



Special Review

Department of Education

Administration of Certain Federal Nutrition Grants



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Department of Education

We have conducted a special review of the Department of Education's financial management of two federal grants from the U.S. Department of Agriculture. The two grants, totaling \$600,000, had specific goals to improve the administration of the food and nutrition programs. The food and nutrition services section within the Department of Education administers the funding and operation of the child nutrition program.

We conducted the review in response to a request by the commissioner of Education. The commissioner had concerns related to improper salary, contract, travel, and other administrative costs charged to these grants. Based upon preliminary information received from the department, we decided to pursue the matter further and issue this special report. We discuss these matters more fully in the following chapters of the report.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Education. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 6, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

Report Signed On: November 3, 2003

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Audit Participation

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

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Cecile Ferkul, CPA, CISA	Audit Manager
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Exit Conference

The following representatives of the Department of Education participated in the exit conference held on October 27, 2003:

Dr. Cheri Pierson Yecke	Commissioner
Chas Anderson	Deputy Commissioner
Tammy McGlone	Director of Administrative Services
William T. Walsh	Director of Communications

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Report Summary

We have conducted a special review of the Department of Education's financial management of two federal grants from the U.S. Department of Agriculture. The two grants, totaling \$600,000, had specific goals to improve the administration of the food and nutrition programs. The food and nutrition services section within the Department of Education administers the funding and operation of the child nutrition program.

In June 2003, the commissioner of Education asked the Office of the Legislative Auditor to review costs charged to these grants. The commissioner was concerned that some costs charged to these grants during fiscal years 2001 and 2002 may not have been valid. Based on preliminary information received from the department, we decided to pursue the matter further.

Our objective in conducting this special review was to answer the following questions:

- Did the Department of Education charge expenditures to the Implement Provisions 2 and 3 and Team Nutrition 2001 grants that it incurred to accomplish the grants' objectives and complied with federal eligible cost principals?
- Did the Department of Education expend Implement Provisions 2 and 3 and Team Nutrition 2001 grant funds in accordance with grant provisions and federal administrative requirements?

Conclusions

The Department of Education charged costs to the Provisions 2 and 3 grant (CFDA #10.573) and the Team Nutrition 2001 grant (CFDA #10.574) that did not relate to the accomplishment of the grant objectives. For the Provisions 2 and 3 grant, the department charged \$317,240 for payroll, professional/technical services, and travel costs that did not relate to the grant. For the Team Nutrition 2001 grant, the department charged \$32,034 for payroll costs that did not relate to the grant. The department should have paid for these costs with existing federal nutrition program funding. The department did not account for Team Nutrition 2001 grant expenditures separately from other federal grants.

In addition, the department did not comply with certain grant provisions of the Provisions 2 and 3 grant and the Team Nutrition 2001 grant. The department did not provide state matching funds to accomplish the grants' objectives, as agreed to in the grant awards. It also did not accurately report Provisions 2 and 3 grant expenditures to the federal government in its quarterly progress reports. In addition, for the Team Nutrition 2001 grant, the department did not notify the U.S. Department of Agriculture when its use of funds deviated significantly from the grant's original budgets or when it assigned different employees to the grant than those designated in the application.

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Chapter 1. Introduction

We have conducted a special review of the Minnesota Department of Education's administration of two federal grants it received from the U.S. Department of Agriculture's Food and Nutrition Service, which oversees federal child nutrition programs nationwide. The Department of Education's food and nutrition services section administers the funding and operation of the child nutrition programs in Minnesota. In addition to the approximately \$164 million it receives annually for general child nutrition programs, the Department of Education received two targeted Food and Nutrition Service grants totaling \$600,000 in fiscal years 2001 and 2002. These two grants, the Implement Provisions 2 and 3 grant and the Team Nutrition 2001 grant, had specific goals to improve the administration of the food and nutrition program and to encourage and inform the school districts of potential improvements in the reporting of child nutrition activities. Chapter 2 provides further explanation of these programs.

In June 2003, the commissioner of Education asked the Office of the Legislative Auditor to review costs charged to these grants. The commissioner was concerned that some costs charged to these grants during fiscal years 2001 and 2002 may not have been valid. Based on preliminary information received from the department, we decided to pursue the matter further.

