STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

INDEPENDENT SCHOOL DISTRICT 435
WAUBUN

PETITION ENGAGEMENT

YEARS ENDED JUNE 30, 2004 AND 2005

Description of the Office of the State Auditor

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

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WAUBUN

Years Ended June 30, 2004 and 2005

Petition Engagement

Audit Practice Division
Office of the State Auditor
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Petitioners
Superintendent and School Board
Independent School District 435

INTRODUCTION

Eligible voters of Independent School District (ISD) 435 petitioned the Office of the State Auditor (OSA) to examine the books, records, accounts, and affairs of the District in accordance with Minn. Stat. § 6.54 for the years ended June 30, 2004 and 2005. The statute allows the OSA, in the public interest, to confine the scope of the audit to less than that requested by the petition. Through discussion and agreement with petitioner representatives who had formed the Waubun Alliance for Educational Reform, the scope of our review was limited to addressing the issues discussed below.

State-Funded Alternative Learning Program

The petitioners were concerned about the state-funded Alternative Learning Program (ALP). The ALP Director is a full-time instructor and coach. The petitioners questioned whether the ALP Director has enough time, considering all duties, to apply hours to the ALP that support the ALP funding the District receives. The petitioners were also concerned that reported enrollment is higher than the actual number of students in the program.

ISD 435 has a state-approved ALP. The purpose of an ALP is to provide students who are at risk of not graduating an additional opportunity to earn a diploma. As allowed by Department of Education guidelines, students may participate in only the ALP or in both the ALP and the regular secondary education curriculum. Either way, the combined average daily membership (ADM) of such students, up to 1.0 ADM, generates basic general education aid revenue. Students in the ALP are eligible to generate an additional 0.20 ADM in extended time education aid revenue.

We reviewed the ALP Director's payroll allocation/distribution for fiscal year-end (FYE) 2004, 2005, and 2006 to determine how that time was funded and whether it was reasonable/appropriate in relation to the program guidelines.

The following table summarizes charges for the ALP Director's salary by year:

Account Name	FYE 2004	FYE 2005	FYE 2006
Waubun Ogema Title VII Admin Salary	$ 2,657	$ -	$ -
Waubun High School ALP Licensed Salary	46,602	54,648	56,071
Waubun High School Co-Ed Athletic Dir. Salary	-	-	3,550
Waubun High School Co-Ed Golf Salary	2,562	2,647	2,717
Waubun High School Boys Basketball Salary	2,562	2,672	1,965
Waubun High School Football Salary	3,660	3,832	4,206
Waubun High School Girls Basketball Salary	-	-	25
Waubun High School Girls Softball Salary	-	-	75
Waubun High School Staff Development Substitute Salary	160	-	-
Total	$ 58,203	$ 63,799	$ 68,609

The following table summarizes other ALP totals by year:

	FYE 2004	FYE 2005	FYE 2006
Expenditures (salaries, benefits, books, and supplies)	$ 73,656	$ 124,359	$ 166,359
Number of Staff (including Director and 1 para/non-licensed)	2	3	4

We compared the list of ALP students reported in the Minnesota Automated Reporting Student System (MARSS) with the list for regular secondary education students reported in the MARSS for FYE 2004, 2005, and 2006. We noted several students listed on both reports. According to District staff involved with the MARSS, the student count for the ALP includes independent study students as well as ALP classroom students. Many of the students are attending the regular secondary education curriculum and using the ALP to make up classes in order to meet graduation requirements. The independent study component of the ALP must be approved by the state. The Minnesota Department of Education verified that ISD 435 was approved for the independent study component of the ALP in September 2000.

Based on the ADMs generated by ALP students, an estimate can be made of the revenue generated by such students. Over the three-year period reviewed, the District's allocation of aid for the ALP approximates the revenue estimate. The District also used ALP reserve (fund equity) amounts to fund expenditures in excess of the revenue.

