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REPORT ON PROCEDURES FOR THE RECORDS FUND AT THE MOWER COUNTY LAW ENFORCEMENT CENTER APRIL 20, 2000

I. INTRODUCTION

The Special Investigations Division of the Office of the State Auditor (hereinafter "OSA") received a request dated November 12, 1999, from Mower County (hereinafter "County") to assist in an investigation involving a loss of monies from the Mower County Law Enforcement Center (hereinafter "LEC"). The LEC houses both the Mower County Sheriff's Department and the City of Austin Police Department. Therefore, the County and the City of Austin (hereinafter "City") share expenses for the LEC.

The mission of the OSA's Special Investigations Division is to review allegations of malfeasance, misfeasance, and nonfeasance by local government employees or officers. Since the Division is a fact-finding entity and has no prosecutorial powers, its role is to evaluate allegations brought to this Office's attention and, when appropriate, to provide specialized auditing techniques, initiate an independent investigation, or refer the matter to appropriate oversight authorities.

The OSA's investigation revealed that a theft of monies occurred from the LEC's Records Fund.¹ The OSA reviewed the available receipts and documents for the Records Fund from January 1, 1996 through November 5, 1999.² The results of the OSA's criminal investigation are contained in a separate Investigative Report which has been issued to the Mower County Attorney and is a nonpublic document at this time. Since the Investigative Report is presently nonpublic, this Report was prepared to allow the City and the County the ability to immediately address the various findings.

¹ The Records Fund comprises monies collected for the County Sheriff's Department, the City of Austin, Mower County Court, as well as other county courts.

² The OSA reviewed documents from the last three years to coincide with the three year statute of limitations for any possible crimes arising from a misappropriation of funds. Minn. Stat. § 628.26(i) (1998).

During its investigation, the OSA identified several internal control weaknesses in the LEC's Records Fund. The purpose of this Report is to communicate to LEC management, who is responsible for establishing and maintaining internal controls, those internal control weaknesses and to make recommendations for improving internal controls.

II. BACKGROUND

The Mower County Sheriff has the ultimate authority and responsibility for the Records/Dispatch area in the LEC. The Chief Deputy Sheriff (hereinafter "Chief Deputy") is responsible for the Records/Dispatch area operations including staff management. The Communications Supervisor (hereinafter "Supervisor") was a salaried employee who reported directly to the Chief Deputy, and was responsible for the majority of the accounting and financial duties of the LEC.³ The LEC does not have a manual that outlines policies and/or procedures for the Records Fund, however, the Records Clerk was primarily responsible for collecting Records Fund monies at the front desk of the LEC.

The OSA reviewed the LEC's procedures relating to the Records Fund, as well as available Records Fund receipts for collections provided to the OSA from January 1, 1996 to November 5, 1999.⁴ The review also included records of deposits made with the County Treasurer, the City, and county courts during the same period of time.

During the period reviewed, the following LEC Records Fund monies were collected at the LEC front desk:

- C County and City monies for copies of accident reports, drivers' license checks,

³ The County currently has a new employee in the Communications Supervisor position.

⁴ Receipts from the following periods of time were missing from the LEC and were not provided to the OSA: September 12, 1997 through December 31, 1997; January 1, 1998 through August 13, 1998; August 19, 1998 through September 7, 1998; December 1, 1998 through December 15, 1998; and January 1, 1999 through January 12, 1999.

investigative photographs, fingerprint cards, and background checks;⁵

- C City monies for parking tickets, animal impounds, and animal adoptions; and
- C Mower County and other county court monies for bail and fines.

Once monies were received, LEC procedures required handwritten completion of a pre-numbered, three-part receipt.⁶ The receipts contained a check-the-box system for recording whether cash or a check was received. These receipts were printed separately and were not bound in a book. The Records Fund monies were then combined in one unlocked cash box.

Dispatchers and the Communications Clerk received monies and issued receipts for the Records Fund when the Records Clerk was on a break or absent for the day.⁷ The LEC staff employees who had access to the Records Fund included: dispatchers, the Communications Clerk, the Records Clerk, and the Supervisor.