Objectives and Methodology

Our objectives in conducting this special review were to answer the following questions:

- Did the Department of Education charge expenditures to the Implement Provisions 2 and 3 and Team Nutrition 2001 grants that it incurred to accomplish the grants' objectives and complied with federal eligible cost principals?
- Did the Department of Education expend Provisions 2 and 3 and Team Nutrition 2001 federal grant funds in accordance with grant provisions and federal administrative requirements?

We examined the accounting records for each of these grants. We reviewed the costs the department charged to these grants, which were mainly payroll, contract, and travel costs. We discussed the employee hours charged to the grants with food and nutrition services section employees. We reviewed contract payments to determine if the work related to the grants. We also reviewed the support for travel costs charged to these grants.

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Chapter 2. Administration of Certain Federal Nutrition Grants

Chapter Conclusions

The Department of Education charged costs to the Provisions 2 and 3 grant (CFDA #10.573) and the Team Nutrition 2001 grant (CFDA #10.574) that did not relate to the accomplishment of the grant objectives. For the Provisions 2 and 3 grant, the department charged \$317,240 for payroll, professional/technical services, and travel costs that did not relate to the grant. For the Team Nutrition 2001 grant, the department charged \$32,034 for payroll costs that did not relate to the grant. The department should have paid for these costs with existing federal nutrition program funding. The department did not account for Team Nutrition 2001 grant expenditures separately from other federal grants.

In addition, the department did not comply with certain grant provisions of the Provisions 2 and 3 grant and the Team Nutrition 2001 grant. The department did not provide state matching funds to accomplish the grants' objectives, as agreed to in the grant awards. It also did not accurately report Provisions 2 and 3 grant expenditures to the federal government in its quarterly progress reports. In addition, for the Team Nutrition 2001 grant, the department did not notify the U.S. Department of Agriculture when its use of funds deviated significantly from the grant's original budget or when it assigned different employees to the grant than those designated in the application.

Payroll costs were the largest type of expenditure for the Provisions 2 and 3 and the Team Nutrition 2001 grants. The Department of Education charged payroll costs to federal projects based on quarterly certifications by program supervisors as to the validity of the payroll allocation. These certifications should have provided assurance that the department's payroll allocation reasonably estimated the actual duties that employees performed, as required by the federal cost principles outlined in federal Circular A-87. However, our tests for the two nutrition grants showed that these certified allocations did not result in reasonably accurate payroll charges. As further explained in Findings 1 and 2, many employees stated that they did not work on the grants to the extent that the department had charged their payroll costs. Recognizing the weaknesses of the certification process, the department is reviewing the appropriateness of federal payroll allocations throughout the department.

The Provisions 2 and 3 and Team Nutrition 2001 grant agreements required that the department use the funds to supplement, not supplant, regular nutrition program funding. This common feature of federal funding requires that the department use these funds to add to its existing levels

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of service for nutrition program activities and cannot use the funds to support any existing level of service or replace other funding for existing levels of service. In addition to the general “supplement and not supplant” restriction, the grant agreements included restrictions that were more specific. The Provisions 2 and 3 grant agreement required that the department use the funds “solely to target schools which are likely to benefit from electing to receive special assistance, and to provide technical assistance to such schools to enable them to evaluate and implement Provisions 2 or 3.” Similarly, the Team Nutrition 2001 grant agreement restricted the use of funds to the purposes and objectives approved in the department’s grant proposal. As further explained in Findings 1 and 2, the department charged payroll, travel, and professional/technical costs to the grant that it should have paid for with existing nutrition program funding.

Grant to Implement Provisions 2 and 3 (CFDA #10.573)

In fiscal year 2001, the U.S. Department of Agriculture awarded the Department of Education a \$400,000 grant to implement new provisions of the National School Lunch Program. These new provisions, Provisions 2 and 3, allow schools already providing most students with free and reduced meals to provide free meals to all students and to use base year data to determine reimbursement amounts. Provision 2 calculates the federal reimbursement on a percentage, determined during the base year, of the total number of meals served. This provision requires a daily count of meals provided to students. Provision 3 determines the federal reimbursement by adjusting the base year reimbursement for inflation and enrollment changes. This provision does not require daily meal counts.

