



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Department of Education

Internal Controls and Compliance Audit

July 1, 2009, through June 30, 2011

The audit scope included the use of money appropriated from the Arts and Cultural Heritage Fund.

August 23, 2012

Report 12-17

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

August 23, 2012

Representative Michael Beard, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Brenda Cassellius, Commissioner
Minnesota Department of Education

This report presents the results of our selected-scope internal controls and compliance audit of the Department of Education for the period July 1, 2009, through June 30, 2011.

We discussed the results of the audit with the Department of Education's staff on August 14, 2012. This audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager) and Carl Otto, CPA (Auditor-in-Charge), assisted by auditors Kelsey Nistler, Margaret Sullivan, and Melissa White.

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

A handwritten signature in black ink that reads 'James R. Nobles'.

James R. Nobles
Legislative Auditor

A handwritten signature in black ink that reads 'Cecile M. Ferkul'.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

Table of Contents

	<u>Page</u>
Report Summary	1
Agency Overview	3
Scope, Objectives, and Methodology	4
Conclusion	6
Findings and Recommendations	7
1. The Department of Education did not comply with some of the state's grant management policies and did not adequately oversee the regional library systems' use of money from the Arts and Cultural Heritage Fund	7
2. The Department of Education did not establish requirements for the regional public library systems to ensure they used money from the Arts and Cultural Heritage Fund in accordance with the specific appropriations	8
3. Prior Finding Not Resolved: The Department of Education did not adequately review key payroll reports and did not appropriately assign primary and secondary approvers in the self service time entry system	10
Agency Responses	13
Department of Education	13
Council of Regional Public Library System Administrators	17

Report Summary

Conclusion

Except for the grants from the Arts and Cultural Heritage Fund, the Department of Education's internal controls were generally adequate to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, and complied with finance-related legal provisions. The department's internal controls were not adequate to ensure that the regional public library systems used money from the Arts and Cultural Heritage Fund in accordance with the purposes of the appropriations.

For the items tested, the department and the libraries we examined generally complied with finance-related legal requirements; however, the department had some weaknesses in its compliance with the state's grant policies.

The department did not resolve one of three prior audit findings related to the scope of this audit. The department did not adequately review two key payroll reports.

Audit Findings

- The Department of Education did not comply with some of the state's grant management policies and did not adequately oversee the regional library systems' use of money from the Arts and Cultural Heritage Fund. ([Finding 1, page 7](#))
- The Department of Education did not establish requirements for the regional public library systems to ensure they used money from the Arts and Cultural Heritage Fund in accordance with the specific appropriations. ([Finding 2, page 8](#))
- Prior Finding Not Resolved: The Department of Education did not adequately review key payroll reports and did not appropriately assign primary and secondary approvers in the self service time entry system. ([Finding 3, page 10](#))

Audit Objectives and Scope

Objectives

- Internal controls
- Finance-related legal compliance

Period Audited

July 1, 2009, through June 30, 2011

Programs Audited

• Payroll expenditures	• Travel expenditures
• Professional/technical contract expenditures	• Arts and cultural heritage (Legacy) grants
• Other selected administrative expenditures	

Department of Education

Agency Overview

The Department of Education establishes education standards for students in grades kindergarten through twelve and allocates federal and state financial assistance to school districts. *Minnesota Statutes 2011*, Chapters 120-129B, provides the authority and responsibilities for the Department of Education.

Governor Mark Dayton appointed Dr. Brenda Cassellius commissioner of the department in January 2011. She replaced Alice Seagren who had served as the department's commissioner since September 2004.

The department's total expenditures for fiscal years 2010 and 2011 were approximately \$6.6 billion and \$7.2 billion, respectively. About 98 percent of these expenditures related to the department's payment of state and federal financial assistance and other grants to school districts, local governments, and nongovernment entities. We annually audit aspects of this significant financial activity during our audits of the state's financial statements and its compliance with federal program requirements, including the department's financial reporting processes, related internal controls, and federal compliance.¹ In addition to these large grants, the department's operational expenditures included payroll, professional/technical contracts, equipment, and supplies.

