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State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

October 28, 2025

Honorable School Board Members and
Superintendent Nate Walbruch
Independent School District 531 - Byron Public Schools
801 Frontage Road NW
Byron, Minnesota 55920

TRANSMITTED VIA ELECTRONIC MAIL

Dear School Board Members and Superintendent Walbruch:

The Office of the State Auditor (OSA) received concerns about certain financial matters at Independent School District 531 – Byron Public Schools (School District). Specifically, the OSA received concerns (1) that the School District’s credit card purchases lacked proper supporting documentation to be in compliance with statutory requirements, and (2) that the School District’s credit cards were used to purchase gift cards – the use of which is generally not authorized.

In response to these concerns, the OSA requested and reviewed certain School District financial documents for the period of July 1, 2023, through December 18, 2024. These documents included credit card statements, receipts, meeting minutes and agendas, and the School District’s Spending Procedures.¹ Through its review the OSA found that:

- (1) the School District failed to provide the OSA with complete documentation to support its credit card activity (i.e., the School District did not provide the OSA statements for certain months where credit card activity occurred and provided only partial statements for others)²;
- (2) based on the School District records provided to the OSA, \$59,552 of the \$199,633, or roughly 30%, of the School District’s credit card purchases made during the period were either not supported with receipts or were not itemized as required by law; and
- (3) the School District records that were provided to the OSA documented that the School District purchased at least \$4,392 in gift cards at a convenience store, despite local government use of gift cards generally being unauthorized.

¹ Although the School District reported to the OSA that it did not have a purchasing or spending policy approved by the School Board, it did provide the OSA a copy of a “District Spending Procedures handout” that, according to the School District, was implemented in September 2024, and available after September 2024, on the School District website, and “provided to staff and reviewed during meetings led by our administrators.” See May 13, 2025, and May 14, 2025, emails to the OSA from the then Superintendent.

² Beginning and ending statement balances on certain statements the School District provided the OSA demonstrated that credit card activity had occurred between the dates of the statements provided.

This letter communicates the OSA’s findings and recommendations based on our review of documents relating to the specific period.³

Discussion of Issues: Findings and Recommendations

1. School District Credit Card Purchases Not Supported with Receipts or Itemized as Required by Law

Minnesota Law – Itemization of Claims

The Minnesota Legislature authorized school districts to use credit cards by enacting Minn. Stat. § 123B.02, subd.23. This statute restricts the use of credit cards to purchases for the School District. If a School District officer or employee makes a purchase by credit card that is not approved by the School Board, the officer or employee is personally liable for the amount of the purchase.⁴ “A purchase by credit card must otherwise comply with all statutes, rules, or district policy applicable to school district purchases.”⁵ For example, under Minnesota law, claims presented for payment must be in writing and itemized.⁶ Because monthly statements received from a credit card company lack sufficient detail to comply with the itemization requirement under Minn. Stat. § 471.38, subd. 1, invoices and receipts are needed to support credit card purchases.⁷ Although not implemented until September 2024, the School District’s documented spending procedures also required itemized receipts for all credit card purchases.⁸

Gift Cards

The public purpose doctrine arises from the Minnesota State Constitution, Article X, Section 1, which states in part: “Taxes shall be uniform upon the same class of subjects and shall be levied and collected for public purposes . . .” The Courts and the Minnesota Attorney General have interpreted this language to require that all public expenditures have a public purpose. This requirement applies to public funds derived from sources other than taxation.⁹

³ This letter covers certain issues reviewed by the OSA. Nothing herein should be interpreted to imply the absence of other issues or approval of any other act or transaction.

⁴ Minn. Stat. § 123B.02, subd. 23.

⁵ *Id.*

⁶ See Minn. Stat. § 471.38, subd. 1.

⁷ Given the difficulty of discerning whether purchases at food establishments, hotels, big-box retailers, and online purchases are personal or business-related, itemization of such purchases is particularly important. In addition, listing only the credit card company on a claims list would identify the method of payment, but would not identify the vendors providing the goods and services, as required by law. See OSA Statement of Position, “Credit Card Use and Policies.”

⁸ The School District’s Spending Procedures slideshow is available on the School District’s website at the following link: <https://docs.google.com/presentation/d/1mzbclOR2nR4CLGtEUDpTUwSv2tx5sLTS7XMOax-d/edit#slide=id.p6>.

⁹ See Op. Att’y Gen. 107-a-3 (Jan. 22, 1980).

In the local government context, courts have analyzed expenditures using a two-part analysis. First, the expenditure must be for a public purpose. Second, there must be authority for the expenditure.