The objectives of the department’s implementation grant, available for October 30, 2000, to September 30, 2001, included:

- 1) explaining to schools the advantages of Provisions 2 and 3;
- 2) analyzing departmental school lunch data to identify schools most likely to benefit from implanting the provisions; and
- 3) providing training and technical assistance to schools electing to adopt one of these provisions.

Conclusions

As explained in Finding 1, the Department of Education charged costs to the Provisions 2 and 3 grant (CFDA #10.573) that did not relate to the accomplishment of grant objectives. The department charged \$317,240 for payroll, professional/technical services, and travel costs that did not relate to the grant. The department should have paid for these costs with existing federal nutrition program funding. In addition, the department did not comply with certain grant provisions. It did not accurately report grant expenditures to the federal government in its quarterly progress reports. The department also did not provide state matching funds as agreed to in the grant awards.

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1. **The Minnesota Department of Education's Food and Nutrition Services Section did not properly charge costs to the Implement Provisions 2 and 3 Grant and did not comply with grant requirements.**

The department charged the Provisions 2 and 3 grant \$317,240 for payroll, contract, and travel costs that did not relate to the grant. In addition, the department had significant deviations from its original grant budget and did not provide a state match, as agreed to in the grant application. Based on the significance of the questioned costs and the lack of a state match, it may not be reasonable for the department to claim that it met the grant objectives. Table 2-1 summarizes the budgeted and actual expenditures and the questioned costs.

Table 2-1
Grant to Implement Provisions 2 and 3
Budgeted and Actual Expenditures

<u>Expenditure Classification</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Questioned Costs</u>
Payroll	\$239,677	\$244,286	
Payroll costs before start of grant			\$ 39,382
Payroll costs not related to grant			174,342
Travel	33,200	4,952	3,267
Supplies, Printing, and Advertising	22,000	12,866	0
Professional/Technical Services	100,000	100,249	100,249
Other Operating Costs		2,163	0
Indirect Charges	<u>46,201</u>	<u>35,484</u>	<u>0</u>
Total Budgeted and Actual Expenditures	<u>\$441,078</u>	<u>\$400,000</u>	<u>\$317,240</u>

Note 1: The department's grant application requested \$400,000 federal grant funds and committed \$41,078 of state matching funds. The grant agreement incorporated the terms of the grant application.

Source: Grant application and Minnesota Accounting and Procurement System records.

Payroll

The department retroactively charged \$39,382 of payroll costs to pay periods before the effective date of the grant, October 10, 2000. Federal grants only allow pre-award costs if approved in writing by the awarding agency. The department did not obtain written approval to use the grant funds for payroll costs incurred before the start of the grant. The department had originally charged these costs to the nutrition program's State Administrative Expense grant (CFDA #10.560).

The department charged payroll costs to this grant for 14 employees. Five of the employees no longer work at the department. We individually talked with each of the current employees and one former employee. After determining that the employees understood the objectives of the grant, we asked whether they performed any duties related to the Provisions 2 and 3 grant and whether they believed that the department had accurately charged their payroll costs to the grant.

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We also asked how much time they thought the former employees we were unable to contact had spent on the project. Three of the employees felt that the payroll costs charged to the grant accurately reflected the time they had worked on the grant. Two employees acknowledged working on the grant, but for a more limited period than was charged. The remaining five employees did not believe that they had worked on the grant, and that their payroll costs had been charged to the grant in error. For the four employees we did not talk to, the other employees believed that one had been correctly charged to the grant, and that the remaining three had not worked on the grant. Table 2-2 shows the results of our testing and identifies the questioned costs.

