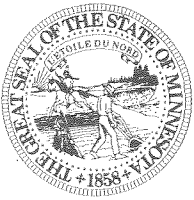


**STATEWIDE AUDIT
STATE BOARD OF VOCATIONAL TECHNICAL EDUCATION
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 1985**

FEBRUARY 1986

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Mr. Joseph P. Graba, State Director
State Board of Vocational Technical Education
5th Floor, Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101

Dear Mr. Graba:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1985 financial statements and federal programs. The scope of our work has been limited to:

- those aspects of your department which have material impact on any of the state's various funds and account groups shown on the financial statements;
- the status of prior audit recommendations; and
- the federal programs included in the Single Audit scope, specifically:

<u>CFDA Number</u>	<u>Program</u>
84.048	Vocational Education Basic Grants
84.121	Vocational Education State Planning and Evaluation

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. However, the Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1985. The federal government is ultimately responsible for determining resolution of Single Audit recommendations. The appropriate federal program agency staff will contact your agency to review your efforts toward corrective actions for 1985 and prior years. They will also notify you of their final resolution.

This management letter contains both the recommendation developed during this audit and a reiteration of a prior recommendation which has not yet been fully implemented. Attached to your management letter is a summary of the progress on all audit recommendations developed during our 1984 statewide audit. Of the ten recommendations from 1984, nine recommendations have been implemented.

The recommendations included in this letter are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed again during our audit next year.

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: The current procedures for determining aid to schools for the Vocational Education Basic Grants Program (CFDA #84.048) does not provide for a level of effort on a school-by-school basis.

The Board of Vocational Technical Education received a grant of \$10,095,302 in fiscal year 1985 from the U.S. Department of Education to plan and conduct vocational programs.

The Vocational Education Basic Grants Program (CFDA #84.048) in 34 CFR 400.325 requires that school districts maintain the same level of expenditures for vocational education programs as in the previous year. As we reported in fiscal years 1983 and 1984, the procedure for calculating aids did not provide for a level of effort on a school district basis. This remains unchanged in fiscal year 1985.

In September 1984, the Board requested a waiver of the requirement for a level of effort on a school-by-school basis from the federal grantor agency because changes in the variables (declining tax bases, unemployment rates, etc.) in the federal funding formula would not result in the required level of effort. The U.S. Department of Education, Division of State Vocational Program Operations, notified the Board in February 1985 that the waiver would not be granted due to the lack of sufficient information on the waiver request. The Board was told by the Division of State Vocational Program Operations that this issue would be further addressed during the audit resolution process after the Legislative Auditor's report was received from the Regional Inspector General. As noted, this issue has been discussed since our first Single Audit Report was issued in 1983. To comply with the requirement for a level of effort on a school-by-school basis, either a change in the calculation of aid is necessary or a waiver from the U.S. Department of Education should be obtained.

RECOMMENDATION:

1. *The Board should resolve the issue of level of effort with the U.S. Department of Education.*

Internal controls over the processing of Vocational Education Basic Grants Program (CFDA #84.048) need to be improved.

In fiscal year 1985, the Board of Vocational Technical Education allocated \$9,635,302 from the Vocational Education Basic Grants Program to 33 Area Vocational Technical Institutes (AVTIs) within Minnesota. The total allocation is comprised of aid for handicapped students (\$1,009,530), disadvantaged students (\$2,019,060), and equipment (\$6,606,712). The entitlement that an individual AVTI is to receive under each type of aid is determined by formulas included in the federally approved state plan. We found that the calculation of aid entitlement based on these formulas resulted in:

- an overpayment of handicapped aid to one AVTI; and

- a lack of documentation supporting the final calculation of equipment aid.

The variables used in the formula for the calculation of handicapped aid for an AVTI include the number of handicapped students registered in the AVTI vocational programs. This number is derived from the Special Needs Analytical Profile Report and entered into a computer during the process of calculating the aid. An incorrect number of students registered was entered into the formula for one AVTI, resulting in an overpayment of \$10,296. We alerted the staff of this error and it will be adjusted in the final payment for fiscal year 1985.


