



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Children, Families & Learning
Fiscal Year Ended June 30, 2000



MARCH 8, 2001

01-08

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Department of Children, Families & Learning

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Joan Haskin, CPA, CISA	Auditor-in-Charge
Gena Hoffman	Auditor
Susan Mady	Auditor
Valerie Wozniak	Student Worker

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Children, Families & Learning on February 21, 2001:

Barbara Yates	Deputy Commissioner
Kenneth Hasledalen	Assistant Commissioner - Management Services
Kathleen Shea	Director of Finance and Management Services

Report Summary

Key Findings and Recommendations:

- The Department of Children, Families & Learning (CFL) did not properly record Maximum Effort School Loan Fund principal payments on the Minnesota Accounting and Procurement System (MAPS) and did not charge school districts for late payments. CFL should ensure that Maximum Effort School Loan payments are recorded correctly on MAPS. In addition, CFL should charge interest to any school districts that make late payments. (Finding 1, page 4)
- The department did not properly record the date of liability for some transactions on MAPS. CFL should ensure that transactions on MAPS have the correct record dates. (Finding 2, page 4)
- The department did not correctly prepare the State Per Pupil Expenditure Report for the Title 1 program. CFL incorrectly included debt service expenditures in the calculation of its per pupil expenditure figures. CFL should ensure that reported per pupil expenditure data is calculated in accordance with federal guidelines. (Finding 3, page 5)

Management Letters address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federally funded programs. The scope of work in individual agencies is limited. During the fiscal year 2000 audit, our work at the Department of Children, Families & Learning focused on selected state educational aids and seven federal programs. The department's response is included in the report.



OFFICE OF THE LEGISLATIVE AUDITOR
 State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
 Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Christine Jax, Commissioner
 Department of Children, Families & Learning

We have performed certain audit procedures at the Department of Children, Families & Learning (CFL) as part of our audit of the financial statements of the State of Minnesota as of and for the year ended June 30, 2000. We have also reviewed certain department procedures related to the state’s compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to the department for the year ended June 30, 2000. We emphasize that this has not been a comprehensive audit of the Department of Children, Families & Learning.

Table 1 identifies the financial activities within CFL that were material to the state’s financial statements. We performed certain audit procedures on these CFL programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota’s financial statements for the year ended June 30, 2000, were free of material misstatement.

Table 1
Programs Material to the State’s Financial Statements
Fiscal Year 2000
(in thousands)

<u>Expenditures</u>	<u>Amount</u>
General Fund:	
School Aids ⁽¹⁾	\$4,671,807
Child Care & Development Program	73,964
Expendable Trust Fund – Endowment School Fund Apportionment	20,860
Capital Projects Fund – Construction Grants	25,995
Federal Fund:	
Title I Grants to Local Educational Agencies	84,358
Child & Adult Care Food Program	53,178
Special Education Grants to States	66,243
Low Income Home Energy Assistance Program	45,339
Nutrition Cluster	87,062
Loans Receivable:	
Maximum Effort School Loan Fund	14,703

(1) State education aids paid through the department’s centralized payment system.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000.

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Table 2 identifies the State of Minnesota's major federal programs administered by the Department of Children, Families & Learning. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its major federal programs.

Table 2
Department of Children, Families & Learning
Major Federal Programs
Fiscal Year 2000
(in thousands)

<u>CDFA No.</u>	<u>Program Name</u>	<u>Total Expenditures</u>
10.553	School Breakfast Program	\$14,716
10.555	National School Lunch Program	70,550
10.556	Special Milk Program for Children	828
10.558	Child & Adult Care Food	53,173
10.559	Summer Food Service Program for Children	3,448
10.560	State Administrative Expense for Child Nutrition	2,891
84.010	Title I Grants to Local Educational Agencies	84,358
84.027	Special Education State Grants	71,798
84.173	Special Education – Preschool Grants	7,066
93.568	Low Income Home Energy Assistance Program	45,339
93.575	Child Care & Development Block Grant	10,819
93.596	Child Care & Development Fund	67,933

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Conclusions

Our December 1, 2000, report included an unqualified opinion on the State of Minnesota's general purpose financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 2000. In accordance with *Government Auditing Standards*, we have also issued our report, dated December 1, 2000, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulation, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

Our work at the Department of Children, Families & Learning identified the following internal control weaknesses or instances of noncompliance with finance-related legal provisions.

Department of Children, Families and Learning

1. CFL did not properly record Maximum Effort School Loan Fund principal payments on MAPS and did not charge school districts for late payments.

CFL recorded loan principal payments as interest income on MAPS in fiscal year 2000. As a result, interest income was overstated on MAPS. Principal payments received from school districts during fiscal year 2000 totaled \$284,000. The Maximum Effort School Loan Fund is a program that assists school districts in financing construction projects. CFL uses bond proceeds to provide loans to school districts. CFL sends school districts letters stating the amount of principal due on December 15 each year. CFL should properly record interest and principal payments on MAPS to ensure the accuracy of the financial statements.