Regarding the first requirement, that the expenditure be for a public purpose, the Minnesota Supreme Court has stated:

What is a 'public purpose' that will justify the expenditure of public money is not capable of a precise definition, but the courts generally construe it to mean such an activity as will serve as a benefit to the community as a body and which, at the same time, is directly related to the functions of government.¹⁰

As for the second requirement, local governments "have no inherent powers and possess only such powers as are expressly conferred by statute or implied as necessary in aid of those powers which have been expressly conferred."¹¹ When considering whether the use of gift cards meets the public purpose requirement, local governments should be aware that the Minnesota Attorney General has long held that "gifts" generally lack a public purpose.¹²

2. Spending Procedure – Implemented During the Review Period

The School District's Spending Procedures slideshow, that according to the former Superintendent was implemented in September of 2024, stated, "[a]ll purchases on the credit card must be within budget and follow purchasing guidelines." The procedure also required reconciliations to be completed and provided "to the Business Office 5 days after statement is received." The slideshow indicates the School District required all reconciliations to include "all itemized receipts and UFARS account codes."

The Spending Procedure slideshow stated:

- District card holder is responsible for all charges.
- Employees are liable for any expense that does not have an itemized receipt.
- Employees are liable for any expense that is not pre-approved.

The School District's Spending Procedures slideshow also included a slide titled "Gift Card Restrictions," which stated that, "Gift Cards cannot be purchased with District Funds. Adherence to Federal Internal Revenue law is mandatory." This slide provides a "Source" which is listed as "OSA Statement of Position: Gift Card Use Policies." The slide goes on to say, "[t]he District credit card should never be used to purchase gift cards."

¹⁰ *Visina v. Freeman*, 252 Minn. 177, (1958) at page 184.

¹¹ *See, e.g., Mangold Midwest Co. v. Village of Richfield*, 143 N.W.2d 813, 820 (1966).

¹² *See* Ops. Att'y Gen. 107-a-3 (Jan. 22, 1980), 270-D (Aug. 12, 1977), and 59a-22 (Dec. 4, 1934). *See also* OSA Statement of Position, "Public Expenditures: Donations and Dues."

OSA Findings

The OSA found that a significant number of School District purchases made throughout the review period with School District-issued credit cards were not supported with receipts or itemized as required by Minnesota law and the School District's procedure, and that the School District did not provide the OSA with complete documentation (missing and partial statements) to document all credit card activity for the period. Lack of supporting documentation impairs a school board's ability to determine whether it approves or disapproves transactions and may render the credit card user responsible for the amount of the purchase. This determination should be made by the School Board.¹³ Due to the limited information the School District provided the OSA for these purchases, the OSA cannot determine whether they were made for School District purposes. Additionally, the OSA found that the School District purchased gift cards with certain School District credit cards, which generally is contrary to Minnesota Law and is contrary to its own spending procedures.¹⁴

Recommendation

The OSA recommends that the School District take steps to ensure compliance with Minnesota law and its own spending procedures by maintaining records of all credit card purchases, requiring itemized receipts for all credit card purchases, and refraining from purchasing gift cards in the future.¹⁵ Additionally, the OSA recommends that the School Board consider performing its own review of these purchases to confirm whether it approves the purchases as having been made for School District purposes. Finally, the School Board should consider adopting a formal policy for School District purchases, credit card use, and School Board oversight.¹⁶

* * *

Pursuant to Minn. Stat. § 6.51, the OSA is providing a copy of this letter to the County Attorney.¹⁷

¹³ The care, management, and control of an independent school district is vested in 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.

¹⁴ A copy of the OSA Statement of Position, "Use of Gift Cards by Local Government Entities" is attached.

¹⁵ School District employees should make every effort to obtain an itemized receipt when one is available in the ordinary course of business. Missing receipt affidavits may be used in rare situations where an employee was unable to obtain an itemized receipt when the purchase was made.

¹⁶ It appears the School Board may be in the process of adopting a formal policy (see July 14, 2025, School Board work session meeting minutes). If the School District performs a review, it should seek legal advice from the School District Attorney and report to the State Auditor and law enforcement any evidence of theft, embezzlement, unlawful use of public funds or property, or misuse of public funds as referred to in Minn. Stat. § 609.456 (<https://www.revisor.mn.gov/statutes/cite/609.456>).

¹⁷ Minn. Stat. § 6.51 ("If such report disclose malfeasance, misfeasance, or nonfeasance in office, the state auditor shall file such copy with the county attorney of the county in which the administrative offices of the political subdivision are located . . .").

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Thank you in advance for your attention to this matter. If you have any questions, please feel free to contact me at (651) 296-4717 or Mark.Kerr@osa.state.mn.us, or Nichole Bjornrud, CPA, CFE, at (651) 282-2750 or Nichole.Bjornrud@osa.state.mn.us.

Sincerely,

/s/ Mark F. Kerr

Mark F. Kerr, JD, CFE
Special Investigations Director
Office of the State Auditor
(651) 296-4717

Enc.

cc: The Honorable Michael Walters, Olmsted County Attorney