

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

**Independent School District 281
Robbinsdale Area Schools
New Hope, Minnesota**

PETITION ENGAGEMENT

JULY 1, 2015, THROUGH MARCH 31, 2019

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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.

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**Independent School District 281
Robbinsdale Area Schools
New Hope, Minnesota**

July 1, 2015, through March 31, 2019



Petition Engagement

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

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**INDEPENDENT SCHOOL DISTRICT 281
PETITION REPORT**

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PETITION REPORT

Petitioners
Superintendent and School Board
Independent School District 281

INTRODUCTION

Eligible voters of Independent School District 281 (District), Robbinsdale Area Schools, 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. The statute allows the OSA, in the public interest, to confine the scope of the examination to less than that requested by the petition. Communications with petitioner representatives assisted us in developing an understanding of the petitioners' areas of interest or concern. We established that some of the issues raised were not within the scope of this review. Our examination was limited to addressing the issues discussed below for the period July 1, 2015, through March 31, 2019.

The OSA has completed its examination into the concerns identified by the petitioners of the District. The objectives of the engagement were to address the concerns of, and to answer the questions raised by, the petitioners. Where applicable and appropriate, we make recommendations to the District in this report.

PETITIONERS' CONCERNS AND OUR FINDINGS

1. Other Postemployment Benefits

The petitioners requested information relating to the District's irrevocable trust for retired employees' health care costs. This included identifying when the trust was established and how it was funded; determining if health care costs were paid out of the District's General Fund; and, if health care costs were paid out of the General Fund, determining if the irrevocable trust reimbursed the General Fund.

In 2009, the District issued \$20,065,000 in other postemployment benefit (OPEB) bonds to fund the District's actuarially determined OPEB liabilities. The proceeds from the OPEB bonds were deposited in an irrevocable OPEB trust account. The activity in the

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irrevocable OPEB trust is presented in the District's publically-available audited comprehensive annual financial reports (CAFRs) as fiduciary activity in the Post-Employment Benefits Trust Fund.

Because the District self-insures for employee dental and medical activities, the District makes premium payments to its internal service funds on behalf of program participants based on rates determined by insurance company estimates of monthly claims. The insurance premiums are paid from the District's governmental funds to the self-insurance internal service funds. Medical claims are paid by the District out of the Health Benefits Self-Insurance Internal Service Fund to PreferredOne, a claims administrator, who processes the claims on behalf of the District.

Minnesota Statutes, section 471.6175, subdivision 7(b), authorizes the District to withdraw funds from the irrevocable OPEB trust for postemployment benefits paid for former officers and employees. The drawdowns from the irrevocable OPEB trust are, therefore, generally limited to claims paid by the District for retirees, less the premiums received from the retirees for Consolidated Omnibus Budget Reconciliation Act (COBRA) payments, plus premiums paid by the District for retirees on other health insurance plans.

The amount of eligible OPEB expense is calculated, and the amount the District intends to drawdown from the irrevocable OPEB trust is recorded by a journal entry in the District's general ledger. The entry reduces expenditures in the governmental funds from which the premiums were paid, increases deductions for retirement benefits in the District's Post-Employment Benefits Trust Fund, and sets up a corresponding due to and due from other funds. The District's general ledger in the next year reflects an increase in cash in the governmental funds and a decrease in cash in the Post-Employment Benefits Trust Fund along with a corresponding reduction of the due to and due from other funds. A drawdown request is made from the irrevocable OPEB trust account, and the drawdown is wired to the District's checking account.

In 2019, the independent external auditors engaged by the District to perform the annual financial statement audit prepared a reconciliation over the life of the Post-Employment Benefits Trust Fund, comparing the eligible postemployment expense paid by the District to the amount the District chose to draw down from the irrevocable OPEB trust account in prior years. Based on the reconciliation, the District's auditors determined the District had an additional \$4,749,736 in eligible postemployment expense for retirees that had not been drawn down from the irrevocable OPEB trust in previous years. In December 2019, the District drew down the \$4,749,736 from the irrevocable OPEB trust account for the eligible postemployment expenses related to previous years. This transaction was recorded on the District's June 30, 2019, financial statements as an interfund receivable

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and a special item in the General Fund. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

The following information was compiled based on our review of the District’s general ledger activity, CAFRs, bank account statements, trust account statements, and the OPEB reconciliation prepared by the District’s external auditors:

Year	Eligible OPEB Expense	Drawdown from Irrevocable OPEB Trust Account	Date of Wire Transfer Deposit into District’s Wells Fargo Account
Previous Years	\$ 9,639,367	\$ 4,785,236	Not confirmed
2015	450,095	892,238	06/11/2015
2016	1,259,687	-	-
2017	1,014,169	-	-
2018	583,727	1,936,108	01/19/2018
2019	681,324	583,727	01/07/2019
2019	-	681,324	12/24/2019
2019 special item	-	4,749,736	12/24/2019
Total	<u>\$ 13,628,369</u>	<u>\$ 13,628,369</u>	

The eligible OPEB expense for 2015 through 2019 was verified against the support provided by the District and District’s external auditors and included the PreferredOne reports for retiree claims paid. As noted above, the eligible OPEB expense includes claims paid by the claims administrator for retirees, less premiums paid by the retirees, plus premiums paid by the District for retirees not part of the self-insurance pool.

For fiscal years 2016, 2017, and 2018, the requested drawdowns were recorded as reductions of expenditures in the District’s General Fund and in the Food Service and Community Service Special Revenue Funds. The fiscal year 2019 requested drawdown was recorded as a reduction in expenditures in the General Fund. The fiscal year 2019 requested drawdown for the adjustment was recorded as a special item in the General Fund. In all cases, the offset was recorded as an increase in deductions in the Post-Employment Benefits Trust Fund.

In addition, during our review, we noted \$706,968 removed from the irrevocable OPEB trust account by the District in previous years for costs related to the issuance of the OPEB bonds, net of the trust account’s administrative costs. The District stated that the amounts related to the issuance of the OPEB bonds were not intended for deposit into the irrevocable OPEB trust account. The OSA is unaware of authority of the District to remove funds for this purpose.

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Recommendation

We recommend the District develop a plan describing when amounts will be determined to be paid from the Post-Employment Benefits Trust Fund. Those amounts should be determined prior to the release of the annual financial statements so that the financial statements disclose the amount in trust for future benefit payments.

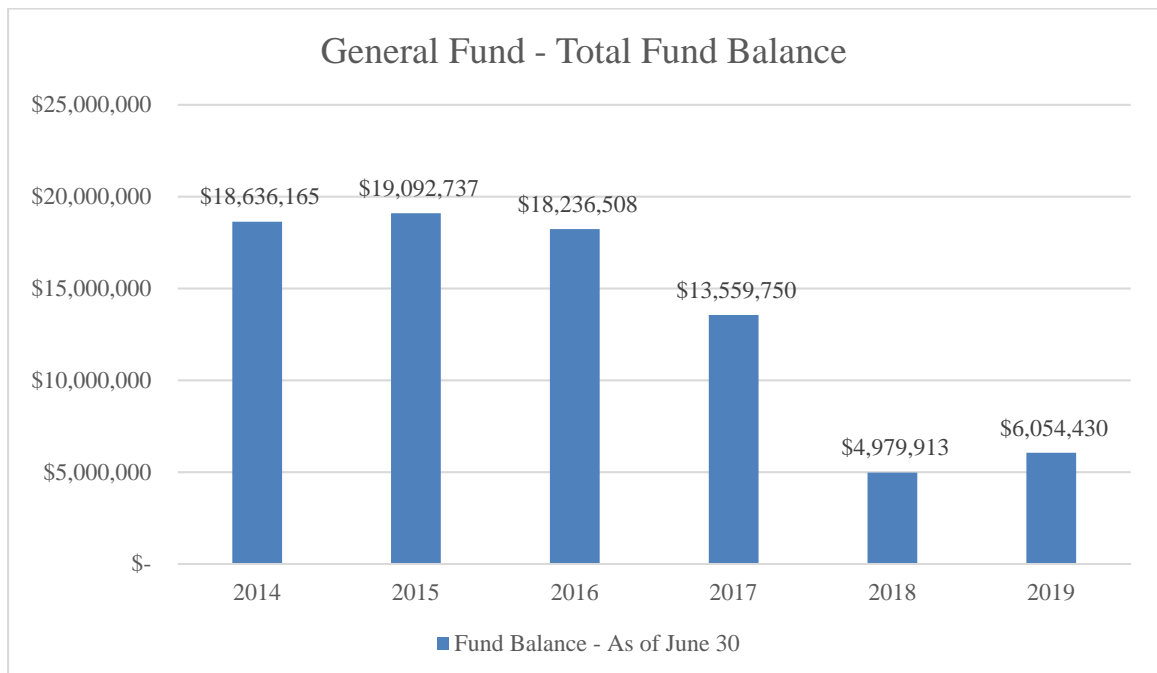
2. Fund Balance and Budget

The petitioners requested information relating to the fund balance and the budget of the District's General Fund.

