/10/09		1							
Facilities Comm.	03/12/09		1							
Regular Board Mtg	03/17/09	1	1				1	1	1	1
Facilities Comm.	03/18/09		1						1	
HVED Mtg	03/19/09		1							
Facilities Comm.	03/23/09		1						1	
Mtg @ Caledonia	03/26/09		1				1			
Negotiations mtg	04/02/09	1	1							
Q Comp Mtg	04/07/09		1							
Agenda Planning	04/07/09		1							
Walk Through	04/11/09		1							
Facilities Comm.	04/14/09		1							
Listening Session	04/14/09		1							
Study Session	04/14/09	1	1		1		1	1		1
Agenda Planning	04/16/09		1							
Bid Opening	04/17/09		1							
Facilities Comm.	04/20/09	1	1		1				1	
Regular Board Mtg	04/21/09	1	1		1		1		1	1
Webinar	04/30/09		1							
Agenda Planning	05/05/09		1							
Mtg w/ Kim & Cole	05/06/09		1							
Facilities & Contractor	05/08/09		1							
Facilities Comm.	05/12/09		1							
Study Session	05/12/09	1	1				1	1	1	
Negotiations mtg	05/13/09	1	1							
Agenda Planning	05/20/09		1							
Facilities Comm.	05/26/09		1							
Regular Board Mtg	05/26/09		1		1		1	1	1	1
Summit	05/27/09		1							
Finance Meeting	06/02/09		1						1	
Agenda Planning	06/02/09		1							
Negotiations mtg	06/03/09	1	1							
Graduation	06/05/09		1							
Mtg w/ Kim & Cole	06/05/09		1							
Negotiations mtg	06/08/09	1	1							
Facilities Comm.	06/09/09		1							
Study Session	06/09/09	1	1		1		1	1		1
Negotiations mtg	06/15/09	1	1							
Food Service Mtg	06/16/09		1							
Negotiations mtg	06/16/09	1	1							
Listening Session	06/23/09		1						1	
Regular Board Mtg	06/23/09	1	1		1		1	1	1	1

2008-2009 MEETINGS ATTENDED

TYPE OF MEETING	DATE	RON EVENSON	STEVE SCHEU	KATHY SOLUM	TOM STILLIN	CINDY DAVIS	AUDREY HEGLAND	GARY WILSON	MIMI CARLSON	DAWN HENK
Number of Meetings Attended		39	106	12	19	5	24	25	17	11
Compensation Per Meeting		\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40
Additional Compensation for Clerk							\$50			
Total Compensation Earned		\$1,560	\$4,240	\$480	\$760	\$200	\$1,010	\$1,000	\$680	\$440
Compensation Paid by the District:										
Number of Meetings Paid		39	104	12	19	5	24	25	17	11
Compensation Per Meeting		\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40
Additional Compensation for Clerk							\$50			
Total Compensation Paid		\$1,560	\$4,160	\$480	\$760	\$200	\$1,010	\$1,000	\$680	\$440
Compensation Earned But Not Paid		\$0	\$80	\$0	\$0	\$0	\$0	\$0	\$0	\$0

