



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Minnesota Department of Education

Federal Compliance Audit

Year Ended June 30, 2012

June 28, 2013

Report 13-14

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

June 28, 2013

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Brenda Cassellius, Commissioner
Minnesota Department of Education

This report presents the results of our audit of certain federal financial assistance programs administered by the Minnesota Department of Education during fiscal year 2012. 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 Minnesota Department of Education.

We discussed the results of the audit with the department's staff at an exit conference on June 19, 2013. This audit was conducted by Scott Tjomsland, CPA, CISA (Audit Manager) and Tracy Gebhard, CPA, (Auditor-in-Charge), assisted by auditors Kathy Rootham, Jordan Bjonfald, CPA, and Melissa White, CPA.

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

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Minnesota Department of Education generally complied with and had controls to ensure compliance with provisions of laws, regulations, contracts, and grants applicable to the major federal programs we audited for fiscal year 2012. However, the department had weaknesses as noted in the three findings presented in this report.

Audit Findings

- Prior Finding Not Resolved: The Minnesota Department of Education did not identify, analyze, and document its internal controls related to compliance with federal requirements. ([Finding 1, page 5](#))
- The Minnesota Department of Education did not comply with federal standards for payroll documentation. ([Finding 2, page 6](#))
- The Department of Education miscalculated the amount of interest owed by the federal government to the state for late reimbursements of federal program costs; it overstated the amount as about \$36,500, but the correct amount was about \$100. ([Finding 3, page 6](#))

Audit Scope

Programs material to the State of Minnesota's federal program compliance for fiscal year 2012:

<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 I Cluster – Grants to Local Education Agencies	84.010 and 84.389A
Special Education Cluster	84.027, 84.173, 84.391A, and 84.392A
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 Minnesota 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. Appendix A, on page 8, provides the federal award numbers associated with these programs.

Table 1
Major Federal Programs
Administered by the Minnesota Department of Education
Fiscal Year 2012

<u>CFDA¹</u>	<u>Program Name</u>	<u>Expenditures</u>
	<u>Child Nutrition Cluster:²</u>	
10.553	School Breakfast	\$ 37,480,316
10.555	National School Lunch	135,134,912
10.556	Special Milk Program for Children	797,587
10.559	Summer Food Service Program for Children	<u>5,081,720</u>
	Total Child Nutrition Cluster	\$178,494,535
10.558	Child and Adult Care Food	\$ 60,551,167
	<u>Title 1 Cluster</u>	
84.010	Title 1 Grants to Local Education Agencies	\$128,698,380
84.389A	Title 1 Grants to Local Education Agencies, Recovery Act	<u>15,411,656</u>
	Total Title 1 Cluster	\$144,110,036
	<u>Special Education Cluster:</u>	
84.027	Special Education – Grants to States	\$169,035,941
84.173	Special Education – Preschool Grants	6,194,591
84.391A	Special Education – Grants to States, Recovery Act	19,871,830
84.392A	Special Education – Preschool Grants, Recovery Act	<u>2,036,088</u>
	Total Special Education Cluster	\$197,138,450
84.410A	Education Jobs Fund	\$ 80,148,228

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

Source: State of Minnesota's accounting 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 2012 exceeded \$30 million.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Minnesota Department of Education complied with federal program requirements in its administration of these federal programs for fiscal year 2012. 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 also followed up on findings and recommendations reported to the department's management in our previous audit.⁵

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 Minnesota 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 2012. However, the department had some weaknesses, as noted in the following *Findings and Recommendations* section, including one repeat finding from last year's audit that it did not resolve.

We will report these weaknesses to the federal government in the *Minnesota Financial and Compliance Report of Federally Assisted Programs*, prepared by the Department of 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 March 20, 2013, on the State of Minnesota's basic financial statements for the year ended June 30, 2012. 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 13-06, *Report on Internal Control Over Financial Reporting*, issued May 17, 2013.) This report included control deficiencies related to the Minnesota Department of Education.

⁵ Office of the Legislative Auditor's Financial Audit Division Report 12-04, *Department of Education*, issued March 23, 2012.

Findings and Recommendations

Prior Finding Not Resolved: The Minnesota Department of Education did not identify, analyze, and document its internal controls related to compliance with federal requirements.

Finding 1

The department has made little progress since 2009, when we first reported this deficiency, to complete a comprehensive risk assessment regarding internal controls over compliance with federal single audit requirements for its major federal programs.⁶ In response to the prior finding we repeated in our 2012 audit report, the department created a position for an internal auditor, hired an employee into that position in April 2012, and assigned the employee the responsibility to develop a comprehensive internal control structure; however, work on that task did not begin until July 2012.