The OSA obtained and reviewed the District's publically-available audited CAFRs for the fiscal years 2014 through 2019. CAFRs dating back to fiscal year 2012 are available on the District's website at:

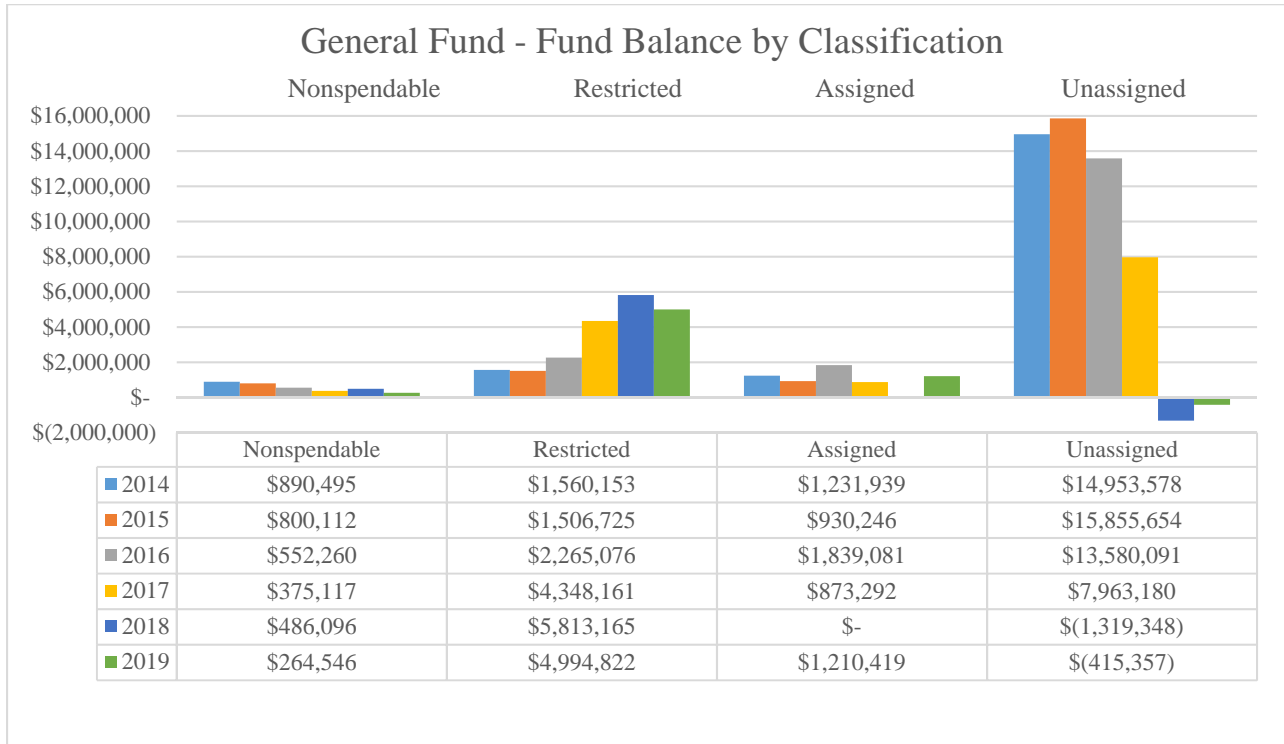
<https://www.rdale.org/workspaces/One.aspx?objectId=409666&contextId=409649&parentId=409683>

The following chart shows the District's General Fund's fund balance for the past six years:

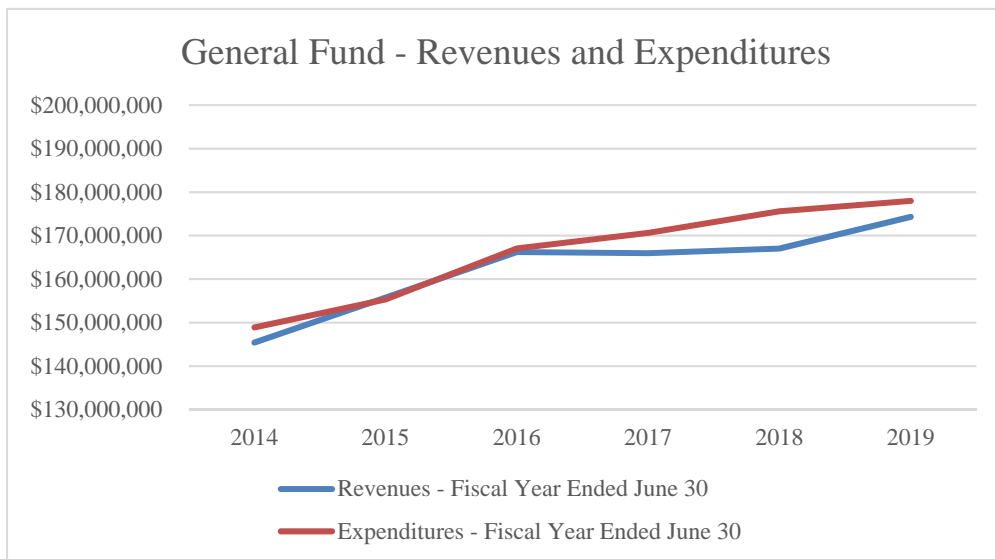


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The following chart details the various classifications of the General Fund's fund balance for the last six years:



The following chart shows the District's General Fund's actual revenues and expenditures for the past six years:



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In fiscal years 2017 and 2018, the expenditures increased faster than the revenues, which attributed to the decrease in fund balance in the General Fund. From fiscal year 2016 to fiscal year 2017, significant increases in expenditures occurred in District support services (\$3,079,437) and instructional support services (\$3,421,512). The increase in District support services expenditures was primarily the result of a one-time technology purchase of \$1.9 million. The increase in the instructional support services expenditures included \$1.9 million for the Quality Compensation for Teachers (Q Comp) program instructional coaches.

From fiscal year 2017 to fiscal year 2018, significant increases in expenditures occurred in special education instruction (\$3,491,578), instructional support services (\$1,568,326), and pupil support services (\$1,754,513). The special education instruction expenditures increase included \$2.6 million in increased special education teaching and education assistant staff. The instructional support services expenditures increase was due to additional curriculum staff and assistant principals at the secondary level. The increase in pupil support services expenditures was primarily due to \$1.2 million for the addition of integration teachers and counselors.

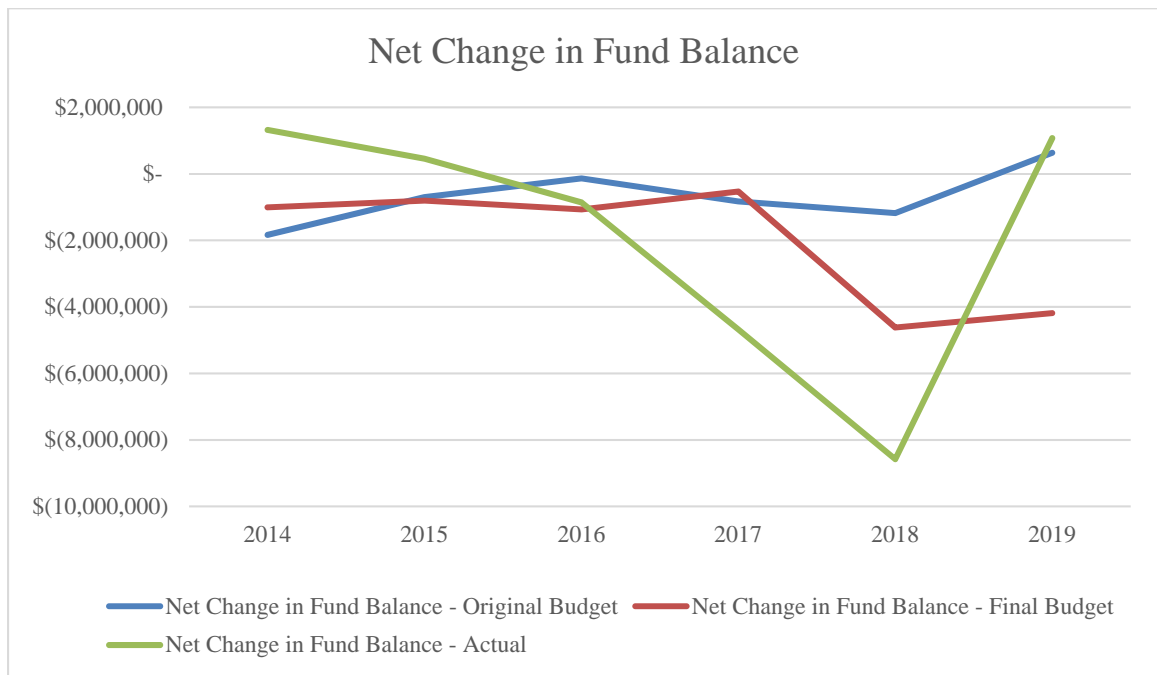
If the fund balance continues to decline, the District could be in statutory operating debt. Minnesota Statutes 123B.81, subdivision 1, defines “operating debt” of a school district as “...the net negative unreserved general fund balance calculated as of June 30 of each year in accordance with the uniform financial accounting and reporting standards for Minnesota school districts.” Minnesota Statutes 123B.81, subdivision 2, states, “If the amount of the operating debt is more than 2-1/2 percent of the most recent fiscal year’s expenditure amount for the funds considered under subdivision 1, the net negative undesignated fund balance is defined as ‘statutory operating debt’...” If a school district were to enter into statutory operating debt, the school district becomes subject to budget restrictions and, if the budget restrictions are not followed, a school district risks losing state aid.