In addition to Records Fund monies collected at the LEC front desk, requests and payments for copies of accident reports and background checks were received through the mail. During the period reviewed, the OSA was informed that almost all checks received by mail were not receipted and were not deposited. The OSA was advised that the Supervisor was solely responsible for:

- C receiving mailed requests and payments;

⁵ The monies were subsequently divided between the County Sheriff's Department and the City because these records originated from both entities.

⁶ The top copy of the receipt ("white copy") was issued to the customer. The second copy of the receipt ("yellow copy") was retained for reconciliation before the funds were transferred to the County Treasurer's Department, the City, or a county court. The last copy of the receipt ("pink copy") was placed on a spindle until collected and stored as a record for the LEC.

⁷ The written job description for the Records Clerk position did not include money handling responsibilities; however, the information provided to the OSA indicates that a new job description for the position is being prepared that does include money handling responsibilities.

- C generating and mailing documents back to vendors;
- C receipting payments for such requests; and
- C depositing checks into the cash box at the LEC front desk.

The Records Clerk was responsible for separating the funds in the cash box and transferring the money to the proper entity; however, the Supervisor also performed these functions. City funds and corresponding receipts were delivered to the Chief of Police's secretary soon after they were collected, or on a once-per-day basis. Mower County court funds and corresponding receipts were generally removed daily and brought to the County Court Administrator's Department.⁸ Court monies collected for other counties and corresponding receipts were brought to the County Sheriff's Department secretary, who prepared checks to be mailed to the appropriate counties.⁹

LEC monies and a summary deposit receipt were generally prepared by the Records Clerk for receipt and deposit with the County Auditor's and the County Treasurer's Departments, respectively, each Tuesday and Friday.¹⁰ The OSA was informed that deposits were generally not prepared when the Records Clerk was absent. The Supervisor was responsible for transferring the prepared deposit to the County Auditor's and the County Treasurer's Departments.¹¹

The County Auditor's Department issued a receipt for the monies called a "Statement of Miscellaneous Collections" (hereinafter "Statement"). The Statement identified the specific

⁸ The County Court Administrator's office initialed the yellow copy of the LEC receipt upon accepting the court funds. The signed yellow copy served as a record for the LEC of the monies being delivered to the court.

⁹ The County Sheriff's Department secretary initialed the receipts as records for the LEC of the monies being delivered from the front desk.

¹⁰ The summary deposit receipt is a list and summation of the County's yellow copies of receipts. It is used to verify that the total of the yellow copies matches the monies in the deposit.

¹¹ Presently, the Chief Deputy transfers deposits to the County Auditor's and the County Treasurer's Departments.

account in the County's Account Activity report in which the monies would be recorded.¹² The Supervisor was then responsible for transferring the deposit and the Statement to the County Treasurer's Department. The County Treasurer's Department reconciled the Statement with the monies to be deposited and signed the Statement which then served as a receipt for the monies deposited.¹³

III. FINDINGS AND RECOMMENDATIONS

The Records Fund procedures of the LEC can be improved to better segregate County, City, and court monies and receipts. The OSA's review did not necessarily disclose all internal control weaknesses; therefore, LEC management should continue to monitor and improve internal controls.

A. Receipting

The OSA identified that the Records Fund staff manually prepared receipts and did not consistently identify on the receipts the source of payment as being either cash and/or check payments. In addition, LEC staff receipted all Records Fund monies using the same set of receipts, regardless of the entity for which they were collected. The OSA was informed that receipts are still handwritten; however, Records Fund staff presently are required to mark the appropriate source of payment on the receipt and to document the check number when checks are received. In addition, City monies collected, which include animal impounds, animal adoptions, and parking tickets, are presently receipted in a separate receipt book.

Any time documents are prepared manually there is a greater risk of human error. Therefore, the OSA believes that these steps could be improved through the utilization of a mechanical or

¹² The Account Activity report is a computer generated list of receipts, disbursements, and journal entries for each County department. Records Fund monies are accounted for in the Sheriff's Department "Records and Copies" account number 01-230-5101.

