OLA
OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Children, Families and Learning

Fiscal Year Ended June 30, 2001

MARCH 14, 2002 02-16

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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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

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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
Cecile Ferkul, CPA, CISA	Audit Manager
Joan Haskin, CPA, CISA	Auditor-in-Charge
Connie Stein	Senior Auditor
Ellen Sibley, CPA	Senior Auditor
Theresa Hahn	Senior Auditor
Heather White	Senior Auditor
Karyn Dee	Intern

Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Children, Families & Learning on March 1, 2002:

Dr. Christine Jax	Commissioner
Katie Shea	Director of Finance and Management Services
Anne Cutler	Manager, Learner Options
Don Johnson	Accounting Officer Senior
Sue Nicol	Accounting Officer Senior
David Zupfer	Accounting Officer Senior

Department of Children, Families & Learning

Report Summary

Key Findings and Recommendations

- The Department of Children Families and Learning (CFL) did not comply with some federal cash management provisions. We recommended that the department time its draws of federal funds to minimize the time that it or its subgrantees hold federal funds prior to program expenditures and the time that it uses state funds to cover federal program expenditures. (Finding 1, page 4)
- CFL did not return unexpended Nutrition Cluster funds to the federal government or properly report expenditures. We recommended that CFL continue to work with the federal government to determine the proper disposition of returned Nutrition Cluster funds and prior year financial status reports. CFL should also report actual expenditures to the federal government on the quarterly financial status reports for the Nutrition Cluster. (Finding 2, page 5)
- CFL has no backup for the employee who maintains some critical information systems. We recommended that CFL provide cross training for the maintenance of the state and federal school district and county payment systems. (Finding 3, page 5)
- A CFL employee inappropriately contracted with a relative resulting in violations of statutes and state contracting policies. We recommended that CFL ensure that employees are aware of their responsibilities under the state code of ethics and the department's policy prohibiting contracts with relatives. CFL should also not authorize contract work to begin until the contract is fully executed. In addition, CFL should ensure employees comply with the department's annual plan policy and refrain from acquiring support staff and management consulting services with an annual plan contract. Finally, CFL should revise its annual plan contract document to include standard contract provisions. (Finding 4, page 6)
- CFL could not support its compliance with matching and earmarking requirements of the Learn & Serve and Byrd Scholarship federal grant programs and had errors in its annual report to the federal government for the Byrd Scholarship Program. We recommended that CFL maintain support to show that it met the matching and earmarking requirements of the Learn & Serve Program and that it complied with Byrd Scholarship requirements to distribute funds to continuing students before it awards new scholarships. CFL should also ensure that it accurately reports data on the Byrd Scholarship's annual performance report, and should maintain documentation to support reported amounts. (Finding 5, page 7)
- CFL did not timely submit financial status reports for the federal AmeriCorps Program. We recommended that CFL timely submit AmeriCorps program financial status reports. (Finding 6, page 8)

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 our work in individual agencies is limited. During the fiscal year 2001 audit, our work at the department of Children, Families and Learning included an audit of various state and federal school aids, and the Maximum Effort School Loan Fund. The department's response to our recommendations is included in the report.

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. 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, 2001. 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, 2001. 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, 2001, were free of material misstatement.

Table 1
Department of Children, Families & Learning
Programs Material to the State's Financial Statements
Fiscal Year 2001
(in thousands)

Expenditures	Amount
General Fund:	
School Aids [1]	$4,760,220
Expendable Trust Fund – Endowment School Fund Apportionment	24,053
Capital Projects Fund – Construction Grants	19,764
Federal Fund:	
Title I Grants to Local Educational Agencies	83,909
Special Education State Grants	56,793
Child Care & Development Program	102,232
Nutrition Cluster	89,404
Loans Receivable:	
Maximum Effort School Loan Fund	15,468

Note 1: State education aids paid through the department's centralized payment system.

Source: Minnesota Accounting and Procurement System.

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Department of Children, Families & Learning

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 CFL 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 2001
(in thousands)

CDFA No.	Program Name	Total Expenditures
10.553	School Breakfast Program	$ 15,097
10.555	National School Lunch Program	70,410
10.556	Special Milk Program for Children	786
10.559	Summer Food Service Program for Children	3,111
84.010	Title I Grants to Local Educational Agencies	83,909
84.027	Special Education State Grants	56,793
84.048	Vocational Education	5,354
84.173	Special Education – Preschool Grants	7,460
84.185	Byrd Honors Scholarships	702
93.575	Child Care & Development Block Funds	11,943
93.596	Child Care & Development Program	102,232
94.003	State Commissions	254
94.004	Learn & Serve America	612
94.006	AmeriCorps	2,166
94.007	Planning & Program Development Grants	179
94.009	Training & Technical Assistance	188

Source: Minnesota Accounting and Procurement System.