A school district must limit its expenditures so that its net unreserved general fund balance does not constitute statutory operating debt under section 128B.81. If a district does not limit its expenditures in accordance Minn. Stat. § 123B.83, the Minnesota Department of Education (MDE), as provided for under Minn. Stat. § 123B.83, subd. 3, may so notify the Legislature by no later than February 15 of the year following the end of that fiscal year. Robbinsdale Area Schools is not included as a district with statutory operating debt in the MDE’s reports to the Legislature for fiscal years 2016, 2017, 2018, and 2019.

For the General Fund’s final budgets as reported in the District’s CAFRs for the past six fiscal years, total budgeted revenues and other financing sources did not equal, or were not greater than, budgeted expenditures and other financing uses (i.e., the budgets were

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not balanced budgets, were budget deficits). Only the original budget for fiscal year 2019, as reported in the District’s CAFR, balanced or was a budget surplus (i.e., total budgeted revenues and other financing sources equaled or were greater than budgeted expenditures and other financing uses). The budgeted surplus was \$633,691. The following chart compares the original budgeted change in fund balance and final budgeted change in fund balance of the District’s General Fund to the actual change in fund balance.



Significant changes account for these fluctuations. In 2017, the final budget net change in fund balance was a projected decrease (a budget deficit) of \$531,038, but the actual net change in fund balance was a decrease of \$4,676,758 due to the increase in District expenditures for support services and instructional support services mentioned above. In 2018, the final budget net change in fund balance was a projected decrease (a budget deficit) of \$4,620,901, but the actual net change in fund balance was a decrease of \$8,579,837. This is due to the increases in expenditures for special education instruction, instructional support services, and pupil support services mentioned above. In 2019, the final budget net change in fund balance was a projected decrease (a budget deficit) of \$4,188,940, but the actual net change in fund balance was an increase of \$1,074,517. The \$4,749,736 special item for the OPEB trust draw had not been included in the original or final budgets, actual revenues exceeded the final budget by \$1,629,436, and actual expenditures exceeded the final budget by \$1,115,715.

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Recommendation

We recommend the District balance its budgets and increase fund balance in the General Fund to avoid possible statutory operating debt.

3. Credit Card Policies and Usage

The petitioners requested information on the District's policies and usage of credit cards, including transactions or charges for credit cards issued to Ms. Tamuriel Grace (Ms. Grace), Director of Achievement and Integration, and for Dr. Stephanie Burrage (Dr. Burrage), Assistant Superintendent.

The legal authority for an independent school district to use credit cards is found in Minn. Stat. § 123B.02, subd. 23. This statute provides that if a school district officer or employee makes or directs a credit card purchase that is not approved by the school board, the officer or employee "is personally liable for the amount of the purchase."

Under Minnesota law, claims presented for payment must be in writing and itemized. *See* Minn. Stat. § 471.38, subd. 1. 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.

The District utilizes a purchasing card (P Card) program through BMO Harris Bank. The District has a policy and procedures manual in place specifically for the purchasing cards which was last updated in September 2018. The policy and procedures manual requires all prospective P Card holders to submit an application requesting a P Card. The application must be approved by the principal or department supervisor and submitted to the P Card Program Administrator who is responsible for setting up a new account and securing a card from BMO Harris Bank. Prospective P Card holders are required to attend a training, review the policy and procedures manual, and sign an agreement acknowledging their full understanding of the rights and responsibilities of having a P Card. The manual outlines what purchases are acceptable and unacceptable and states that alcoholic beverages/tobacco, travel expenses, lottery tickets, personal purchases, etc., are unacceptable purchases. The manual requires original itemized receipts be obtained and submitted with each monthly statement. If an itemized receipt is unavailable and one cannot be obtained, a substitute itemized receipt form may be used. On a monthly basis, the P Card holder is responsible for printing a copy of the statement, attaching original receipts, securing the principal or department supervisor's signature, and forwarding those items to the Program Administrator for processing. The manual also indicates that a periodic audit will be conducted of card activity, retention of receipts, and reconciled detail and signed monthly statements.

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The OSA reviewed the District’s check registers to search for payments to other credit card vendors. No other credit or purchasing card programs other than the one through BMO Harris Bank were noted.

Based on the review of the P Cards transaction lists and inquiry, the OSA noted that P Cards have not been issued to Dr. Burrage, Assistant Superintendent, nor Ms. Grace, Achievement and Integration Director. In addition, the OSA performed a search of the District’s check registers and general ledger for the time frame under examination searching for non-salary related payments made to either Dr. Burrage or Ms. Grace. The following transactions were noted:

Name	Check Date	Amount	Description
Burrage, Stephanie S.	7/17/2018	\$ 238.98	Technology stipend reimbursement
Burrage, Stephanie S.	7/31/2018	98.23	Travel-related costs for NAFEPA conference in D.C.
Burrage, Stephanie S.	2/27/2018	697.96	Technology stipend reimbursement
Grace, Tamuriel L.	7/13/2016	246.17	Travel-related costs for NACAC conference
Grace, Tamuriel L.	6/16/2017	167.73	Travel-related costs for PREPARATE conference in Florida
Grace, Tamuriel L.	6/29/2017	255.82	Travel-related costs for NASAI conference in New Mexico
Grace, Tamuriel L.	3/24/2016	238.31	Travel-related costs for College Board regional conference

P Cards were issued to Administrative Assistants of Dr. Burrage and Ms. Grace. The Administrative Assistants were included as part of the 12 P Cards tested and noted below.

The OSA did not find any payments made to Dr. Burrage or by her Administrative Assistant’s P Card for travel to Michigan where Dr. Burrage is a part-time employee at Wayne Regional Educational Service Agencies (RESA). A review of the Administrative Assistant’s P Card transactions for December 2017 and December 2018 revealed one expenditure for membership and registration fees for Dr. Burrage to attend the 2018 NAFEPA Title I conference in Washington, D.C., totaling \$770.00.

The OSA obtained from the District a listing of all P Cards and the credit limits, and a list of all P Card transactions between July 1, 2015, and March 31, 2019, which represented transactions totaling approximately \$3.7 million. The lists were generated by the District directly from the BMO Harris Bank P Card account. Each of the transactions for 23 monthly statements for 12 P Cards were selected for testing. This resulted in a review

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of 389 individual P Card transactions. In addition, the original applications and acknowledgement forms for each of the 12 P Cards selected for testing were requested and reviewed for completion and approval. The following issues were noted as a result of the testing performed:

- Approved applications could not be located for seven of the 12 P Cards tested.
- Signed agreements acknowledging the employees' full understanding of the rights and responsibilities of having a P Card could not be located for two of the 12 P Cards tested.
- Three of the approved applications were not dated.
- Thirty-eight transactions were paid without a receipt, neither an itemized receipt was on file or a substitute receipt form completed. Thirty-five of these transactions were for airline flights totaling \$17,691. The flights were allowable as part of the Achievement and Integration Program for students to attend college tours. Supporting documentation was obtained upon our request and during our review.
- Ten transactions were paid without itemized receipts; only credit card receipts were included. Nine of these transactions consisted of meal purchases and totaled \$280.40. The other transaction was \$33.95 for taxi service.
- Two transactions had support that consisted of an online printout of the dollar amount and no description of what was purchased.
- Two monthly statements and corresponding support for one P Card user selected for testing could not be located for review. These two statements for July and August of 2015 consisted of 57 transactions for hotel costs, airline flights, office furniture, and Amazon purchases, and totaled \$24,726.00.
- The support for 201 transactions, including those transactions discussed above, totaling \$94,982.30 for items such as meals, groceries, hotel costs, airline tickets, conferences, event tickets, supplies, and other miscellaneous purchases, did not include enough information to determine if the purchase met a public purpose. Documentation of the purpose/necessity of these purchases was not included with the support, making it difficult to determine who was provided the meals or why it was necessary to meet at meal time. For example, on April 22, 2017, a P Card was used to purchase two pizzas from Domino's for \$26.79. A receipt for the pizzas was included with the monthly P Card statement; however, no other documentation was

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provided to indicate who the pizza was for or why it was purchased. In another example, on April 26, 2017, the same P Card was used to purchase three salads from Athens Café for \$22.49. A handwritten note was included on the receipt indicating “PAOP-RMS.” Upon further inquiry, it was determined the meals were purchased for the “Parents as Our Partners” program at Robbinsdale Middle School. The expenditure for this meal was recorded as part of the Adult Basic Education (ABE) program. When the OSA asked why PAOP would be coded to ABE, we were informed it was to provide support to the 2017 partnership between the two programs and support those people who participated in both programs. Because of the low participation in the program, it was discontinued in 2017.