¹³ The Chief Deputy currently requests an Account Activity report from the County Auditor's Department and reconciles deposits listed to the Records Fund summary deposit receipts. This reconciliation is designed to ensure that deposits recorded by the County Treasurer's Department match the LEC's summary deposit receipts.

computerized cash register system. These systems may be capable of automatically documenting each transaction, identifying the source of payment, printing receipts, and documenting the identity of the operator.

B. Timeliness of Deposits

The OSA found that the Records Clerk prepared deposits from the monies at the front desk for the County Auditor's and the County Treasurer's Departments. If the Records Clerk was absent on a Tuesday or a Friday, the deposit was not prepared. This allowed monies to accumulate, and increased the opportunity for such monies to be misappropriated. The OSA recommends that LEC management ensure that Records Fund monies are deposited with the County Treasurer every Tuesday and every Friday, or on an otherwise suitable periodic basis, to maximize interest earnings. Retaining small amounts of monies in the cash box(es) by making frequent deposits reduces the LEC's exposure to a future loss of monies.

C. Segregation of Duties

The Records Clerk was responsible for collecting Records Fund monies at the LEC front desk, preparing receipts and summary deposits, as well as transferring City and court monies to the appropriate individuals. The Records Clerk is presently still responsible for such activities. The Supervisor was responsible for collecting and opening mail at the LEC, generating and mailing documents back to vendors, receipting the prepaid checks, and depositing the checks into the cash box at the front desk. Proper segregation of duties would require that the collection, execution, recording, and depositing duties be charged to at least two separate individuals.

The OSA recommends that LEC management adjust current Records Fund staff responsibilities to better segregate the duties of collecting, executing, recording, and depositing Records Fund monies.

D. Segregation and Accessibility of Monies Received

The OSA found that during the period reviewed, County, City, and court monies were combined for storage in one unlocked cash box.¹⁴ Furthermore, the OSA determined that as many as 11

¹⁴ The OSA has been informed that court monies are no longer collected at the LEC's front desk. Bail is paid at the jail during non-business hours and during business hours, bail is paid at the Court Administrator's Office.

individuals per day within the LEC had access to the cash and checks stored in the unlocked cash box at the front desk.

The LEC should consider utilizing a computerized or mechanical cash register system. Computerized and mechanical cash register systems may deter misappropriation of funds because they often require and record keystrokes to gain access to the monies inside, with some systems having the capability to identify each operator.

Until such time as the LEC decides to utilize a computerized or mechanical cash register system, the OSA recommends that LEC management implement a practice of using locked cash boxes for storing monies received at the LEC. There should be one locked cash box maintained for City monies and a separate locked cash box maintained for LEC monies.¹⁵ The locked cash boxes should have slots for inserting monies and receipts. Since the cash boxes would be locked, there would need to be a change fund in a unlocked box for making change.¹⁶ The Chief Deputy and the Supervisor should be the only two LEC employees who have keys to the LEC's locked cash box. The City's locked cash box should be transferred to the City on a regular basis, and only City personnel should maintain keys.

E. Security of Monies Collected

The OSA found that once a deposit had been prepared, it was transported to the County Auditor's and the County Treasurer's Departments without being secured in any manner. The OSA recommends that cash and checks be removed daily from the cash box and stored securely in a locked bank deposit bag, which should itself be locked in a safe until the monies are deposited. The Chief Deputy and the Supervisor should be the only two employees at the LEC to maintain keys for the bank deposit bag. The deposit can be prepared from the stored monies in the bag, and the locked bag provides secure transport of the funds.

¹⁵ This system could also be used in other areas of the LEC where monies are collected.

¹⁶ County boards are allowed to establish funds in county offices and departments as necessary for the purpose of making change only. Minn. Stat. § 375.45 (1998).

