

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**REPORTS ON GOVERNMENT AUDITING
STANDARDS, OMB *CIRCULAR A-133* – SINGLE
AUDIT AND LEGAL COMPLIANCE**

Year Ended June 30, 2015



**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

TABLE OF CONTENTS

| | |
|--|-----------|
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 1 |
| NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 4 |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 5 |
| REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB <i>CIRCULAR A-133</i> | 7 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i> | 10 |
| REPORT ON LEGAL COMPLIANCE | 25 |
| SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS ON LEGAL COMPLIANCE..... | 26 |

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015**

| Federal Agency/Pass Through Agency/Program Title | CFDA Number | Expenditures |
|--|----------------|-------------------|
| U.S. Department of Agriculture | | |
| Through Minnesota Department of Education: | | |
| Child Nutrition Cluster: | | |
| School Breakfast Program | 10.553 | \$ 3,448,695 |
| National School Lunch Program | 10.555 | 9,857,357 |
| Commodities Programs - Cash | 10.555 | 207,946 |
| Commodities Programs - Non Cash | 10.555 | 857,351 |
| Summer Food Service Program for Children | 10.559 | <u>1,060,182</u> |
| Total Child Nutrition Cluster | | <u>15,431,531</u> |
| Child and Adult Care Food Program | 10.558 | 156,847 |
| Farm to School Grant Program | 10.575 | 25,809 |
| Fresh Fruits and Vegetables Program | 10.582 | <u>654,720</u> |
| Total U.S. Department of Agriculture | | <u>16,268,907</u> |
| U.S. Department of Justice | | |
| Through City of Minneapolis Health Department | | |
| National Forum on Youth Violence Prevention | 16.819 | 145,934 |
| U.S. Department of Labor | | |
| Through City of Minneapolis | | |
| WIA Youth Activities | 17.259 | 27,206 |
| Department of Transportation | | |
| Through Department of Transportation | | |
| Highway Research and Development Program - Safe Routes to School | 20.200 | 47,216 |
| Through Minneapolis Department of Public Works | | |
| Highway Planning and Construction - Safe Routes to School | 20.205 | <u>2,055</u> |
| Total Department of Transportation | | <u>49,271</u> |
| National Endowment For The Arts | | |
| Direct: | | |
| Promotion of the Arts Grants to Organizations and Individuals | | |
| | 45.024 | 12,500 |
| Through Minnesota State Arts Board | | |
| Promotion of the Arts Partnership Agreements | 45.025 | <u>94,494</u> |
| Total National Endowment For The Arts | | <u>106,994</u> |
| U.S. Department of Education | | |
| Through Minnesota Department of Education: | | |
| Federal Adult Basic Education | 84.002 | \$ 525,043 |
| Title I, Part A | 84.010 | 22,308,092 |