Indian Education Grants to Local Educational Agencies (CFDA #84.060)

The petitioners were concerned that the District did not comply with certain eligibility requirements during the application process for Federal Indian Education Grants to Local Educational Agencies (Title VII). Under the eligibility requirements of this grant, the recipient agency must hold a public hearing seeking input into the upcoming Title VII application. The recipient must also establish an Indian Parent Committee to oversee the program and act as an Advisory Board. The petitioners were concerned that there was no parent committee and that the Parent Committee signatures on the Parent Committee Approval Form had been forged.

We reviewed compliance in relation to the eligibility requirements discussed above for FYE 2004, 2005, and 2006. The District could not provide documentation that a public hearing had been held prior to the application for the FYE 2004 grant. The signatures on the Parent Committee Approval Form for the FYE 2004 grant appear to have been written by the same person. Upon inquiry, the Superintendent disclosed that the form had been signed by a single employee of the District allegedly under verbal proxy of the Parent Committee members. The District was also not able to provide minutes or other documentation to support the existence of the Parent Committee for FYE 2004.

The District provided documentation that public hearings had been held prior to the applications for the FYE 2005 and 2006 Indian Education (Title VII) grants. The signatures on the Parent Committee Approval Form for these years appear to have been written by different people. The members listed on the Parent Committee Approval Form for FYE 2005 and 2006 agree with attendance documented in the minutes of the Parent Committee meetings during those years.

Payroll Allocations

The petitioners were concerned about the payroll allocations for the Title VII and Mid-level ALP Teacher and the Title I Director.

We reviewed the Title VII and Mid-level ALP Teacher's and the Title I Director's payroll allocation/distribution for FYE 2004, 2005, and 2006 to determine how their time was posted and whether that was reasonable/appropriate in relation to the program guidelines.

The following table summarizes charges for the Title VII and Mid-level ALP Teacher's salary by year:

Account Name	FYE 2004	FYE 2005	FYE 2006
Title I Part A License Salary	$ 4,224	$ -	$ -
Waubun Ogema Title VII License Salary	32,850	-	1,980
Waubun High School General Education License Salary	-	2,934	1,740
Waubun High School ALP License Salary	-	26,021	36,310
Waubun High School B Skills License Salary	-	8,673	-
Waubun High School Staff Development License Salary	-	450	-
Total	$ 37,074	$ 38,078	$ 40,030

We were provided with the Labor Distribution Worklist for FYE 2004, 2005, and 2006. The Labor Distribution Worklist reflects the parameters set up for time allocation based on the District's Finance Officer consulting with the various Program Directors. We compared the Labor Distribution Worklist for the Title VII and Mid-level ALP Teacher's labor charges for FYE 2004, 2005, and 2006 to the actual payroll charges posted to the general ledger. The allocations either agreed or differences were supported by alternative documentation and approval. For example, when the base salary charges changed from Title VII in FYE 2004 to the ALP in FYE 2005, the District provided a copy of its application to the Minnesota Department of Education for a Middle-level ALP Program for FYE 2005. The application listed this person as an Instructor - part to full time (0.5 - 1.0) - licensure in English. We also viewed a copy of a letter from the Minnesota Department of Education approving the District's application on a probationary basis for one calendar year. The final piece of documentation provided was a copy of the Title VII and Mid-level ALP Teacher's State of Minnesota Department of Education License, which showed she was allowed to teach 7-12th grade English/Language Arts making her eligible to teach the Middle-Level ALP Program.

The following table summarizes charges for the Title I Director's salary by year:

Account Name	FYE 2004	FYE 2005	FYE 2006
Title I Part A Admin Salary	$ 3,702	$ -	$ -
Title I Part A License Salary	44,585	46,270	48,965
Title II Part A License Salary	160	-	-
Waubun Ogema Staff Development License Salary	200	-	-
Total	$ 48,647	$ 46,270	$ 48,965

We compared the Labor Distribution Worklist for the Title I Director's labor for FYE 2004, 2005, and 2006 to the actual payroll charges posted to the general ledger. The allocations either agreed or differences were supported by alternative documentation and approval. The base salary charges to Title I are consistent with the School Board's appointment of the Title I Director at its April 21, 2003, Board meeting.