The federal Office of Management and Budget, Circular A-133, outlines the state's responsibilities for managing federal assistance programs and addresses general compliance requirements and program specific requirements. The circular requires the state to maintain internal controls over federal programs and to follow up and take corrective action on audit findings.⁷ In addition, state policy requires agencies to document its internal control procedures over financial management activities (including compliance with federal program requirements), including the department's analysis of risks, and periodic evaluation of control procedures to ensure they are adequately designed, properly implemented, and functioning effectively.

The findings in this report identify deficiencies in the department's internal control procedures and specific noncompliance with federal requirements that the department's internal control structure did not prevent or detect. If the department had a comprehensive internal control structure, it may have identified these deficiencies, assessed the degree of risk for these deficiencies, designed control procedures to address significant risk, and monitored whether controls were working as designed and effective in reducing the risks to an acceptably low level. 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.

⁶ This finding affects all major federal programs identified in Table 1. See Appendix A for the federal award numbers for these programs. It also applies to the Improving Teacher Quality State Grants federal program (CFDA 84.367), which a major program in fiscal years 2008 through 2011 but not in fiscal year 2012, and the State Fiscal Stabilization Fund – Education State Grants, Recovery Act federal program (CFDA 84.394A), which was a major program in fiscal year 2010.

⁷ U.S. Office of Management and Budget Circular A-133, Subpart C – Auditees, Section 300.

Recommendation

- *The department should complete its review and documentation of the risks, control activities, and internal control and monitoring functions for its key financial and compliance processes related to major federal programs.*

Finding 2

The Minnesota Department of Education did not comply with federal standards for payroll documentation.

The department did not require periodic certifications for employees paid entirely from a single federal program stating that they worked solely on that program for the period covered by the certification. The federal government requires this certification to ensure that the work of employees paid with federal grant money was for the purposes of the grant. Office of Management and Budget Circular A-87⁸ requires certifications for these employees at least semi-annually.

Recommendation

- *The department should develop and implement procedures to ensure that it periodically obtains certifications from employees paid entirely from a single federal program that they worked solely on that program, in compliance with federal standards.*

Finding 3

The Department of Education miscalculated the amount of interest owed by the federal government to the state for late reimbursements of federal program costs; it overstated the amount as about \$36,500, but the correct amount was about \$100.

The department did not have sufficient internal controls to ensure that it accurately calculated (and reported to the Department of Management and Budget) the amount of interest the federal government owed the state due to late reimbursement of federal program costs. The department incorrectly calculated a claim of \$36,517 for fiscal year 2012 because it used an annual interest rate (instead of a daily interest rate) to calculate the interest owed on the unreimbursed daily balances. We recalculated the amount of interest owed using the daily interest rate and determined that the correct amount was about \$100. The error might have been detected if the department had performed a secondary review of the calculation. After we informed the department of the error, it reported the corrected amount to the Department of Management and Budget for inclusion in

⁸ Office of Management and Budget Circular A-87 establishes that payroll expenditures are allowable costs of federal programs provided that they are consistent with costs of similar work paid from non-federal sources and establishes required standards for payroll documentation.

the state's federal cash management annual report filed with the United States Treasury.

Recommendation

- *The department should develop and implement procedures to ensure that it accurately calculates and reports its federal interest liability claims.*

Appendix A
Major Federal Programs
Minnesota Department of Education
Fiscal Year 2012

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Federal Award Number</u>
	<u>Child Nutrition Cluster:</u> ²	
10.553	School Breakfast	2MN300061
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	2MN300061
	<u>Title 1 Cluster</u>	
84.010	Title 1 Grants to Local Education Agencies	S010A110023-11B, S010A100023A, S010A090023A
84.389A	Title 1 Grants to Local Education Agencies, Recovery Act	S389A090023A
	<u>Special Education Cluster:</u>	
84.027	Special Education – Grants to States	H027A110087-11B, H027A100087A, H027A090087A
84.173	Special Education – Preschool Grants	H173A110086, H173A100086, H173A090086
84.391A	Special Education – Grants to States, Recovery Act	H391A090087A
84.392A	Special Education – Preschool Grants, Recovery Act	H392A090086A
84.410A	Education Jobs Fund	S410A100024-10A

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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.



June 24, 2013

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

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, 2012. Specific findings for the Department include findings 1, 2 and 3. The response to each finding, person responsible for implementation and timeframe is included with each finding.

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

Finding 1 (Prior Finding Not Resolved): The Minnesota Department of Education did not identify, analyze, and document its internal controls related to compliance with federal requirements.

Recommendation: The Department should complete its review and documentation of the risks, control activities, and internal control and monitoring functions for its key financial and compliance processes related to major federal programs.