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015**

| Federal Agency/Pass Through Agency/Program Title | CFDA Number | Expenditures |
|---|----------------|------------------|
| U.S. Department of Education (Continued) | | |
| Special Education Cluster: | | |
| Special Education | 84.027 | \$ 8,117,737 |
| IDEA Part B CIMP | 84.027 | 70,408 |
| Federal Special Education | 84.027 | 150 |
| Total Special Education--Grants to States | | <u>8,188,295</u> |
| Special Education - Preschool Grants | 84.173 | 285,654 |
| Total Special Education Cluster | | <u>8,473,949</u> |
| Special Education - Grants for Infants and Families | 84.181 | 341,921 |
| Carl Perkins Vocational Basic Grant - Career and Technical Education | 84.048 | 13,000 |
| Carl Perkins Vocational Basic Grant | 84.048 | 499,661 |
| Total Career and Technical Education--Basic Grants to States | | <u>512,661</u> |
| Education for Homeless Children and Youth | 84.196 | 90,628 |
| 21st Century Community Learning Centers | 84.287 | 94,368 |
| State Program Improvement Grants: | | |
| Federal SPDG | 84.323 | 11,904 |
| IDEA - State Program Improvement Grants | 84.323 | 379,312 |
| Total Special Education--State Personnel Development | | <u>391,216</u> |
| Title III, Part A: | | |
| Title III, Part A - Part A Immigrant Child | 84.365 | 44,023 |
| Title III, Part A - Language Enhancement | 84.365 | 821,521 |
| Total Title III, Part A | | <u>865,544</u> |
| Title II, Part A - Improving Teacher Quality | 84.367 | 2,639,698 |
| ARRA Targeted Funds School Improvement Grants (Clustered with 84.377) | 84.388 | 160,499 |
| ARRA Race-to-the-Top Early Learning Challenge Title I Prekindergarten | 84.412 | 212,435 |
| Through Minnesota Office of Higher Education | | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | 1,196,799 |
| Through YMCA: | | |
| Beacons 21st Century | 84.287 | 245,900 |
| Through Community Action of Minneapolis: | | |
| 21st Century Cohort | 84.287 | 428,953 |
| Total Twenty-First Century community Learning Centers | | <u>674,853</u> |
| ABE EL Civics Competitive Allocation | 84.002 | 50,088 |

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015**

| Federal Agency/Pass Through Agency/Program Title | CFDA Number | Expenditures |
|--|----------------|-----------------------------|
| U.S. Department of Education (Continued) | | |
| Direct: | | |
| College Prep Program | 84.299 | \$ 43,179 |
| First Lessons | 84.299 | 329,348 |
| Total Indian Education--Special Programs for Indian Children | | <u>372,527</u> |
| Indian Education - Grants to Local Educational Agencies | 84.060 | 330,253 |
| School Improvement Grant (Clustered with 84.388) | 84.377 | 2,131 |
| Total U.S. Department of Education | | <u>39,242,705</u> |
| U.S. Department of Health and Human Services | | |
| Through Minnesota Department of Education | | |
| School-Based Prevention | 93.079 | 7,955 |
| PPHF - Active Recess Project | 93.531 | 6,504 |
| Through City of Minneapolis: | | |
| Temporary Assistance for Needy Families | 93.558 | 20,473 |
| Total Department of Health and Human Services | | <u>34,932</u> |
| Corporation For National and Community Service | | |
| Through Community Action of Minneapolis: | | |
| AmeriCorps 12-13 | 94.006 | 16,672 |
| AmeriCorps 13-14 | 94.006 | 293,410 |
| Total Corporation for National and Community Service | | <u>310,082</u> |
| Department of Homeland Security | | |
| Through City of Minneapolis | | |
| Homeland Security Grant Program | 97.067 | 47,725 |
| Total Federal Expenditures | | <u><u>\$ 56,233,756</u></u> |

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2015**

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – INVENTORY

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

NOTE 3 – NONMONETARY ASSISTANCE

Nonmonetary assistance is reported in this schedule at the fair market value of commodities received and disbursed for the USDA Commodities Program (CFDA #10.555).



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

To the School Board
Minneapolis Public Schools
Special District No. 1
Minneapolis, Minnesota

We have audited, in accordance with the 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 Minneapolis Public Schools, Special District No. 1 Minneapolis, Minnesota, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 12, 2016.

Internal Control over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs in accordance with OMB *Circular A-133*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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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 financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs in accordance with OMB *Circular A-133* as Audit Findings 2013-001, 2013-002 and 2015-001 to be material weaknesses.

A significant deficiency is a deficiency or 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs in accordance with OMB *Circular A-133* as Audit Findings 2013-003, 2013-005, and 2013-006 to be significant deficiencies.

Compliance and Other Matters

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

District's Response to the Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. The District's responses were not subjected to the auditing procedures applied in the 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 internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "BerganKDV Ltd." followed by a period.

