June 15, 2020

State Auditor audit of Robbinsdale School District cites District troubles

The long-awaited Office of the State Auditor (OSA) report on the Robbinsdale School District's financial management, administration, and governance found numerous violations of State statutes, reporting standards, and District policies. However, the audit, which was requested by District taxpayers, parents, students, and teachers, falls short in accurately and thoroughly investigating the District's problems.

Credit-card usage not controlled

District credit-card expenditures totaled $3.7 million/year between July 2015 and March 2019--almost a $1 million/year. While there is a District policy and Minnesota Statute (§123B.02, subd. 23) for usage and reporting, they are not uniformly followed:

- Out of 389 transactions OSA reviewed, more than half (201) totaling $94,982.30 "did not include enough information to determine if the purchase met a public purpose." The charges were for groceries, hotel costs, airline tickets, meals, conferences, event tickets, supplies, and other miscellaneous purchases. There wasn't sufficient documentation about meals, which included pizza and fast food, to determine who was fed or why it was necessary to meet at mealtime. And the District has no policy for reimbursing meal expenses when there is no travel involved.
- Despite a prohibition on credit card use for travel expenses, credit-card reports read by OSA found more than $17,000 were for airline flights alone, while others include airfare and hotel expenses.
- More than half of the cards tested by the team violated credit card policies, including no applications on file, missing or undated applications.

Annual stipends lack controls; employees keep technology District buys them (including Apple Watches)

The report identified a laundry list of deficiencies with the District's policy and control of reimbursements for professional expenses such as tuition reimbursement and technology for Cabinet Members, Program Directors, and Principals and Assistant Principals. Receipts, pre-approval forms, and check requests were missing. In addition, the District has no policy on what happens to technology (e.g., laptops, iPads, iPhones, Apple watches, routers, and modems) purchased for an employee who leaves. Currently, they take the technology with them. One person was reimbursed $1,444 for technology two days before the employee left the district—with the technology. Plus, OSA found that the District should have been including such purchases in the employees' compensation for tax purposes.

Violations of Open-Meeting Laws

The report showed that the District failed to disclose attendees and locations of seven closed Board sessions, a violation of Minn. Stat. §13D.3 between July 1, 2015, and March 31, 2019. In addition, two meetings were closed that shouldn't have been closed, and 8 of 9 Board meeting minutes were not published within the required 30 days.

Misuse of retired employee benefit fund account

The District pays health premiums for former officers and employees through an irrevocable trust fund that is set up specifically and solely to pay for health claims.

Background Info:

March 2019 - Finance Manager Greg Hein and Superintendent Jenkins testified before a legislative committee that $7M of OPEB expenses had been paid from the general fund but had never been drawn for reimbursement from the trust fund and asked for permission to draw $7M from the trust.
(Testimony can be heard and more information can be found at:
https://www.house.leg.state.mn.us/Committees/minutes/91017/57930)

Spring 2019 – Community became aware of the $7M request and raised concerns.

Fall 2019 - independent external auditors reconciled qualifying expenses and past draws and determined the District could draw $4.7M in eligible expenses that had not yet been drawn, which is what the District withdrew in December 2019.

The OSA found "$706,968 [was] 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 irrevocable trust is to be used solely for retiree health benefits (MN §471.6175, subd. 7(b)). The report stated "The OSA is unaware of authority of the District to remove funds for this purpose," and the District did not offer one. – Should this be refunded?

Deficit-budget trend needs to stop
The OSA pointed out the District has had a deficit budget for 5 of the past 6 years. The 2019 budget was a $1 million surplus because the District took $4.7 million from the OPEB trust account to make up for claims that were erroneously paid out of the general fund. Without those funds, the District would have had a budget deficit so severe that it would be classified a "statutory operating debt" district, which would subject it to budget restrictions and possible loss of State aid. Because the $4.7 million bump from the OPEB was a one-time event, the District must find ways to cut expenses and/or increase revenue to avoid a severe deficit.

Charging staff salaries to long-term facilities management
The Long Term Facilities Management (LTFM) Revenue program was charged $146,522.96 in FY 2016, $149,655.99 in FY 2017, and $139,833.25 in FY 2018 in salaries to pay two employees—the Director of Buildings and Grounds and his program assistant. The salary expenses charged to LTFM should be in proportion to the work the staff do. The Director of Buildings and Grounds also was responsible for several other areas, including Transportation, Health, and Safety, which calls to question whether the $436,000 salary allocation to LTFM for two people was accurate.

Despite the numerous problems listed above and in the Auditor's report, the audit missed the mark on several points:

1. The Auditor inexplicably recommends that expenditures be approved by the Superintendent or the Finance Director instead of the School Board, which is in direct contrast to the lax internal controls on expense reporting, failure to obtain contracts when required, and the deficient expenditure repots given the Board every month, which detail amount, date, and recipient, but now purpose of the checks and ACHs issued.

2. The team concluded that the then-Chair of the School Board had no conflict of interest when voting to approve expenditures to his employer at the time. The auditors state that because the employee was salaried, he would not benefit financially from the Robbinsdale contract. His responsibilities included business development, which is charged with maintaining and growing the client base.

3. The Auditor's team confirmed consistent and ongoing deficiencies in internal controls and reporting by finance staff and auditors. The Board must demand significant improvements if not a change in outside auditors.

--Kelly Guncheon, 612/805-0223