Response: The Department of Education is continuing efforts to implement agency-wide risk assessment and internal control program. The implementation of these programs will result in programs that are better managed with oversight and control procedures embedded in the MDE organization. The processes include the development of a new format of tools for performing risk and internal control analysis and testing within a broad array of agency-wide business process areas. This will allow for a more thorough review and ultimately strengthen the overall risk management and internal control environment for the agency.

Progress steps made include the following:

- An Internal Auditor position was recruited and hired April 25, 2012. The position is housed in the Agency Finance and Operations division, and is responsible for agency-wide efforts with risk assessment, internal control, and internal audit functions.
- The agency has revisited and updated its annual certification report to Minnesota Management and Budget (MMB) for the state fiscal year ended 2012. This is in compliance with the requirements under state statute (MN Statute §16A.057 and Statewide Operating Policy 0102-01), which also includes the Control Environment Self-Assessment Tool. Information and data for the completion of these two documents were gathered from all program directors and reviewed by management.
- The agency Internal Audit Unit has developed risk assessment and internal control program tools designed to facilitate the review of these functions on an agency-wide basis.
- A risk assessment policy for the agency was developed and approved with issuance to all agency personnel as of September 13, 2012. The policy establishes protocols including roles and responsibilities for adhering to a program that achieves compliance requirements.
- Project plans have been outlined for the tasks of conducting and completing a risk assessment and internal control review for the agency. The results and feedback from the risk assessment, the first step in the process, will be incorporated in the internal control program.
- The risk assessment program has completed its initial review of three pilot business process areas and identified other priority areas for the next step in the risk assessment process.
- The internal control review is to occur upon completion of the risk assessment process.

Due to the complexity and breadth of achieving agency-wide risk assessment and internal control review, MDE is targeting full completion of an initial cycle of risk and internal control review by June 30, 2014. Resolution of this finding is the responsibility of Al Louismet, Agency Finance Director.

Finding 2: The Minnesota Department of Education did not comply with federal standards for payroll documentation.

- The department did not require periodic certifications for employees paid entirely from a single federal program stating that they worked solely on that program for the period covered by the certification. The federal government requires this certification to ensure that the work of employees paid with federal grant money was for the purposes of the grant. Office of Management and Budget Circular A-87 requires certifications for these employees at least semi-annually.

Recommendation: The department should develop and implement procedures to ensure that it periodically obtains certifications from employees paid entirely from a single federal program that they worked solely on that program, in compliance with federal standards.

Response: The agency is in-process with the design of a new format for time and effort reporting that includes semi-annual certification for all sole federal program funded staff. This newly designed process would be semi-automated from SWIFT/SEMA4 records to report time record data to all necessary staff on an after-the-fact basis; include correction transactions; and provide validation. The semi-annual certification process would then be administered from the same database of information to provide accurate certifications. The agency is targeting implementation for payroll beginning July 17, 2013. Resolution of this finding is the responsibility of Al Louismet, Agency Finance Director.

Finding 3: The Minnesota Department of Education miscalculated the amount of interest owed by the federal government to the state for late reimbursements of federal program costs; it overstated the amount as about \$36,500, but the correct amount was about \$100.

The department did not have sufficient internal controls to ensure that it accurately calculated (and reported to the Department of Management and Budget) the amount of interest the federal government owed the state due to late reimbursement of federal program costs. The department incorrectly calculated a claim of \$36,517 for fiscal year 2012 because it used an annual interest rate (instead of a daily interest rate) to calculate the interest owed on the unreimbursed daily balances. We recalculated the amount of interest owed using the daily interest rate and determined that the correct amount was about \$100. The error might have been detected if the department had performed a secondary review of the calculation. After we informed the department of the error, it reported the corrected amount to the Department of Management and Budget for inclusion in the state's federal cash management annual report filed with the United States Treasury.

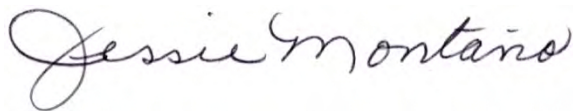
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James Nobles
June 24, 2013

Recommendation: The department should develop and implement procedures to ensure that it accurately calculates and reports its federal interest liability claims.

Response: The department will include in its procedures, a secondary review of the calculation, by the unit supervisor, when completing the calculation of the amount of interest the federal government owed the state due to late reimbursements. The finding will be resolved by June 30, 2013. Resolution of this finding is the responsibility of Al Louismet, Agency Finance Director.

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 cursive script that reads "Jessie Montano". The signature is written in dark ink and is positioned below the word "Sincerely,".

Jessie Montano
Deputy Commissioner

Cc: Al Louismet
Paul Kurtenbach