



FINANCIAL AUDIT DIVISION REPORT

Department of Education

Federal Compliance Audit

Fiscal Year 2011

March 23, 2012

Report 12-04

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 23, 2012

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 2011. 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 department staff at an exit conference on March 13, 2012. This audit was conducted by David Polisen, CPA, CISA, CFE, (Audit Manager) and Tracy Gebhard, CPA, (Auditor-in-Charge), assisted by Kathy Rootham, Cindy Gaertner, Joe McMahon, Kelsey Nistler, Margaret Sullivan, Heather Varez, 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 March 23, 2012.

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 2011. However, the department had weaknesses as noted in the two findings presented in this report. The department fully resolved one of three fiscal year 2010 findings.

Audit Findings

- **Prior Finding Not 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 Partially Resolved:** The Department of Education did not comply with federal subrecipient monitoring and notification requirements for some of its major federal programs. ([Finding 2, page 6](#))

Audit Scope

Programs material to the State of Minnesota’s federal program compliance for fiscal year 2011:

<u>Program Title</u>	<u>CFDA</u> ¹
Child Nutrition Cluster ²	10.553, 10.555, 10.556, and 10.559
Child and Adult Care Food	10.558
Title 1 Cluster – Grants to Local Education Agencies	84.010 and 84.389A
Special Education Cluster	84.027 and 84.173
Improving Teacher Quality State Grants	84.367
Education Jobs Fund	84.410A

¹ 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.

² A cluster of programs is a group of closely related programs that have similar compliance requirements and are treated as a single program.

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. (See Appendix A for the programs' federal award numbers.)

Table 1
Major Federal Programs
Administered by the Department of Education
Fiscal Year 2011

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Expenditures</u>
	<u>Child Nutrition Cluster:</u> ²	
10.553	School Breakfast	\$ 34,316,380
10.555	National School Lunch	153,658,223
10.556	Special Milk Program for Children	671,926
10.559	Summer Food Service Program for Children	<u>3,831,010</u>
	Total Child Nutrition Cluster	\$192,477,539
10.558	Child and Adult Care Food	\$61,146,024
	<u>Title 1 Cluster</u>	
84.010	Grants to Local Education Agencies	\$131,586,087
84.389A	Grants to Local Education Agencies (ARRA)	<u>2,807,572</u>
	Total Title 1 Cluster	\$134,393,659
	<u>Special Education Cluster:</u>	
84.027	Special Education – Grants to States	\$189,356,567
84.173	Special Education -- Preschool Grants	<u>6,934,289</u>
	Total Special Education Cluster	\$196,290,856
84.367	Improving Teacher Quality State Grants	\$36,978,037
84.410A	Education Jobs Fund (ARRA)	\$149,448,315

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.

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 2011 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 2011. This audit is part of our broader federal single audit designed 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* and its *Compliance Supplement*.

Conclusion

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 2011. 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 is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 20, 2011, on the State of Minnesota's basic financial statements for the year ended June 30, 2011. 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 12-03, [Report on Internal Control Over Statewide Financial Reporting](#), issued February 16, 2012.) This report included control deficiencies related to the Department of Education.

Findings and Recommendations

Prior Finding Not 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 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 the 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 standards reinforced management's responsibility to have effective internal controls over its financial operations.⁷ The federal government expects that those controls also ensure compliance with federal program requirements.

During 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, department staff told us that significant changes in administration and department organizational structure in fiscal year 2011 prevented the department from moving forward with its initial development.

A comprehensive control structure has the following key elements:

- Personnel are trained and knowledgeable about federal single audit requirements and applicable policies and procedures.

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

⁶ Minnesota Management and Budget Policy Number 0102-01.

⁷ Statement on Auditing Standards #109.

- Management identifies risks associated with federal single audit requirements and develops policies and procedures to effectively address the identified risks.
- 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.