Our audit focused on the department's financial activities not generally included in our annual audits of state and federal school aid grants. We selected those activities that we considered material to the department's operations and those that typically posed a greater risk of error or noncompliance if adequate internal controls were not in place. We also included in our scope grants the department made with money from the Arts and Cultural Heritage Fund, one of the state's constitutionally established Legacy Funds.² Table 1 shows the areas we selected for audit.

¹ State of Minnesota's Comprehensive Annual Financial Report:

<http://www.mmb.state.mn.us/doc/acct/2011.pdf>

State of Minnesota's Financial and Compliance Report on Federally Assisted Programs:

<http://www.mmb.state.mn.us/doc/acct/2011-audit.pdf>

² In 2008, Minnesota voters approved the Outdoor Heritage, Clean Water, Parks and Trails, and Arts and Cultural Heritage Amendment to the Minnesota Constitution, commonly referred to as the "Legacy Amendment." The amendment increased the state sales tax by three-eighths of 1 percent for a 25-year period beginning July 2009 and distributed the taxes among the Outdoor Heritage, Clean Water, Parks and Trails, and Arts and Cultural Heritage funds, which are collectively referred to as the Legacy funds. The Arts and Cultural Heritage Fund receives 19¾ percent of the dedicated sales tax revenue. Generally, the Arts and Cultural Heritage Fund provides money collected through the state's sales tax to be used for arts, arts education, arts access, and to preserve Minnesota's history and cultural heritage.

Table 1
Department of Education
Expenditures Selected for Audit
By Fiscal Year

<u>Selected Expenditures</u>	<u>2010</u>	<u>2011</u>
Payroll	\$34,435,569	\$34,857,875
Professional/Technical Contracts	30,610,605	33,305,010
Arts and Cultural Heritage Grants	4,250,000	3,942,149
Computer and System Services	954,860	1,906,218
Other Operating Costs	900,017	1,036,922
Other Payments to Individuals	749,000	724,312
Travel – Instate	354,502	353,068
Travel – Outstate	85,086	128,115
Total	<u>\$72,339,639</u>	<u>\$75,503,669</u>

Source: Minnesota Accounting and Procurement System.

Table 2 summarizes the department's Arts and Cultural Heritage Fund grant awards and the amounts spent by the grantees during the period from July 2009 through June 2011. The appropriations laws directed the department to grant the money to Minnesota's 12 regional public library systems to provide educational opportunities in the arts, history, literary arts, and cultural heritage of Minnesota, using the same statutory formulas as the library systems' basic support grants. The appropriation also restricted the library systems' use of the funds for administrative purposes to 2.5 percent of the grant amounts.

Table 2
Department of Education
Arts and Cultural Heritage Fund Grant Awards to
Regional Public Library Systems and Amount Spent by the Systems
July 2009 through June 2011

<u>Regional Public Library Systems</u>	<u>Grant Awards</u>	<u>Amount Spent¹</u>
Metropolitan Library Service Agency	\$2,746,034	\$2,701,531
Southeastern Libraries Cooperating	973,557	961,651
Great River Regional Library	889,045	889,045
Arrowhead Library System	897,881	803,217
Lake Agassiz Regional Library	505,163	505,163
Kitchigami Regional Library	541,310	466,575
East Central Regional Library	434,253	408,333
Traverse des Sioux Library System	426,687	383,870
Northwest Regional Library	358,030	345,513
Pioneerland Library System	289,884	289,884
Plum Creek Library System	221,093	221,093
Viking Library System	217,063	216,284
Total	<u>\$8,500,000</u>	<u>\$8,192,149</u>

¹The department returned \$307,851 unspent by the regional library systems to the Arts and Cultural Heritage Fund.

Source: Department of Education's accounting records and Minnesota Accounting and Procurement System.

