

INDEPENDENT SCHOOL DISTRICT NO. 624
WHITE BEAR LAKE, MINNESOTA

Special Purpose Audit Reports

Year Ended
June 30, 2020

INDEPENDENT SCHOOL DISTRICT NO. 624

Special Purpose Audit Reports
Year Ended June 30, 2020

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INDEPENDENT AUDITOR'S 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

To the Board of Education and Management of
Independent School District No. 624
White Bear Lake, 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. 624 (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2020.

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) as a basis for designing 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 have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as finding 2020-001, that we consider to be a material weakness.

(continued)

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 financial statements. 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 FINDING

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. 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 report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
December 22, 2020

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the Board of Education and Management of
Independent School District No. 624
White Bear Lake, 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. 624 (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2020.

MINNESOTA LEGAL COMPLIANCE

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, except as described in the Schedule of Findings and Questioned Costs as findings 2020-002, 2020-003, 2020-004, and 2020-005. 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, insofar as they relate to accounting matters.

DISTRICT'S RESPONSES TO FINDINGS

The District's responses to the legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The District's responses were not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

PURPOSE OF THIS REPORT

The purpose of this report is solely 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 report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 22, 2020

INDEPENDENT SCHOOL DISTRICT NO. 624

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

A. FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2020-001 Segregation of Duties

Criteria – Internal control over financial reporting.

Condition – Independent School District No. 624 (the District) has limited segregation of duties in several areas, including the processing of payroll and payroll-related transactions.

Questioned Costs – Not applicable.

Context – The condition applies to payroll accounting processes within the District's business office.

Repeat Finding – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by segregation of duties of payroll transactions within the District's business office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no one individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the District to a higher risk that errors or fraud could occur, and not be detected and corrected in a timely manner in the normal course of business.

Recommendation – We recommend that the District segregate duties as best it can within the limits of what the District considers to be cost-beneficial.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District intends to review policies, procedures, transaction cycles, and work with its financial auditors to review specific weaknesses identified during the annual audit, and actions needed to eliminate or mitigate this internal control weakness. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 624

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020

B. MINNESOTA LEGAL COMPLIANCE FINDINGS

2020-002 Other Post-Employment Benefit (OPEB) Trust Investment Report

Criteria – Minnesota Statutes § 471.6175.

Condition – Minnesota Statutes require Independent School District No. 624 (the District), as the trust administrator, to report the investment return information for the Other Post-Employment Benefit (OPEB) Trust no later than October 25th, to the State Auditor's Office. This requirement was not met by the District for the current audit year.

Questioned Costs – Not applicable.

Context – The District did not file the OPEB Trust Investment report to the State Auditor in the current audit year on a timely basis.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – The District was not in compliance with OPEB Trust Investment reporting requirements.

Recommendation – We recommend that the OPEB Trust report be filed in a timely manner in the future.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review its procedures relating to OPEB Trust reporting requirements to ensure compliance in the future. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 624

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020

B. MINNESOTA LEGAL COMPLIANCE FINDINGS (CONTINUED)

2020-003 Withholding Affidavit

Criteria – Minnesota Statutes § 270C.66.

Condition – Before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor or subcontractors, the District must obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minnesota Statutes § 270C.66 (either a Commissioner of Revenue Form IC134 or a Contractor's Withholding Affidavit). The District did not obtain the required certificate for one contract completed during fiscal year 2020.

Questioned Costs – Not applicable.

Context – One of three contracts tested was not in compliance.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – The District did not obtain the required documentation of either a Commissioner of Revenue Form IC134 or a Contractor's Withholding Affidavit.

Recommendation – We recommend that the District review claims and disbursement payment procedures in place to ensure future compliance with this statute.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review requirements with appropriate staff to assure the planned controls are being followed and the required Commissioner of Revenue Form IC134 or a Contractor's Withholding Affidavit are obtained. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 624

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020

B. MINNESOTA LEGAL COMPLIANCE FINDINGS (CONTINUED)

2020-004 Unclaimed Property Report

Criteria – Minnesota Statutes § 345.41.

