



FINANCIAL AUDIT DIVISION REPORT

Department of Education
Federal Compliance Audit
Year Ended June 30, 2010

April 29, 2011

Report 11-12

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

April 29, 2011

Representative Michael Beard, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Brenda Cassellius, Commissioner
Department of Education

This report presents the results of our audit of certain federal financial assistance programs administered by the Department of Education during fiscal year 2010. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Department of Education.

We discussed the results of the audit with the department's staff at an exit conference on April 12, 2011. This audit was conducted by David Poliseno, CPA, CISA, CFE, (Audit Manager) and Tim Rekow, CPA, (Auditor-in-Charge), assisted by Kathy Rootham, Melanie Greufe, CPA, Reidar Gullicksrud, Sadie Huber, Jamie Majerus, CPA, Chau Nguyen, CPA, Emily Wiant, and Zach Yzermans, CPA,

This report is intended for the information and use 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 April 29, 2011.

We received the full cooperation of the department's staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Department of Education generally complied with and had controls to ensure compliance with provisions of laws, regulations, contracts, and grants applicable to the federal programs we audited for fiscal year 2010. However, the department had several weaknesses, as noted in the three findings presented in this report. The department resolved two of four fiscal year 2009 findings.

Findings

- Prior Finding Partially Resolved: The Department of Education did not identify, analyze, and document its internal controls over compliance with federal single audit requirements. ([Finding 1, page 5](#))
- Prior Finding Not Resolved: The Department of Education did not comply with federal subrecipient monitoring and notification requirements for federal programs. ([Finding 2, page 6](#))
- The Department of Education did not always retain sufficient supporting documentation for reporting two federal programs. ([Finding 3, page 9](#))

Audit Scope

Programs material to the State of Minnesota's federal program compliance for fiscal year 2010:

- Child Nutrition Cluster¹ (CFDA² 10.553, 10.555, 10.556, 10.559)
- Child and Adult Care Food (CFDA 10.558)
- Title 1 – Grants to Local Education Agencies (CFDA 84.010 and 84.389A)
- Special Education Cluster (CFDA 84.027, 84.173, 84.391A, 84.392A)
- Improving Teacher Quality State Grants (CFDA 84.367)
- State Fiscal Stabilization Fund (CFDA 84.394A)

¹ A cluster of programs is a group of closely related programs that have similar compliance requirements and are treated as a single program.

² The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs. The federal government requires separate reporting of American Recovery and Reinvestment Act (ARRA) funds. All CFDA numbers followed by an "A" are ARRA funds.

Department of Education

Federal Program Overview

The Department of Education administered federal programs that we considered major federal programs for the State of Minnesota, subject to audit under the federal Single Audit Act.³ Table 1 identifies these major federal programs.

Table 1
Major Federal Programs
Department of Education
Fiscal Year 2010

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Expenditures</u>
	<u>Child Nutrition Cluster:</u> ²	
10.553	School Breakfast	\$ 31,369,715
10.555	National School Lunch	144,961,629
10.556	Special Milk Program for Children	670,222
10.559	Summer Food Service Program for Children	4,227,475
	Total Child Nutrition Cluster	<u>\$181,229,041</u>
10.558	Child and Adult Care Food	\$ 62,279,309
	<u>Title 1 Cluster:</u>	
84.010	Title 1 Grants to Local Education Agencies	\$162,644,522
84.389A	Title 1 Grants to Local Education Agencies ARRA ³	<u>91,840,552</u>
	Total Title 1 Cluster	<u>\$254,485,074</u>
	<u>Special Education Cluster:</u>	
84.027	Special Education – Grants to State	\$200,538,678
84.391A	Special Education – State Grants (ARRA)	189,647,721
84.173	Special Education – Preschool Grants	9,158,266
84.392A	Special Education – Preschool Grants (ARRA)	7,707,311
	Total Special Education Cluster	<u>\$407,051,976</u>
84.367	Improving Teacher Quality State Grants	\$ 44,735,480
84.394A	State Fiscal Stabilization Fund – Education State Grants, Recovery Act (Education Stabilization Fund)	\$500,000,000

¹The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs. The federal government requires separate reporting of American Recovery and Reinvestment Act (ARRA) funds. All CFDA numbers followed by an "A" are ARRA funds

²A cluster of programs is a grouping of closely related programs that have similar compliance requirements and is treated as a single program for audit purposes.

³American Recovery and Reinvestment Act.

Source: Minnesota Accounting and Procurement System.