Scope, Objectives, and Methodology

In determining the scope for this audit, we focused on the department's financial activities not generally included in our annual audits of state and federal school aid grants. We analyzed the department's other financial activity and selected those activities that we considered material to the department's operations and those that typically posed a greater risk of error or noncompliance if adequate internal controls were not in place. We included in our scope the department's administration of its Arts and Cultural Heritage (Legacy) Fund appropriations and its oversight of related grants to the regional library systems. Also, at three of the regional library systems, we reviewed internal controls and examined documentation supporting Arts and Cultural Heritage Fund transactions.³

The objective of our audit of the Department of Education was to answer the following questions for the period July 1, 2009, through June 30, 2011:

- Were the department's internal controls adequate to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal provisions (including provisions relevant to the Arts and Cultural Heritage Fund), and produced reliable financial data?
- For the items tested, did the department and selected regional library systems comply with finance-related legal requirements (including provisions relevant to the Arts and Cultural Heritage Fund)?
- Did the department resolve prior audit findings related to the scope of this audit?⁴

To meet the audit objectives, we gained an understanding of the department's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of transactions and evidence supporting the office's internal controls and compliance with laws, regulations, policies, and contracts. We also conducted audit procedures at the Metropolitan Library Service Agency (including the Hennepin County Library), the Great River Regional Library, and the Southeastern Libraries Cooperating.

³ We conducted audit work at the Metropolitan Library Service Agency (including the Hennepin County Library), the Great River Regional Library, and the Southeastern Libraries Cooperating.

⁴ Office of the Legislative Auditor's Financial Audit Division Report 06-26, *Department of Education*, issued September 28, 2006. Three of the report's eight findings were related to payroll and relevant to our audit scope. We did not follow up on five of the eight findings because they were not related to the scope of this audit (three of the findings related to license and fee revenues or supplies and equipment purchases, and one related to American Indian Scholarships, which the department no longer administers).

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal controls and compliance. As our criteria to evaluate agency controls, we used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.⁵ We used state laws, regulations, grant agreements and contracts, as well as state policies and procedures established by the Department of Management and Budget and the department's internal policies and procedures as evaluation criteria over compliance.

Conclusion

Except for the grants from the Arts and Cultural Heritage Fund, the Department of Education's internal controls were generally adequate to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, and complied with finance-related legal provisions. The department's internal controls were not adequate to ensure that the regional public library systems used money from the Arts and Cultural Heritage Fund in accordance with the purposes of the appropriations.

For the items tested, the department and the libraries we examined generally complied with finance-related legal requirements; however, the department had some weaknesses in its compliance with the state's grant policies.

The department did not resolve one of three prior audit findings related to the scope of this audit. The department did not adequately review two key payroll reports.

The following *Findings and Recommendations* further explain the department's internal controls and compliance weaknesses.

⁵ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

Findings and Recommendations

The Department of Education did not comply with some of the state's grant management policies and did not adequately oversee the regional library systems' use of money from the Arts and Cultural Heritage Fund.

The Department of Education did not sufficiently oversee grants to the regional public library systems or adequately monitor their financial activities to ensure they used money from the Arts and Cultural Heritage Fund in accordance with the specific appropriations. The department had the following weaknesses:

- The department did not have grant agreements with the regional library systems to formalize the terms and conditions of grant money from the Arts and Cultural Heritage Fund, as required by the state's grant policy.⁶ The policy requires that the grant agreements conform to *Minnesota Statutes 2011, 16B.98, subd. 5.*

Although the department had a formal application and approval process that required certain assurances from the libraries, those assurances did not constitute a valid grant agreement because they were not signed by department and system officials with authority to contract. In addition, the assurances did not include some of the grant agreement elements required by the state's grant policy, such as the grantee's duties, payment requirements, and the rights and responsibilities of the granting entity and the grant recipient related to liability, data practices, intellectual property, workers' compensation, and state audits.

Also, the department could have incorporated into grant agreements any limitations on the use of money from the Arts and Cultural Heritage Fund (such as the constitutional requirement that the grant must be used to supplement, not substitute for, existing funding, and the statutory 2.5 percent cap on administrative expenditures) and any additional compliance, documentation or reporting requirements.

- The department did not monitor the regional library systems' use of grant funds, as required by state grant policy. Through April 2012, the department had not conducted any monitoring visits for the fiscal years 2010 and 2011 grants to the library systems. State policy requires the department to conduct at least one monitoring visit during the grant period for grants over \$50,000 and at least annual monitoring visits for grants over \$250,000.⁷ In addition, the quarterly and final reports the department

Finding 1

⁶ Minnesota Department of Administration, Office of Grants Management, Policy 08-04.

⁷ Minnesota Department of Administration, Office of Grants Management, Policy 08-10.

received from the regional library systems did not provide sufficient information for the department to assess how the library systems had used the funds. Without sufficient monitoring activities, the department cannot ensure that the regional library system used money from the Arts and Cultural Heritage Fund in compliance with constitutional and statutory requirements.