The post-secondary projected student count is a variable used in the formula for the calculation of equipment aid. When testing the calculation of equipment aid, we found that the amounts used in the formula for three districts differed from the amount on the AVTI application form. We were told that adjustments to the amounts reported by the school districts were made as the result of telephone conversations with the three AVTIs and the payment amounts were accurate. No documentation supporting these adjustments was maintained. Without documentation to support these adjustments, we could not verify the accuracy of the entitlement calculation.

RECOMMENDATION:

2. *The Board of Vocational Technical Education should strengthen the internal controls over the calculation of aid entitlements by:*
 - *establishing a review process or computer edit check on the accuracy of data entered into the formula; and*
 - *documenting any adjustments to original variable amounts used in the calculation of aid entitlements.*

Thank you for the cooperation extended our staff during this audit.

Sincerely,


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

Attachment

February 13, 1986

STATE BOARD OF VOCATIONAL TECHNICAL EDUCATION

Attachment

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND

PROGRESS TOWARD IMPLEMENTATION

The federal grant cash management policies and procedures at the Board of Vocational Technical Education need improvement.

1. The Board of Vocational Technical Education, in conjunction with the Department of Education, should comply with U.S. Treasury Circular 1075 to ensure that:
 - drawdowns are based on actual costs;
 - drawdowns are completed on the basis of individual program needs; and
 - drawdowns are supported by adequate documentation.

Recommendation Implemented. Fiscal services of the Department of Education instituted procedures during fiscal year 1985 resulting in drawdowns being based on actual costs for individual programs. The drawdowns are now numerically referenced to supporting program documentation and approved by the program supervisors. The U.S.D.A. Food and Nutrition Service Division which was assigned the responsibility to resolve statewide cash management issues approved the Board's corrective actions. (Memorandum to the Department of Finance, November 22, 1985.)

The Board of Vocational Technical Education is not in compliance with the federally required reporting standards for all programs.

2. The Board, in conjunction with the Department of Education, should comply with reporting requirements provided by OMB Circular A-102, Attachment H.

Recommendation Implemented. The Department of Education's reassignment of the responsibility for the issuance of federal reports in fiscal year 1985 has resulted in the department complying with Circular A-102, Attachment H. Our testing of material federal programs indicated that all required reports are accurate, complete, and filed in a timely manner. This implementation has not yet received final acceptance by the federal government.

Adequate time distribution records were not available to support payroll charges to various federal programs administered by the Board.

3. The Board, in conjunction with the Department of Education, should develop a uniform system of payroll documentation. Employees, whether fully or partially funded from federal programs, should be required to certify the actual hours worked on the various programs each pay period.

STATE BOARD OF VOCATIONAL TECHNICAL EDUCATION

Attachment

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3. (con't)

Recommendation Implemented. The Department of Education issued written procedures on December 19, 1985 which provide for the recording of time charged to federal programs on the employees' time sheets. This will allow for the proper charging of salary costs to individual federal programs. The U.S.D.A. Food and Nutrition Service, which was assigned responsibility to resolve statewide payroll time distribution issues, approved the department's procedures in a memorandum dated February 7, 1986.

Procedures have not been established to reconcile federal program expenditures to the Statewide Accounting (SWA) system records.

4. The Board programs section should reconcile federal program expenditures to SWA.

Recommendation Implemented. In fiscal year 1985, a data specialist assumed the responsibility for reconciling federal program expenditures both to computer records and to Statewide Accounting records. Our test results indicated that federal program expenditures reconciled to the SWA system. This implementation has not yet received final acceptance by the federal government.

The Board is not in compliance with the indirect cost requirements of the U.S. Office of Management and Budget's Circular A-87, "Cost Principles for State and Local Governments."