Finding 2 identifies deficiencies in the department's internal control procedures and specific noncompliance with federal requirements that 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 review and clearly document its risks, control activities, and internal control monitoring functions for federal program requirements.*

Finding 2

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

The department did not always monitor subrecipient compliance, adequately notify its subrecipients about certain program information and requirements, or obtain certain program information from subrecipients for some programs, as explained in the following bullets:

- The department did not develop and implement a monitoring plan to ensure program and fiscal compliance for its Education Jobs Fund (CFDA 84.410A).⁸ 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.⁹ For other federal programs, the department's monitoring activities typically occurred throughout the year and included desk reviews, site visits, regular contact, and reporting the results of its monitoring activities. Without effective

⁸ The Education Jobs Fund is a one-time stimulus grant with an availability period ending September 30, 2012.

⁹ OMB Circular No. A-133.

subrecipient monitoring, subrecipients receiving federal grants may expend funds for unallowable activities and costs without detection.

- The department did not adequately notify its subrecipients of certain program information and requirements. Federal regulations require the department to provide certain federal award information (including CFDA number, award number, and name of federal awarding agency) to subrecipients at the time of the award.¹⁰ Although the department used a variety of notification methods (such as permanent agreements, annual grant applications, assurances, notifications, and identifying computer system information) to provide federal award information and reporting requirements, these notification methods had the following deficiencies:
 - Prior Finding Not Resolved: The department did not annually communicate federal award information to subrecipients of Child Nutrition Cluster (CFDA 10.553, 10.555, 10.556, and 10.559) and Child & Adult Care Food Program (CFDA 10.558) grants. Department staff believed that its initial “permanent” agreements with subrecipients provided required federal award information; however, staff told us some of these agreements could be up to five years old.
 - The department did not communicate the award number and the name of the federal awarding agency to Education Jobs Fund (CFDA 84.410A) subrecipients. In addition, the department did not notify these subrecipients of the federal requirement that ARRA funds must be reported separately on the *Schedule of Expenditures for Federal Awards* required by OMB A-133.¹¹
- The department did not obtain Data Universal Numbering System (DUNS) numbers for 1,181 subrecipients of its Child Nutrition Cluster (CFDA 10.553, 10.555, 10.556, and 10.559) and Child and Adult Care Food Program (CFDA 10.558). New federal regulations, effective for subawards made since October 1, 2010, required the department to obtain DUNS numbers from all subrecipients prior to awarding non-ARRA funds.¹² The department obtained DUNS numbers for school districts, charter schools, and other school-based entities, as well as for subrecipients receiving federal discretionary or competitive grants. However, the department did not obtain DUNS numbers for other types of subrecipients participating in the Child Nutrition Cluster and the Child and Adult Care Food Program.

¹⁰ OMB Circular No. A-133.

¹¹ 2 Code of Federal Regulations – section 176.210 (b).

¹² 2 Code of Federal Regulations – Part 25.

Recommendations

- *The department should develop and implement a plan to monitor subrecipient compliance with federal requirements for the Education Jobs Fund.*
 - *The department should ensure that it communicates all required federal award information and requirements to subrecipients for current and future awards.*
 - *The department should ensure that it obtains DUNS numbers for all applicable federal grant subrecipients.*
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**Appendix A
Major Federal Programs
Department of Education
Fiscal Year 2011**

<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	S010A090023A, S010A100023A
84.389A	Title 1 Grants to Local Education Agencies (ARRA)	S389A090023A
	<u>Special Education Cluster:</u>	
84.027	Special Education – Grants to State	H027A100087A, H027A090087A
84.173	Special Education – Preschool Grants	H173A100086, H173A090086
84.367	Improving Teacher Quality State Grants	S367A090022A, S367A100022A
84.410A	Education Jobs Fund (ARRA)	S410A100024

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.

March 19, 2011

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

Dear Mr. Nobles:

Thank you for your work on behalf of the citizens of the State of Minnesota and the opportunity to respond to the findings for the Minnesota Department of Education (MDE) which were included in the single audit on selected federal programs awarded to the Department of Education for the year ended June 30, 2011. Specific findings for the Department include findings 1, and 2. The response to each finding, 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 review and clearly document its risks, control activities, and internal control monitoring functions for federal program requirements."