By not having adequate grant agreements and not monitoring grantees' use of the grant funds, the department limited its ability to hold the grantee accountable for the appropriate use of the grant funds and its recourse to recover funds should disputes arise. It also increased the risk that money from the Arts and Cultural Heritage Fund was used for costs that did not comply with purposes of the constitution and the appropriation laws. Because of this increased risk, we expanded our testing to include a broader and more detailed examination of the regional public library systems' use of the grant funds.

Recommendations

- *The Department of Education should have grant agreements with the regional public library systems that comply with statutory and state policy requirements.*
- *The Department of Education should monitor grantees in accordance with state grant policies to ensure that the regional public library systems use money from the Arts and Cultural Heritage Fund in compliance with the purposes of the constitution, appropriation laws, and grant agreements.*

Finding 2

The Department of Education did not establish requirements for the regional public library systems to ensure they used money from the Arts and Cultural Heritage Fund in accordance with the specific appropriations.

The Department of Education did not reach agreement with the regional public library systems about the internal controls they needed to have in place to properly administer grants from the Arts and Cultural Heritage Fund. Without adequate internal controls, the libraries may use the grant funds in ways that do not comply with the specific appropriations.

The regional public library systems we examined had the following weaknesses related to the administration of the Department of Education grants from the Arts and Cultural Heritage Fund:

- The regional public library systems we examined did not have grant agreements with the system that acted as the fiscal agent for statewide library initiatives. Like the other regional public library systems, these systems transferred ten percent of their Department of Education grants

from the Arts and Cultural Heritage Fund (totaling about \$862,000 for fiscal years 2010 and 2011) to the fiscal agent system for the development of statewide initiatives that would appeal to audiences throughout the state.⁸ The libraries partnered with the Minnesota Historical Society to design, develop, and conduct some of these programs.

- One regional public library system did not have grant agreements with a large library within its system and allowed the library to directly administer the Department of Education grant from the Arts and Cultural Heritage Fund, including the responsibility to pay program vendors directly and submit requests for project costs reimbursement for expenditures totaling \$557,941 for fiscal years 2010 and 2011.
- One regional public library system reimbursed an author for costs that did not comply with the terms of the contract. The contract allowed for reimbursement of round-trip airfare between Chicago and Minneapolis for the author and the author's assistant; however, the system reimbursed the author for the assistant to fly to another destination, which cost \$662.70 more than the author's round-trip airfare.
- One regional public library system paid vendors without sufficient supporting documentation. The system paid the vendors based on authorization from its member libraries, but did not require the libraries to submit the vendors' invoices to support the payments.
- One regional public library system reimbursed speakers and performers for travel costs without obtaining adequate support, as required by the contracts. For 7 of the 16 payments we tested, the system reimbursed contracted speakers and performers approximately \$990 for hotel and meal expenses without detailed receipts. For 12 of the 17 payments we tested, the system reimbursed about \$4,900 for mileage reimbursements without adequate information to verify the miles driven. Without detailed receipts and mileage information, there is an increased risk that the system could reimburse speakers and performers for costs they did not incur.
- One regional public library system did not retain contracts with vendors for some Legacy-funded programs and events. The system could not locate 16 of the 47 contracts we selected for testing. Additionally, seven of the contracts found were not valid because they lacked the required signatures.

Because the Department of Education had not developed policies, procedures, or guidelines specific to the use of money from the Arts and Cultural Heritage Fund, it increased the risk that the libraries would use the money in ways that did not comply with the purposes of the appropriation.

⁸ Total provided to the regional public library system acting as the fiscal agent was \$862,484 for fiscal years 2010 and 2011.

Recommendations

- *The Department of Education should establish requirements for the regional public library systems related to their use of money from the Arts and Cultural Heritage Fund, including the following elements:*
 - *Subrecipient grant agreements;*
 - *Vendor contracts; and*
 - *Documentation requirements to support the use of funds, including contracts, invoices, and receipts.*
- *The Department of Education should recover \$662.70 from the regional public library system for the contract overpayment that reimbursed its vendor for airfare that did not comply with the terms of the contract.*

Finding 3

Prior Finding Not Resolved: The Department of Education did not adequately review key payroll reports and did not appropriately assign primary and secondary approvers in the self service time entry system.