Table 2-2
Grant to Implement Provisions 2 and 3
Questioned Payroll Costs

Employee	Payroll Costs Charged to Grant	Questioned Costs		Employee Explanation
		Payroll Costs Before Start of Grant	Payroll Costs Not Related to Grant	
Employee 1	\$ 10,527	\$ 2,775	\$ 0	Payroll costs accurate
Employee 2 ⁽¹⁾	13,987	9,627	0	Payroll costs accurate
Employee 3	6,138	0	0	Payroll costs accurate
Employee 4	6,641	0	0	Payroll costs accurate
Employee 5	20,760	0	16,686	Worked 200 hours on grant
Employee 6	17,523	1,546	14,380	Worked 10% of hours charged
Employee 7	38,740	1,210	37,530	Did not work on grant
Employee 8	32,695	0	32,695	Did not work on grant
Employee 9	26,385	0	26,385	Did not work on grant
Employee 10 ⁽²⁾	22,911	9,705	13,206	Did not work on grant
Employee 11 ⁽¹⁾	20,244	4,820	15,424	Did not work on grant
Employee 12 ⁽¹⁾	18,100	9,699	8,401	Did not work on grant
Employee 13	4,822	0	4,822	Did not work on grant
Employee 14 ⁽¹⁾	4,813	0	4,813	Did not work on grant
Totals	<u>\$244,286</u>	<u>\$39,382</u>	<u>\$174,342</u>	

Note 1: Employee no longer works with department. Questioned costs based on discussions with other employees.

Note 2: Employee no longer works with department, but we spoke with this employee.

Sources: State Employee Management Administration System's Labor Distribution Reports; Questioned costs based upon either discussions with current or past employees of the department.

Travel

Using information from the payroll analysis, we disallowed travel costs charged to this program for those employees who stated that they had not worked on the grant. For the remaining travel charges, we reviewed the supporting documentation and determined whether the purpose of the travel related to the purpose of the grant. Through this testing, we identified more travel costs that had no relationship to the Provisions 2 and 3 grant. Of the \$4,952 of travel costs the department charged to this grant, \$3,267 was unrelated to the grant objectives.

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Professional/Technical Services

The department improperly charged contract costs for professional/technical services totaling \$100,249 to this grant. As explained below, these contracts did not relate to the objectives of the Provisions 2 and 3 grant. The department initially encumbered both of these contracts to a different federal grant (CFDA #10.560-State Administrative Expense) and changed the funding source at the time that it made the payments to the contractors. A brief description of the contract charges is shown below.

- The department contracted with Harley Consulting for \$19,000 to plan and coordinate meetings with grades 9 – 12 student focus groups to get their perception of their school meal programs. This contract did not relate to Provisions 2 and 3.
- The department contracted with KPMG Consulting for \$400,000 to develop an automated system for the school districts to report school meal information to the Department of Education. Some tasks funded by this contract included modifying existing software, creating software for food and nutrition services section, and providing database administration. These tasks related to overall nutrition program reporting by school districts and did not specifically address the Provisions 2 and 3 reporting process. The department entered into this contract about a month before the U.S. Department of Agriculture awarded Provisions 2 and 3 grant award. The department charged approximately \$81,250 to the Provisions 2 and 3 grant.

After reviewing the transactions, the department concluded that it had improperly charged the Harley Consulting contract to the Provisions 2 and 3 grant, and that the \$81,250 payment to KPMG Consulting resulted from an attempt to correct an error in a previous transaction and was not related to the Provisions 2 and 3 grant.

In its quarterly reports to the U.S. Department of Agriculture, the department identified contract costs totaling \$75,000 and stated that it had “hired a consultant to develop a financial model to help sponsors determine if Provisions 2 or 3 would be beneficial to their school.” Our review of the department’s contracts in the Food and Nutrition Services Section did not identify any contracts that would have met this objective.

State Match

The department did not provide a state match as provided for in the grant application. The U.S. Department of Agriculture based its grant award on budgeted costs totaling \$441,078, with the state agreeing to provide \$41,078 as match. The food and nutrition services section used the \$400,000 of federal grant funds, but did not identify any state funded costs as program match.