2009-2010 MEETINGS ATTENDED

TYPE OF MEETING	DATE	RON EVENSON	STEVE SCHEU	TOM STILLIN	AUDREY HEGLAND	GARY WILSON	MIMI CARLSON	DAWN HENK
Food Service Committee	07/06/09		1					
Negotiations	07/06/09		1					
Agenda Planning	07/10/09		1					
Mtg with Kim 1:00 pm	07/10/09		1				1	
Mtg with Kim 4:30 pm	07/10/09		1			1		
Mtg with Kim 10:30 am	07/13/09		1					1
Mtg with Kim 4:45 pm	07/14/09		1		1			
Regular Board Mtg	07/14/09	1	1	1	1	1	1	1
Facilities Mtg	08/04/09		1					
Food Service Committee	08/04/09		1					
Mtg with Kim 7:30 pm	08/04/09		1	1				
Mtg with Kim 12:00 pm	08/11/09		1					
Food Service Committee	08/11/09		1					
Special Board Mtg	08/11/09		1			1	1	1
Facilities Mtg	08/18/09		1					
Regular Board Mtg	08/18/09	1	1			1	1	
Teacher Negotiations	08/24/09		1					
Negotiations Committee	08/24/09		1					
Teacher Negotiations	08/25/09		1					
Negotiations Committee	08/25/09		1					
Contractor Mtg 9:00 am	09/01/09		1					
Facilities Mtg	09/01/09		1			1		
Study Session	09/01/09	1	1		1	1		1
Agenda Planning	09/10/09		1					
Walk thru w/contractor	09/10/09		1			1		
Negotiations Committee	09/10/09		1					
Teacher Negotiations	09/10/09		1					
Contractor Mtg 9:00 am	09/15/09		1					
Winona Controls Mtg	09/15/09		1					
Facilities Mtg	09/15/09		1			1		
Stratory Mtg	09/15/09		1					
Teacher Negotiations	09/15/09		1					
Regular Board Mtg	09/15/09	1	1	1	1	1	1	1
Finance Committee	09/28/09		1					
Negotiations Committee	09/28/09		1					
Teacher Negotiations	09/28/09		1					
Facilities Mtg	10/06/09		1			1		
Special Board Mtg	10/06/09	1	1	1		1	1	1
Teacher Negotiations	10/06/09		1					
Comm Ed Mrg 7:30 am	10/08/09		1					
Mtg with Kim 12:00 pm	10/10/09		1					
Mtg re Kim's contract	10/11/09		1					
Agenda Planning	10/14/09		1					
Contractor Mtg 9:00 am	10/15/09		1					
Contractor Mtg 9:00 am	10/16/09		1					
Mtg with Kim 1:00 pm	10/19/09	1	1					
Facilities Mtg	10/20/09		1			1		
Regular Board Mtg	10/20/09	1	1		1	1	1	1
HCFSC Mtg	10/21/09		1					
Agenda Planning	10/21/09		1					
Teacher Negotiations	10/21/09		1					
Agenda Planning	10/28/09		1					
Negotiations 6:30 - 8:00	10/28/09		1					
Negotiations 9:00	10/28/09	1	1					
Mtg w/ Sharon Ropes	11/04/09		1			1		

2009-2010 MEETINGS ATTENDED

TYPE OF MEETING	DATE	RON EVENSON	STEVE SCHEU	TOM STILLIN	AUDREY HEGLAND	GARY WILSON	MIMI CARLSON	DAWN HENK
Study Session	11/04/09	1	1	1	1	1		
Facilities Mtg	11/04/09	1	1			1	1	
Negotiations Committee	11/05/09	1	1					
Teacher Negotiations	11/05/09		1					
Finance Committee	11/09/09		1					
Negotiations Committee	11/11/09	1	1					
Teacher Negotiations	11/11/09	1	1					
Negotiations Committee	11/12/09	1	1					
Negotiations	11/12/09	1	1					
Mtg re Kim's contract	11/14/09	1	1	1				
Negotiations Committee	11/18/09	1	1					
Negotiations	11/18/09	1	1					
Mtg with Kim	11/19/09		1					
Q Comp mtg	11/23/09		PAID					
Facilities Mtg	11/24/09		1			1		
Regular Board Mtg	11/24/09	1	1	1		1		1
Facilities Mtg	12/01/09		1					
Study Session	12/01/09	1	1	1	1	1		
Q Comp mtg	12/02/09		PAID					
Negotiations	12/03/09		1					
Agenda Planning	12/10/09		1					
Facilities Mtg	12/15/09		1			1		
Regular Board Mtg	12/15/09		1	1	1	1	1	1
Q Comp mtg	12/16/09		PAID					
Negotiations	12/18/09	1	HOURLY					
Mtg with Kim	12/22/09		1					
Mtg w/ G. Pelowski	12/28/09		1					
Negotiations	12/29/10	1	HOURLY					
Mtg with Kim	01/05/10		1					
Teacher Negotiations	01/05/10		HOURLY			1		
Facilities Mtg	01/05/10		1			1		
Organizational Meeting	01/05/10	1	1	1	1	1	1	1
Conference Call	01/08/10		1					
Mtg with Kim 6:30 pm	01/10/10		1					
Conference Call	01/10/10		1					
Q Comp mtg	01/12/10		PAID					
Mtg with Kim	01/18/10		1					
Mtg with D. Amundson	01/19/10		1					
Facilities Mtg	01/19/10	1	1	1		1		
Regular Board Mtg	01/19/10	1	1	1	1	1	1	1
Q Comp mtg	01/20/10		PAID					
Mtg with Kim	01/25/10		1					
Marketing Committee	01/27/10		1					
Finance Committee	01/28/10		1					
Facilities Mtg	02/01/10		1			1		
Study Session	02/01/10	1	1			1	1	1
Charter School mtg	02/03/10		1					HOURLY
Special Board Mtg	02/09/10	1	1	1	1	1		1
Q Comp mtg	02/16/10		PAID					
Q Comp mtg	02/17/10		PAID					
Facilities Mtg	02/18/10		1			1		
Team Building Mtg	02/18/10	1	HOURLY	1	1	HOURLY	1	HOURLY
Agenda Planning	02/19/10		1					
Team Building Mtg	02/21/10	1	HOURLY	1	1	HOURLY	1	HOURLY
Mtg with Kim @ 11:00 am	02/26/10	1	1					