³ We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2010 exceeded approximately \$30 million.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Education complied with federal program requirements in its administration of these federal programs for fiscal year 2010. This audit is part of our broader federal single audit 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 federal programs.⁴ In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

Conclusions

The Department of Education generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2010. However, the department had some weaknesses, as noted in the following *Findings and Recommendations* section.

We have reported these weaknesses to the federal government in the *Minnesota Financial and Compliance Report of Federally Assisted Programs*, prepared by Minnesota Management and Budget. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

⁴ The State of Minnesota's single audit includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 20, 2010, on the State of Minnesota's basic financial statements for the year ended June 30, 2010. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division Report 11-02, *Report on Internal Control Over Financial Reporting*, issued February 18, 2011.) This report included control deficiencies related to the Department of Education.

Findings and Recommendations

Prior Finding Partially Resolved: The Department of Education did not identify, analyze, and document its internal controls over compliance with federal single audit requirements.

Finding 1

The department did not have a comprehensive risk assessment pertaining to its internal controls over compliance with federal single audit requirements.⁵ The department has an increased likelihood of a control deficiency if it does not clearly communicate to all staff its risks, control activities, and monitoring policies and procedures.

State policy states that each agency head has the responsibility to identify, analyze, and manage business risks that impact an entity's ability to maintain its financial strength and the overall quality of its products and government services.⁶ This policy also requires communication of the internal control policies and procedures to all staff so they understand what is expected of them and the scope of their freedom to act. The policy further requires follow-up procedures that, at a minimum, should include ways to monitor results and report significant control deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action. Audit standards⁷ reinforced management's responsibility to have effective internal controls over its financial operations. The federal government expects that those controls also ensure compliance with federal program requirements.

Since the last audit, the Department of Education began to develop its comprehensive internal control structure by performing a review of its control environment, establishing internal control standards, creating an internal control evaluation tool, and establishing an internal control evaluation questionnaire. However, the department had not fully assessed and documented its risks and controls related to compliance with federal program requirements.

A comprehensive control structure has the following key elements:

- Personnel are trained and knowledgeable about federal single audit requirements and applicable policies and procedures.
- Management identifies risks associated with federal single audit requirements and develops policies and procedures to effectively address the identified risks.

⁵ See Appendix A for listing of affected programs, and award numbers.

⁶ Minnesota Management and Budget Policy Number 0102-01.

⁷ Statement on Auditing Standards #109.

- Management continuously monitors the effectiveness of the controls, identifies weaknesses and breakdowns in controls, and takes corrective action.
- Management focuses on continual improvement to ensure an acceptable balance between controls and costs.

Findings 2 and 3 identify deficiencies in the department's internal control procedures and specific noncompliance with federal requirements which were not prevented or detected by the department's internal control structure. It is likely that the department will continue to have noncompliance and weaknesses in internal controls over compliance until it operates within a comprehensive internal control structure.

Recommendation

- *The department should frequently review and clearly document its risks, control activities, and internal control monitoring functions for federal program requirements.*

Finding 2

Prior Finding Not Resolved: The Department of Education did not comply with federal subrecipient monitoring and notification requirements for federal programs.

The department did not adequately monitor subrecipient compliance with federal program requirements for the Special Education Grants to States (CFDA 84.027 and 84.391A), Special Education Preschool Grants (CFDA 84.173 and 84.392A), and Child and Adult Care Food (CFDA 10.558). It also did not adequately notify its subrecipients about certain program information and requirements for all of the programs listed in Appendix A of this report.

Federal regulations required the department to provide reasonable assurance that subrecipients used federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.⁸ The department's monitoring activities occurred throughout the year and included site visits, regular contact, and reporting the results of its monitoring activities. The department had the following deficiencies in its subrecipient fiscal monitoring of the Special Education and Child and Adult Care Food programs:

- The department did not develop policies or procedures for conducting special education fiscal onsite reviews. These policies and procedures should include documenting, reviewing, and approving the reviews in a

⁸ OMB Circular No. A-133.

timely manner. These policies or procedures should also address the noncompliance and/or corrective action plan follow-up process.