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 7, 2001, report included an unqualified opinion on the State of Minnesota's general purpose financial statements included in its Comprehensive Annual Report for the year ended June 30, 2001. In accordance with *Government Auditing Standards*, we have also issued our report, dated December 7, 2001, 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 & Learning

1. CFL did not comply with some provisions of the Department of Finance cash management agreement and the federal Cash Management Improvement Act.

CFL did not comply with some federal cash management provisions:

- In December 2000, CFL mistakenly paid approximately 200 school districts 90 percent of their Title 1 (CFDA #84.010) expenditures rather than the 52 percent required by CFL's payment schedule. The payments to the school districts exceeded the properly calculated payments by nearly $14 million. Some of the excess payments reimbursed school districts for costs they incurred that CFL would not normally have reimbursed until a later date. However, some school districts received federal funds in advance. For example, CFL's advances of federal funds to the Minneapolis and St. Paul school districts were $3,323,153 and $1,433,567, respectively. CFL drew federal funds to reimburse the state for the advanced funds rather than request repayment from the school districts or use state funds until the school districts incurred allowable costs. By the end of the school year, the school districts received the correct reimbursement amount.

- In October 2000, CFL paid $275,000 to a subgrantee, which was 50 percent of federal State Improvement Grant (CFDA 84.323) and Individuals with Disabilities Education Act (CFDA 84.027) grant awards. For the period July 1, 2000, through December 31, 2000, the subgrantee reported expenditures totaling over $211,000 and a cash balance over $63,000.

The federal Cash Management Improvement Act requires that states minimize the time between the drawdown of federal funds and the actual disbursement of the funds. CFL should monitor its cash drawdowns to ensure compliance with this act. CFL should also consider reimbursing subrecipients for actual expenditures rather than advancing funds.

In other cases, CFL did not draw federal funds in a timely manner and temporarily used state funds for federal program expenditures, resulting in a loss of state investment income. CFL generally drew federal funds on a biweekly basis for approximately $60 million of grant expenditures it processed directly through the state's accounting system rather than through a payment subsystem. CFL reviewed the grant accounts and drew funds to cover negative cash balances on the state's accounting system. For example, on April 12, 2001, CFL drew federal funds totaling nearly $130,000 to cover grant payments for the Special Education Program (CFDA 84.027) made on March 29, 2001. Also, on January 16, 2001, CFL drew federal funds for AmeriCorps Administration (CFDA 94.003) program expenditures it incurred during the period from December 19, 2000, through January 16, 2001, when the negative cash balance grew to over $34,000.

Recommendation

- *CFL should time its draws of federal funds to minimize the time that it or its subgrantees hold the funds prior to program expenditures and the time that it uses state funds to cover federal program expenditures.*

2. CFL did not return unexpended Nutrition Cluster funds to the federal government or properly report expenditures.

A United States Department of Agriculture management evaluation report to CFL in November 2001 included two findings affecting the Nutrition Cluster (CFDA #'s 10.553, 10.555, 10.556, and 10.559).

First, CFL accumulated over $200,000 of federal funds due to changes in the Nutrition Cluster programs. Grantees returned these funds based on adjustments identified by audits or reviews of program expenditures. CFL paid some of the funds to other grantees that had mistakenly understated program expenditures for a prior year. CFL accumulated the returned funds in a separate account on the state's accounting system pending determination of their proper disposition. Table 3 shows the growth of the returned federal funds held by CFL since fiscal year 1997.

Table 3
Department of Children, Families & Learning
Schedule of Returned Federal Nutrition Funds
Fiscal Years 1998 through 2001

	1998	1999	2000	2001
Balance Forward from Prior Fiscal Year	$106,582	$106,716	$111,851	$186,598
Grantee Refunds Returned	22,119	6,402	86,273	30,477
Payments to Grantees	(21,985)	(1,267)	(11,526)	(5,669)
Balance Forward to Next Fiscal Year	$106,716	$111,851	$186,598	$211,406

Source: Minnesota Accounting and Procurement System.