2009-2010 MEETINGS ATTENDED

TYPE OF MEETING	DATE	RON EVENSON	STEVE SCHEU	TOM STILLIN	AUDREY HEGLAND	GARY WILSON	MIMI CARLSON	DAWN HENK
Mtg with Kim @ 2:00 pm	02/26/10		1					
Regular Board Mtg	02/23/10	1	1	1		1	1	1
Q Comp mtg	03/02/10		PAID					
Charter School mtg	03/03/10		1					
Conference Call	03/08/10		1					
Special Board Mtg	03/08/10	MEETING WAS CANCELLED AS NOTIFICATION NOT GIVEN!!!						
Staff Development Mtg	03/09/10				1			
Agenda Planning	03/12/10		1					
Conference Call	03/12/10		1		1	1		
Facilities Mtg	03/16/10		1			1		
Study Session	03/16/10		1	1	1	1	1	1
Mtg with Kim	03/17/10		1					
Mtg with Kim	03/18/10		1					
Mtg re Kim's contract	03/19/10	1	1					
HCFSC Mtg	03/23/10		1					
Mtg with Kim	03/23/10		1					
Facilities Mtg	03/23/10		1			1		
Regular Board Mtg	03/23/10	1	1	1	1	1	1	1
Inf/Superintendent Search	03/30/10		1		1	1		
Mtg with Kim	03/31/10		1					
Special Board Mtg	04/06/10	1	1	1	1	1		1
Mtg with Angela	04/07/10	1	1	1				
Transition Committee Mtg	04/10/10				1			
Board meeting	04/10/10	1	1	1	1	1	1	1
Mtg with Kim	04/13/10		1					
Meeting @ HPS	04/13/10	1	1					
Facilities Mtg	04/13/10		1			1		
Board meeting	04/13/10	1	1	1	1	1	1	1
Transition Committee Mtg	04/20/10				1			
Regular Board Mtg	04/20/10	1			1	1	1	1
Meeting with B Botcher	04/22/10		1					
Hiring Committee	04/27/10		1					
Special Board Mtg	04/27/10	1	1	1	1	1	1	1
Special Board Mtg	04/29/10	1	1	1	1	1	1	
Facilities Mtg	05/04/10	1	1			1		
Agenda Planning	05/06/10		1					
Facilities Mtg	05/11/10		1					
Board meeting	05/11/10	1	1	1	1	1	1	1
Agenda Planning	05/13/10		1					
Mtg with Maggie	05/13/10		1					
Facilities Mtg	05/18/10		1			1		
Regular Board Mtg	05/18/10	1	1	1	1	1	1	
Sign Diplomas	05/25/10		1					
Sign Diplomas	05/27/10		1					
Summit Graduation	05/27/10		1					
Mtg with Eric	06/03/10		1					
Mtg with Eric	06/04/10		1					
Houston Graduation	06/04/10		1					
MCoOL Graduation	06/06/10		1					
Conference Call	06/08/10		1					
Regular Board Mtg	06/08/10	1	1	1	1	1	1	
Mtg with Eric	06/10/10		1					
Superintendent Interviews	06/10/10	1	1	1	1	1	1	
Negotiations Committee	06/15/10		1					
Mediation	06/15/10		HOURLY					

2009-2010 MEETINGS ATTENDED

TYPE OF MEETING	DATE	RON EVENSON	STEVE SCHEU	TOM STILLIN	AUDREY HEGLAND	GARY WILSON	MIMI CARLSON	DAWN HENK
Board meeting	06/15/10		1			1		
Superintendent Interviews	06/15/10		1			1		
Mtg with Eric	06/16/10		1					
Mtg with Eric	06/22/10		1					
Negotiations	06/24/10	1	HOURLY					
Facilities Mtg	06/28/10		1	1		1		
Mtg With BKB	06/29/10		1					
Board meeting	06/29/10	1	1	1	1	1	1	1

