July 11, 2013

Mr. Craig Oscarson
Mower County Coordinator
Mower County Government Center
201 – 1st Street NE
Austin, Minnesota 55912

Dear Mr. Oscarson:

The Office of the State Auditor ("OSA") completed a review of a $500 cash shortage that was discovered in the Mower County Auditor/Treasurer’s Office on October 11, 2012. During its review, the OSA identified weaknesses in Mower County’s ("County") internal control and management practices. The purpose of this letter is to provide the County with recommendations to better protect County funds in the future.

**Background**

On October 11, 2012, during the daily balancing procedures, staff from the Auditor/Treasurer’s Office determined that $500 in cash was missing. After performing a review, the Auditor/Treasurer concluded that the Auditor/Treasurer’s Office produced a receipt but “did not collect the funds from a taxpayer.” The Auditor/Treasurer “directed that the shortage be funded out of the change fund and the full deposit receipted into the bank.”

The loss was reported to law enforcement on November 26, 2012, and to the OSA on November 27, 2012. The OSA discussed with certain County personnel the cash-handling procedures employed by the Auditor/Treasurer’s Office, and reviewed financial records related to the loss.

**OSA’s Review**

At the time of the loss, it is our understanding that the Auditor/Treasurer’s Office did not have written cash-handling procedures. However, during the OSA’s review, the OSA learned that daily balancing procedures occurred in the Auditor/Treasurer’s Office at approximately 2:00 p.m. The receipts, both cash and checks, were removed from the
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cash register, with $100 left in the drawer as a starting balance. As part of the balancing procedures, the amount collected in cash and checks was compared to the amount of cash and checks receipted into the cash register.\(^1\) If the amount collected did not match the amount receipted, money was taken from or added to a cash over/short box or the Auditor/Treasurer’s change fund. As a result, the amount receipted into the cash register was always the amount deposited, and no cash overages or shortages were noted on the balancing report forms. After the balancing procedures were completed, the daily deposit was made.

The Auditor/Treasurer’s Office remained open until 5:00 p.m. At the end of each day, the cash drawer and money collected between 2:00 p.m. and 5:00 p.m. were placed in the vault, and the vault was locked. The following morning, the cash drawer was taken out of the vault and placed into the cash register. At the time of the loss, no additional balancing procedures were performed at the end of the day or at 8:00 a.m. when the Office re-opened the next day.

When the daily balancing procedures were performed on October 11, 2012, staff found that the cash for deposit was $500 less than the cash recorded as receipted on the cash register. Staff reviewed the transactions comprising the deposit, but was unable to determine the cause of the discrepancy. To make the deposit equal the receipted amount, $500 was taken from the Auditor/Treasurer’s change fund. The deposit of $977,803.75 was made on October 12, 2012.

The OSA reviewed the transactions that comprised the October 10-11, 2012, receipts.\(^2\) There were 26 cash transactions, totaling $10,301.64. Six of the 26 cash transactions were for over $500, for a total of $5,661.24. None of the cash transactions were for exactly $500. The six transactions of over $500 were handled by three different Auditor/Treasurer staff members. The OSA compared the six transactions to the supporting documentation, and in each case, the supporting documents matched the receipt recorded in the cash register. In one of the six transactions, the amount owed was reduced from $1,969 to $1,730. The supporting documentation provided to the OSA for that transaction did not provide an explanation for the change in the amount owed.

**Recommendations**

In response to the loss, the Auditor/Treasurer implemented new procedures. Under the new procedures, money collected between 2:00 p.m. and 5:00 p.m. is compared to a cash register tape of receipts for the same time period. We recommend that the money collected be counted again each morning before transactions begin for the day.

\(^1\) The cash register recorded whether the receipts were in the form of cash or checks.  
\(^2\) The transactions took place between approximately 2:00 p.m. on October 10, 2012, and 2:00 p.m. on October 11, 2012.
The County Board of Commissioners approved a $2,000 change fund for the Auditor/Treasurer’s Office.\(^3\) Under the County’s Change Fund Policy, a change fund must be used only for making change. We recommend that the Auditor/Treasurer’s Office comply with the County’s Change Fund Policy. The change fund should be used only for making change. It should not be used to balance deposits.

As of March 19, 2013, the change fund in the Auditor/Treasurer’s Office contained $1,414.\(^4\) The County’s Change Fund Policy requires the change fund custodian to count the funds at least weekly, and to record that all funds are present.\(^5\) The Policy also requires a second person to monitor the fund on a quarterly basis, and to submit to the County Treasurer a statement signed by both the custodian and the second person stating that the fund balances and all funds are present. We recommend that the County determine the change fund amount required by the Auditor/Treasurer’s Office, and replenish the change fund to the level approved by the County Board. We also recommend that the County consider amending its Change Fund Policy to require the Auditor/Treasurer’s Office to submit the required signed quarterly statement to the County Coordinator, or some other County representative.

We recommend that the cash over/short box be discontinued. The actual amount of cash and checks collected should be deposited. The amount of any cash overage/shortage should be documented on daily balancing reports. Any significant discrepancies should be immediately investigated. Unexplained losses should be promptly reported to law enforcement and the OSA in compliance with Minn. Stat. § 609.456.

We recommend that the daily balancing, end-of-day, and prior-to-opening procedures in the Auditor/Treasurer’s Office be documented in writing. The procedures should require that the daily balancing forms be signed or initialed to indicate who completed the procedures. We also recommend written cash-handling procedures. The procedures should include an approval by a second staff member for any changes made to an amount owed.\(^6\)

**Conclusion**

The Office of the State Auditor completed a review of a $500 cash shortage that was discovered in the Mower County Auditor/Treasurer’s Office on October 11, 2012. This letter provided the County with recommendations to better protect County funds in the future.

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\(^3\) See County Board Resolution #110-04 (December 28, 2004).
\(^4\) As of March 19, 2013, the change fund had an overage of $14: $1,414 (balance as of March 19, 2013) + $500 (amount removed to balance October 11, 2012, deposit) + $100 (starting cash drawer amount) = $2,014. As of October 11, 2012, the change fund had a shortage of $11.
\(^5\) The procedures in the Auditor/Treasurer’s Office require the Deputy Treasurer to count the change fund on a weekly basis.
\(^6\) For example, the second staff person could initial the supporting documentation for that transaction.
If you have any questions, or if we can provide the County with additional assistance, please feel free to contact me at 651-297-5853 or Nancy.Bode@osa.state.mn.us.

Sincerely,

/s/ Nancy J. Bode

Nancy J. Bode
Assistant Legal Counsel

cc. The Honorable Jerry Reinartz, County Board of Commissioners Chair
The Honorable Tim Gabrielson, County Commissioner
The Honorable Polly Glynn, County Commissioner
The Honorable Tony Bennett, County Commissioner
The Honorable Mike Ankeny, County Commissioner
The Honorable Doug Groh, County Auditor/Treasurer
The Honorable Kristen Nelson, County Attorney
The Honorable Terese Amazi, County Sheriff
CliftonLarsonAllen, County’s Independent Auditor