Second, in preparing its quarterly federal financial status reports for the Nutrition Cluster, CFL did not report actual expenditures as federal outlays. Instead, CFL reported the amount of federal funds drawn during the period. Federal regulations require states to report the amount of federal program funds expended and obligated. While CFL bases most federal draws on amounts expended, differences do occur, usually because of prior year payments and refunds. CFL does not reconcile the differences between its nutrition program expenditures and its federal fund draws.

Recommendations

- *CFL should continue to work with the federal government to determine the proper disposition of returned Nutrition Cluster funds and prior year financial status reports.*
- *CFL should report actual expenditures to the federal government on the quarterly financial status reports for the Nutrition Cluster.*

3. CFL has no backup for the employee who maintains some information systems.

CFL relies on one employee to maintain the computer programs that calculate and process state and federal payments to school districts and counties. This employee designed, wrote, and tested the computer programs and maintains the data on the systems. CFL has not cross-trained other employees who could continue the operation of these systems should this employee leave. These systems are critical to CFL's core responsibilities. Reliance on a single employee for the ongoing operation of these critical systems is extremely risky, not only because of the potential for disruption of operations but also because it creates an environment where errors or irregularities could occur and go undetected. In fiscal year 2001, payments exceeded $4.5 billion.

Recommendation

- *CFL should provide cross-training for the maintenance of the state and federal school district and county payment systems.*

4. A CFL employee inappropriately contracted with a relative resulting in violations of statutes and state contracting policies.

A manager in CFL's Office of Community Services annually contracted (from fiscal years 1998 through 2001) with a relative using an annual plan contract. Agencies can award annual plan contracts without going through a competitive process. Agencies can use annual plan contracts for professional/technical services they need on a recurring basis, such as interpreters, court reporters, or trainers. CFL's annual plan contract limit is $5,000 each fiscal year. CFL paid the relative $20,000 during the four-year period. CFL provided documentation that the relative performed the services required under the contract. However, this arrangement created several problems.

The manager violated state conflict of interest statutes and policies. State statutes provide that a conflict of interest exists if an employee secures benefits, privileges, exemptions, or advantages for an immediate family member that are not generally available to the public. The Department of Administration and CFL policies further define and prohibit transactions when a conflict of interest exists. (In fiscal year 2000, CFL investigated similar conflict of interest concerns in a different division of the same office. The investigation resulted in a directive to that division to eliminate any potential conflict of interest in its annual plan contracting.)

CFL violated state statutes when it directed the relative to continue providing services in fiscal year 2002, without a contract or encumbrance in place, resulting in an obligation for work performed totaling $2,284. State statutes provide that a contract is not valid and the state is not bound unless an agency has fully executed a contract, and the accounting system shows an obligation in an expense budget or encumbrance for the amount of the contract liability.

CFL violated Department of Administration and CFL policies when it used an annual plan contract to obtain administrative support and consulting services. Services provided included developing a central filing system, providing etiquette guidelines for colleague interaction, designing routing slips for interoffice communications, developing staffing plans, and writing position descriptions and a team handbook. To ensure the efficient use of state employee resources, CFL policy states that offices direct any need for support services to CFL's Human Resource Office and not use an annual plan contract to obtain these services. Additionally, the Department of Administration prohibits the use of annual plan contracts to acquire management consultation services; it requires agencies to use a competitive process or work with the Department of Administration's Management Analysis Division to acquire these services.

Finally, the department's annual plan contract did not comply with the Department of Administration's contract requirements. These requirements ensure that annual plan contracts include necessary provisions, such as liability, terms of payment, cancellation, amendments, state audits, and government data practices. The CFL annual plan contracts did not include contract provisions that are important should disputes with the vendor arise.

Recommendations

- *CFL should ensure that employees are aware of their responsibilities under the state code of ethics and the department's policy prohibiting contracts with relatives.*

- *CFL should fully execute contracts and ensure the availability of the funds before authorizing work to begin.*

- *CFL should ensure employees comply with the department's annual plan policy and refrain from acquiring support staff and management consulting services with an annual plan contract.*

- *CFL should revise its annual plan contract document to include standard contract provisions.*

5. CFL could not support its compliance with matching and earmarking requirements of the Learn & Serve and Byrd Scholarship Programs and had errors in its annual report to the federal government for the Byrd Scholarship Program.

CFL could not support the grantee match amounts it reported to the federal government on its final financial status reports for the Learn and Serve Program (CFDA #94.004). Federal program provisions require that grantees provide cash or in-kind matching of federal funds. Although grantees submitted reports of expenditures to CFL, and the reports did provide match amounts, CFL did not use these reports as the basis for its federal reporting. Match amounts CFL reported on financial status reports for two Learn and Serve grants that ended on June 30, 2001, were $439,355 and $328,810.