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Federal Reporting

The Department of Education did not submit accurate progress reports to the U.S. Department of Agriculture. The Provisions 2 and 3 grant award stipulated that the state submit quarterly progress reports to the federal regional office. The award specifically identified the content and reporting dates of these progress reports. The award required that the June 30, 2001, and September 30, 2001, progress reports include a description of how the department had used the grant funds. However, the expenditures the department reported in the June 30, 2001, progress report were not supported by grant expenditures recorded on the state's accounting system. In addition, the department did not include expenditure information in the September 30, 2001, progress report. Table 2-3 compares the expenditures the department reported to actual expenditures recorded on the state's accounting system for fiscal year 2001.

Table 2-3
Provisions 2 and 3 Grant
Federal Reporting

<u>Expenditure Type</u>	<u>June 30, 2001 Progress Report⁽¹⁾</u>	<u>Expenditures as of June 30, 2001</u>
Salary and Benefits	\$119,839	\$132,177
Travel	12,000	0
Supplies and Printing	14,500	0
Professional/Technical Services	75,000	0
Indirect Costs	25,896	13,329
Total	<u>\$247,235</u>	<u>\$145,506</u>

Note1: The department submitted its June 30, 2001, progress report to the U.S. Department of Agriculture on June 20, 2001.

Source: Grant Progress Report and the State of Minnesota's accounting system's financial reports.

The table shows that the department significantly overstated the amounts it spent for professional/technical services, travel, supplies, and printing. As discussed in the Professional/Technical Services section, the department did not incur any allowable such costs to achieve this grant's objectives. Although the department eventually spent over \$11,000 for printing costs, it had not incurred any printing costs by June 30, 2001. The department was not able to provide support for the reported expenditure amounts. The progress reports should have included actual expenditures to date so that the federal grantor agency could monitor the department's progress toward grant objectives and compliance with grant agreement provisions.

Federal Management Evaluation

In September 2001, the U.S. Department of Agriculture conducted a management evaluation of the department's fiscal reporting system for its child nutrition programs. In addition to the larger State Administrative Expense grant (CFDA #10.560), the scope of the review included the expenditures reported for the Provisions 2 and 3 grant through June 30, 2001. Overall, they concluded that the state's reporting procedures were quite satisfactory and were pleased with the timeliness of submission of all required reports. However, the review noted two problems with Provisions 2 and 3 reporting. It questioned the retroactive charging of payroll costs for pay

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periods before the start of the grant period. It also noted that the department had erroneously charged some Provisions 2 and 3 costs (\$1,084 for travel and \$1,300 for materials) to another grant (CFDA #10.560 – State Administrative Expense). In March 2002, the department responded to these concerns by stating that it had incurred the questioned payroll costs in anticipation of receiving the grant. The response stated that the staff set up meetings and scheduled work to design the layout of the financial management worksheet. The department's response did not address the travel and materials it had charged to the wrong grant. In April 2002, the department received a letter from the U.S. Department of Agriculture stating that the department had satisfactorily addressed all the issues from its review. Based on results of our review, the U.S. Department of Agriculture may want to reevaluate the department's fiscal reporting system for the child nutrition programs.

Recommendations

- *The department should work with the U.S. Department of Agriculture to determine the resolution of the questioned costs and the department's failure to provide a state match.*
- *The department should notify the grantor agency when changes to significant grant terms occur, such as significant budget deviations.*
- *The department should revise its grant management procedures to ensure that it only charges related costs to federal programs, and that it complies with state match obligations.*
- *The department should accurately report its use of grant funds to the federal government.*

Team Nutrition Grant 2001 (CFDA #10.574)

In July 2001, the U.S. Department of Agriculture awarded the department a \$200,000 Team Nutrition grant to promote healthy school nutrition environments and to implement the Dietary Guidelines for Americans in school meal programs. The grant was for the period September 2001 through September 2003.

The department planned to use the federal funds for the following purposes:

- educate local school decision makers about the need for healthy school nutrition environments;
- provide support to schools interested in developing a healthy school nutrition environment; and
- collaborate with influential school stakeholders and other interested parties to reinforce the healthy school nutrition environment initiative.

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To accomplish these goals, the department stated that it would provide information and training sessions at state conferences and meetings of the collaborative organizations. The department planned to conduct workshops to improve the quality of school meals and use an annual food expo to inform and train participants. The department submitted quarterly progress reports to the U.S. Department of Agriculture listing the activities completed for the quarter.