Payment for Goods and Services

The petitioners had concerns about the amounts paid for: (1) property purchased in 2004 for a parking lot for the Ogema School, (2) the costs to improve that property for use as a parking lot, and (3) the costs for the Waubun baseball diamond.

We reviewed the Board minute files for approval and any information regarding the land purchase, parking lot project, and baseball diamond project. We also verified the information obtained to original source documents supporting the purchases.

We were informed by the Superintendent that the purchase of the property for the Ogema School parking lot started with the District approaching the property owner asking if there was interest in selling. This specific property was desired as it adjoined other school property already owned by the District. The seller established the asking price of $50,000 for the property. On January 26, 2004, the Board approved the purchase of property for $50,000. A payment of $5,000 was made on January 27, 2004, and a final payment of $45,000 was made on May 28, 2004. An appraisal was not obtained prior to the offer on the property. Tax records obtained from Becker County show the estimated market value of the property for taxes payable in 2004 was $17,100. The property was scheduled to be valued at $19,500 for taxes payable in 2005 had it not been sold. This property is not listed on the District's capital asset listing and is not reflected in its audited financial statements.

Prior to starting the improvement project for the parking lot, the District hired Houston Engineering to prepare a lot layout, curb and gutter drawings, specifications, and bid quantities. Based on the specifications prepared by Houston Engineering, the District received quotes from Mark II in the amount of $27,595 and Lunde Blade and Gravel in the amount of $20,000. The quotes were for the development of a parking lot including the removal of a basement, clearing of trees, and four inches of Class 5 base for asphalt placed on the lot after the site had been leveled. The District accepted the low quote of Lunde Blade and Gravel in the amount of $20,000. On September 28, 2004, a payment was made to Lunde Blade and Gravel in the amount of $33,983. This claim included work for three separate projects. The parking lot improvement portion of the claim came to $20,453, which is the original quote of $20,000 along with $453 for the installation of a manhole cover. The second project on the claim was $1,150 for the removal of concrete, leveling, and seeding of an area to be used for a practice field. The final project on this claim was $12,380 for fixing the swale in the playground area. This was addressed in the July 19, 2004, Board minutes. All three of these items were included as an addition to the District's capital asset listing and are reflected in its financial statements.

The District hired Houston Engineering to provide plans and specifications for the Waubun baseball diamond. Based on the specifications prepared by Houston Engineering, the District received bids from Comstock Construction and Lunde Blade and Gravel. Comstock Construction's bid contained two options, one for $88,973 and the other for $69,407. The District accepted the low bid from Lunde Blade and Gravel in the amount of $49,696. Lunde Blade and Gravel was paid $49,696, the amount of the original bid. The baseball diamond was added to the District's capital asset records and is reflected in its financial statements.

Disposal of Surplus Property

The petitioners expressed concerns about the disposal of surplus property during the construction and remodeling of two school buildings, which started in FYE 2003 and was completed in FYE 2004. According to the petitioners, the District did not sell the surplus property at a public sale. Many items were just left outside for anyone to pick up. Specific concerns were that employees of the District, including the Superintendent, obtained surplus property.

We asked the Superintendent about the disposal of surplus property. The Superintendent stated they had asked for public bids on items determined to have value. The District had the authority to use its discretion to dispose of items not sold through public bids. It did this simply by discarding the items, making them available to anyone.

We obtained copies of the Mahnomen Pioneer from May 8, 2003, and May 15, 2003, documenting that the District did advertise for sealed bids. The publication listed specific items as well as miscellaneous items. The publication also stated that reserve prices existed on certain items. The closing date for the bids was May 16, 2003, with the bids going directly to the Superintendent.