Number of Meetings Attended	48	153	30	31	54	27	23
Compensation Per Meeting	\$40	\$40	\$40	\$40	\$40	\$40	\$40
Additional Compensation for Clerk				\$100			
Total Compensation Earned	\$1,920	\$6,120	\$1,200	\$1,340	\$2,160	\$1,080	\$920

Compensation Paid by the District:

Number of Meetings Paid	47	143	28	29	52	25	21
Compensation Per Meeting	\$40	\$40	\$40	\$40	\$40	\$40	\$40
Additional Compensation for Clerk				\$100			
Total Compensation Paid	\$1,880	\$5,720	\$1,120	\$1,260	\$2,080	\$1,000	\$840
Compensation Earned But Not Paid	\$40	\$400	\$80	\$80	\$80	\$80	\$80

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**SUPERINTENDENT SCHOOL CREDIT CARD
UNDOCUMENTED CREDIT CARD CHARGES
FOR THE TIME PERIOD DECEMBER 1, 2008, THROUGH JUNE 30, 2010**

Attachment B

Date Paid by the District	Amount	Vendor	Auditor's Notes as to the Reason Why the Purpose of the Charge Could Not be Determined
12/18/2008	\$ 35.36	Chanti Grill	The District had only the credit card slip on file which showed no detail of the items purchased.
1/23/2009	145.62	Sheraton Bloomington	The District had only the credit card slip on file which showed no detail of the items purchased.
1/23/2009	56.10	Hyatt Regency Minneapolis	The District had only the credit card slip on file which showed no detail of the items purchased.
1/23/2009	17.00	Parking	The District could not provide vendor receipt or invoice to support the charge.
2/20/2009	79.11	Hilton Skywater Cuisine	The District had only the credit card slip on file which showed no detail of the items purchased.
2/20/2009	290.20	Suncountry Airlines	The District could not provide vendor receipt or invoice to support the charge.
2/20/2009	1.66	Blink Bonnie Café	The District could not provide vendor receipt or invoice to support the charge.
2/20/2009	5.43	Burger King	The District could not provide vendor receipt or invoice to support the charge.
2/20/2009	8.33	Conference Calls	The meeting purpose was not stated on the documentation.
3/19/2009	9.47	Perrys	The District had only the credit card slip on file which showed no detail of the items purchased.
3/19/2009	5.99	Tmobile*HotSpot	The District could not provide vendor receipt or invoice to support the charge.
3/19/2009	17.36	Starbucks	The District had only the credit card slip on file which showed no detail of the items purchased.
3/19/2009	50.35	Mai	The District had only the credit card slip on file which showed no detail of the items purchased.
3/19/2009	23.39	AASA	The District had only the credit card slip on file which showed no detail of the items purchased.
3/19/2009	19.47	Caribou Coffee	The District could not provide vendor receipt or invoice to support the charge.
5/21/2009	28.00	Perkins Roseville	The District could not provide vendor receipt or invoice to support the charge.
5/21/2009	50.50	Best Buy	The District could not provide vendor receipt or invoice to support the charge.
5/21/2009	29.06	High Plains	The District had only the credit card slip on file which showed no detail of the items purchased.
5/21/2009	155.50	Apple Store	The District could not provide vendor receipt or invoice to support the charge.

**SUPERINTENDENT SCHOOL CREDIT CARD
UNDOCUMENTED CREDIT CARD CHARGES
FOR THE TIME PERIOD DECEMBER 1, 2008, THROUGH JUNE 30, 2010**

