

Minnesota Department of Education Procedures for Conducting District Audits and Audit Appeals

(Revised August 14, 2017)

Procedures for Conducting District Audits

Audit Selection Process

Criteria for selection of audits pursuant to Minnesota Statutes, section 127A.41, subdivision 3.

Minnesota Statutes, section 127A.41, subdivision 3, states:

"The commissioner shall establish procedures for conducting and shall conduct audits of district records and files for the purpose of verifying district pupil counts, levy limitations, and aid entitlements. The commissioner shall establish procedures for selecting and shall select districts to be audited. Disparities, if any, between pupil counts, levy limitations, or aid entitlements determined by audit of district records and files and data reported by districts in reports, claims and other documents shall be reviewed by the commissioner who shall order increases or decreases accordingly. Whenever possible, the commissioner shall audit at least 25 districts each year pursuant to this subdivision. Procedures adopted under this subdivision are not subject to chapter 14, including section 14.386, and may differ from the procedures under section 127A.42."

The Minnesota Department of Education (MDE) will audit a minimum of 25 school districts and charter schools each year. The criteria set forth below will be used by the auditors to select the districts and charter schools audited.

1. **MARSS/Membership Audits** – Districts and charter schools selected through the editing of the student data and reports submitted by districts through the Minnesota Automated Reporting Student System (MARSS) to the division of School Finance and/or randomly selected based on the Economic Development Regions along with other factors, including, but not limited to, the period of time since last audited.
2. **Transportation Audits** – Districts and charter schools selected through the editing of the student data and Uniform Financial Accounting and Reporting Standards (UFARS) data submitted by districts to the division of School Finance; randomly selected based on the Economic Development Regions along with other factors, including, but not limited to, the period of time since last audited; or referred by the MDE division of Compliance and Assistance.

3. **Categorical Aids and Levies** – Districts and charter schools selected through editing of data including data provided by districts and charter schools via EDRS, UFARS or other similar MDE data collection systems, randomly selected, or other factors.
4. **Employee Requested** – Any state aid or local levy recipient selected through requests submitted by a Minnesota Department of Education employee.
5. **Follow Up Audits** - Districts and charter schools that have been selected for audit in the past, and due to audit findings, a follow-up audit is warranted.
6. **Other Requested** – Audits selected through requests submitted by districts, citizens, etc. All requests are given a preliminary assessment in which MDE gathers background information and evaluates the information/evidence provided by the complainant. The complainant is notified in writing whether the information/evidence justifies an audit.

Audit Report Distribution

1. Internal - Copies of the audit report are emailed to the following:
 - a. Chief Financial Officer (CFO)
 - b. Division of School Finance Director
 - c. Division of School Finance staff preparing aid and levy adjustment calculations
2. External - Copies of the audit report are mailed first class to the following:
 - a. School District
 - Superintendent
 - School Board Chairperson
 - b. Charter School
 - Director of School
 - School Board Chairperson
 - Charter School Authorizer

Data Practices

1. While the audit report is pending, it is confidential as provided by the Minnesota Government Data Practices Act. MDE will share copies of the audit report as disclosed above. The cover letter to the audit report must notify the school district or charter school of the appeal process. The audit report becomes a Final Report if no appeal is received in 30 calendar days. The final report's data classification is as provided by Minnesota Statutes, section 13.392, except that the report may still contain private data, and must be safeguarded as such.
2. If an appeal is received, the audit report remains confidential and becomes a final determination upon the commissioner's determination. The final determination may still contain private data, and must be safeguarded as such.

Procedures for Audit Report Appeals

School District or Charter School Process

Districts or charter schools may internally appeal the findings and recommendations in the initial audit report as follows:

1. The appeal must be sent to the CFO and received within 30 calendar days from the date on the cover letter of the audit report.
2. Extensions beyond the 30 days may be requested, and may be granted by the CFO. Requests for extensions must be in writing, sent to the CFO, and include an explanation of why the extension is requested. The district or charter school, auditor and director of School Finance must be notified of the CFO's extension decision.
3. The appeal must be in writing and include:
 - a. The specific finding in the audit report.
 - b. Why the appeal is being requested.
 - c. Additional information that should be considered. Examples: If the finding was for specific students, then the information must be provided for each student, or if additional financial transaction information is available, the transaction and documentation must be provided.
 - d. Explanation as to why this material was not made available during the audit or the exit conference.
 - e. Whether or not a meeting with the Audit Report Appeals Committee is requested to explain the information in the appeal letter. The meeting must be requested within 30 days of the date on the cover letter of the audit report.

Special procedures for appeals relating to program requirements of learning year programs (e.g., continual learning plans) are specified in Minnesota Statutes, section 124D.128, subdivision 6a, as follows:

Subdivision 6a. Process to address audit findings. (a) If, during an audit of a district's learning year program, the commissioner finds that the district is not meeting program requirements, the commissioner must notify the board of that district in writing. The notice must specify the findings in detail, describe the correction required, set a reasonable time during which the findings should be corrected, and advise that general education revenue to the district may be reduced. The commissioner may extend the time allowed for the correction.

(b) A board that receives a notice under paragraph (a) may decide by majority vote of the entire board to dispute that:

(1) the specified finding exists;

(2) the time allowed is reasonable; or

(3) the commissioner should reduce district general education revenue.