Conclusions

The Department of Education charged costs to the Team Nutrition 2001 federal grant (CFDA #10.574) that did not relate to the accomplishment of grant objectives. The department did not account for grant expenditures separately from other federal grants. The department charged \$32,034 for payroll costs that did not relate to the grant. The department should have paid for these costs with existing federal nutrition program funding. In addition, the department did not comply with certain provisions of the grant agreement. It did not notify the U.S. Department of Agriculture when its use of funds deviated significantly from the grant's original budgets, or when it changed employees from those designated in the grant application. It also did not provide state matching funds to accomplish the grant objectives as agreed to in the grant awards.

2. The Minnesota Department of Education's Food and Nutrition Services Section did not properly charge payroll to the Team Nutrition 2001 grant. In addition, the department did not comply with specific grant requirements.

The department charged the Team Nutrition 2001 grant \$32,034 for payroll costs that did not relate to the grant. In addition, the department did not notify the U.S. Department of Agriculture when it had significant deviations from its original grant budget and when it changed employees from those designated to work on the grant. It also did not provide a state match, as agreed to in the grant application. Table 2-4 summarizes the budgeted and actual expenditures and identifies the questioned costs.

Table 2-4
Team Nutrition Grant 2001
Budgeted and Actual Expenditures

<u>Expenditure Classification</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Questioned Costs</u>
Salaries	\$123,980	\$111,367	\$32,034
Travel	29,845	1,778	0
Professional/Technical Services	34,200	52,006	0
Other Operating Costs	28,275	11,778	0
Indirect Costs	21,600	21,618	0
Total Budgeted and Actual Expenditures	<u>\$237,900</u>	<u>\$198,547</u>	<u>\$32,034</u>

Note 1: The department's grant application requested \$200,000 federal grant funds and committed \$37,900 of state matching funds. The grant agreement incorporated the terms of the grant application.

Note 2: The department intends to return the \$1,453 of unspent grant funds to the U.S. Department of Agriculture.

Source: Grant application and Minnesota Accounting and Procurement System reports.

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Budget Deviations

The department significantly deviated from the grant budget for travel and state match. The grant award stated that the department must notify the U.S. Department of Agriculture if it deviated from the original budget by ten percent of the total amount of the grant, which would be \$20,000. The areas of travel and the state match differed from the budget by \$28,067 and \$37,900, respectively. The department did not notify the grantor agency about these significant deviations from the original budget. The department should have explained how it planned to accomplish the grant objectives without the amount of travel costs it had originally anticipated. It should have also explained how it could complete the grant objectives without the anticipated state match.

In addition, the department did not separately account for each year of the recurring Team Nutrition federal grants. It used funds remaining from the prior year's grants until fully expended, and then it charged costs to the current year's grant, even though unique grant agreements governed the use of the funds. To identify costs included in Table 2-4, the department had to examine detailed transactions to determine the grant period for the costs. Unlike some other federal nutrition grants, unspent grant balances for the Team Nutrition grants were not available to the department for the following grant period, and the department should have returned these funds to the U.S. Department of Agriculture.

Payroll

The department did not properly charge payroll costs to the Team Nutrition 2001 grant. Payroll costs totaling \$111,367 for five employees were charged to this grant. We interviewed the five employees to discuss the actual work performed for grant activities. One employee felt that the department had accurately charged payroll costs to the program. One employee did not work on the grant. The other two employees stated they worked significantly less hours than those charged to the grant. Through the interviews, we identified two other employees who believed they had worked on the grant for a limited number of hours, but the department had charged their salaries to another federal nutrition grant. Table 2-5 compares the payroll costs charged to the grant to the amounts employees believed they had worked and identifies questioned costs.

Table 2-5
Team Nutrition Grant 2001
Summary of Salary Costs Charged to Grant

Employee	Budgeted Payroll Costs	Payroll Costs Charged to Grant	Payroll Costs Questioned	Employee Explanation
Employee A	\$ 41,625	\$ 67,958	\$ 0	Payroll costs charged accurately.
Employee B	26,250	23,122	19,635	Worked on grant about 160 hours.
Employee C	26,250	0	0	Limited work on grant, but no payroll charged.
Employee D	26,250	0	0	Limited work on grant, but no payroll charged.
Employee E	3,605	15,646	7,758	Worked on grant about 287 hours.
Employee F	0	4,641	4,641	Employee did not work on grant.
Total	\$123,980	\$111,367	\$32,034	

Sources: State Employee Management Administration System's Labor Distribution Reports; Questioned costs based upon either discussions with current or past employees of the department.