- During fiscal year 2010, the department did not perform its regular special education fiscal monitoring site visits, although it conducted six site visits -- four charter school closures, one misuse of special education funds, and one fiscal year 2009 scheduled fiscal monitoring site visit. Federal regulations required that pass-through entities are responsible for monitoring subrecipients' use of federal awards.⁹ The department normally conducted as many as 40 fiscal site visits each year for the special education program. Department management used fiscal year 2010 to review its special education fiscal monitoring practices; the department needed to improve its practices by clarifying the focus of the monitoring, reviewing the prior monitoring process, and reviewing/updating monitoring processes and procedures. This review was not completed before the end of fiscal year 2010.
- The department did not issue reports on its special education site visits in a timely manner. At the time of our fiscal year 2010 audit, the department had not issued reports for six of the twenty-eight fiscal year 2009 site visits and four of the six 2010 site visits. In addition, the department lacked supporting documentation or had inadequate supporting documentation for the findings included in seventeen of the eighteen reports it issued for the fiscal year 2009 special education site visits and one of the six fiscal year 2010 site visits.
- The department did not have adequate controls in place to ensure it received all required subrecipient audit reports from non-school entities for the Child and Adult Care Food Program in a timely manner. The department did not always follow-up on late audits or retain the documentation to support the review. The department also did not review or approve corrective action plans.

In addition, the department could not clearly show that it met its federal requirement to provide subrecipients with required federal award identification. Federal regulations require the department to provide certain federal award information (CFDA, award number, name of federal awarding agency) to subrecipients at the time of the award. For ARRA grants, to maximize transparency and accountability, the department must identify the federal award number and CFDA number at the time of the subaward and disbursement of funds and provide notification of federal reporting requirements to subrecipients.¹⁰ The department used annual grant applications, assurances, notifications, and identifying computer system information to provide federal award information

⁹ OMB Circular No. A-133.

¹⁰ 2 Code of Federal Regulations – section 176.210 (c, d).

and reporting requirements. However, while the notification methods provided some of the required information, we could not determine that the department provided all of the required information to the subrecipients.

Recommendations

- *The department should establish policies and procedures to ensure special education site visits are performed, results are reviewed and reported, appropriate corrective action plans are completed, and instances of noncompliance are resolved in a timely manner.*
- *The department should establish policies and procedures to ensure that it receives all subrecipient audit reports and reviews and tracks the results.*
- *The department should ensure that it provides all required federal award information to subrecipients.*

Finding 3

The Department of Education did not always retain sufficient supporting documentation for reporting two federal programs.

The department did not retain supporting documentation for monthly reports it submitted to the US Department of Agriculture for the Child Nutrition Cluster (CFDA 10.553, 10.555, 10.556, and 10.559) and the Child and Adult Care Food Program (CFDA 10.558).^{11 12} Without the supporting documentation, we could not substantiate the information in five out of nine reports tested. In addition, one report included an approximately 400,000 meal count error; the department was aware of the error, but did not submit a revised report.

Recommendation

- *The department should retain sufficient documentation to support reports submitted to the federal government.*

¹¹ *Monthly Report of School Program Operations (FNS-10)*. This report contains meals served under the National School Lunch Program (NSLP) and School Breakfast Program (SBP), and half-pints of milk served under the Special Milk Program (SMP).

¹² *Monthly Report of the Summer Food Service Program for Children (FNS-418)*. This report contains the number of meals served under the Summer Food Service Program for Children by sponsors under the Department of Education's oversight.

Appendix A
Major Federal Programs
Department of Education
Fiscal Year 2010

<u>CFDA</u>¹	<u>Program Name</u>	<u>Federal Award Numbers</u>
	<u>Child Nutrition Cluster:</u> ²	
10.553	School Breakfast	2MN30061
10.555	National School Lunch	Same as above
10.556	Special Milk Program for Children	Same as above
10.559	Summer Food Service Program for Children	Same as above
10.558	Child and Adult Care Food	2MN30061
	<u>Title 1 Cluster:</u>	
84.010	Title 1 Grants to Local Education Agencies	S010A080023A, S010A0900123A
84.389A	Title 1 Grants to Local Education Agencies ARRA ³	S389A090023A
	<u>Special Education Cluster:</u>	
84.027	Special Education – Grants to State	H027A070087A, H027A080087A
84.391A	Special Education – State Grants (ARRA)	H391A090087A
84.173	Special Education – Preschool Grants	H173A070086, H173A080086
84.392A	Special Education – Preschool Grants (ARRA)	H392A090086A
84.367	Improving Teacher Quality State Grants	S367A080022A, S367A090022A
84.394A	State Fiscal Stabilization Fund – Education State Grants, Recovery Act (Education Stabilization Fund)	S394A090024A

¹The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs. The federal government requires separate reporting of American Recovery and Reinvestment Act (ARRA) funds. All CFDA numbers followed by an "A" are ARRA funds.

²A cluster of programs is a grouping of closely related programs that have similar compliance requirements and is treated as a single program for audit purposes.

³American Recovery and Reinvestment Act.