The department did not follow state policies to ensure its use of the state's automated time reporting system resulted in payment for properly authorized hours worked. The department spent about \$70 million for payroll costs during our audit period. Each pay period, employees entered their hours worked into the state's online self service time entry system; hours employees entered uploaded into the state's payroll system, which makes payments to employees and records the corresponding payroll transactions in the state's accounting system. The department had the following weaknesses in its oversight of the time entry and payroll process:

- The Department of Education did not review the payroll register, a key payroll report that shows all payroll amounts paid to employees each pay period. State policy requires each state agency to review the report to ensure the accuracy of all payroll costs charged to the department, including salary pay adjustments, special payments, earning codes, hours, pay rates, salary amounts, and lump-sum payments. While the department did review the hours and funding employees entered into self serve time entry system, this review would not detect other payroll entries or changes made later in the payroll process.
- The department did not review the self service time entry audit report, a key payroll exception report intended to ensure the accuracy of its biweekly payroll. This report identifies transactions that bypassed important certification and authorization controls, such as employees not certifying timesheets, changes made to employee timesheets after employees certified the hours worked, and primary supervisors not authorizing timesheets. State policy requires agencies to complete a

comprehensive review or, if not possible, review representative samples of the payroll activity each pay period and obtain explanations for exceptions noted.⁹

- Two employees had the ability to approve their own timesheets within the self service time entry system. The department established them as primary approvers in the self service time entry system for their division, which allowed them to approve their own timesheet.
- The department assigned up to 20 backup approvers for some divisions, which seems excessive. For each division, the department assigned a primary approver and from 3 to 20 secondary supervisors to approve employees' timesheets. The Department of Management and Budget's policy allows the use of backup approvers if the primary approver is unavailable, but should be strictly limited.⁴ Twenty secondary approvers may be excessive and could result in them approving timesheets without the full knowledge of the employees' work schedules.

State agencies are responsible for validating time entry records, reviewing records for accuracy, ensuring that errors are corrected, and approving each record according to state payroll policy. If the department allows employees to approve their own timesheets or for supervisors with no knowledge of the employee's schedule to approve timesheets, there is no validation of the time entry records. This situation increases the risk that employees could erroneously enter or falsify the time they worked or not report sick or vacation leave taken.

Recommendations

- *The Department of Education should routinely review the payroll register to verify the accuracy of the payroll costs charged to the department.*
- *The Department of Education should routinely review the self service time entry audit report each pay period to ensure the accuracy and authorization of payroll paid through the state's automated timesheet process and should obtain and document explanations for reported exceptions.*
- *The Department of Education should prohibit employees from approving their own timesheets.*
- *The Department of Education should limit secondary approvers to staff who are knowledgeable of the work schedules of the employees.*

⁹ Department Management and Budget Policy PAY0017.



August 20, 2012

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

Dear Mr. Nobles:

We appreciate the efforts of the Office of the Legislative Auditor as it researched the Department of Education's internal controls and compliance with finance-related legal provisions for the period of July 1, 2009, through June 30, 2011. David Poliseno and his review team were very thorough in their review of the records of the department and also of those regional public library systems that were chosen for assessment of their handling of the Arts and Cultural Heritage Fund program. We appreciate the opportunity to respond to this report.

One of the purposes of the study as outlined in the *Agency Overview* was to review the department's financial activities not generally included in your agency's audits of state and federal aid grants. This audit included the Arts and Cultural Heritage Fund and also some department payroll systems.

The records for the Arts and Cultural Heritage Fund program were reviewed. This program provides money collected through the state's sale tax. The funds are allocated to the regional public library systems by the department based upon the existing statutory formula for the Regional Library Basic System Support aid program as outlined in *Minnesota Statutes Chapter 134.34 and 355*. The Arts and Cultural Heritage funds are intended for the provision of public library programs to increase the availability statewide of arts, arts education, arts access, and to preserve Minnesota's history and cultural heritage.

The department is in agreement with findings 1 and 2 and 3, and will implement the recommendations.

