

**Independent School District No. 720  
Shakopee, Minnesota**

**Reports on *Government Auditing  
Standards*, the Uniform Guidance,  
and Legal Compliance**

**June 30, 2017**

PRELIMINARY



**Independent School District No. 720**  
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PRELIMINARY

**Independent School District No. 720**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

Federal Agency/Pass Through Agency/Program Title	Federal CFDA Number	Expenditures
<b>U.S. Department of Agriculture</b>		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Program	10.555	\$ 357,268
School Breakfast	10.553	296,420
Type A Lunch	10.555	1,537,998
Special Milk	10.556	9,423
Summer Food Service	10.559	19,545
Total Child Nutrition Cluster and U.S. Department of Agriculture		2,220,654
<b>U.S. Department of Education</b>		
Through Minnesota Department of Education		
Title I, Part A	84.010	700,948
Title III, Part A - English Language Acquisition	84.365	113,291
Title II, Part A - Supporting Effective Instruction	84.367	90,584
Special Education Cluster		
Special Education	84.027	1,570,537
Disabled Early Education	84.173	27,686
Total Special Education Cluster		1,598,223
Special Education - Infants and Toddlers	84.181	43,887
Through Southwest Metro Educational Cooperative		
Carl Perkins	84.048A	23,617
Direct		
Indian Education - Grants to Local Educational Agencies	84.060	37,996
Total U.S Department of Education		2,608,546
Total Federal Expenditures		\$ 4,829,200

**Independent School District No. 720**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2017**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**NOTE 2 – PASS-THROUGH GRANT NUMBERS**

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

**NOTE 3 – INVENTORY**

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

**NOTE 4 – INDIRECT COST RATE**

The District did not elect to use the 10% de minimis indirect cost rate.

PRELIMINARY

**Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

**Independent Auditor's Report**

To the School Board  
Independent School District No. 720  
Shakopee, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 720, Shakopee, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 20, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance as Audit Finding 2009-001 that we consider to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**District's Response to the Finding**

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Minneapolis, Minnesota  
November 20, 2017

**Report on Compliance for Each Major Federal Program and on Internal  
Control over Compliance Required by the Uniform Guidance**

**Independent Auditor's Report**

To the School Board  
Independent School District No. 720  
Shakopee, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited Independent School District No. 720's, Shakopee, Minnesota compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.



### **Opinion on Each Major Federal Program**

In our opinion, Independent School District No. 720 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.





## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 20, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Minneapolis, Minnesota  
November 20, 2017

PRELIMINARY

**Independent School District No. 720  
Schedule of Findings and Questioned Costs in  
Accordance with the Uniform Guidance  
June 30, 2017**

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 2009-001
• Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

**Federal Awards**

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516	No

**Identification of Major Programs**

CFDA No.:	10.553, 10.555, 10.556, 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low risk auditee?	No

**Independent School District No. 720  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance  
June 30, 2017**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 2009-001 – Lack of Segregation of Accounting Duties**

*Criteria or Specific Requirement:*

Internal control that supports the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

*Condition:*

During the year ended June 30, 2017, the District had a lack of segregation of accounting duties.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Director of Business Services has access to all areas of the accounting system.
- A single individual has the ability to receipt money, prepare the deposit, take the deposit to the bank, and record the receipt in the general ledger.
- The Accountant enters capital asset additions and disposals, monitors and reviews asset lives and depreciation in the system, and maintains the master asset listing.
- The Accounts Payable Clerk reviews invoices, enters invoices in the system, and prints checks.
- The Payroll Specialist has the ability to enter time for an employee, prepare the payroll checks, and print checks.
- There is no formal documentation of the review of monthly bank reconciliations.

The District has implemented periodic spot checks of accounts payable and payroll to review activity after checks have been run. This helps mitigate the risk associated with the lack of segregation of accounting duties, but it does not eliminate the risk.

During our test work, we also noted the internal control procedures related to P card transactions appeared to be structured adequately, however, the execution of the control procedures was not adequate in some instances. We noted instances where adequate supporting documentation was not provided prior to payment, yet payment was still approved. There were also instances where there was not enough documentation to determine whether a purchase was related to District operations or not. We recommend the District always ensure proper documentation is obtained prior to making payment, employees responsible for approval are empowered to question the expenditures, and there is enough information included in that documentation to be able to ensure the activity is related to District operations.

*Context:*

This finding impacts the internal control for all significant accounting functions.