BerganKDV, Ltd.
Minneapolis, Minnesota
January 12, 2016



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

To the School Board
Minneapolis Public Schools
Special District No. 1
Minneapolis, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the compliance of Minneapolis Public Schools Special District No. 1, Minneapolis, Minnesota, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost, in accordance with OMB *Circular A-133*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the compliance of Minneapolis Public Schools Special District No. 1.

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Opinion on Each Major Federal Program

In our opinion, Minneapolis Public Schools Special District No. 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-002. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in accordance with OMB *Circular A-133*. The District's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We did not identify any material weaknesses in internal control over compliance.



A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs in accordance with OMB *Circular A-133* as items 2013-009 and 2015-002 to be significant deficiencies.

The District's responses to internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB *Circular A-133*. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB
*Circular A-133***

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated January 12, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB *Circular A-133* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in blue ink that reads "BerganKDV Ltd." followed by a period.

BerganKDV, Ltd.
Minneapolis, Minnesota
January 12, 2016

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

| | |
|---|--|
| Type of auditor’s report issued: | Unmodified |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | Yes, Audit Findings 2013-001, 2013-002 and 2015-001 |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | Yes, Audit Finding 2013-003, 2013-005, 2013-006, 2015-003. |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|--|
| Type of auditor’s report issued on compliance for major programs: | Unmodified |
| Internal control over major programs: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | Yes, Audit Finding 2013-009 and 2015-002 |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ? | Yes, Audit Finding 2015-002 |

Identification of Major Programs

| | |
|-------------------------------------|--|
| CFDA No.: | 10.553, 10.555, and 10.559 |
| Name of Federal Program or Cluster: | Child Nutrition – Cluster |
| CFDA No.: | 84.010 |
| Name of Federal Program or Cluster: | Title I, Part A |
| CFDA No.: | 84.334 |
| Name of Federal Program or Cluster: | Gaining Early Awareness and Readiness for Undergraduate Programs |
| CFDA No.: | 84.365 |
| Name of Federal Program or Cluster: | Title III, Part A |

Identification of Major Programs (Continued)

| | |
|--|--------------|
| Dollar threshold used to distinguish between type A and type B programs: | \$ 1,687,013 |
| Auditee qualified as low risk auditee? | No |

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2013-001 – Material Audit Adjustments

Criteria or Specific Requirement:

Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements to correct material misstatements.

Condition:

During our audit, material audit adjustments were proposed to ensure accurate financial reporting for state aid revenue, property tax revenue and unearned revenue and related sales revenue in the Food Service Fund. In addition to these general ledger adjustments, reclassification of revenue and expenditures by finance codes were also proposed.

Context:

This finding impacts the District's internal control over financial reporting.

Effect:

The District's financial position was misstated.

Cause:

A complete and accurate reconciliation of these revenue streams was not performed.

Recommendation:

We recommend management review all accounts closely at year-end to detect and correct misstatements of balances.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the finding.
2. Actions Planned in Response to Finding
The District will develop a process for ensuring that all standard year-end entries are completed before the auditors begin their fieldwork.
3. Official Responsible for Ensuring CAP
Director – Financial Systems
4. Planned Completion Date for CAP
Ongoing review and monitoring will take place throughout the year and at fiscal year-end.
5. Plan to Monitor Completion of CAP
The Chief Financial Officer will be monitoring the corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2013-002 – Segregation of Duties

Criteria or Specific Requirement:

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

Condition:

We noted during review of the District's internal controls that there is a lack of segregation of duties over certain processes. A lack of segregation occurs when there is an individual who has responsibility to perform multiple functions in four key areas: initiation/authorization, processing/recording, reconciling/reporting of financial data and custody of assets.