Federal provisions for the Learn and Serve Program also prohibited grantee spending beyond a five percent level for administrative costs and required spending of at least ten percent for grantee support-related costs. CFL calculated match and earmarking limits in the grant's initial budget narrative, but it did not subsequently analyze actual expenditures reported by the grantee to ensure compliance.

CFL also could not demonstrate that it complied with earmarking requirements for the Byrd Scholarship Program (CFDA #84.185). Federal regulations required that CFL distribute funds to continuing students before it awards new scholarships. CFL stated that it complied with this provision but could not support that assertion. A database CFL developed for this program that would have documented compliance was not yet operational. In addition, there were discrepancies on CFL's fiscal year 2001 performance report to the federal government: the total number of recipients by type of institution did not agree with the total number of students by class level, and reported expenditures exceeded actual expenditures by $3,500.

Recommendations

- *CFL should maintain support to show that it met the matching and earmarking requirements of the Learn & Serve Program and that it complied with Byrd Scholarship requirements to distribute funds to continuing students before it awarded new scholarships.*
- *CFL should ensure that it accurately reports data on the Byrd Scholarship's annual performance report and should maintain documentation to support reported amounts.*

6. CFL did not timely submit financial status reports for the AmeriCorps Program.

CFL did not timely submit financial status reports for the AmeriCorps Program (CFDA #94.006) to the Corporation for National and Community Service. Federal program provisions require CFL to submit these reports on a semi-annual schedule via a web-based reporting system. As of December 2001, CFL had not submitted two reports due on October 31, 2001. In addition, it did not submit a report due on April 30, 2001, until May 14, 2001. To prepare the financial status reports, CFL requires information from program subgrantees. Untimely submission of information from some subgrantees resulted in CFL's inability to meet federal reporting deadlines.

Recommendation

- *CFL should timely submit AmeriCorps program financial status reports.*

7. CFL did not comply with certain state indirect costs requirements.

CFL did not timely reimburse the General Fund as required by the Department of Finance policy. The policy requires quarterly reimbursement of statewide and agency indirect costs when the annual liability exceeds $2,000. CFL made two payments to Finance for its fiscal year 2001 statewide indirect costs. CFL paid $243,245 for the first two quarters of fiscal year 2001 on March 7, 2001, and paid $73,200 on August 29, 2001. In addition, CFL calculated the payment amount for the first two quarters on total expenditures rather than those that should be charged indirect costs. As a result, CFL overpaid the first two quarters by $6,127. The total payment for fiscal year 2001 statewide indirect costs was correct.

Recommendations

- *CFL should make statewide indirect cost payments quarterly as outlined in the DOF policy.*
- *CFL should ensure that it uses the correct expenditure totals when calculating indirect cost payments.*

8. PRIOR FINDING NOT IMPLEMENTED: CFL did not properly record the date of liability for some expenditure transactions.

CFL did not properly record the date the state incurred a liability for some expenditure transactions. The record date for three of eleven construction grant transactions tested, totaling almost $13 million, was not the date that the grantee incurred the liability. CFL used either the date of the reimbursement request or the date it entered the transaction on the state's accounting system. In addition, CFL used incorrect record dates on four of ten tested special education (CFDA #84.027) administrative expenditure transactions, totaling approximately $45,000.

Generally accepted accounting principles require that the state recognize a liability when the grantee incurs an allowable cost. The Department of Finance uses the accounting system's "record date" to determine in which period it should recognize transactions. If the record date is incorrect, and if the department of Finance or the auditors do not detect the error, the transactions will accrue to the wrong fiscal year in the state's financial statements.

Recommendation

- *CFL should properly record the date of liability in the state's accounting system.*

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 14, 2002.

/s/ James R. Nobles	*/s/ Claudia J. Gudvangen*
James R. Nobles Legislative Auditor	Claudia J. Gudvangen, CPA Deputy Legislative Auditor

End of Fieldwork: February 1, 2002

Report Signed On: March 11, 2002

Status of Prior Audit Issues
As of February 1, 2002

March 8, 2001, Legislative Audit Report 01-08 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, 2000. The scope included General Education Aids, Title I Grants to Local Educational Agencies, Special Education Aid, and other federal and state programs. The department did not properly record Maximum Effort School Loan Fund principal payments on the accounting system and did not charge school districts for late payments. In addition, the department did not properly record the date of liability for some transactions. The department did not correctly prepare the State Per Pupil Expenditure Report for the Title I Program. Finally, the department overpaid its statewide indirect costs to the Department of Finance. In fiscal year 2001, CFL implemented most of the recommendations but did not properly record the date of liability for some transactions.