Finding 1: The Department of Education did not comply with some of the state's grant management policies and did not adequately oversee the regional library systems' use of money from the Arts and Cultural Heritage Fund.

Recommendation 1: The Department of Education should have grant agreements with the regional public library systems that comply with statutory and state policy requirements.

Response: The Division of State Library Services will modify the existing process based upon the Regional Library Basic System Support aid program to include a grant agreement with additional assurances as required to meet state financial and legal requirements. This recommendation will be implemented by November 1, 2012.

Recommendation 2: The Department of Education should monitor grantees in accordance with state grant policies to ensure that the regional public library systems use money from the Arts and Cultural Heritage Fund in compliance with the purposes of the constitution, appropriation laws, and grant agreements.

Response: The majority of staff in the Division of State Library Services is supported through federal funding. Approval to fill a vacancy with state funds has been given. Part of the responsibilities for this position will be to visit each of the systems' headquarters on an annual basis since it is not feasible for one person to monitor several thousand individual programs. This recommendation will be implemented by December 31, 2012.

Nancy Walton, Director for Library Services is responsible for resolving this finding. This finding is expected to be resolved by December 31, 2012

Finding 2: The Department of Education did not establish requirements for the regional public library systems to ensure they used money from the Arts and Cultural Heritage Fund in accordance with the specific appropriations.

Recommendation 1: The Department of Education should establish requirements for the regional public library systems related to their use of money from the Arts and Cultural Heritage Fund.

Response: The *Guidelines* established collaboratively by the department and the regional public library systems and in consultation with legislative staff at the beginning of the Arts and Cultural Heritage Fund implementation will be incorporated into a more formal grant agreement-based process. This recommendation will be implemented within the grant agreements and implemented by November 1, 2012.

Nancy Walton, Director for Library Services is responsible for resolving this finding. This finding is expected to be resolved by November 1, 2012

Recommendation 2: The Department of Education should recover \$662.70 from the regional public library system for the contract overpayment that reimbursed its vendor for airfare that did not comply with the terms of the contract.

Response: The regional public library system has already submitted a reimbursement check to the department in the amount of \$662.70 that will be deposited back into the Arts and Cultural Heritage Fund. The regional public library systems have submitted a separate letter responding to the recommendations in this audit. The Department of Education considers this finding resolved.

Finding 3: Prior Finding Not Resolved: The Department of Education did not adequately review key payroll reports and did not appropriately assess primary and secondary approvers in the self-service time entry system.

Recommendation 1: The Department of Education should routinely review the payroll register to verify the accuracy of the payroll costs charged to the department.

Response: Formal responsibility for bi-weekly payroll review has been assigned to the new Internal Audit section. Internal Audit will utilize the recommended standard package of SEMA4 Document Direct and On Demand reports that include the Payroll Register, Self-Service Time Entry Audit Report, List of Approvers, and, Comments Report for its regular review. This will include documenting the review, and validating reported exception explanations. Internal Audit will also be developing a more comprehensive and robust cyclical audit to apply to the payroll process. This will include examining a wide variety of operational areas such as positive time reporting, overtime pay authorization, salary adjustments, management controls, SEMA4 system access, etc. The audit fieldwork testing will be done on routine statistical sample basis throughout the year to ensure that necessary review oversight is sustained.

Recommendation 2: The Department of Education should routinely review the self-service time entry audit report each pay period to ensure the accuracy and authorization of payroll paid through the state's automated timesheet process and should obtain and document explanations for reported exceptions.

Response: See response detailed above for Recommendation 1.

Recommendation 3: The Department of Education should prohibit employees from approving their own timesheets.

Response: Human Resources has agreed to perform a review of all current agency SEMA4 system primary and secondary approver assignments to ensure that: no employees can approve their own timesheet; and that a reasonable number of secondary approvers are assigned that are knowledgeable of employee work schedules.

As part of the re-assigned responsibility to Internal Audit for the bi-weekly review function, the cyclical audit implemented will include SEMA4 system access review for primary and secondary approvers to ensure that every agency division has appropriately assigned time sheet approvers. Any exceptions noted will require remediation to fix inconsistencies. Human Resources and Agency Finance expects to have this finding resolved as of September 30, 2012.

Recommendation 4: The Department of Education should limit secondary approvers to staff who are knowledgeable of the work schedules of the employees.