- The District does not have a policy for reimbursing meal expenses when there is no travel involved.
- P Cards are being used for travel, which is an unacceptable use per the P Card manual.

Inconsistencies were noted when comparing the credit limits documented on the original applications, user acknowledgement forms, P Card user and BMO Harris Bank credit limit list, and monthly statements for the 12 individuals selected for testing. These inconsistencies were a result of the application and acknowledgment forms not being fully completed and of the credit limits in the BMO Harris Bank system being adjusted on an as-needed basis by the District’s P Card Program Administrator.

The OSA also noted that periodic audits of P Card activity, retention of receipts and reconciled detail, and signed monthly statements are not being performed by the District, as required by the P Card manual.

Recommendation

We recommend the District’s P Card policy and procedures manual be reviewed and updated to include items for which the District can and has been using P Cards, such as travel. We also recommend the audits of the District’s P Cards, as required by the P Card policy and procedures manual, be performed on a routine/rotating basis. To comply with Minnesota statutes, all purchases should be supported by itemized receipts or claim forms. The documentation should include information on what is being purchased and who it is for (i.e., building site, classroom, program). Meal-related purchases should include a description of who the meal(s) was purchased for and who was in attendance, the reason for having to purchase the meal(s), and why it was necessary to provide a meal at that time.

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4. Authorization of Expenditures

The petitioners requested information regarding the District's authorization for the payment of expenditures, including what documentation should be included in the School Board meeting minutes relating to expenditures.

By law, the care, management, and control of an independent school district is vested in a board of directors known as the school board. Minn. Stat. § 123B.09, subd. 1. The school board must "superintend and manage the schools of the district; adopt rules for their organization, government, and instruction; keep registers; and prescribe textbooks and courses of study." Minn. Stat. § 123B.09, subd. 8. The school board must employ a superintendent. Minn. Stat. § 123B.143, subd. 1. Under Minn. Stat. § 123B.52, subd. 2, "[t]he board may authorize its superintendent or business manager to lease, purchase, and contract for goods and services within the budget as approved by the board. Any transaction in an amount exceeding the minimum amount for which bids are required must first be specifically authorized by the board and must fulfill all other applicable requirements in subdivision 1."

The District also has an administrative procedure for the School District Budget, which was adopted July 22, 2013. 701AP "Establishment and Adoption of School District Budget" Section IV. C. states, "[t]he superintendent or the superintendent's designee is authorized to make payments of claims or salaries authorized by the adopted or amended budget prior to school board approval." The District's website states that administrative procedures are reviewed and approved by the Superintendent and Cabinet Administration. If that is the case, and this administrative procedure was not approved by the School Board, then this administrative procedure does not delegate the expenditure authorization in accordance with Minn. Stat. § 123B.52, subd. 2, noted above.

The OSA obtained and reviewed the School Board's bylaws and the purchasing policies and procedures of the District. The District's procedures provide for approval of purchases by the Purchasing Department, school principals, or department heads. The School Board's bylaws state the Treasurer (or Deputy Treasurer as the Treasurer's designee) shall "sign all orders upon the Treasurer approved by the School Board, thereby converting the orders to checks." Based on the bylaws, only the authority to sign the checks has been delegated, not the approval of the expenditures.

District staff informed the OSA that the School Board approves expenditures for the previous month on the consent agenda at the second School Board meeting of the month. The first School Board meeting of the month is a business meeting, the second meeting of the month is a regular meeting. The OSA reviewed the School Board minutes and

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noted the minutes to both business meetings and regular meetings state the consent agenda includes administrative matters, personnel matters, and financial matters. The motion to approve the consent agenda was also documented. To see the details of what was approved on the consent agenda, the OSA reviewed the meeting agendas on the District's website. The agenda listed the items approved on the consent agenda and a link to supporting documents.

During the 2017/2018 school year, a list of all checks, automated clearing house (ACH), and wire transactions was included in the supporting documents linked to the consent agendas. This did not occur in the years previous to or after this school year. Minnesota Statutes, section 123B.14, subdivision 4, states, "The treasurer shall make all reports which may be called for by the board and perform all duties usually incumbent on such officer." This means the District's School Board has the discretion of what to include in the Treasurer's Report. There is no minimum information (such as expenditures) required by law.

Recommendation

We recommend the School Board consider delegating the approval of expenditures to the Superintendent or the Director of Finance as allowed under Minn. Stat. § 123B.52, subd. 2.

5. Access to Financial/Budget Information

The petitioners requested information regarding the access to budget information by principals of the various schools.

Each transmittal letter in the District's publically-available audited CAFRs for the years 2014 through 2019 includes a section describing the budgetary process. The District also has administrative procedures 701AP "Establishment and Adoption of School District Budget" and 701.1AP "Modification of School District Budget," both adopted July 22, 2013.

The OSA obtained an understanding of the process for District staff to access the financial information of the discretionary budgets for which they are responsible. The approved budget is loaded into the Skyward Financial System. The principals (or their designated staff member) are given instructions on how to access the budget reports. There are two primary reports that can be run, and the reports can be run at any time. One report shows totals for each account assigned to their school (Budget Current Year Report), and the second report shows the details of each transaction in those accounts

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(Detail Budget Report). Individual line item “expenses” may exceed the line’s budget. The principal is responsible for managing the budget total. Thus, line item overages need to be covered by line item underages elsewhere in their budget.

The OSA selected two principals and contacted both to determine whether they could run the reports themselves, or if one of their staff could run the reports for them. The Principal of Forest Elementary described to us the frequency of the budget monitoring and review and provided us an example of a budget report that was run. The Principal of Sandberg Middle School described the budget files received, that files for the next school year’s budget had recently been received, and that the School’s bookkeeper can access budget reports in the Skyward Financial System. The OSA contacted Sandberg Middle School’s bookkeeper, the Principal’s designee, who stated that the budget and expenditure reports, along with various other reports, can be viewed in the Skyward Financial System and that reviews of reports typically occur monthly.

6. TIES/Sourcewell Contract

The petitioners requested information regarding the approval of contracts with TIES/Sourcewell. The petitioners also requested information regarding the relationship between the District and TIES/Sourcewell, which is addressed in item 14. below.

The OSA obtained and reviewed the general ledger from July 1, 2015, to March 31, 2019, to determine the payments to TIES/Sourcewell and the reason for the payments. The payments were matched to contracts to determine all contracts were identified.

The District had two main agreements with TIES/Sourcewell during this time period:

- TIES internet services – This contract was an addendum to an earlier contract from 2013 for internet services. The term was from July 1, 2015, to June 30, 2016, and included the option of two additional one-year extensions. The contract was approved by the Executive Director of Business Services on March 13, 2015, and by the School Board on April 7, 2015. No additional approval was obtained for the subsequent two years because the extensions were part of the original contract.
- TIES out of district transportation management services – This contract was signed by the Executive Director of Business Services on September 1, 2015. The contract stated, “This new contract shall be effective August 1, 2015. Termination can be made on June 30th of any school year with at least 90 days of notice.” School Board approval of this contract could not be located by District staff.

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Sourcewell acquired TIES in 2018. The only payments to Sourcewell were in December 2018 for the completion of the TIES transportation contract. The District did not contract with Sourcewell after the acquisition.

Recommendation

We recommend the School Board implement procedures to ensure professional services contracts are Board approved or the approval is designated to the Superintendent or Business Manager as allowed under Minn. Stat. § 123B.52, subd. 2.

7. Title I Funds

The petitioners requested information regarding how the Title I program is funded and information about payments to other school districts with these funds.

Funding

Based on the OSA's discussion with the MDE, the Title I program is a federally-funded program through the MDE authorized by the Every Student Succeeds Act (ESSA). Funds are allocated to every school district, and each school district must decide whether to accept or decline the funds. If the school district decides to accept, they must complete an application, including a narrative description and a budget on the use of the funds, and submit them to the MDE. Each district's funding allocation is generally based on the number of children and poverty level, which in Minnesota is measured by the number of free and reduced lunches. Although the funding is based on poverty levels, services are intended for students most in need of academic support regardless of the student's economic status.