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Noncompliance with Letter of Commitment

The application process for this grant required that the department submit resumes for the employees who would work on grant activities. The process also required that employees designated to work on the grant state their understanding of the grant objectives and certify the percentage of time they would commit to the grant over the two-year period. The department did not comply with the letters of commitment for specific employees. For example, one employee committed 25 percent of her time over the two years on grant activities, which would be approximately 1,040 hours. That employee told us she worked about 160 hours on the grant. The department also substituted two employees without providing new resumes or letters of commitment. The department did not inform the federal grantor agency of these differences and state how the changes would affect the accomplishment of the grant objectives.

Table 2-6 shows the differences between the hours certified in the application, the number of hours charged to the grant, and the hours the employees told us they worked on the grant. The department did not charge the project for the payroll costs of two of the employees originally committed to the project, although they stated that they did spend time on grant activities.

Table 2-6
Team Nutrition Grant
Summary of Hours Charged to the Grant

<u>Employee</u>	<u>Committed Hours</u>	<u>Hours Charged to Grant</u>	<u>Actual Hours Worked, per Discussions with Employees</u>
Employee A	1,372	1,069	1,069
Employee B	1,040	1,072	160
Employee C	1,040	0	284
Employee D	1,040	0	40
Employee E	104	574	287
Employee F	0	154	0

Sources: Department of Education grant proposal, the State Employee Management Administration System, and the Minnesota Accounting and Procurement System.

State Match

The department did not match the federal grant, as agreed to in the grant application and the grant agreement. The U.S. Department of Agriculture based its grant award on budgeted costs of \$237,900, with the state agreeing to provide \$37,900 as match. The food and nutrition services section used the \$200,000 of federal grant funds, but did not identify any state-funded costs as program match.

Recommendations

- *The department should work with the U.S. Department of Agriculture to determine the resolution of the questioned costs and the department's failure to provide a state match.*

Special Review: Department of Education Administration of Certain Federal Nutrition Grants

- *The department should notify the grantor agency when changes to significant grant terms occur, such as changes in employees or significant budget deviations.*
- *The department should maintain accounting records to properly identify expenditures for each federal grant.*

**Special Review: Department of Education
Administration of Certain Federal Nutrition Grants**

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October 31, 2003

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

First, I would like to take the opportunity to thank you for responding to my request for a special review of two federal grants from the U.S. Department of Agriculture (USDA). I appreciate the work of your staff.

Each finding and recommendation will be specifically addressed in this response. At this point, I would like to say that I intend to implement all recommendations. Deputy Commissioner Chas Anderson will be responsible to lead efforts to implement changes in the agency accounting practices to assure compliance with provisions for federal funding, grant applications, accounting for state matches, federal progress reporting and payroll charges to appropriate accounts.

The following provides response to each specific finding and recommendation.

Chapter 2. Administration of Certain Federal Nutrition Grants Findings
Provision 2 and 3 (CFDA # 10.573)

Our review of the information found by the Legislative Auditor's special review found no information to dispute the findings in this report. The Minnesota Department of Education (MDE), in the previous administration, charged payroll dollars to these two grants that were not reflective of the time spent by staff working on the programs. Also, payroll costs were charged to the grant prior to the award date of October 10, 2000, and there was no written approval from the federal government to charge pre-award costs. Because of the way employees submitted the detail of their expense reports, there is no specific segregation of travel expenditures relating to the grants. Therefore, to specifically identify travel costs for grant implementation is not feasible.

The contract for Harley Consulting was charged incorrectly to this account. After review of this contract by the auditors and staff, it is clear that this was not expenditure appropriate to either of the grants reviewed. Also, the KPMG consulting contract should not have been charged to these grants. An attempt was made to instead charge this expenditure to the child nutrition program state administrative expense account as originally intended. Unfortunately, the correction was completed in error so the actual expenditures did not move to the assigned account.