We noted lack of segregation of duties, to various degrees, in the following areas:

- Purchasing Process: Purchases that are made with a District-issued purchasing card, or "P-Card", are not always approved prior to payment and are sometimes not approved at all. We recommend either documentation of the approval by the principal or other administrator on the invoice, or that the principal or administrator use a password protected approval within the financial software to approve invoices and "P-Card" purchases online.
- Accounts Payable Process: The Accounts Payable Supervisor processes certain invoices, prepares the check run, and reconciles accounts payable. We recommend the District review this process and consider where these steps can be segregated.
- SAP User Rights: A number of employees have excessive access to Accounts Payable functions, Purchasing functions and the general ledger. Also, there were instances identified where individuals have excessive access to perform many responsibilities within a process (e.g. create a vendor, enter an invoice for payment, and cut a check). We recommend that the District review all user roles and the permissions granted to each role for appropriateness, taking into consideration adequate segregation of duties. The District should also validate that adequate compensating controls are implemented to review and detect irregular or fraudulent activity performed by users with elevated permissions. Additionally, individuals in a position of authority should have limited transactional ability within the SAP application to further prevent management override of controls.
- Journal Entries: We noted some journal entries in our test work did not include appropriate supporting documentation or have proper approval in accordance with the District's policy. There are also some employees who have the ability to make journal entries without review as a result of SAP user rights allocated to them.
- Billing Process for High Five Program: There is a lack of segregation of duties over billing procedures for the High Five Program. We recommend the District segregate duties between the individual who receives cash receipts, processes the payments and reconciles the billing. Additionally, we recommend another individual review the reconciliations and document that review with initials and the date.
- Billing Process for Facility Rental Program: There is a lack of segregation of duties over billing procedures for the public rental of the District's facilities. We recommend the District have the individual who reviews the reconciliations document that review with their initials and the date of review.

**MINNEAPOLIS PUBLIC SCHOOLS
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2013-002 – Segregation of Duties (Continued)

Condition: (Continued)

- Community Education Classes: There is a lack of segregation of duties related to receipting activity in the Southwest Driver's Education Community Education Class. The same employees that handle payments coming in are also responsible for making the deposit. There also appears to be no reconciliations prepared to compare actual receipts to the amount that should have been receipted based on the number of registered students.

Context:

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

Effect:

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

Cause:

Process flows and SAP user access rights are not designed to provide for proper segregation of duties in each area.

Recommendation:

We recommend that the District continue to evaluate segregation of duties within the parameters of what the District considers to be cost beneficial and to review current procedures as staffing levels change.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the finding.

2. Actions Planned in Response to Finding

Purchasing Process – We have engaged a staff member who does P-Card administration and enforces approvals for the district. We already have a password protected process of approving P-Cards within SAP and going forward it will be enforced.

Accounts Payable Process – The Accounts Payable manager is responsible for reconciliation and the Accounts Payable Supervisor and her staff are responsible for invoice processing and check runs. The Accounts Payable Manager will not be responsible for invoice processing and check runs going forward.

SAP User Rights – The Interim CIO has been working on system audits and some corrective action has already been implemented on user rights and we will keep monitoring the process.

Billing Process for High Five Program and Facility Rental Program – Director of Financial System will work with program sponsors to segregate duties and put proper controls in place.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2013-002 – Segregation of Duties (Continued)

CORRECTIVE ACTION PLAN (CAP):

3. Official Responsible for Ensuring CAP

Purchasing Process – Director - Financial Systems.

Accounts Payable Process – Director - Financial Systems and Accounts Payable Manager.

SAP User Rights – Interim Chief Information Officer.

Billing Process for High Five Program and Facility Rental Program – Director - Financial Systems and Program Directors.

4. Planned Completion Date for CAP

The planned completion date for the CAP is June 30, 2016.

5. Plan to Monitor Completion of CAP

The Finance and IT Department management will be monitoring the corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2013-003 – Minneapolis Kids Program

Criteria or Specific Requirement:

Management is responsible for ensuring that the internal control structure provides proper segregation of duties.

Condition:

During our audit, we noted the following:

- IT User Access Rights: An employee who regularly records transactions to accounting software also has IT administrative rights and is able to add or remove IT user access rights without oversight. We recommend that the District review all user roles and the permissions granted to each role for appropriateness, taking into consideration adequate segregation of duties. The District should also validate that adequate compensating controls are implemented to review and detect irregular or fraudulent activity by users with elevated permissions.