The Department agrees with this recommendation and began to work on resolving this finding after June 30, 2011. During the first six months of the new administration, staff was becoming acquainted with the agency. However, since June 30, 2011 MDE has taken the following steps to implement a comprehensive internal control structure for the agency:

- A risk management plan was developed and submitted to the Department of Management and Budget.
- The results from the Control Environment Self-Assessment Tool taken in 2010 were reviewed by executive team members and director/supervisor level positions at MDE. It was determined that the previous results did not accurately reflect the needs of the agency. The survey was administered again in the fall and three areas that need immediate attention were identified: items 6, 3 and 17.

By June 30, 2012 a new process for managing budgets will be created and staff will be trained. This task is the responsibility of Al Louismet, Director of Agency Finance and his staff.

- MDE has created a position for an internal auditor. That position has been posted and hiring will be done as soon as possible. The difficulty of finding auditors with the training and skills necessary has been discussed among Deputy Commissioner's. It is our hope that we can find a good candidate. Al Louismet is responsibility for the hiring of this position.

Finding 2: "Prior Finding Partially Resolved: The Department of Education did not comply with federal sub recipient monitoring and notification requirements for some of its major federal programs."

OLA Recommendation:

- The department should develop and implement a plan to monitor sub recipient compliance with federal requirements for the Education Jobs Fund.
- The department should ensure that it communicates all required federal award information and requirements to sub recipients for current and future awards.
- The department should ensure that it obtains DUNS (Data Universal Numbering System) numbers for all applicable federal grant programs.

The Department agrees with these recommendations.

Finding 2 recommendation 1: The department has already begun developing a monitoring process. This will ensure the monitoring, and compliance with federal requirements. The monitoring process will include desk and site reviews determined by a risk analysis, review and reporting of results, appropriate corrective action plans, and timely resolving of corrective action. The department agrees that the required monitoring was not previously completed and did not allow for findings to be issued. Developing and implementing the department monitoring process is the focus of the action plan. Bridgette Ramaley, Fiscal 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, 2012.

Finding 2 recommendation 2: The Division of Food and Nutrition will annually communicate federal award information to the sub recipients of Child and Nutrition Cluster (CFDA 10.553, 10.555, 10.556 and 10.559) and the Child and Adult Care Food Program (CFDA 10.558) grants. This will be accomplished as part of the annual approval process of the application. When the application is approved a generated email containing the award information (CFDA number, award number, and name of the federal awarding agency) will automatically be sent to the participant. Carol Thomas, Director of the Safety, Health and Nutrition Division will be

responsible for resolving this finding. The department expects this finding to be resolved by October 1, 2012.

The Division of School Finance is in the process of calculating the final allocation for Education Jobs. These allocations will be loaded into SERVVS Financial with the next week. The new allocations will cause all Education Jobs budgets to be revised, resubmitted by the LEA and approved by MDE. When the budget is approved, MDE will send to the LEA an approval letter that will include the CFDA number, federal award number and the name of the federal awarding agency for Education Jobs. Also included in the approval letter will be the following statement: As confirmed in the electronically signed statement of assurances, the district (1) agrees to maintain records that identify adequately the source and application of these federal funds as Education Jobs in its Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC); and (2) provide identification of the Education Jobs awards under Uniform Financial Accounting and Reporting Standards (UFARS) Finance Dimension 152 for all receipts and expenditure of Education Jobs. Carol Hokenson Supervisor, Division of School Finance is responsible for resolving this finding. The department expects this finding to be resolve by June 30, 2012.

Finding 2 recommendation 3: The Safety, Health and Nutrition Division will obtain a Data Universal Numbering System (DUNS) number for all sub recipients of 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). This will be accomplished by creating a new field in the CLiCS to collect the DUNS number for each sub recipient. Each sub recipient will be instructed that a DUNS number must be submitted before the application can be approved. Carol Thomas, Director of the Safety, Health and Nutrition Division will be responsible for resolving this finding. The department expects this finding to be resolved by October 1, 2012.

I 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 Hokenson
Carol Thomas