April 22, 2011

James Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1063

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings for the Minnesota Department of Education's ("Department") single audit work on selected federal programs awarded to the Department of Education for the year ended June 30, 2010. The response to each of the three findings, person responsible for implementation and timeframe is included with each finding.

Finding 1: "Prior Finding Partially Resolved: The Department of Education did not identify, analyze, and document its internal controls over compliance with federal single audit requirements."

OLA Recommendation "The department should frequently review and clearly document its risks, control activities, and internal controls monitoring functions for federal program requirements."

The Department agrees with this recommendation and will continue to work on the risk assessment and internal control structure. The Department has and will be working with and through the guidance being provided by the Internal Controls group at Minnesota Management and Budget. With their direction along with dedicating staff to accomplishing this task the Department plans to complete in the next 8 months a plan which will outline the departments approach to risk assessment and its plan to implement a process for improving our controls, and have completed a pilot project by Dec. 31, 2011. The Department plans to complete its risk assessment and analysis and have developed a comprehensive internal control structure for the Department by Dec. 31, 2012. The responsibility for implementation of this finding is with Al Louismet, Agency Accounting Operations Manager.

Finding 2: “Prior Finding Not Resolved: The Department of Education did not comply with federal subrecipient monitoring and notification requirements for federal programs.”

OLA Recommendation 1:

“The department should establish policies and procedures to ensure special education site visits are performed, results are reviewed and reported, appropriate corrective action plans are completed, and instances of noncompliance are resolved in a timely manner.

OLA Recommendation 2:

“The department should establish policies and procedures to ensure that it receives all sub recipient audit reports and reviews and tracks results”.

OLA Recommendation 3:

”The department should ensure that it provides all required federal award information to sub recipients”.

Child and Adult Care Food (CFDA 10.558):

The department agrees with the finding and will implement OLA recommendations number 1 and 2. Policies and procedures will be reviewed and updated to ensure findings are reviewed, reported and corrective action plans are completed. The department will implement a database system to track all the required federal award information provided to sub recipients, required reports are received timely and follow-up is done for the resolution of audit findings or late reporting. Carol Thomas, Director of Safety, Health and Nutrition will be responsible for resolving this finding and the department expects the finding to be fully resolved by July 1, 2011.

Special Education Grants to States (CFDA 84.027 and 84.391A) and Special Education Preschool Grants (CFDA 84.173 and CFDA 84.392A):

The department agrees with this finding and will implement OLA recommendation number 3. The department will take the following actions: The federal award number, awarding agency, and CFDA number will be added to all sub recipient award documents; The federal award number and CFDA number will be added to the budget and draw screens in the SERVS financial system. Lisa Mueller, Budget Director will be responsible for resolving this finding and the department expects the finding to be fully resolved by July 1, 2011.

The department will implement recommendation number 1 and has already instituted significant changes to the special education fiscal monitoring process that will ensure that monitoring of compliance with federal requirements for sub recipients is completed. The department procedures require that desk reviews and site visits are performed, results are reviewed and reported, appropriate corrective actions plans are completed, and instances of noncompliance are resolved in a timely manner. Specific details related to the three-tier approach the department uses in conducting this monitoring are reflected in the policy and procedure. The department agrees its prior monitoring process was insufficient and did not always provide the department with the documentation necessary to issue findings. Improving the

department internal process is the focus of the department action plan. Donna E. Nelson, Monitoring Supervisor, Division of Compliance and Assistance will be responsible for resolving this finding. The department expects this finding to be resolved by July 1, 2011.

Finding 3: “The Department of Education did not always retain sufficient supporting documentation for reporting two federal programs.”

OLA Recommendation: “The department should retain sufficient documentation to support reports submitted to the federal government.”

The Department agrees with this finding and will implement the recommendations of the auditor. Reports generated by the Cyber-Link Interactive Child Nutrition System (CLICS) for the purpose of entering monthly 90-day, final reports for the child nutrition programs, i.e., FNS 10, FNS-44 and FNS-418, will be compared, for data entry accuracy, to the report entry screen before submission to the USDA. A copy of the CLICS 90 day, final reports used for entry, along with a copy of the data entry screen will be kept of file. Carol Thomas, Director of Safety, Health and Nutrition, will be responsible for resolving this finding and the Department expects the finding to be fully resolved by July 1, 2011.

We appreciate the opportunity to respond to these findings for the Department of Education. Please contact Al Louismet at 651-582-8683 if you have any questions.

Sincerely,



Dr. Brenda Cassellius
Commissioner

C: Jessie Montano
 Al Louismet
 Carol Thomas
 Lisa Mueller
 Donna E. Nelson