**Attachment B
(Continued)**

Date Paid by the District	Amount	Vendor	Auditor's Notes as to the Reason Why the Purpose of the Charge Could Not be Determined
7/17/2009	83.08	Alizee Baltimore	The District had only the credit card slip on file which showed no detail of the items purchased.
7/17/2009	27.00	Ram's Head Tavern	The District had only the credit card slip on file which showed no detail of the items purchased.
8/21/2009	494.26	Renaissance Hotel Chicago	The District had only the credit card slip on file which showed no detail of the items purchased.
8/21/2009	3.43	Subway Cottage Grove WI	The District had only the credit card slip on file which showed no detail of the items purchased.
9/28/2009	25.63	High Plains Coop	The District could not provide vendor receipt or invoice to support the charge.
9/28/2009	21.40	Reuan Thai Restaurant Osseo	The District had only the credit card slip on file which showed no detail of the items purchased.
9/28/2009	399.43	The Northland Inn	No explanation for America's Harvest charge/No invoice for additional room charge of \$116.93/no invoice for IMPLEX.net charge of \$19.90.
10/22/2009	21.41	Target	The District could not provide vendor receipt or invoice to support the charge.
10/22/2009	25.00	Chianti Grill Falcon Heights	The District had only the credit card slip on file which showed no detail of the items purchased.
10/22/2009	34.43	Sky Dragon Buff, Rochester	The District had only the credit card slip on file which showed no detail of the items purchased.
12/23/2009	4.93	Goods on the fly	The District had only the credit card slip on file which showed no detail of the items purchased.
12/23/2009	47.29	TGI Fridays Pittsburgh	The District had only the credit card slip on file which showed no detail of the items purchased.
12/23/2009	14.00	Lacrosse Municipal QPS	The District had only the credit card slip on file which showed no detail of the items purchased.
12/23/2009	18.81	Perkins Rochester	The District had only the credit card slip on file which showed no detail of the items purchased.
12/23/2009	6.76	Wendys Detroit Michigan	The District had only the credit card slip on file which showed no detail of the items purchased.
12/23/2009	28.56	Dominoes Pizza TX	The District had only the credit card slip on file which showed no detail of the items purchased.
12/23/2009	805.39	Hilton Hotel Austin TX	The District could not provide vendor receipt or invoice to support the charge.
12/23/2009	8.95	Wi-Fi guys	The District could not provide vendor receipt or invoice to support the charge.
12/23/2009	60.42	FreeConference.com	The meeting purpose was not stated on the documentation.

**SUPERINTENDENT SCHOOL CREDIT CARD
UNDOCUMENTED CREDIT CARD CHARGES
FOR THE TIME PERIOD DECEMBER 1, 2008, THROUGH JUNE 30, 2010**

**Attachment B
(Continued)**

Date Paid by the District	Amount	Vendor	Auditor's Notes as to the Reason Why the Purpose of the Charge Could Not be Determined
12/23/2009	19.45	Manuels Downtown Austin TX	The District had only the credit card slip on file which showed no detail of the items purchased.
1/25/2010	233.60	US Airway	The amount was written on a NWA reservation, we noted no other documentation on file.
1/25/2010	46.00	Spikes Sports Bar & Grille	The District had only the credit card slip on file which showed no detail of the items purchased.
1/25/2010	36.02	Spikes Sports Bar & Grille	The District had only the credit card slip on file which showed no detail of the items purchased.
1/25/2010	576.99	Hyatt Hotels Minneapolis	The District had only the credit card slip on file which showed no detail of the items purchased.
1/25/2010	5.89	Burger King Edina	The District could not provide vendor receipt or invoice to support the charge.
1/25/2010	50.00	Texas Roadhouse	The District had only the credit card slip on file which showed no detail of the items purchased.
1/25/2010	16.51	FreeConference.com	The meeting purpose was not stated on the documentation.
2/19/2010	222.20	Northwest Airlines	Just a note that the receipt was lost, no other information was provided.
2/19/2010	105.12	Hilton Skywater Cuisine	The District had only the credit card slip on file which showed no detail of the items purchased.
2/19/2010	35.50	Ruby Tuesday Inver Grove	The District had only the credit card slip on file which showed no detail of the items purchased.
2/19/2010	1,076.52	Hilton Hotels Minneapolis	The District had only the credit card slip on file which showed no detail of the items purchased.
2/19/2010	4.00	Downtown Auto Park	The District could not provide vendor receipt or invoice to support the charge.
2/19/2010	37.77	Mai Village St. Paul	The District had only the credit card slip on file which showed no detail of the items purchased.
2/19/2010	30.40	Rainaldi's Restaurant Monaco Pa	The District had only the credit card slip on file which showed no detail of the items purchased.
2/19/2010	38.00	El Campo Restaurant Monaco Pa	The District had only the credit card slip on file which showed no detail of the items purchased.
2/19/2010	5.25	FreeConference.com	The meeting purpose was not stated on the documentation.
2/19/2010	15.29	FreeConference.com	The meeting purpose was not stated on the documentation.
3/18/2010	6.16	Burger King	The District had only the credit card slip on file which showed no detail of the items purchased.
3/18/2010	24.37	Nick's Wrap City Café	The District had only the credit card slip on file which showed no detail of the items purchased.