Condition – Minnesota Statutes require unclaimed property held for more than three years (or one year for unpaid compensation) to be reported and paid or delivered to the state Commissioner of Commerce each year. This requirement was not met by the District for the current year.

Questioned Costs – Not applicable.

Context – The District did not file the unclaimed property report to the state Commissioner of Commerce in the current year.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – The District was not in compliance with state unclaimed property requirements.

Recommendation – We recommend that the District comply with state statutory unclaimed property requirements in the future.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review its procedures relating to unclaimed property laws to ensure compliance in the future. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 624

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020

B. MINNESOTA LEGAL COMPLIANCE FINDINGS (CONTINUED)

2020-005 Contracting and Quotes

Criteria – Minnesota Statutes § 471.345, Subd. 4.

Condition – Minnesota Statutes require a school district entering into an agreement for the sale or purchase of supplies, materials, equipment or the rental thereof, or the construction, alteration, repair, or maintenance of real or personal property must abide by the statutes relating to contracting and bidding. For contracts from \$25,000 to \$175,000, the District can contract by sealed bids, direct negotiation based on quotations with two or more quotes, or through best value procurement. During our audit, we noted the District utilized the quotation method without acquiring multiple quotes in the current fiscal year.

Questioned Costs – Not applicable.

Context – One of seven quotes tested was not in compliance.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – The District utilized the quotation method without acquiring multiple quotes in the current fiscal year to purchase equipment.

Recommendation – We recommend that the District ensures that multiple quotes are obtained for all purchases subject to the quote law requirements in the future.

View of Responsible Official and Planned Corrective Actions – There is no disagreement with the finding. The District will review its procedures to ensure the sale or purchase of supplies, materials, equipment or the rental thereof, or the construction, alteration, repair, or maintenance of real or personal property abide by the statutes relating to contracting and bidding. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT AUDITOR'S REPORT ON
UNIFORM FINANCIAL ACCOUNTING AND
REPORTING STANDARDS COMPLIANCE TABLE

To the Board of Education and Management of
Independent School District No. 624
White Bear Lake, 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. 624 (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2020.

Auditing standards referred to in the previous paragraph require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education (MDE), and is not a required part of the basic financial statements of the District. The UFARS Compliance Table 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 basic 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 UFARS Compliance Table is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

(continued)

The purpose of this report on the UFARS Compliance Table required by the MDE is solely to describe the scope of our testing of the UFARS Compliance Table and the results of that testing based on our audit. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota

December 22, 2020

INDEPENDENT SCHOOL DISTRICT NO. 624

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2020

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		\$ 115,925,796	\$ 115,925,795	\$ 1
Total expenditures		\$ 117,225,500	\$ 117,225,500	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 14,573	\$ 14,573	\$ –
Restricted				
401	Student activities	\$ 294,880	\$ 294,880	\$ –
402	Scholarships	\$ –	\$ –	\$ –
403	Staff development	\$ –	\$ –	\$ –
407	Capital projects levy	\$ 243,739	\$ 243,739	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
413	Projects funded by COP	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
424	Operating capital	\$ 3,065,789	\$ 3,065,789	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
427	Disabled accessibility	\$ –	\$ –	\$ –
428	Learning and development	\$ –	\$ –	\$ –
434	Area learning center	\$ –	\$ –	\$ –
435	Contracted alternative programs	\$ –	\$ –	\$ –
436	State approved alternative program	\$ –	\$ –	\$ –
438	Gifted and talented	\$ –	\$ –	\$ –
440	Teacher development and evaluation	\$ –	\$ –	\$ –
441	Basic skills programs	\$ –	\$ –	\$ –
448	Achievement and integration	\$ –	\$ –	\$ –
449	Safe schools levy	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
453	Unfunded severance and retirement levy	\$ –	\$ –	\$ –
459	Basic skills extended time	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
467	Long-term facilities maintenance	\$ 2,205,584	\$ 2,205,584	\$ –
472	Medical Assistance	\$ 730,553	\$ 730,553	\$ –
473	PPP loans	\$ –	\$ –	\$ –
474	EIDL loans	\$ –	\$ –	\$ –
475	Title VII – Impact Aid	\$ –	\$ –	\$ –
476	PILT	\$ –	\$ –	\$ –
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ –	\$ –	\$ –
Assigned				
462	Assigned fund balance	\$ 2,000,000	\$ 2,000,000	\$ –
Unassigned				
422	Unassigned fund balance	\$ 7,228,288	\$ 7,228,288	\$ –
Food Service				
Total revenue		\$ 3,982,048	\$ 3,982,048	\$ –
Total expenditures		\$ 4,148,747	\$ 4,148,747	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 261,435	\$ 261,435	\$ –
Restricted				
452	OPEB liability not in trust	\$ –	\$ –	\$ –
474	EIDL loans	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 318,776	\$ 318,776	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Community Service				
Total revenue		\$ 6,390,640	\$ 6,390,641	\$ (1)
Total expenditures		\$ 6,908,649	\$ 6,908,649	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ 201,413	\$ 201,413	\$ –
432	ECFE	\$ 77,443	\$ 77,443	\$ –
440	Teacher development and evaluation	\$ –	\$ –	\$ –
444	School readiness	\$ 407,677	\$ 407,677	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
473	PPP loans	\$ –	\$ –	\$ –
474	EIDL loans	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ 16,884	\$ 16,884	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