Districts awarded Title I funding can choose the Targeted Services Model or the Schoolwide Services Model for providing Title I services to students. Under the Targeted Services Model, funds may only be spent on students who meet the school's academic criteria for services. Under the Schoolwide Services Model, the funding is spent on all of the students in the school on any initiative that is part of that school's schoolwide plan of service. When a district chooses the Schoolwide Services Model, each school within the district that has over 40 percent free and reduced price lunches qualifies for Title I funding. Any school that has over 74 percent free and reduced price lunches must be served with Title I funds. In addition, a district with nonpublic schools within its boundaries must offer the nonpublic schools the opportunity for eligible students to receive Title I services.

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Based on the OSA's discussions with the MDE and review of the District's Title I applications, Robbinsdale Area Schools has applied for and received Title I funding for each fiscal year ending from 2015 to 2019. The District qualifies and provides Title I services under the Schoolwide Services Model at the following elementary school sites: Forest, Lakeview, Meadow Lake, Neill, Noble, Northport, and Sonnesyn.

All Title I expenditures, including labor and non-labor, are recorded by the District in the uniform financial accounting and reporting standards (UFARS) system in FIN 401 (Title I, Part A) and submitted to the MDE through the state educational record view and submission (SERVS) system. The UFARS expenditure and budgetary comparison report, which is available on the MDE website, is reviewed annually by the MDE. The information in the UFARS report is used by the MDE to reimburse the District for Title I services. No additional financial reporting to the MDE is required of the District besides UFARS reporting.

The OSA obtained from the District the UFARS FIN 401 reports for each fiscal year ending 2016 through 2019 and compared the total Title I expenditures to the budgetary comparison schedules generated from the MDE's Data Center website. No discrepancies were noted in any of the years.

The MDE is mandated by federal regulations to ensure districts are aware of the federal requirements for Title I and to monitor the activities for compliance and progress towards achieving the performance goals. The MDE performs compliance reviews of Title I by district on a rotating basis. Robbinsdale Area Schools' Title I program was last reviewed for compliance by the MDE in 2016 under the ESSA guidelines. The MDE issued its report on March 1, 2016, and a corrective action plan was prepared and submitted by the District on June 5, 2017. These reports are available upon request from the MDE.

Payments to Minneapolis Public Schools

Included in our review of Title I funds, the OSA reviewed payments made to the Minneapolis School District and searched UFARS general ledger code 01 E 005 216 000 401 303, Title I, Federal Subawards and Subcontracts. Between July 1, 2015, and March 31, 2019, the District made payments to the Osseo, St. Paul, Fridley, and Minneapolis School Districts for Title I services totaling \$43,265.59. These payments were made for students who are residents of Robbinsdale Area Schools who qualify for Title I services and are attending nonpublic schools within the boundaries of the Osseo, St. Paul, Fridley, and Minneapolis School Districts. The OSA obtained and reviewed the invoices for each payment to confirm how many students the District was paying for and recalculated the per pupil rate. The OSA then compared the calculated per pupil rate paid to the amount specified in each of the contracts between Robbinsdale Area Schools and the other school districts; no discrepancies were noted.

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Based on a review of the District's check registers for July 1, 2015, to March 31, 2019, the OSA noted additional payments made to the Minneapolis School District totaling \$212,716.18, which was not paid with Title I funds. These payments were coded to special education and made for special educational services for students who were residents within Robbinsdale Area Schools boundaries, but receiving care and treatment at sites within the Minneapolis School District boundaries.

CPA Firm Title I Findings

Because Title I is a federally-funded program, it is subject to the Federal Single Audit Act. The District's special purpose audit reports for the fiscal years ending 2018 and 2019, which contain the reports required for a Single Audit issued by the independent external auditor, identify that the Title I program was audited as a major federal program in both fiscal years.

For fiscal year 2018, the District's auditors reported finding 2018-002 as a material weakness in internal control over compliance and as material noncompliance with federal allowable costs requirements charged to the Title I program. The finding states that the District incorrectly charged salary and benefit costs of \$460,938 to Title I for eight employees who were not eligible to be charged to the program. Upon inquiry of the MDE's follow up of the finding, the OSA learned that the salaries of the eight ineligible employees were removed and replaced with salaries and benefits totaling \$543,030 for eight other employees who were eligible to be charged to the program. The UFARS coding for the eight ineligible employees was erroneously carried forward in the system from fiscal year 2017 to 2018, and the coding for the eight eligible employees was never changed to the Title I codes. District staff did not review or make the changes in how staff time was coded from one year to the next. The District's corrective action plan states that when it was determined that ineligible salaries and benefits had been recorded as Title I, all costs were reviewed and corrected prior to the District submitting its final reimbursement request for fiscal year 2018 and before issuing its audited financial statements.

For fiscal year 2019, the District's auditors reported finding 2019-002 as a significant deficiency in internal control over compliance and as reportable noncompliance for Title I allowable costs requirements. The finding states that the District did not have adequate internal controls in place to ensure all salary costs charged to Title I met the standard for an allowable or allocable cost. For one out of 20 employees the auditors tested, the District charged a higher percent of the individual's salary to Title I than what was supported by time and effort documentation. The District's corrective action plan for this finding states that the District's Fiscal Operations Director and Title I Coordinator will review all salaries and benefits being charged to the Title I program in fiscal year 2020 to ensure only allowable costs are being claimed for federal reimbursement.

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8. Compensatory Funds

The petitioners requested an explanation on what school districts need to do to determine how compensatory funds are allocated and used.

Compensatory funds are determined under Minn. Stat. § 126C.10, subd. 3(a), which states, “[t]he compensatory education revenue for each building in the district equals the formula allowance minus \$839 times the compensation revenue pupil units computed according to section 126C.05, subdivision 3. A district’s compensatory revenue equals the sum of its compensatory revenue for each building in the district and the amounts designated under Laws 2015, First Special Session chapter 3, article 2, section 70, subdivision 8, for fiscal year 2017. Revenue shall be paid to the district and must be allocated according to section 126C.15, subdivision 2.”

In accordance with Minn. Stat. § 126C.15, subd. 1, compensatory revenue, as part of the basic skills revenue under Minn. Stat. § 126C.10, subd. 4, must be reserved and used to meet the educational needs of pupils who enroll under-prepared to learn and whose progress toward meeting state or local content or performance standards is below the level that is appropriate for learners of their age. Basic skills revenue may also be used for programs designed to prepare children and their families for entry into school whether the student first enrolls in kindergarten or first grade. Minnesota Statutes, section 126C.15, subdivision 1, provides a list of eligible uses of basic skills revenue to meet these learners’ needs. The list includes such items as direct instructional services and remedial instruction in various areas of study, additional teachers and teacher aides, staff development instructional materials, programs to reduce truancy and encourage completion of high school, bilingual programs and bicultural programs and programs for English learners, all-day kindergarten, early education programs, and extended school day and extended school year programs.

In accordance with Minn. Stat. § 126C.15, subd. 2(a), a district or cooperative generally must allocate its compensatory revenue to each school building in the district or cooperative where the children who have generated the revenue are served, “unless the school district or cooperative has received permission under Laws 2005, First Special Session chapter 5, article 1, section 50, to allocate compensatory revenue according to student performance measures developed by the school board.” Special permission under this law is referred to as the Compensatory Pilot Grant Program.

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According to the MDE, Robbinsdale Area Schools is part of the Compensatory Pilot Grant Program formed under 2005 Minn. Laws, 1st Spec. Sess., ch. 5, art. 1, § 50. The state created the pilot program to allow a school district the flexibility in allocating compensatory revenue received under Minn. Stat. § 126C.10, subd. 3, among its school buildings according to each building's school performance measures. In order to participate in the program, the District was required to submit an application and Board-approved plan to the Commissioner of Education in 2005, when the program began. The pilot program was a one-time application without any further reporting requirements. The District has been receiving, and will continue to receive, \$500,000 for the pilot program until legislative action takes place to amend or do away with the program.

The District allocates 50 percent of the compensatory funds received to each building site based on the MDE's formula for student free and reduced price lunches and total enrollment counts. The remaining 50 percent is spent on items that meet the statutory requirements and is budgeted through the District's Director of Curriculum and Instruction. Each year, the principals of each school work with the Finance Office to determine the full-time equivalents for which to budget. The majority of the compensatory funds are spent on salaries. All compensatory expenditures are coded in UFARS to FIN 317 (basic skills) and are reported to the MDE annually.

9. Open Enrollment

The petitioners requested clarification on the open enrollment requirements and process.