**SUPERINTENDENT SCHOOL CREDIT CARD
 UNDOCUMENTED CREDIT CARD CHARGES
 FOR THE TIME PERIOD DECEMBER 1, 2008, THROUGH JUNE 30, 2010**

**Attachment B
 (Continued)**

Date Paid by the District	Amount	Vendor	Auditor's Notes as to the Reason Why the Purpose of the Charge Could Not be Determined
3/18/2010	20.45	Jade House Restaurant	The District had only the credit card slip on file which showed no detail of the items purchased.
3/18/2010	7.06	Free Conference Corp	The meeting purpose was not stated on the documentation.
3/18/2010	<u>6.85</u>	Free Conference Corp	The meeting purpose was not stated on the documentation.
Total	<u>\$ 5,777.48</u>		

**DIRECTOR OF SECONDARY OPTIONS SCHOOL CREDIT CARD
UNDOCUMENTED CREDIT CARD CHARGES
FOR THE TIME PERIOD JANUARY 1, 2009, THROUGH JUNE 30, 2010**

Attachment C

Date Paid by the District	Amount	Vendor	Auditor's Notes as to the Reason Why the Purpose of the Charge Could Not be Determined
2/20/2009	\$ 1.07	Village Inn	The District had only the credit card receipt on file which showed no detail of the items purchased.
2/20/2009	7.05	Village Inn	The District had only the credit card receipt on file which showed no detail of the items purchased.
2/20/2009	7.21	Village Inn	The District had only the credit card receipt on file which showed no detail of the items purchased.
2/20/2009	20.04	Dennys and Wendys	The District had only the credit card receipt on file which showed no detail of the items purchased.
3/19/2009	1,017.12	Hotels.com	The District could not provide vendor receipt or invoice to support the charge.
3/19/2009	8.33	Skype	The District could not provide vendor receipt or invoice to support the charge.
3/19/2009	8.33	Skype	The District could not provide vendor receipt or invoice to support the charge.
3/19/2009	8.34	Skype	The District could not provide vendor receipt or invoice to support the charge.
4/21/2009	115.34	Rudy's Redeye Grill	The District had only the credit card receipt on file which showed no detail of the items purchased.
5/21/2009	47.28	DHL	The District could not provide vendor receipt or invoice to support the charge.
6/18/2009	7.17	Village Inn Wyoming, MN	The District could not provide vendor receipt or invoice to support the charge.
6/18/2009	7.16	Village Inn Wyoming, MN	The District could not provide vendor receipt or invoice to support the charge.
8/21/2009	136.40	Radisson Hotel of Bloomington, MN	The District had only the credit card receipt on file which showed no detail of the items purchased.
8/21/2009	38.67	Ben and Jerry's Edina, MN	The District had only the credit card receipt on file which showed no detail of the items purchased.
8/21/2009	15.98	Subway	The District had only the credit card receipt on file which showed no detail of the items purchased.
8/21/2009	10.86	Crucial Technology	The District had only the credit card receipt on file which showed no detail of the items purchased.
9/25/2009	64.63	Java Joe's Bistro and Tobies Restaurant	The District had only the credit card receipt on file which showed no detail of the items purchased.

**DIRECTOR OF SECONDARY OPTIONS SCHOOL CREDIT CARD
UNDOCUMENTED CREDIT CARD CHARGES
FOR THE TIME PERIOD JANUARY 1, 2009, THROUGH JUNE 30, 2010**

**Attachment C
(Continued)**

Date Paid by the District	Amount	Vendor	Auditor's Notes as to the Reason Why the Purpose of the Charge Could Not be Determined
10/22/2009	24.34	Pizza Hut, Wadena, MN	The District had only the credit card receipt on file which showed no detail of the items purchased.
10/22/2009	8.97	Kings Wok	The District had only the credit card receipt on file which showed no detail of the items purchased.
10/22/2009	42.29	Perkins	The District had only the credit card receipt on file which showed no detail of the items purchased.
12/23/2009	15.00	NWA	The District could not provide vendor receipt or invoice to support the charge.
12/23/2009	12.80	Austin - Bergstrom Intl Airport	The District had only the credit card receipt on file which showed no detail of the items purchased.
12/23/2009	30.00	Yellow Cab Company Austin, TX	The District had only the credit card receipt on file which showed no detail of the items purchased.
12/23/2009	495.50	Hilton Garden Inn - Shoreview, MN	The District had only the credit card receipt on file which showed no detail of the items purchased.
12/23/2009	904.53	Hilton - Austin, TX	The District had only the credit card receipt on file which showed no detail of the items purchased.
1/26/2010	8.58	Skype	The District could not provide vendor receipt or invoice to support the charge.
2/25/2010	187.50	Aleks	The District could not provide vendor receipt or invoice to support the charge.
3/18/2010	151.51	NWL Reservations	The District could not provide vendor receipt or invoice to support the charge.
3/18/2010	571.40	Delta Airlines	The District could not provide vendor receipt or invoice to support the charge.
3/18/2010	33.91	Pippins Restaurant	The District could not provide vendor receipt or invoice to support the charge.
6/8/2010	8.59	Skype	The District could not provide vendor receipt or invoice to support the charge.
6/8/2010	8.58	Skype	The District provided no documentation for this charge.
6/8/2010	8.58	Skype	The District could not provide vendor receipt or invoice to support the charge.
Total	<u>\$ 4,033.06</u>		