Minn. Stat. § 15.054 states, "Property or materials owned by the state or a subdivision and not needed for public purposes, may be sold to an employee of the state or subdivision after reasonable public notice at a public auction or by sealed response, if the employee is not directly involved in the auction or process pertaining to the administration and collection of sealed responses." Minn. Stat. § 15.054 also provides, "Requirements for reasonable public notice may be prescribed by other law or ordinance so long as at least one week's published notice is specified." The District did comply with the legal requirements as to public notification.

The Superintendent was not eligible under state law to purchase items from the disposal listing since the advertisement in the paper calling for bids directs those interested in placing bids to send them to, or drop them off at, the Superintendent's office to the attention of the Superintendent. However, the Superintendent did purchase a gas convection oven for $1,000 (the amount of reserve based on an estimated value from Dakota Food Equipment), a dishwasher booster heater for $1, a four-burner gas range for $100, and miscellaneous wood doors and trim for $20. The Superintendent stated that he had submitted bids for the items purchased.

To verify that the District identified all items of value in its public bid, we requested a detailed listing of items sold, along with a capital asset list prior to the sale and a list after the sale. The listing of items sold includes one gas convection oven, a dishwasher, gas range sections with ovens and one grill section, an electric steam kettle, and two oil boilers, which were all included on the published advertisement for bids. A detailed listing of capital assets just prior to and after the sale and a detailed listing of items removed from capital assets was not available. From current capital asset records and financial statements, we were able to reconcile to the capital asset balance reported in the financial statements prior to the sale. The only deletions to the capital assets were those related to a change in the capitalization policy in FYE 2004. We verified, through the District's FYE 2003 audit report, the year of the sale, that no capital assets above the capital asset policy were removed. Without detailed records, the possible conclusions that can be drawn are that all items removed were of little value (below the District's capitalization policy) or that the District failed to remove assets of value from its capital asset records when they were sold or disposed of.

Impact Aid (CFDA # 84.041)

The petitioners expressed concerns that the number of students reported on the application for the District's Impact Aid was overstated. They believe there has been a large unexplained increase in Impact Aid received by the District.

Impact Aid is a federal program designed to directly reimburse public school districts for the loss of traditional revenue sources due to a federal presence or federal activity. Federally connected students can adversely affect a school district's financial base because their parents do at least one of the following: (1) pay no income taxes or vehicle license fees, (2) live on non-taxable federal property, or (3) shop in stores that do not generate taxes or work on non-taxable federal lands. Impact Aid dollars go directly into a school district's general fund to be used as the local school board sees fit.

The District submits an application to the U.S. Department of Education annually to receive Impact Aid. The application contains several tables where the District documents the number of students under each requirement. Since the District applies for this program every year, the application from the U.S. Department of Education comes pre-populated with the federal property that was claimed the previous year. All the District needs to do is obtain the number of students that are to be reported for each area listed. If a new property is reported on the form, the District must provide documentation showing the eligibility of the new federal property claimed. Membership and average daily attendance data, as well as a Fiscal Report on Expenditures of Additional Funds Provided for Children with Disabilities, are submitted on the application. Once the application is received by the U.S. Department of Education, the data provided is used to determine the amount due to the District.

The U.S. Department of Education makes an initial and interim payment to the District during the program year, and a final, after field review, payment is made in a following year. The 2003 program year's final payment was received during the same year as the 2005 initial and interim payments, so there appears to be a two-year delay in the final payment. These payments are made based on a "Voucher For Impact Aid Section 8003 Payments" form. We reconciled the amounts received for FYE 2005 with the 2005 initial and interim forms and the 2003 final, after field review, form. We tested the calculations on the 2005 interim form and found them to be calculated according to the guidelines. The student numbers were also reconciled back to the number originally reported on the District's application.

The District's audited financial report identified the Impact Aid program as a major federal program for FYE 2005. The work papers for the audit of the Impact Aid program were reviewed for content. The only audit finding noted dealt with inadequate segregation of duties, and there were no questioned costs. The Impact Aid program was also audited as a major federal program for FYE 2004 and 2006. The audit report for FYE 2004 identified no federal program findings, and the audit report for FYE 2006 included the same segregation of duties finding as found in the FYE 2005 report with no questioned costs.

