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Management
Lakeville Area Public Schools
Lakeville, Minnesota

In planning and performing our audit of the financial statements of Lakeville Area Public Schools as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the Schools' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Schools' internal control.

However, during our audit, we became aware of deficiencies in internal controls other than significant deficiencies and material weaknesses and other matters that are opportunities to strengthen your internal controls and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below. A separate communication dated October 14, 2016, contains our written communication of significant deficiencies and material weaknesses in the Schools' internal control. This letter does not affect our communication dated October 14, 2016.

Employee Access Rights and Termination of Access Rights

During our prior year audit, we reviewed current employees' access rights and noted that payroll employees have access to the HR modules in the TIES system in addition to the payroll module. We completed this test again during the current year audit and noted that the payroll employees' access rights to all but two of the access screens in the HR Module of TIES had been properly removed. It was noted that rights were needed to one of the screens due to payroll completing part of their duties in that screen. The District removed rights to the second screen before the end of audit fieldwork. As part of a good internal control system with segregation of duties these are functions that should be segregated and generally no employee should have access to make changes in both modules. We recommend that the District limit payroll personnel's access to the HR module to read-only. In addition, we recommend that the District review the access rights of all of its current employees and remove any access rights that are not necessary for the employees to perform their required job duties.

Documentation of Review of Bank Reconciliations

During our review of controls, we noted that the bank reconciliations had not been initialed to indicate review and approval since August of 2015. Per inquiry of District staff, it was noted that the bank reconciliations were being reviewed, but they were not being signed due to the staff waiting to resolve an immaterial variance. Lack of proper controls and procedures related to the reconciliation of cash and investments could result in errors and misstatements going undetected or not being detected and corrected timely. We recommend that all bank reconciliations be initialed and dated by the reviewer to document timely review and approval.

Wire Transfer Procedures

During our review of the District's internal controls, we noted that the District has arranged with their financial institution to send an email notification any time a wire transfer is initiated on the District's accounts. The notification is currently set up to be sent to the District's Controller as well as the Director of Business Services for most wires and EFT's except for one account which only the Controller was receiving the emails. As the Controller is usually the one initiating the wire transfers, we recommend that the District initiate a policy where only certain people can initiate a wire transfer and any alerts from the financial institutions are set up to go to an individual who cannot initiate a wire transfer.

Cell Phone Reimbursements

During our general disbursement and single audit testing, we noted that the District's procedures related to cell phone reimbursements was to have each employee annually complete a form and provide a cell phone bill to determine if they would receive either \$45 or \$90 per month. The contracts are to be reviewed by the employees' supervisor and then by the purchasing department. It was noted during our testing that two out of the four employees tested during our general disbursement testing and one out of eight employees tested during our Special Education Cluster testing did not have current applications on file, but prior year applications could be located. Adequate documentation should be received, reviewed, and retained for all disbursements. Improper controls and procedures related to cell phone reimbursements may limit the District's ability to detect or prevent a misstatement of the financial statements, misappropriation of assets, or fraudulent activity. We recommend that the District review its procedures related to cell phone reimbursement to ensure all of the related applications and supporting cell phone bills are retained.

Food Service Inventory Procedures

During our review of the year-end inventory counts and review of the pricing of a selection of individual inventory items, we noted that the June 2, 2016 inventory counts for the school haphazardly selected was not signed, but confirmed via email with the individual in-charge of the inventory at the selected school that she completed the inventory.

We also noted valuation variances during our inventory price testing. This appears to be due to prices only being updated at the beginning of the school year, including commodities, which arrive in a large, lump sum at the end of the school year.

Additionally, we noted that the individual completed the monthly meals claims through CLiCS is also the individual completing the reconciliation from the District's software to the CLiCS claims. These responsibilities should be segregated.

Lack of proper procedures and controls related to food service inventory could limit the District's ability to detect or prevent a misstatement of food service inventory. We recommend that the District ensures that there is documentation of the completion and review of these inventory counts and the District reviews its system for documenting inventory costs for the year-end inventory valuation so current prices are used. We also recommend that someone other than the individual making the meals claims reconciles the meal counts per the District's software to the claims in CLiCS.

Reconciliation of SERVS and Timeliness of Draws

During our testing of federal revenues and receivables, we noted that federal revenues and expenditures are only reconciled at year end and most draws are made at year end. Lack of timely reconciliations and draws for federal revenues and expenditures could result in reductions in cash flows and errors or misstatements not being detected and corrected in a timely manner. We recommend that the District reconcile federal revenues and expenditures at least quarterly to make the year-end reconciliations more efficient and to improve cash flows.

Reconciliation of Expenditures and Payables

During our testing of accounts payable, we noted that the District's software does not provide a report that details the amount due to each vendor and no review and reconciliation of such a list was being performed. The design of the internal controls over accounts payable may limit the District's ability to detect or prevent a misstatement of the financial statements, misappropriation of assets, or fraudulent activity. We recommend that the District develop a worksheet or work with their software provider to develop a report that can be used to complete a reconciliation of accounts payable periodically.

Controls over Community Service Fund Revenues and Unearned Revenue

During our control walk-throughs, we noted that controls related to Community Service Fund revenue refunds had changed when the new FeePay system was implemented. The Registration & Billing Clerk is now the primary person issuing refunds. However, the program Coordinator or Manager also issue refunds. The purpose of the refund is indicated electronically in the notes in the FeePay system and the Program Manager runs Transaction Reports which show refunds, but there is currently no formal documentation of a preapproval or review process in place for the new system.

Also, during our testing of Community Service Fund unearned revenues, we noted that detailed reports could not be provided from of the District's community service software system for prepaid tuition and fees. Currently all tuition received for summer classes before June 30 of the each year is being recognized in unearned revenue, but there are some classes held in June for which these revenues should be recognized. The District noted that they have asked their software provider, FeePay, to setup a customized report so they will be able to track this for the Summer Adventures program going forward.

The noted limitations to controls over Community Service Fund refunds and unearned revenues may limit the District's ability to detect or prevent a misstatement of the financial statements, misappropriation of assets, or fraudulent activity.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management and others within the Lakeville Area Public Schools, and is not intended to be, and should not be, used by anyone other than these specified parties.

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Minneapolis, Minnesota
October 14, 2016