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Statement of Position Credit Card Use and Policies

Counties, cities, towns, school districts, watershed districts, and soil and water conservation districts have authority to make purchases using credit cards issued to the public entity.¹ The statutes authorizing credit card use by public entities restrict the use of credit cards to purchases for the public entity. No personal use of the credit card is permitted.

According to Minnesota law, credit cards should only be used by those employees and officers otherwise authorized to make purchases. If the public entity does not authorize the credit card purchase, the officer or employee who made the purchase becomes personally liable for the amount of purchase.

Purchases made with the credit card must be consistent with other state law. For example, under Minnesota law, claims presented for payment must be in writing and itemized.² Monthly statements received from a credit card company lack sufficient detail to comply with these statutory requirements. As a result, public entities using credit cards must retain the invoices and receipts needed to support the items charged in the bill from the credit card company.³ Similarly, listing only the credit card company on a claims list would merely identify the method of payment. It does not identify the vendors providing the goods and services, as required by law.

The authority to use credit cards does not authorize the creation of a new form of debt for the public entity. The statutes governing the issuance of debt by a public entity add a number of restrictions to the issuance of any obligation. The credit card statutes simply authorize another type of payment. Therefore, the public entity's governing board must adopt a policy of paying off the credit card charges on a monthly basis.

Before implementing the use of credit cards, a public entity should adopt a comprehensive credit card policy that may include such areas as good management

¹Minn. Stat. § 471.382 (cities and towns); Minn. Stat. § 375.171 (counties); Minn. Stat. § 123B.02, subd. 23 (school districts); Minn. Stat. § 103D.325, subd. 4 (watershed districts); Minn. Stat. § 103C.321, subd. 6 (soil and water conservation districts).

² See Minn. Stat. § 471.38, subd. 1.

³ If the original supporting documentation is missing, an attestation or affidavit identifying how, where, and when the money was spent, signed by the individual seeking reimbursement will suffice.

Reviewed: March 2011
Revised: March 2011

2007-1005

This Statement of Position is not legal advice and is subject to revision.

practices and internal control procedures.

We recommend the adoption of a comprehensive credit card policy that provides the following safeguards:

- Prohibit the use of the credit card for personal purchases;
- Identify the employees and officers who are authorized to make purchases on behalf of the public entity and are eligible to use the card;
- Identify the particular purchases that are to be made with the credit card;
- Set up a review process for all purchases made with the credit card;
- Require supporting documentation for all purchases made with the credit card; and
- Restrict the total amount of charges that can be made on the credit card.

The ability to use a credit card for small purchases in the ordinary course of business offers many advantages. However, the ability of the cardholder to make the public entity liable for an improper or illegal purchase is an inherent risk associated with credit cards. Compliance with statutory requirements, and the adoption of and adherence to a policy implementing further internal controls will greatly reduce the public entity's exposure to loss of public funds through theft or misuse of the credit card.



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Statement of Position

The Importance of Internal Controls

Internal controls are designed to protect a local government unit from loss or misuse of its assets. Internal controls also ensure that all transactions are properly authorized and the information contained in financial reports is reliable.

This Statement of Position will provide public officials and employees with practical answers to some of the questions most frequently asked about internal controls.

What is the purpose of internal controls?

Internal controls help safeguard funds, provide efficient and effective management of assets, and permit accurate financial accounting. Internal controls cannot eliminate all errors and irregularities, but they can alert management to potential problems.

How much will this cost?

The cost of internal controls should never exceed their expected benefit. When adopting policies and procedures on internal controls, maintain a balance between what is needed to ensure public confidence and to maintain the integrity of the financial systems with the cost of providing the control in terms of money, time, and efficiency. Many simple and cost-effective internal control procedures are available.

Does someone need to review every transaction?

No. It is not practical or profitable to attempt to independently review every transaction. Instead, management should be alert to “red flags” that could indicate potential problems. Looking into “red flags” will not only detect irregularities, it will prevent them from occurring in the first place because an environment of accountability will have been established.