Minnesota Statutes, section 124D.03, subdivision 4, allows any student to open enroll into or out of a district that has an Achievement and Integration plan approved by the MDE at any time during the school year.

Robbinsdale Area Schools received funding as an eligible district under the Achievement and Integration for Minnesota program because it meets the definition of a racially isolated district and it has had racially identifiable schools, *See* Minn. Stat. §§ 124D.861 and 124D.862 and Minn. Rules, parts 3535.0100 to 3535.0180. The MDE's Racially Identifiable School Report for 2018/2019, identifies Northport Elementary in the District as meeting the definition of a racially identifiable school. In addition, the MDE Isolated Districts Report for 2018/2019 identifies the District as meeting the requirements of a racially isolated school district. In compliance with the requirements, the District submitted the July 1, 2017, to June 30, 2020, Achievement and Integration plan, signed by the Superintendent and School Board Chair on March 20, 2017, to the MDE for approval, and MDE subsequently approved the plan. The Achievement and Integration

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plan is available on the District’s website. The District has to collaborate with at least one of its adjoining Achievement and Integration Districts to implement integration activities for students. The District continues to partner with the Minneapolis School District to form a collaborative. Open enrollment cannot be denied to any eligible student if it is available.

The following open enrollment data was obtained and summarized from the MDE’s website under the Data Center menu. The student counts are as of October 1 of each school year.

School Year	Resident Students Enrolled out of Robbinsdale Area Schools	Non-Resident Students Enrolled in Robbinsdale Area Schools
2015/2016	1,643	1,739
2016/2017	1,677	1,745
2017/2018	1,732	1,653
2018/2019	1,760	1,818

Minnesota Statutes, section 124D.03, subdivision 8, does not require school districts to provide transportation for non-resident students who are open-enrolled from the pupil’s residence and the border of the non-resident district. Transportation for open-enrolled students is worked into the District’s overall transportation plan and budget. All transportation costs for the District are reviewed and approved by the School Board through the District’s annual budgeting process.

10. Contract Compliance

The petitioners requested information regarding the contracting process and if School Board authorization was received.

The OSA obtained the District’s Purchasing Department’s policies and procedures related to the procurement of products and services and the District’s procedure for contracts for services. The OSA also obtained and reviewed the check registers, ACH registers, and wire registers from July 1, 2015, to March 31, 2019, to determine a population of vendors that met the threshold to be competitively bid. A sample was selected, and the contract and bid files were reviewed for compliance with District policy and compliance with Minnesota statutes applicable to school districts for contracting and bidding.

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For one contract of 14 tested, a contract could not be located. The synthetic field turf replacement purchase at Armstrong and Cooper High Schools was made through a purchasing organization using the purchase order process. Because a contract was not available, prompt payment of subcontractors by prime contractors testing could not be completed. All of the contracts tested were authorized through the consent agenda during School Board meetings.

Recommendation

We recommend all contracts and related documentation be maintained by the District.

11. Relocation Reimbursements

The petitioners requested information regarding the reimbursements for relocation expenses to District Cabinet executives hired by the District.

The OSA obtained the employment contracts for the Superintendent, Cabinet Member Administrators, and Program Directors. Based on review of each contract, the Superintendent's (Dr. Carlton Jenkins) contract is the only contract that included language allowing relocation expense reimbursement for the time frame of July 1, 2015, through March 31, 2019. Article VII, paragraph 5, of the Superintendent's contract for the three-year term of August 1, 2015, through June 30, 2018, states, "The District shall pay for relocation expenses not to exceed twenty thousand and no/100 dollars (\$20,000). The Superintendent shall provide receipts for all reasonable moving expenses prior to reimbursement as required by business office." Based on the OSA's inquiry of the District's Finance Office and review of the general ledger, no other relocation expense reimbursements were made other than those for Dr. Jenkins. The OSA compiled and summarized the relocation expense reimbursements for Dr. Jenkins based on the District's general ledger activity, support submitted for reimbursement, and the lease agreement for Dr. Jenkins' Plymouth, Minnesota, property as a tenant. Reimbursements included payments paid directly to vendors, paid directly to Dr. Jenkins, and purchases made with the District's P Card as follows:

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Paid to	Description	Dates of Services	Check Date	Check #	Amount
Dr. Jenkins	Travel for Interview – flight, hotel, meals, car	07/08/2015 - 07/10/2015	07/31/2015	760489	\$ 804.94
Dr. Jenkins	Travel for Interview – flight, hotel, meals, car	07/15/2015 - 07/17/2015	07/31/2015	760489	1,434.23
Dr. Jenkins	Security deposit* and part of August lease, Plymouth, MN	08/20/2015 - 08/31/2015	07/31/2015	760489	2,845.00
Dr. Jenkins	Lease – Atlanta, GA, August	08/01/2015 - 08/31/2015	08/27/2015	761022	2,500.00
Richard Raiford	Lease – Atlanta, GA, Sept. - Oct.	09/01/2015 - 10/31/2015	08/27/2015	761023	5,000.00
BMO Harris Bank P Card	Lodging – hotel Minneapolis, MN	08/15/2015 - 08/21/2015	09/04/2015	201500427	1,330.01
Dr. Jenkins	Lease – Plymouth, MN, Sept. - Oct.	09/01/2015 - 10/31/2015	09/29/2015	762088	4,200.00
Dr. Jenkins	Truck/van, tow vehicle and trailer rental	08/07/2015 - 08/16/2015	09/29/2015	762088	1,356.41
Dr. Jenkins	Fuel for Georgia to Minnesota	08/09/2015 - 08/15/2015	09/29/2015	762088	824.94
Dr. Jenkins	Moving supplies; boxes, tape, blankets	07/18/2015 - 08/07/2015	09/29/2015	762088	283.93
Dr. Jenkins	Toll fees, priority postage fees for lease	07/24/2015 - 08/11/2015	09/29/2015	762088	61.75
Dr. Jenkins	Lease – Plymouth, MN, part of November	11/01/2015 - 11/30/2015	11/06/2015	151600488	<u>1,597.96</u>
Total					\$ 22,239.17
Relocation reimbursement allowed per contract					<u>20,000.00</u>
Additional reimbursement for interviewing					<u>\$ 2,239.17</u>

*The security deposit was \$2,100.00, of which \$100.00 was non-refundable. Monthly lease (rent) was also \$2,100.00. Dr. Jenkins stated to the OSA that rental of the Plymouth, Minnesota, property continued into calendar year 2016, whereby the security deposit became a lease payment.

All of the above expenditures were coded to the District’s UFARS codes 01 E 005 020 049 000 366 (General Fund, Superintendent, Relocation, Miscellaneous) and 01 E 005 020 049 000 899 (General Fund, Superintendent, Relocation, Travel & Conference), with the exception of the \$5,000 lease payment to Richard Raiford, which was coded to UFARS code 01 E 005 020 000 000 899 (General Fund, Superintendent, Unallocated, Miscellaneous).

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As demonstrated in the table above, Dr. Jenkins was reimbursed the \$20,000.00 relocation expense authorized by his contract. The additional \$2,239.17, which is equal to the total of the first two line items, is for expenses for Dr. Jenkins to travel from Atlanta, Georgia, to Minneapolis, Minnesota, on two separate occasions, when interviewing for the District's Superintendent position. The OSA obtained the contract between the District and School Exec Connect, the firm hired to perform the search for the new Superintendent. The contract, dated May 12, 2015, indicates that a regional and national level search was to be performed for the Superintendent position. In addition, the contract includes language stating, "The Board will incur the costs of candidate interviews and related expenses after the slate of candidates has been presented." Therefore, the \$2,239.17 paid to Dr. Jenkins for interviewing falls under this contract and was not part of the relocation reimbursement. The OSA did not find any other Superintendent candidates who were reimbursed for travel incurred for interviewing; however, all of the other top candidates lived in Minnesota at the time.

12. Scoreboards

The petitioners requested information regarding the purchase of two video scoreboards for the high schools (Armstrong and Cooper) in the District, specifically the approval of the purchase, funding, and policies for advertising.

The purchase of the scoreboards was through the Association of Educational Purchasing Agencies (AEPA), a purchasing cooperative. Purchases through a purchasing cooperative are permitted under Minn. Stat. § 471.345, subd. 15. The purchase orders were approved by the Director of Purchasing, and the payments were approved by the School Board. (As noted in item 4 above, this approval comes after the purchase has been made and the payment is issued.)

The District purchased the scoreboards using operating capital revenues, a component of general education revenue. Minnesota Statutes, section 126C.10, subdivision 14(4), states operating capital revenue may be used "...to improve and repair school sites and buildings, and equip or reequip school buildings with permanent attached fixtures, including library media centers." Each school is provided a capital budget. The District advanced the funds to purchase the scoreboards from the high schools' future capital budgets. The high schools will be reimbursing the District over the next five years with the amount owed, split into five equal payments starting June 30, 2020. The high schools are collecting donations and/or advertising revenue to make these payments. If the high schools do not collect sufficient revenue to cover the payments, the remaining balance will be reduced from their capital budget for the year.