March 8, 2001, Legislative Audit Report 01-09 was a special review that examined a CFL grant to the United Way of Olmsted County for the period June 1998 through June 1999. The department inappropriately initiated grant agreements with the United Way of Olmsted County and other counties and nonprofit organizations. The department did not spend grant funds within the grant period and failed to return the unexpended balance. The department administered state funds in an outside bank account, circumventing state policies and procedures. Also, some CFL employees received questionable expense reimbursements, and a CFL supervisor allowed an employee to inappropriately accumulate and use compensatory time not recorded on the state payroll system. The department took appropriate action to resolve the issues.

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 applicable to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

MINNESOTA DEPARTMENT OF

Children, Families & Learning

March 8, 2002

Jim Nobles, Legislative Auditor
Room 140 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

We received your report on the single audit conducted at CFL for fiscal year 2001. We appreciate your findings and recommendations. Listed below are the findings and CFL's response.

- *CFL did not comply with some provisions of the Department of Finance cash management agreement and the federal Cash Management Improvement Act.*

Beginning in the last half of FY2001, CFL implemented new procedures for grants to clarify what amounts can be advanced to grantees. The agency has also put additional controls into the payment system for Title I to prevent overpayments. As a result, neither of these situations will be repeated in the future. However, another instance cited was a cash draw for Special Education on April 12. Your report mistakenly reflects this as a draw to make March 29 grant payments. It is, however, the bi-weekly administrative draw for Special Education and should not be reported as a violation. Under the CMIA, CFL is permitted to draw the full amount of salary costs for that pay period and one half of the estimated non-salary expenditures for the next pay period. This draw is consistent with the CMIA.

- *CFL did not return unexpended Nutrition Cluster funds to the federal government or properly report expenditures.*

CFL has been working with the US Department of Agriculture for the past six months to resolve the issue with unexpended funds. We are finalizing the method for returning funds and anticipate that the process will be completed by the end of this fiscal year.

The statewide accounting system does not always record expenditures in the proper federal accounting period, due to the close of prior years after September 1. To report the correct actual expenditures, the agency reported based on cash draws since the payments are reimbursements. However, the agency is working to define a process that draws together data from four different systems to ensure correct expenditure reporting.

- *CFL has no backup for the employee who maintains some information systems.*

The systems in question are 25 year-old cobol programming language. The agency has tried to hire or contract for support. Support is no longer available for these antiquated programs. Until the agency receives funding for new systems, we cannot provide adequate backup for this function.

- *A CFL employee inappropriately contracted with a relative resulting in violations of statutes and state contracting policies.*

CFL has distributed written policies on open contracting, annual plans and conflict of interest to ensure that employees are fully aware of their legal responsibilities to ensure fair and open competition for state contracts. The policies also restrict the use of annual plan and other contracts for support services and consulting. Annual plan contract documents are being further revised to include standard contract provisions.

- *CFL could not support its compliance with matching and earmarking requirements of the Learn & Serve and Byrd scholarships and had errors in its annual report to the federal government on the Byrd Scholarship Program.*

The Learn & Serve documents are filed by the grantees. There was not a process to compile the match amounts to prove the requirement was met. A new procedure has been established to record each grantee's match amount on a spreadsheet to support match and earmarking requirements.

The Byrd Scholarship program maintains that staff did ensure that earmarking requirements were met. However, in the future, more detailed records will be maintained to establish tangible proof of compliance.

- *CFL did not timely submit financial status reports for the AmeriCorps Program.*

The aggregate FSR that CFL submits to the federal government is contingent upon the timely and accurate submittal of FSR's from all subgrantees. Procedures have been streamlined and deadlines for subgrantee submissions moved back to ensure that CFL can meet the federal deadline for reporting.

- *CFL did not comply with certain state indirect cost requirements.*

CFL will make quarterly payments to the Department of Finance in the future to ensure compliance with state requirements.

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

The previous finding on this issue was conveyed to the department in December, 2001 when the fiscal year was half over. The agency took steps to correct the problem, but corrections were not fully implemented in time to avoid this finding in the FY2001 audit. However, the finding has been fully corrected for the current state fiscal year.

Sincerely,

Christine Jax

Christine Jax, Ph.D
Commissioner