**Independent School District No. 720  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance  
June 30, 2017**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**Audit Finding 2009-001 – Lack of Segregation of Accounting Duties (Continued)**

*Effect:*

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

*Cause:*

There are overlapping responsibilities and a breakdown in the control procedures occurred where the execution of the control was not adequate.

*Recommendation:*

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

*Management's Response:*

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

Several controls were added December 1, 2010 in the Business Office to address the findings; including: The Accounting Specialist verifies a sample of information for each payroll. He will verify the information to the pay check document and initial the forms he reviews. The Director of Finance will continue to review gross and net pay reports for reasonableness compared to prior pay periods.

The Accounting Specialist will review the work of the Accounts Payable Clerk. He will take a sample of 10 items per check run and verify the documentation to the final check that will be mailed. The Director of Finance will continue to review total reports for reasonableness compared to prior months and prior years.

In addition to the controls added in December 2010, the Director of Finance will continue to review the operational reports of the departments for reasonableness. The Director of Finance will also continue to discuss with the departments, colleagues, and auditors to determine best practices with the limited staff available and implement changes that are economically feasible.

**Independent School District No. 720  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance  
June 30, 2017**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**Audit Finding 2009-001 – Lack of Segregation of Accounting Duties (Continued)**

**CORRECTIVE ACTION PLAN (CAP): (CONTINUED)**

In addition, the District will take the following actions to remove the compliance findings:

- Change the Director of Finance and Operations system access to read only access
- Involve other members of Finance in the receipting process to prevent one person being responsible for all functions
- Perform a thorough review of our current process with the auditors and address areas of concern
- Effective October 11, 2017, the P card manual was revised to capture areas of risk in the P card process. Revisions included setting firm deadlines for turning in statements, defining required documentation and clarifying authorization requirements. In addition, procedures were established for handling non-compliance with the P card manual.
- Staff are empowered to question expenditures. The District will develop and communicate channels of communication in the event that an employee has an incident to report for which they do not feel they are being heard.

3. Official Responsible for Ensuring CAP

Suzanne Johnson, Director of Finance and Operations, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The CAP will be monitored continually by the Director of Finance and Operations.

5. Plan to Monitor Completion of CAP

The School Board will be monitoring this CAP.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no federal award findings or questioned costs.

**SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

None

## Report on Legal Compliance

### Independent Auditor's Report

To the School Board  
Independent School District No. 720  
Shakopee, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 720, Shakopee, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated November 20, 2017.

The *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the Schedule of Findings and Corrective Action Plans on Legal Compliance. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The purpose of this report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Minneapolis, Minnesota  
November 20, 2017

**Independent School District No. 720**  
**Schedule of Findings and Corrective Action Plans**  
**on Legal Compliance**

**CURRENT YEAR LEGAL COMPLIANCE FINDINGS:**

**Eliminate Old Outstanding Checks**

According to *Minnesota Statutes* 345.38-.43, if the local government's records show unclaimed property over \$100 for more than three years, the property should be reported and paid or delivered to the State Commissioner of Commerce.

During our audit, we noted 35 outstanding checks over \$100 and more than three years old included as reconciling items on the bank reconciliation.

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The District will report unclaimed property to the state as defined in statute.
3. Official Responsible for Ensuring CAP  
Suzanne Johnson, Director of Finance and Operations, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2018.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**Ensure Procurement Card Purchases are Proper Public Purpose Expenditures**

During testing of purchases made on the District's procurement cards, it was noted there was insufficient documentation maintained to substantiate several of the purchases. In these occurrences, there were no itemized receipts attached or adequate documentation to validate the purchase.

**Independent School District No. 720  
Schedule of Findings and Corrective Action Plans  
on Legal Compliance**

**CURRENT YEAR LEGAL COMPLIANCE FINDINGS (CONTINUED):**

**Ensure Credit Card Purchases are Proper Public Purpose Expenditures (Continued)**

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
Effective October 11, 2017, the P card manual was revised to capture areas of risk in the P card process. Revisions included setting firm deadlines for turning in statements, defining required documentation and clarifying authorization requirements. In addition, procedures were established for handling non-compliance with the P card manual.
3. Official Responsible for Ensuring CAP  
Suzanne Johnson, Director of Finance and Operations, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2018.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**PRIOR YEAR LEGAL COMPLIANCE FINDING:**

**Declaration of Payment of Claims**

*Minnesota Statute 471.38, subd. 1, requires a declaration for payment be signed to the effect that such account, claim, or demand is just and correct and that no part of it has been paid.*

We noted the District changed checks in 2016 and their new checks no longer had the required declaration.

**CORRECTIVE ACTION TAKEN:**

The District ordered new checks that includes the required declaration.