INDEPENDENT SCHOOL DISTRICT NO. 624

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2020

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		\$ 4,972,161	\$ 4,972,161	\$ –
Total expenditures		\$ 19,472,015	\$ 19,472,015	\$ –
Nondisposable				
460	Nondisposable fund balance	\$ –	\$ –	\$ –
Restricted				
407	Capital projects levy	\$ –	\$ –	\$ –
413	Projects funded by COP	\$ –	\$ –	\$ –
467	Long-term facilities maintenance	\$ 5,738,455	\$ 5,738,455	\$ –
464	Restricted fund balance	\$ 255,576,088	\$ 255,576,088	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Debt Service				
Total revenue		\$ 5,145,708	\$ 5,145,708	\$ –
Total expenditures		\$ 5,184,329	\$ 5,184,329	\$ –
Nondisposable				
460	Nondisposable fund balance	\$ –	\$ –	\$ –
Restricted				
425	Bond refundings	\$ –	\$ –	\$ –
433	Maximum effort loan	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 1,105,276	\$ 1,105,276	\$ –
467	Long-term facilities maintenance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Trust Fund				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
401	Student activities	\$ –	\$ –	\$ –
402	Scholarships	\$ –	\$ –	\$ –
422	Net position	\$ –	\$ –	\$ –
Custodial Fund				
Total revenue		\$ 174,201	\$ 174,201	\$ –
Total expenditures		\$ 126,094	\$ 126,094	\$ –
401	Student activities	\$ –	\$ –	\$ –
402	Scholarships	\$ 16,971	\$ 16,971	\$ –
448	Achievement and integration	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 203,191	\$ 203,191	\$ –
Internal Service				
Total revenue		\$ 16,404,795	\$ 16,404,795	\$ –
Total expenditures		\$ 15,004,371	\$ 15,004,371	\$ –
422	Net position	\$ 1,759,364	\$ 1,759,364	\$ –
OPEB Revocable Trust Fund				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net position	\$ –	\$ –	\$ –
OPEB Irrevocable Trust Fund				
Total revenue		\$ 2,102,780	\$ 2,102,781	\$ (1)
Total expenditures		\$ 1,250,051	\$ 1,250,051	\$ –
422	Net position	\$ 33,899,011	\$ 33,899,011	\$ –
OPEB Debt Service Fund				
Total revenue		\$ 9,934,927	\$ 9,934,927	\$ –
Total expenditures		\$ 9,628,725	\$ 9,628,725	\$ –
Nondisposable				
460	Nondisposable fund balance	\$ –	\$ –	\$ –
Restricted				
425	Bond refundings	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 1,824,463	\$ 1,824,463	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

Note 1: Statutory reserve deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

Note 2: The District may report certain balances as restricted for financial reporting purposes that are reported to the Minnesota Department of Education as unassigned for purposes of this table.