F. Reconciliations

The OSA found that prior to deposit, the yellow copies of the Records Fund receipts were not inspected to verify that missing yellow copies had corresponding pink copies. The yellow receipts are provided to the City and the courts. In addition, after the summary deposits were prepared, they were transferred to the County Auditor's and the County Treasurer's Departments by the same person, without a reconciliation to the receipts. After the deposits were made, the Account Activity was not reviewed to ensure that the summary deposits matched.¹⁷ The OSA was informed that the Chief Deputy is now completing these procedures.

The OSA recommends that the County Auditor deliver the Account Activity report automatically to the Chief Deputy on a monthly, or otherwise suitable periodic basis, for continued reconciliation. As an indication of the reconciliation of receipts to deposits, the Chief Deputy should initial and date the Account Activity reports. The Chief Deputy should also maintain these reports in a separate file after reconciliation.

G. Procedure Manual

The OSA found that the LEC does not have a manual outlining proper cash handling procedures for the Records Fund. As such, neither the Supervisor nor the Records Fund staff were provided with defined policies and procedures for receiving monies at the LEC. Procedure manuals often reduce casual cash handling by adding formality. Furthermore, procedure manuals define the expectations of management regarding these functions, and deviations may be addressed promptly and precisely.

The OSA recommends that LEC management create a detailed manual that outlines the policies and procedures for proper performance of money-handling functions at the LEC. The manual should be distributed to all employees with money-handling responsibilities and the employees should be trained on these procedures. The OSA further recommends that LEC management promptly update the manual to reflect subsequent changes in procedures.

¹⁷ To maintain proper segregation of duties, if the Chief Deputy continues to transfer the deposit to the County Auditor's and the County Treasurer's Departments, the Supervisor may reconcile the Account Activity report with the summary deposit receipts.

H. Document Retention

The OSA learned that the pink copies of the Records Fund receipts were stored on a spindle for several months before they were collected and stored as records. The OSA further learned that the pink and yellow copies of Records Fund receipts were not maintained in a secure area of the LEC; they were stored in a cardboard box under the Supervisor's desk. Numerous pink and yellow receipts for the period of review were not furnished to the OSA because they were not found at the LEC.

Minnesota law states that "[a]ll officers and agencies of . . . counties . . . shall make and preserve all records necessary to a full and accurate knowledge of their official activities."¹⁸ The chief administrative officer is responsible for the preservation of the agencies government records, which include written or printed books, papers, letters, contracts, documents, . . . and other records made or received pursuant to law or in connection with the transaction of public business.¹⁹ It is the duty of the agency and of its chief administrative officer to carefully protect and preserve government records from deterioration, mutilation, loss, or destruction.²⁰

During contacts with the Chief Deputy, the OSA verbally recommended the use of bound receipt books. On April 19, 2000, the OSA was informed that this procedure has been implemented and Records Fund receipts are no longer stored on a spindle. The OSA commends the LEC for implementing the above procedures and recommends that they carefully protect and preserve government records in compliance with Minnesota law.

IV. CONCLUSION

The OSA recommends that the LEC consider utilizing a mechanical or computerized cash register system to collect and store the monies it receives. Besides the advantages mentioned in the various recommendations, mechanical and computerized cash register systems would document each transaction and would identify the entity for which the money was collected. If the LEC continues to collect monies for the City, this coding process would expedite the preparation and segregation of City monies to be transferred from the LEC.

¹⁸ Minn. Stat. § 15.17, Subd. 1 (1998).

¹⁹ Minn. Stat. § 15.17, Subd. 2 (1998).

²⁰ *Id.*

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The OSA encourages the LEC to implement the recommendations included in this report. Please provide the OSA written notification of all actions taken by the LEC to improve the procedures for the Records Fund.

The OSA would like to thank the LEC staff for their assistance during this review. The OSA believes that the investigation and review was a positive example of cooperation among government agencies. If you have any questions, please contact me at (651) 282-2388.

Sincerely,

A handwritten signature in cursive script that reads "Kathleen T. Docter". The signature is written in black ink and is positioned above the typed name and title.

Kathleen T. Docter, CPA
Assistant Director, Special Investigations