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Three donations were received in late 2018/early 2019 for Cooper High School totaling \$37,500.00. The donations were recorded in the District's general ledger under object code 096, which is gifts/bequests.

The District has an administrative procedure for advertising, which was adopted February 2, 2015. 905AP "Advertising" can be found on the District's website. The policy does not allow advertising or advertising images for alcohol, tobacco, drugs, drug paraphernalia, weapons, or obscene, pornographic, or illegal materials. The advertising policy (Section III.C.) states, "donations which include or carry advertisements must be approved by the school board." Minnesota Statutes, section 123B.025, requires school board approval of contracts for school sponsorship and advertising revenue, and revenue generated under such contracts must be used according to a plan specified by the school board. This approval was not noted in the review of the Board minutes of the District.

Recommendation

We recommend the Board approve contracts and agreements for sponsorships or advertising and authorize any revenue relating to advertising.

13. Long-Term Facilities Maintenance Revenue Program

The petitioners requested information regarding the Long-Term Facilities Maintenance (LTFM) Revenue program, specifically if it is in compliance with the state regulations relating to funding the program and if overhead costs were included in the program.

Minnesota Statutes, section 123B.595, identifies the requirements for the LTFM Revenue program. Subdivision 4(a) of this statute states, "[t]o qualify for revenue under this section, a school district...must have a ten-year facility plan adopted by the school board and approved by the commissioner." Subdivision 4(b) states, "[t]he district must annually update the plan, submit the plan to the commissioner for approval by July 31, and indicate whether the district will issue bonds to finance the plan or levy for the costs."

The OSA obtained the annual plans from the 2016/2017 school year to the 2019/2020 school year. Each school year's plan was approved by the School Board on August 17, 2015, July 11, 2016, August 7, 2017, and June 18, 2018, respectively. The District located the MDE's approvals for the 2016/2017 school year and the 2018/2019 school year, but could not locate the MDE's approvals for the 2017/2018 school year and 2019/2020 school year. The District could locate the Minnesota Department of

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Education Levy Limitation and Certification documents for those school years. Those documents showed the District receiving the Alternative Facilities Aids and Levies (later renamed LTFM Revenue), which the District would not have received without the MDE’s approval.

The OSA obtained the general ledger for July 1, 2015, to March 31, 2019, and reviewed the expenditures charged to the LTFM Revenue program for any expenditures that could contain overhead charges. Except for staff payroll charges (\$146,522.96 for fiscal year 2016, \$149,655.99 for fiscal year 2017, and \$139,833.25 for fiscal year 2018), all costs were to vendors for construction projects or the purchase of equipment, to cities or counties for construction permits, or for bond issuance costs. The staff who charged time to the program were the Director of Buildings and Grounds (title later changed to Buildings and Grounds Program Manager) and Program Assistant – Buildings and Grounds. These two staff worked directly with the program. No overhead charges were noted.

The OSA recalculated the legal debt margin for fiscal years 2016, 2017, and 2018 and compared it to the total net debt. Even if certificates of participation and capital leases were added to the net debt, the District would still be in compliance with the legal debt margin.

The bonds issued between July 1, 2015, and March 31, 2019, were reviewed to determine why voter approval was not required:

Bond Issue	Reason Exempt from Vote
2015A – General Obligation Facilities Maintenance Bonds	§ 123B.595 (LTFM)
2015B – General Obligation School Building Refunding Bonds (current refunding of 2017 through 2020 maturities of General Obligation School Building Refunding Bonds, Series 2007)	§ 475.58, subd. 1 (refunding obligation)
2016A – General Obligation Capital Facilities Bonds	§ 123B.62 (energy efficiency)
2016B – General Obligation Alternative Facilities Refunding Bonds (advance crossover refunding of General Obligation Alternative Facility Bonds, Series 2006B)	§ 475.58, subd. 1 (refunding obligation)
2016C – General Obligation Facilities Maintenance Bonds	§ 123B.595 (LTFM)
2017A – General Obligation Alternative Facilities Refunding Bonds (partial advance refunding of General Obligation Alternative Facility Bonds, Series 2008A and 2008B)	§ 475.58, subd. 1 (refunding obligation)
2018A – General Obligation Facilities Maintenance Bonds	§ 123B.595 (LTFM)

During fiscal year 2016, the District sold certificates of participation (\$9,535,000) and entered into capital lease agreements (\$3,643,000) to finance the construction of additions to several schools. These alternative sources were used because LTFM funds cannot be used for an addition to a school.

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14. Conflict of Interest – TIES/Sourcewell Contract

The petitioners requested information regarding a potential conflict of interest relating to School Board member Mr. John Vento (Board member Vento) and the services provided to the District by TIES/Sourcewell.

As stated in item 6 above, the District contracted with TIES from 2013 through 2018. Board member Vento worked for TIES and its successor entity, Sourcewell, from January 2, 2013, into 2020. Both TIES and Sourcewell are government entities formed under Minn. Stat. § 471.59. This statute permits government entities such as school districts to join with other government entities to exercise common powers, such as purchasing.

The OSA obtained and reviewed the District’s Governance Policies. Board Policy Type: Governance Process 1.4 Board Member Code of Conduct states the Board member will “avoid any legal conflict of interest, as defined by Minnesota Statute; avoid the appearance of impropriety, which could result from my position; recuse myself when in a position of conflict of interest; and not use my School Board position for personal, financial, or partisan gain.” The District also has Administrative Procedure 210AP “Conflict of Interest School Board Members,” which was adopted December 2, 2012, and an addendum to Administrative Procedure 210AP addressing procurement of goods and services made with federal funds. The stated purpose of Administrative Procedure 210AP “...is to observe state statutes regarding conflicts of interest and to engage in school district business activities in a fashion designed to avoid any conflict of interest or the appearance of impropriety.” The general statement of policy of Administrative Procedure 210AP states, “Accordingly, the school board will contract under the statutory exception provisions only when it is clearly in the best interest of the school district because of limitations that may exist on goods or services otherwise available to the school district.”

Each member of the District’s School Board completes and signs a conflict of interest form at the end of the school year. The OSA reviewed the conflict of interest forms for each school year starting with the 2014/2015 school year through the 2018/2019 school year. School Board member John Vento identified his employer (TIES/Sourcewell) on each of these forms. For contracts with TIES/Sourcewell that we could verify were School Board approved, Board member Vento abstained from the vote.

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In addition to District policy, Minn. Stat. § 471.87 prohibits school board members from having a “personal financial interest” in or to “personally benefit financially” from a school district contract. Minnesota law provides exceptions to this general prohibition. One such exception, found in Minn. Stat. § 471.88, subd. 5, applies to contracts that do not need to be bid, as long as certain procedures are followed, including resolution and affidavit procedures in Minn. State. § 471.89. So, for contracts like these Sourcewell contracts, that do not have to be bid, even if a school board member has a “personal financial interest” in the contract, that interest is not prohibited as long as the procedures required to use the Minn. Stat. § 471.88, subd. 5, exception are followed, including an affidavit by the interested school board member and a resolution by the school board, as required by Minn. Stat. § 471.89, subs. 2 and 3.

To test compliance, we obtained information from Sourcewell regarding Board member Vento’s job title/duties and compensation during his employment with TIES/Sourcewell. His duties are of a salaried employee and focus primarily on business development and product/portfolio sales. We were informed that there was no added remuneration except mileage reimbursement. With no evidence of a “personal financial interest” or personal financial benefit from the contract on the part of the involved Board member, we are unable to conclude there is a violation of Minn. Stat. § 471.87.

15. Professional Development/Technology Stipends

The petitioners requested information on the District’s policy for reimbursing professional development, continuing professional education, and technology stipends.

The OSA obtained the contracts for the Cabinet Level Administrators, Program Directors, and Principals and Assistant Principals. The following was noted in each contract in regards to professional development, continuing education, and technology reimbursements:

Cabinet Level Administrators:

- Provided \$1,000 each year for the purpose of developing leadership skills, mentorship, and for other professional activities and technology. Expenditures will require pre-approval from the Superintendent. Stipends for technology may not be submitted during the year of planned separation from the district.

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Program Directors:

- The School District shall make reimbursements for tuition and/or registration expenses for advanced college or certification coursework, which pertains directly to the position. Reimbursement for technology purchase may be made in lieu of coursework reimbursement. The reimbursements shall consist of 100 percent of the first \$1,000 spent, and 50 percent of the next \$3,000, for a total annual maximum of \$2,500. Technology reimbursements shall not exceed \$1,000 per year. Expenditures will require pre-approval from the Executive Director to whom the Program Director reports. Stipends for technology may not be submitted during the year of planned separation from the District.