The U.S. Department of Education also performed a site review of the District's Impact Aid application for the FYE 2006 program and did not find any mentionable findings to report.

A comparison made between the FYE 2000 and FYE 2006 Impact Aid dollars received by all Minnesota school districts indicates the trend in Impact Aid for ISD 435 is consistent with a significant overall increase in the same aid for other districts. The increase in Impact Aid can be attributed to the increase in the Federal Obligations to the program.

Taking into consideration what we had reviewed of the Impact Aid program at this point, the application appears to be supported by the proper documentation necessary to satisfy the program's requirements. However, we then noted that the District reported 62 children as eligible for Impact Aid because their parents were employed at the Shooting Star Casino in Mahnomen, Minnesota. The Shooting Star Casino is shown on the application as pre-populated tax-exempt federal property. Because this seemed to be contradictory to information we knew from our experience working with Mahnomen County, we confirmed with the County that the Casino paid property taxes through 2005. The Casino property is included on the tax rolls of the County for 2006 and 2007. The White Earth Tribe has petitioned the Bureau of Indian Affairs to have the Casino property placed in trust status, and the County has filed an appeal. The unpaid 2006 taxes are now delinquent. It is not known whether the Shooting Star Casino's status as tax-exempt federal property was originally pre-populated as such in error or whether it was at one time correct, and when that status changed, the pre-populated form was not correspondingly adjusted.

A senior property specialist with the U.S. Department of Education Impact Aid program has verified with the Bureau of Indian Affairs Office that the Casino property is currently owned by the White Earth Tribe in fee status and thus would not be eligible for Impact Aid purposes. Officials from the Impact Aid program have identified the following adjustments to the District's Impact Aid:

- For FYE 2004, the Impact Aid program adjusted the number of students claimed to effectively "recover" the funds in the final spread of monies paid to the District in March 2007.

- For FYE 2005 and 2006, the Impact Aid program adjusted the number of students claimed, and estimated overpayments of $130,860 and $137,279, respectively, will be offset from any future payments the District may receive.

- For FYE 2007, the Impact Aid program adjusted the number of students claimed before any payment was made to the District.

First Grade Preparedness Program

The petitioners had concerns surrounding the support for grant expenditures for the First Grade Preparedness Program. The grant is based on an allocation determined by the Minnesota Department of Education. The purposes of the program are to ensure that every child has the opportunity before first grade to develop the skills and abilities necessary to read and succeed in school and to reduce the underlying causes that create a need for compensatory revenue. Unspent aid can be reserved for future use at the eligible school.

The District uses the First Grade Preparedness Program to provide all day, everyday classes to five-year old kindergarten students.

Of the expenditures reported for the First Grade Preparedness Grant, 99 percent are payroll related. We obtained a list of those individuals with time charged to the First Grade Preparedness Grant for FYE 2004 and 2005. All full-time employees were verified to the active employee roster on the District's website.

The following table summarizes expenses for providing all day, everyday kindergarten classes and compares those costs to the First Grade Preparedness Grant allocation:

FYE	First Grade Preparedness Expenditures	Kindergarten Expenditures	Total Expenditures	First Grade Preparedness Grant Allocation	Expenditures in Excess of First Grade Preparedness Grant Allocation
2004	$101,547	$128,366	$229,913	$99,980	$129,933
2005	134,232	84,336	218,568	106,322	112,246

The First Grade Preparedness Grant allocation covered 43 percent and 49 percent of the total expenditures for all day, everyday kindergarten for FYE 2004 and 2005, respectively. The relationship of the First Grade Preparedness Grant purpose, grant amounts, and related expenditure amounts appear to be consistent.

CONCLUSION

We were not engaged to and did not perform an audit, the objective of which would be the expression of an opinion on specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that we would have reported to you.

This report has been prepared solely for the information and use of the Petitioners, Superintendent, and School Board of Independent School District 435 and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

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STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 17, 2007