Context:

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

Effect:

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

Cause:

Accounting procedures and IT user access rights are not designed to provide for segregation of duties in each area.

Recommendation:

We recommend that the District evaluate segregation of duties within the parameters of what the District considers to be cost beneficial.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2013-003 – Minneapolis Kids Program (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the finding.
2. Actions Planned in Response to Finding
The District has been reviewing user rights and we are in the process of making corrective action.
3. Official Responsible for Ensuring CAP
Director – Financial Systems.
4. Planned Completion Date for CAP
June 30, 2016.
5. Plan to Monitor Completion of CAP
The Finance Team and IT Department management will be monitoring the corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2013-005 – Payroll Process

Criteria or Specific Requirement:

The District should have a properly designed payroll process that ensures all employees are paid the correct amounts and are active employees in the District.

Condition:

During the audit, we noted the following:

- Numerous instances were noted where employees remained on the payroll after they had been terminated or took a leave of absence. There were also employees who were payed the wrong full time employee percentage. Employees are then required to repay the District these overpayments. At June 30, 2015, there were 51 individuals who owed approximately \$ 63,104 to the District.
- Employees involved in the recording and processing of payroll also had system access to change payroll input information.
- Documentation was not retained to verify that payroll specialists were reviewing and approving payroll edit reports.

Context:

This finding impacts the internal control for the payroll and human resources functions.

Effect:

Improper amounts could be paid to employees and employees could be paid after their employment has terminated.

Cause:

The termination or leave of absence of an employee is an individual school decision and the District's Human Resources department did not receive the paperwork from the individual school in several cases until months after the employee termination occurred. Human Resources is not aware of terminations or leave of absences until they receive the paperwork from the school.

Recommendation:

We recommend that the District evaluate its current policies and procedures related to the payroll process to ensure employees are paid the correct amounts. Additionally, we recommend that the District implement procedures to ensure employees are removed from the payroll system within a reasonable time period when terminated or take a leave of absence.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2013-005 – Payroll Process (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the finding.

Currently, the HR department does not have an exit interview process. There is no systematic way for the information to go from the school site to the HR department for terminations. All terminations and LOAs should be handled at the district office and not at the school site.

2. Actions Planned in Response to Finding

We are currently in the process of implementing an HR/Payroll task force to redefine the HR to Payroll processes, identify inefficiencies, and recommend solutions to various overpayment issues. As part of this task force, we will recommend and implement an exit interview process that will get paperwork to the HR department in a timely basis. In addition, we will redefine the process and steps for LOAs.

3. Official Responsible for Ensuring CAP

Director – Financial Systems and Payroll Manager, HR.

4. Planned Completion Date for CAP

This will be an ongoing process and implementation will be in stages.

5. Plan to Monitor Completion of CAP

The Director of Finance Systems will be monitoring the corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2013-006 – Budget Process

Criteria or Specific Requirement:

The District should use budgets within SAP to provide meaningful budget to actual reports and analyze variances on a regular basis.

Condition:

During our audit, we noted questions about adequate budget compliance communication with the board as well as accurate transcription of the budget between board approved documents and the general ledger.

Context:

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

Effect:

Budget adjustments could be made without approval and budget to actual variances may be inaccurate.

Cause:

Budgets were not allocated to correct accounts.

Recommendation:

We recommend that the District improve its budget process within the finance system so that board approved budget adjustments reconcile within the finance system.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the finding.
2. Actions Planned in Response to Finding
There were budget reallocations to move budget funds to grant funds that weren't detected. We have procedures in place to monitor this; however, during the year, there were reallocations the District missed.
3. Official Responsible for Ensuring CAP
Director of Budgets.
4. Planned Completion Date for CAP
This will be an ongoing process.
5. Plan to Monitor Completion of CAP
The Director of Finance Systems will be monitoring the corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2015-001 – Preparation of Financial Statements and Related Note Disclosures

Criteria or Specific Requirement:

Statement on Auditing Standards (SAS) No. 112 states entities should be able to adequately prepare and/or understand their financial statements.