Principals and Assistant Principals:

- Provided \$1,000 each year for the purpose of developing leadership skills, mentorship, improving instruction and for other professional activities, and technology. Expenditures will require pre-approval from the Assistant Superintendent. Stipends for technology may not be submitted during the year of planned separation from the District.

Professional development, continuing education, and technology reimbursements are processed by the District in different ways depending on what it is for. Payments for conference registration fees are typically paid directly to the vendor by the District via the P Card system and are not considered part of an employee's stipend. Tuition and technology reimbursements are treated as stipends that fall under the above policies/contract provisions. These reimbursements are processed through accounts payable and paid directly to the employee by direct deposit. Technology reimbursements are typically made to the employee for laptops, cell phones, computers, etc.

All tuition and technology reimbursements require pre-approval before a request can be submitted. Tuition and technology reimbursements for Cabinet Level Administrators are tracked by an Executive Assistant by keeping copies of any requests that have been made. Reimbursements for Program Directors and Principals are tracked by an Administrative Assistant on spreadsheets by school year, position, and individual. Once approved, the signed pre-approval request form, check request, and supporting documentation, including original receipts, are submitted to the Finance Office for processing. The District does not reimburse for sales tax since the District is tax exempt.

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Based on discussions with Finance and administrative staff, the OSA learned that, although not part of a policy, it was past practice for the District to allow carryover of unspent stipends from one school year to the next. The carryovers were also tracked on the spreadsheets. Based on a memo from District Executive Directors, dated June 13, 2017, the practice of allowing carryovers of unspent stipends was discontinued as of June 30, 2017.

Currently, the District does not tax the employee for income received through technology reimbursements. The District's policies or contracts do not address the status of technology purchases once an employee leaves the School District nor do they address the taxable income to the employee if the equipment is kept or used for personal use.

During the OSA's review of tuition and technology stipend reimbursements made by the District between July 1, 2015, and March 31, 2019, it was noted that there is no consistent treatment on where these types of reimbursements were recorded in UFARS. In addition, we noted tuition and technology reimbursements that were made but not recorded on the tracking spreadsheets, and vice versa. Due to these inconsistencies, it was difficult for the OSA to compile a complete population for testing. The population was compiled based on reviews of the general ledger and tracking spreadsheets.

The OSA selected 35 tuition and technology reimbursements to test for compliance with the policies noted above. Of the 35 selected for testing, seven were for tuition and 28 were for technology. The following issues were noted:

- One technology reimbursement for \$1,444.31 was paid to the employee on June 28, 2017. This individual terminated employment with the District two days later, on June 30, 2017.
- Fourteen technology and two tuition reimbursements made to Program Directors and Principals were not included on the spreadsheets used to track the stipends.
- The support for two technology reimbursements did not include the signed pre-approval form.
- The support for two technology reimbursements did not include the signed check request.
- The support for two technology reimbursements did not include an original receipt or proof of purchase.

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- One receipt for tuition reimbursement made in July 2016 did not include proof of payment. Instead, a statement from the college showing a negative beginning balance, plus current charges/adjustments, equaling a \$0.00 balance due was included. The District employee who was reimbursed for the tuition was also listed as an employee at the college where classes were being taken.
- The account coding in UFARS for six of the reimbursements did not match the coding recorded on the support.
- Seven of the technology reimbursements included sales tax, which is contrary to District policy.
- The amounts for two reimbursements made were recorded incorrectly on the spreadsheets used for tracking the stipends.

Technology reimbursements sampled include laptops, iPads, iPhones, Apple watches, and routers and modems selected by the employees. To the extent employees are allowed to keep these technology items, they constitute fringe benefits to the employees. The general rule for employers is that “Any fringe benefit you provide is taxable and must be included in the recipient’s pay unless the law specifically excludes it.” *See IRS [Publication 15B](#), Employer’s Tax Guide to Fringe Benefits, p. 3.*

Section 2 of IRS Publication 15B sets forth the fringe benefits that are excluded from income. None of these exclusions appear to apply to the technology stipend reimbursements being made by the District. Though employer “educational assistance” is excluded, such amounts are limited to those paid or incurred for an employee’s education expenses and specifically do not include “the cost of tools or supplies (other than textbooks) your employee is allowed to keep at the end of the course.” IRS Publication 15B, p. 10.

Since a majority of the technology stipends reimbursed by the District appear to constitute fringe benefits not excludable from income, it is the District’s responsibility to report these amounts as income and withhold federal and state taxes as well as Social Security, Medicare, and Federal Unemployment Tax Act (FUTA) tax.

Recommendation

We recommend that consistent tracking and recording be applied to all tuition and technology stipend reimbursements, including following School District policy. We also recommend the District treat employee fringe benefits appropriately for the purposes of federal and state income taxes.

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16. Hiring Policies and Practices

The petitioners requested information regarding the District's hiring practices.

The OSA obtained and reviewed the following District Governance Policies:

- Board Policy Type: School Board Staff Relationship 2.3 Board – Other Staff Relationship No. 2 states, “The Board will not make personnel decisions, except as required by law. On all other personnel matters brought before the Board in compliance with the law, the Board will expect recommendations for action from the Superintendent.”
- Board Policy Type: Superintendent Operational Expectations 3.2 General Expectations states, “The Superintendent shall not cause or knowingly condone any practice, activity, decision or organizational circumstance that is unlawful, unethical, unsafe, racist, disrespectful, imprudent, in violation of Board policy or jeopardize the organization's public image or credibility. The Superintendent will not commit the district to goals the Board has not confirmed.”

Minnesota Statutes, section 123B.143, subdivision 1(2), states one of the specific duties of the superintendent is to “recommend to the board employment and dismissal of teachers.” This implies that the School Board makes the employment decisions (with the superintendent's recommendation).

The OSA obtained a list of all new staff hired between July 1, 2015, and March 31, 2019. A sample was tested to determine if the District's School Board approved the hiring. All of the staff tested had been approved by the School Board.

In response to complaints from a resident citizen of the District, the School Board, through its attorney on March 19, 2019, hired an independent investigator to conduct an investigation into the District's hiring practices. Twelve positions hired during Superintendent Jenkins' tenure were examined. The investigator's report was dated June 3, 2019. On June 17, 2019, the School Board passed a resolution noting that there was no further action to be taken on the investigation of allegations. The School Board found that a thorough investigation of the allegations has been conducted and closed the file on the matter. The Board also found that the personnel data in the resolution was disclosed pursuant to the Minnesota Government Data Practices Act and that no disclosure of nonpublic personnel data would be forthcoming from the District.

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17. School Board Meetings

The petitioners requested information regarding School Board meetings and compliance with open meeting laws and the publication of School Board meeting minutes.

The District has administrative procedures 204AP, "School Board Meeting Minutes" and 205AP, "Open Meetings/Closed Meetings."

The OSA reviewed the District's School Board meeting minutes from July 1, 2015, to March 31, 2019. Seventeen closed meetings were identified during this time period. Of those meetings, seven were closed for labor negotiations. Meetings closed for this purpose are governed by Minn. Stat. § 13D.03, which requires (1) that the time of commencement and place of the closed meeting be announced at the public meeting, and (2) that a written roll of members and all other persons present at the closed meeting be made available to the public after the closed meeting.

For these seven meetings, a written roll of members and all other persons present at these closed meetings was not made available to the public after the closed meeting. In addition, although it was announced that the closed meeting would immediately follow the evening's work session/meeting, the specific time and location of the closed meeting were not announced.

Two other meetings identified as closed should not have been, as they were professional development days for the School Board. Closed meetings were recorded, and the recordings were held until the retention period was complete.

For the Superintendent evaluations, it was noted in the minutes that a report was made during the School Board meeting; however, if conclusions from the evaluation were discussed, they were not documented in the minutes.

The OSA obtained and reviewed the affidavits of publication for a sample of the School Board meeting minutes for the 30-day publishing requirement. Eight of the nine meetings reviewed were published more than 30 days after the meeting date.

Recommendation

We recommend that a written roll of School Board members and all other persons present at meetings closed for labor negotiations be made available to the public after the closed meeting, as required by Minn. Stat. § 13D.03, subd. 1. As a best practice, we recommend that the specific time of commencement and location of such closed meetings be specified at the open meeting. We also recommend minutes of School Board meetings be published within 30 days of the meeting, as required by Minn. Stat. § 123B.09, subd. 10.

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The appropriate state office for the School District or members of the public to contact for additional information on open meeting requirements is the Data Practices Office at the Minnesota Department of Administration.

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. 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 of Independent School District 281, the Superintendent, and School Board members, but is a matter of public record, and its distribution is not limited.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 15, 2020