The board must give the commissioner written notice of the board's decision within 30 days of receipt of the audit report. After making any further investigations the commissioner deems necessary, the

commissioner must decide whether or not to adhere to the commissioner's original notice and must notify the board of the commissioner's decision.

(c) The commissioner may reduce or withhold state general education revenues as the result of an audit. The commissioner may decide not to reduce or withhold state general education revenues if the district corrects the specified finding, or after receiving the district's notice disputing the finding, the commissioner decides the finding does not exist.

Department of Education Process

CFO

The CFO will appoint an Audit Report Appeals Committee for the purpose of reviewing internal appeals and making recommendations to the commissioner. The committee will consist of individuals not involved with the audit and may include, but not be limited to, the director of the division of School Finance, the assistant director of the division of School Finance, the general education funding supervisor, data management supervisor, and a finance specialist for categorical aid or levy programs, or designees of these individuals.

Upon request by the district or charter school, the CFO will schedule a meeting to include representatives of the appellant district or charter school, division of School Finance auditors, and members of the Audit Report Appeals Committee.

The CFO shall provide a copy of the audit appeal to the division of School Finance auditors, who shall have an opportunity to submit a written response to the audit appeal. A copy of the auditors' written response, if any, shall be provided to the CFO, to the members of the Audit Report Appeals Committee, and to representatives of the appellant school district or charter school. If a meeting is scheduled, the auditor's written response, if any, shall be provided to the appellant school district or charter school before the meeting.

Audit Report Appeals Committee

The Audit Report Appeals Committee shall:

1. Review written appeals to audit reports submitted by school districts and charter schools.
2. Review written responses to the audit appeal submitted by division of School Finance auditors.
3. If requested, convene the meeting with appellant school district or charter school representatives and division of School Finance auditors to review the audit report, information provided by the appellant school district or charter school in the appeal letter, and the auditors' written response to the audit appeal, if any. The CFO may attend this meeting. At this meeting, both the school district or charter school representatives and the division of School Finance auditors shall have the opportunity to present arguments in support of their positions and must be available to answer questions of the Appeals Committee.
4. If a meeting is requested, the discussion at the meeting will be recorded.

5. If needed, make written requests for additional factual information related to the appeal from the appellant school district or charter school, or division of School Finance auditors, to clarify claims made in the appeal letter or the meeting. Responses to any such requests shall be in writing and shall be made available to both appellant school district or charter school representatives and division of School Finance auditors.
6. Make recommended findings and conclusions regarding the facts relevant to the appeal, including applying the standards for reviewing appeals of audits described below to the facts, to the CFO, and the commissioner.

Decision of the Commissioner

The CFO shall review the recommended findings and conclusions, as well as the record to the extent necessary, and shall make a recommendation to the commissioner.

The commissioner shall make findings and conclusions and issue a final decision on the appeal, and inform the school or district, director of the division of School Finance, and division of School Finance auditors in writing. The commissioner may delegate this authority to the CFO. The commissioner or CFO's written determination is the department's final determination under Minnesota Statutes, section 127A.41, subdivision 3. As a final agency decision, an aggrieved party may petition for a writ of certiorari to the Minnesota Court of Appeals pursuant to Minnesota Statutes, Chapter 606.

Standards for Reviewing Internal Audit Report Appeals

Appeals Relating To Program Requirements of Learning-Year Programs Under Minnesota Statutes, section 124D.128, subdivision 6a

1. Timelines. If the school board decides that the timeline for correction of a finding is not reasonable and proposes a different timeline, the commissioner will evaluate the proposed timeline. If the proposed timeline is considered reasonable and supporting documentation is provided, the timeline may be adjusted.
2. Determination of general education revenue reduction or withholding.
 - a. If the school board does not appeal a finding in writing by the required deadline, the finding stands and general education revenue will be reduced.
 - b. If the school board appeals a finding and provides documentation relevant to the finding in writing within the timelines, the finding must be reconsidered.
 - c. If the district provides documentation that it met program requirements for the fiscal year audited, then the finding is withdrawn. If the district fully meets program requirements by the date that the audit report is completed, the commissioner may reconsider the proposed reduction of revenue.
 - d. If the corrective action plan is determined reasonable, general education aid may be withheld until the corrective action plan is in place and completed. Once the corrective action plan is completed, general education aid may be released.

- e. The commissioner reserves the right to follow up on the implementation of the corrective action plan.

Other Appeals

1. Findings that are based on violation of a specific law, statute or rule cannot be withdrawn. Unless specifically granted in law, the commissioner cannot waive statutes or rules.
2. Findings that are erroneous must be withdrawn.
3. The commissioner will not withdraw findings caused by software programming errors, lack of understanding of computer or data operations, or software conversions. If software by a certified vendor caused an error in the MARSS file extract, the vendor must be recertified.
4. The department may consider established department policies in determining whether to sustain audit findings.
5. The commissioner may require a corrective action plan and/or follow-up audit of the school or district.
6. If the district can provide documentation that would have met the auditor's criteria had the auditor asked for the data, the finding is withdrawn.
7. If the district cannot provide adequate documentation, the finding stands.
8. If the auditor requests documentation from district staff and such documentation was not provided, the finding stands.