Condition:

The District does not have a process, including the related internal control, established to provide for the internal preparation of the financial statements being audited. This deficiency could result in a misstatement to the financial statements that would not be prevented, or detected and corrected. Therefore, District management has requested BerganKDV, Ltd. draft the financial statements and accompanying Notes to the Financial Statements.

Context:

This finding impacts the District's ability to internally prepare the financial statements.

Effect:

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected in a timely manner.

Cause:

District personnel have not had the training necessary to ensure financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

Recommendation:

Obtain additional training on accounting principles generally accepted in the United States of America to adequately apply them internally.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION II – FINANCIAL STATEMENT FINDINGS

**Audit Finding 2015-001 – Preparation of Financial Statements and Related Note Disclosures
(Continued)**

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Administration will review current processes and related internal controls to determine if training could be provided to current employees to prepare the financial statements.
3. Official Responsible for Ensuring CAP
Director – Financial Systems
4. Planned Completion Date for CAP
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP
The Chief Financial Officer will be monitoring this CAP.

MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2015-003 – Capital Asset Accounting

Criteria or Specific Requirement:

Management is responsible for ensuring that the internal control structure provides adequate maintenance of capital asset records.

Condition:

During our audit, we noted weaknesses in the controls over accounting for capital assets:

- There was an unreconciled difference of over \$ 300 million between the asset system's beginning balance and the prior year ending balances on the financial statements.
- The District does not have procedures in place for identifying and tracking capital asset disposals

Context:

This finding impacts the internal control over capital assets.

Effect:

The capital asset balance could have been significantly overstated.

Cause:

The controls to ensure that capital assets are adequately maintained and accurately reported are not functioning properly.

Recommendation:

We recommend that the District improve the tracking of capital assets. We further recommend that management closely monitor all capital asset activity until it can be determined that asset activity is being properly recorded.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The department will designate a staff member responsible for development of procedures for capital asset disposals. Reconciliation of balances will be done on a constant basis.
3. Official Responsible for Ensuring CAP
Director – Financial Systems.
4. Planned Completion Date for CAP
Ongoing.
5. Plan to Monitor Completion of CAP
The Chief Financial Officer will be monitoring this CAP.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Audit Finding 2013-009 – Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559); Grant Period – Year Ended June 30, 2015; Department of Agriculture, passed through Minnesota Department of Education

Criteria or Specific Requirement:

OMB *Circular A-133* requires that the District is required to maintain documentation for those students directly certified for free lunches.

Condition:

The District did not maintain current year documentation for three students in our test population who had been directly certified in the prior year.

Context:

This finding impacts the internal control for eligibility for the Child Nutrition Program.

Effect:

The District does not have documentation to support providing free meals to the students.

Cause:

The District did not follow its procedures for ensuring supporting documentation is retained.

Recommendation:

We recommend the District review its policies and procedures to ensure that documentation of determination of free and reduced households is properly retained.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the finding.

The District does have proper controls in place but will review its policies and procedures again with Food Service.

2. Actions Planned in Response to Finding

Review policies and procedures with the Nutrition Department.

3. Official Responsible for Ensuring CAP

Food Service Director is responsible for CAP.

4. Planned Completion Date for CAP

June 30, 2016.

5. Plan to Monitor Completion of CAP

Director of Financial Systems will monitor CAP.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015**

Audit Finding 2015-002 – Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559); Grant Period – Year Ended June 30, 2015; Department of Agriculture, passed through Minnesota Department of Education

Criteria or Specific Requirement:

Internal control that assures all free and reduced applications are properly approved.