The agency did include an implied state match in the applications to USDA. It is not possible for this administration to judge the impact of that implied state match on the evaluation of the application. As this was submitted by the former administration, we cannot identify the intent of the agency in providing matching funds.

Also, we cannot identify state funding used for food and nutrition during this time frame beyond the minimum maintenance of effort funds provided to match other federal funding. At this time, we cannot substantiate that the previous administration provided the match.

Progress reports made to the federal government were not reconciled to the MAPS. Therefore, accounting staff cannot verify nor reconcile the numbers in the progress reports. While I recognize this was allowed by past practice, we will be changing our business practices.

Recommendations

- *The department should work with the U.S. Department of Agriculture to determine the resolution of the questioned costs and the department's failure to provide the state match.*

Deputy Commissioner Chas Anderson will be responsible for reporting the findings of this special review to USDA and working to determine the appropriate course of action.

- *The department should notify the grantor agency when changes to significant grant terms occur, such as significant budget deviations.*

Again, Deputy Commissioner Anderson will direct staff of the department in implementing this as a policy for grants. She has assigned staff in the department's administrative services division to be responsible for assuring compliance with such notification.

- *The department should revise its grant management procedures to ensure that it only charges related costs to federal programs, and that it complies with state match obligations.*

Deputy Commissioner Anderson is also responsible to lead efforts to assure procedures are implemented. Staff in administrative services will work to implement these new procedures. Those procedures include, but are not limited to, establishing a system for federal grant and match accounting that will define specifically those dollars expended attributed to each grant award. The agency will evaluate use of the current MAPS system for cost accounting to enable the department to reconcile expenditures to awards, identify matching costs and report accurately to the federal government.

The department's budget staff in the administrative services division will be responsible for financial information submitted on progress reports that is supported by information in the state's accounting system.

- *The department should accurately report its use of grant funds to the federal government.*

I will continue to exercise my authority as Commissioner of MDE to assure that all funds are properly used, compliant with state and federal regulations and support the mission of MDE.

Chapter 2. Administration of Certain Federal Nutrition Grants Findings Team Nutrition Grant 2001 (CFDA # 10.574)

It is clear that the previous administration had a specific plan with established goals to execute this grant. However, costs were charged that did not relate to the grant objectives. Previous grant year and current grant year funds were accounted for together. At this time, I concur with the conclusions of the Legislative Auditor on this grant as well.

In this grant, MDE did agree to certain conditions in its letter of commitment and had a responsibility to comply with that commitment. It appears that MDE neglected to notify the federal agency when changes to the commitment occurred.

Recommendations

- *The department should work with the U.S. Department of Agriculture to determine the resolution of the questioned costs and the department's failure to provide the state match.*

As with the previous sections, Deputy Commissioner Chas Anderson will be responsible for reporting the findings of this special review to USDA and working to determine the appropriate course of action.

- *The department should notify the grantor agency when changes to significant grant terms occur, such as changes in employees or significant budget deviations.*

Again, and as stated above, Deputy Commissioner Anderson will direct staff of MDE to implement this as a policy for grants. She has assigned staff in the department's administrative services division to be responsible for assuring compliance with such notification.

- *The department should maintain accounting records to properly identify expenditures for each federal grant.*

As indicated above, MDE is implementing new practices for accounting. We intend to accurately account for federal grants, state matches and state budgets so that financial reports will be in compliance with federal rules, accounting principles and state financial reporting requirements.

Again, I want to take this opportunity to thank you and your staff for the work they did on this special review. I know with limited resources, it was a great effort to undertake this review. The findings significantly assist me in my initiatives to bring fiscal accountability to the Department of Education. If you should have any questions, please do not hesitate to contact me at 651-582-8205, Chas Anderson at 651-582-8207 or Tammy McGlone at 651-582-8835.

Sincerely,

A handwritten signature in black ink that reads "Cheri Pierson Yecke". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

Cheri Pierson Yecke, Ph.D.
Commissioner