CFL did not charge school districts interest for late principal payments. Seven of 11 school districts did not submit payments by December 15, 1999, as required by statute. Minn. Stat. Section 126C.71, Subd.1 (b) requires that CFL assess an interest charge on any late payments. CFL did not charge interest because the majority of the late districts paid by January 30, 2000. Although the interest lost was nominal, CFL did not comply with the statutory requirement. In addition, assessing interest charges may serve as an incentive encouraging school districts to make timely payments.

Recommendations

- *CFL should ensure that Maximum Effort School Loan payments are recorded correctly on MAPS.*
- *CFL should charge interest to school districts that do not pay by December 15.*

2. CFL did not properly record the date of liability for some transactions.

CFL did not use the correct record date to record some special education and preschool program administrative expenditures on MAPS. We found 12 of 20 items tested had incorrect record dates in fiscal year 2000. CFL entered the invoice date or the date of receiving the invoice as the record date in MAPS. Department of Finance guidelines require state departments to use the date that goods or services are received as the record date. Incorrect record dates increase the risk that liabilities may be understated in the state's financial statements.

We found two other instances of incorrect entering of record dates in MAPS when testing payments from July 1, to September 8, 2000. Two of 18 reimbursements tested for the After School Enrichment grants had incorrect record dates on the accounting system. One transaction covered costs related to two fiscal years, but was not properly split between the years. The record date for the other reimbursement request was the date CFL processed the payment. For reimbursement grants to school districts, the department should enter the date that the district incurs the costs to properly show the date of the state's liability.

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Recommendation

- *CFL should ensure that transactions on MAPS have the correct record dates.*

3. CFL did not correctly prepare the State Per Pupil Expenditure Report for the Title 1 Program (CFDA 84.010).

CFL incorrectly included debt service expenditures totaling \$259,219 in the calculation of its Title 1 per pupil expenditures for fiscal year 2000. Federal regulations 20 USC 8801, Section 14101(11) state that debt service expenditures are to be excluded from the calculation. Each year the state educational agencies are required to submit pupil expenditure data to the National Center for Education Statistics. The U.S. Department of Education uses the data reported to allocate funds to each state for the Title 1 Program. The inclusion of unallowable costs could inappropriately increase the state's allocation.

Recommendation

- *CFL should ensure that reported per pupil expenditure data is calculated in accordance with federal guidelines.*

4. CFL overpaid its statewide indirect costs to the Department of Finance.

CFL overpaid its statewide indirect costs for fiscal year 2000 by \$69,346. We could not find supporting documentation for some payments to the Department of Finance. We found the overpayment after reviewing the charges and payments from the state account as recorded on MAPS. The department should ensure it pays only the amount due based on expenditures and the cost rate data. CFL should maintain adequate supporting documentation for all payments.

Recommendations

- *CFL should recover the work with the Department of Finance to indirect cost overpayment.*
- *CFL should maintain adequate supporting documentation for all indirect cost payments.*

Department of Children, Families and Learning

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Children, Families & Learning. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 8, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 21, 2000

Report Signed On: March 5, 2001

**Status of Prior Audit Issues
As of December 1, 2000**

March 10, 2000, Legislative Audit Report 00-05 examined the CFL activities and programs material to the State of Minnesota's Annual Financial Report or the Single Audit for the year ended June 30, 1999. The scope included General Education Aids, Title I Grants to Local Educational Agencies, Special Education Aid, and other federal and state programs. The audit found that the department did not properly record the date of liability for construction grant expenditures. In addition, the audit found that the department did not comply with the Cash Management Improvement Act for the LIHEAP program or the cash management agreement with the Department of Finance. Finally, the prior audit found that the department did not comply with certain federal and state indirect costs requirements. Our 2000 audit found that the department implemented the recommendations discussed in the prior audit.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



February 28, 2001

James Nobles, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for your recent audit report of the Department of Children, Families and Learning. Your review of our agency programs and the resulting recommendations are helpful to us in evaluating our accounting policies and procedures.

We concur with your findings and have already begun to take action on the major recommendations in the audit report. Listed below are the four findings and agency actions.

- *CFL did not properly record Maximum Effort School Loan Fund principal payments on MAPS and did not charge school districts for late payments.*

For FY2001, principal payments will be coded separately from the interest payments. Also, all districts submitting late payments are being assessed interest charges.

- *CFL did not properly record the date of liability for some transactions.*

Agency Finance staff have received additional training and information on this issue to ensure that all liability dates are correctly recorded in MAPS. In addition, staff are examining specifically end of year transactions to ensure that costs or expenditures are coded to the correct fiscal year.

- *CFL did not correctly prepare the State Per Pupil Expenditure Report for the Title I program.*

This appears to be an error in the computer program that creates the report. Staff in the Information Technology Division are revising the program to ensure that debt service expenditures are excluded in all future reports.

- *CFL overpaid its statewide indirect costs to the Department of Finance.*

An error was made on these payments. Procedures and requirements have been reiterated to ensure that the problem does not recur in the future.

Sincerely,

/s/ Christine Jax

Christine Jax, Ph.D.
Commissioner