What are some “red flags”?

When an alert is raised, follow-up is critical. Too often we see “red flags” continue unabated long after they were first detected and reported. Here are some examples that would merit further review:

- Any unusual discrepancy between actual performance and anticipated results (for example, a major budget overrun in “supplies” or an unexplained decline in user fees);
- Receipts not matching deposits;

Reviewed: December 2010
Revised: March 2007

2007-1010

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- Disbursements to unknown and/or unapproved vendors;
- One signature on checks or presigned blank checks;
- Gaps in receipt or check numbers;
- Late reports; or
- Disregard for internal control policies and procedures.

What types of control policies and procedures should be implemented?

The control policies should be adequate to ensure that:

- All transactions are properly authorized;
- Incompatible duties are segregated;
- Accounting records and documentation are properly designed and maintained;
- Access to both assets and records is controlled; and
- Accounting data are periodically compared with the underlying items they represent.

Extra care needs to be taken where cash transactions are involved (for example, liquor stores, park and recreation programs, or petty cash funds).

What does it mean to segregate incompatible duties?

Simply put, no employee should be in a position to commit an irregularity and then conceal it. An example taken from everyday life is a movie theater where one person sells tickets and another person collects the tickets. This helps prevent the person selling the tickets from: (1) collecting the price of the ticket, but allowing entry without a ticket (allowing the ticket seller to pocket the ticket payment without being detected); or (2) allowing entrance without the purchase of a ticket.

Duties can be segregated by department or by individual. Examples of incompatible duties that should be performed by separate individuals are:

- Receipting collections, posting collections to registers, and making bank deposits;
- Signing checks and reconciling the bank accounts;
- Receipting collections and posting collections to the accounts receivable records; and
- Approving receivable write-offs/write-downs and posting adjustments to the accounts receivable records, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

What if we are too small to be able to segregate duties?

If it is not practical to segregate duties, management should be aware of the lack of segregation and implement oversight procedures to ensure that employees are following other internal control policies and procedures. In addition, management may want to implement other controls. For example, a mandatory vacation policy or periodic rotation of duties among employees would allow management to observe if there is any noticeable change (for example, a marked increase in cash receipts) while another person is performing the duties. These alternative controls also help lessen potential disruptions caused by employee turnover.

Do some statutes require internal control procedures?

Yes. For example, the statutory requirement that more than one person must sign a check is designed to ensure a deliberate decision about who to pay, how much to pay, and when to pay bills. Pre-signing checks and signature stamps defeat those controls. Statutory requirements should be incorporated in the internal control policies and procedures.

What sort of accounting documentation is needed?

Accounting records need to be complete. Key documents (for example, invoices, receipts, checks) should be sequentially numbered. Voided documents should be retained. Record retention schedules should be followed. Employee timesheets should be reviewed and countersigned by a supervisor or other third-party.

How do we “compare accounting data with the items represented”?

Bank statements should be routinely reconciled with the cash balances recorded in the books of the account. Check amounts should be compared with the claims approved, as recorded in the minutes. Any differences should be reconciled and documented. An annual inventory of fixed assets will ensure that all recorded items are still in custody. Similar checks can be made of other accounts (for example, petty cash counts). Explanations of discrepancies should be corroborated by supporting documentation and evidence.

Do we have to write down our procedures?

Proper documentation of control procedures is essential. Written policies and procedures outline the specific authority and responsibility of individual employees, providing for accountability. Written policies serve as a reference and training tool for new employees and ensure that procedures remain in place despite employee turnover. To be effective, an accounting policies and procedures manual must be complete, up-to-date, and readily available to all employees who need it.

Who is responsible for internal controls?

The governing body (county commissioners, city councils, and town boards.) and management are responsible for establishing and maintaining internal controls. The governing body sets the tone, educates employees about the importance of internal controls, and provides funding to implement the controls. The governing body must ensure that internal controls remain a top management priority. Management is responsible for evaluating the effectiveness of internal controls on an on-going basis. Even the best-designed internal controls cannot be effective without the active involvement of management. Management can develop a favorable control environment by setting a positive tone, communicating to all employees the importance of internal controls, and taking appropriate action against staff who are not complying with approved internal control policies and procedures. Management should also encourage staff to communicate situations not addressed by the policies and procedures, so that policies and procedures may be adopted as necessary. Finally, management should try to make employees feel comfortable when reporting potential wrongdoing or violations of policies and procedures.