Response: See response detailed above for Recommendation 3.

Al Louismet, Agency Finance and Operations Director, is responsible for resolving this finding. This finding is expected to be resolved by September 30, 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,

A handwritten signature in black ink that reads "Dr. Brenda Cassellius". The signature is fluid and cursive, with "Dr." at the top, followed by "Brenda" and "Cassellius" on the line below.

Dr. Brenda Cassellius
Commissioner

C: Jessie Montano
Al Louismet
Nancy Walton



August 17, 2012

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

Dear Mr. Nobles:

On behalf of the Council of Regional Public Library System Administrators, we would like to thank you for the opportunity to review and comment on your report that summarizes the results of the audit concerning the Arts and Cultural Heritage Fund appropriation for regional public libraries for the period July 1, 2000 through June 30, 2011. We continually strive for quality improvements in the administration of this program and all regional library funds.

There are twelve regional public library systems in the state of Minnesota. The Council of Regional Public Library System Administrators works with State Library Services to develop cooperative projects, to provide training opportunities for our staff members, and to enhance library experiences with our users. The group also worked with the State Librarian to draft guidelines to help lead our organizations in the use of the Legacy funds. Many of the systems also worked with staff and community groups to identify local needs and to implement the programs.

Minnesota regional public libraries have strived to provide access, develop strong partnerships and achieve positive outcomes with the funds provided by the Art and Cultural Heritage Fund. In the first two years of funding, covering the time period of this audit, more than 4,000 programs were offered to Minnesota residents through the 360 public libraries in the state. More than 1,200 new partnerships were established with community cultural organizations located in all counties in the state. Library activities are filling local needs for arts, culture and historical programming.

Please find listed below our responses to the findings and recommendations concerning the weaknesses related to the administration of the regional public library's activities, including remedies:

Bullet Point #1:

The regional public library systems we examined did not have grant agreements with the system that acted as the fiscal agent for statewide library initiatives.

Response: We agree with this finding.

Remedy: The Council of Regional Public Library System Administrators have reviewed a first draft of a fiscal agent policy. After legal review, each regional library's governing board will be asked to adopt it.

Bullet Point #2:

One regional public library system did not have grant agreements with a large library within the system and allowed the library to directly administer the Department of Education grant from the Arts and Cultural Heritage Fund.

Response: The regional library system agrees with this finding. The system did receive verbal permission from the State Librarian (former) to allow the member library to directly contract and pay vendors and request reimbursement with the caveat that all programs needed to be listed on the internal regional tracking system.

Remedy: The regional public library system will create a letter of agreement with its library members specifying the requirements of receiving the allotment of Arts and Cultural Heritage funds.

Bullet Point #3:

One regional public library system reimbursed an author for costs that did not comply with the terms of the contract.

Response: The regional public library system agrees with this finding and recommendation to reimburse the state for the over-payment.

Remedy: A reimbursement check for \$667.20 was sent to the Minnesota Department of Education.

Bullet Point #4:

One regional public library system paid vendors without sufficient supporting documentation. The system paid the vendor, based on authorization from its member libraries, but did not require the libraries to submit the vendor's invoices to support the payments.

Response: The regional public library substantially agrees with this finding. Payments for performers were always made after verification from the signed contract with the vendor and after a library staff member verified the program had taken place. Purchases for materials and other support supplies were always paid from invoices and/or receipts.

Remedy: The regional public library will require invoices for all payments, including performers' honoraria.

Bullet Point #5:

One regional public library system reimbursed speakers and performers for travel costs without obtaining adequate support, as required by the contracts.

Response: The regional public library agrees with this finding.

Remedy: All mileage reimbursements will require detailed documentation from the vendor.

Bullet Point #6:

One regional public library system did not retain contracts with vendors for some Legacy-funded programs and events.

Response: The regional public library substantially agrees with this finding.

Remedy: All contracts will be written and signed by both parties. Contracts will be retained by the system in agreement with their existing retention policies.

Once again, we wish to thank you for the opportunity to respond to this audit and to participate in the continuous improvement process for the Arts and Cultural Heritage program. We also eagerly await the opportunity to work with the Department of Education in the development of further guidelines and policies to administer the program.

Sincerely,

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