Condition:

During the course of our engagement, we noted four of the 60 applicants tested were approved for free lunch when in actuality they should have been at the reduced price level.

Context:

The District would have been requesting higher reimbursements than what they were entitled to.

Effect:

The reimbursements from the federal government could be overstated.

Cause:

District personnel did not ensure all free and reduced applicants were properly placed into appropriate reimbursement categories.

Recommendation:

Review the free and reduced applications to ensure placement into appropriate reimbursement categories.

Questioned Costs:

Known questioned costs determined through audit test work totaled \$ 282. Based on the sample size and the total population this amount extrapolates to \$ 116,982.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the finding.

The District does have proper controls in place but will review its policies and procedures again with Food Service.

2. Actions Planned in Response to Finding
Review policies and procedures with the Nutrition Department.
3. Official Responsible for Ensuring CAP
Food Service Director is responsible for CAP.
4. Planned Completion Date for CAP
June 30, 2016.
5. Plan to Monitor Completion of CAP
Director of Financial Systems will monitor CAP.



REPORT ON LEGAL COMPLIANCE

BerganKDV, Ltd.

INDEPENDENT AUDITOR'S REPORT

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Special District No. 1
Minneapolis, Minnesota

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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 Minneapolis Public Schools Special District No. 1, Minneapolis, Minnesota, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, and have issued our report thereon dated January 12, 2016.

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

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

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

BerganKDV, Ltd.
Minneapolis, Minnesota
January 12, 2016

bergankdv.com

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDING AND CORRECTIVE ACTION
PLAN ON LEGAL COMPLIANCE
June 30, 2015**

CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDINGS:

Audit Finding 2014-002 – Subcontractor Verbiage

Per *Minnesota Statutes* 471.425 subd. 4a, each contract between the government entity and a prime contractor must require the prime contractor to pay subcontractors within 10 days of receipt of payment from the government entity or pay interest at the rate of 1.5% per month.

During 2015 the District entered into contracts for its construction project; which did not contain the payment verbiage as required in *Minnesota Statutes* 471.425 subd. 4a.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the finding.
2. Actions Planned in Response to Finding
The District will ensure that this verbiage is included in all future contracts.
3. Official Responsible for Ensuring CAP
The Director – Financial Systems is responsible for ensuring corrective action.
4. Planned Completion Date for CAP
This will be an ongoing process.
5. Plan to Monitor Completion of CAP
The Chief Financial Officer will be monitoring this corrective action plan.

**MINNEAPOLIS PUBLIC SCHOOLS
SPECIAL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS
ON LEGAL COMPLIANCE**

June 30, 2015

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Audit Finding 2013-011 – Prompt Payment of Local Government Bills

Minnesota Statute 471.425 requires that school districts must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period. For school districts with governing boards that have regular meetings at least once a month, the standard payment period is within 35 days of the date of receipt.

During our testing of disbursements in the prior year audit, we noted a disbursement tested that was not paid by the terms of the contract or within the standard payment period. In addition, the late payments did not include interest.

CORRECTIVE ACTION TAKEN:

For items tested for the year ended June 30, 2015, we noted all disbursements were paid within the terms of the contract or within the standard payment period.

Audit Finding 2014-001 – Conflicts of Interest

Minnesota Statutes 471.88, subd. 21 states a local school board may contract with a class of school district employees where the spouse of a school board member is a member of the class of employees contracting with the school board and the employee spouse receives no special monetary or other benefits that are substantially different from the benefits that other members of the class receive under the employment contract.

Under these statutes, a school board using this exception must have a majority of disinterested school board members vote to approve the contract, direct the school board member spouse to abstain from voting to approve the contract and publicly set out the essential facts of the contract at the meeting where the contract is approved.

During our prior year audit, we noted one of the School Board Members did not abstain from voting on approval of a contract in which the School Board Member's spouse was a covered member of the bargaining group.

CORRECTIVE ACTION TAKEN:

During the current year, no such situations arose.