5. The Board, in conjunction with the Department of Education, should obtain approval from the cognizant federal agency for use of a provisional indirect cost rate during the interim period until the indirect cost rates are approved by the U.S. Department of Education.

Recommendation Implemented. The Minnesota Department of Education was verbally advised by the U.S. Department of Education, Office of Management, during the week of November 24, 1985 to notify them that the indirect cost rates for fiscal years 1982 through 1985 have been approved. The federal agency indicated that written notification would follow. We will consider this recommendation to be resolved once the department's written notification is received.

Documentation supporting state construction aids is inadequate, project records incomplete, and the payments are not reconciled to SWA.

6. The Board should ensure that the required documentation supporting aid payments is maintained, the projects are monitored for completion, and the project payment records are periodically reconciled to SWA.

Recommendation Implemented.

STATE BOARD OF VOCATIONAL TECHNICAL EDUCATION

Attachment

Page 3

Controls over the payments for the Work Experience for the Handicapped (WEH) program's state and federal allocations were not adequate.

7. The Board should review the accuracy of student enrollment reports to ensure that the aids are distributed correctly.

Recommendation Implemented. During fiscal year 1985, a program assistant compared input amounts to student enrollment report amounts to ensure that the proper amounts were included in the program distribution formula. This implementation has not yet received final acceptance by the federal government.

Supporting documentation for the allocation of federal support services aid to the AVTIs was not available.

8. Documentation supporting any adjustments to the original entitlements should be retained.

Recommendation Implemented. The finance specialist responsible for the calculation of aid entitlements instituted procedures in June 1985 to document all adjustments to the original entitlements. These procedures include the preparation of a formula worksheet indicating the adjustments and a memorandum to the Board of Vocational Technical Education explaining the reasons for the adjustments. This implementation has not yet received final acceptance by the federal government.

The current procedures for determining aid to schools for the Vocational Education Basic Grants (CFDA #84.048) does not provide for a level of effort on a school-by-school basis.

9. The Board of Vocational Technical Education should attempt to comply with the regulations regarding a level of effort on a school-by-school basis, or they should consult with the U.S. Department of Education about obtaining a waiver for this requirement.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current recommendation #1.

The Board of Vocational Technical Education does not have an updated records retention schedule to control pertinent financial records for the Vocational Education Basic Grants (CFDA #84.048).

10. The Board should develop updated records retention schedules which include all public records as well as any computer tapes and files.

Recommendation Implemented. The Board will be implementing a plan in fiscal year 1986 developed by the Minnesota Department of Education that includes inventorying and recording of computer tapes and files on the records retention system. This plan has not yet received final acceptance by the federal government.

Minnesota
State Board of Vocational
Technical Education
Capitol Square Bldg.
550 Cedar Street
St. Paul, MN 55101

February 13, 1986

Ms. Renee Redmer
Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Ms. Redmer:

This letter is in response to the management letter received in regard to the statewide audit of fiscal year 1985 financial statements and federal programs.

The following are responses to the recommendations:

RECOMMENDATION:

1. The Board should resolve the issue of level of effort with the U.S. Department of Education.

RESPONSE:

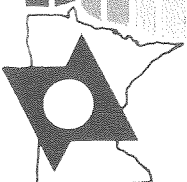
1. The Board will continue to work with the U.S. Department of Education in an attempt to resolve the level of effort on the Vocational Education Basic Grants program. Mr. Robert Bocklund, by December 1, 1986, will attempt to get further clarification regarding this issue. It should be noted that this issue will not be a continuing problem in future audits. The Carl Perkins Act has changed the maintenance of effort to one of state level effort rather than school by school effort.

RECOMMENDATION:

2. The Board of Vocational Technical Education should strengthen the internal controls over the calculation of aid entitlements by:

establishing a review process or computer edit check on the accuracy of data entered into the formula; and

documenting any adjustments to original variable amounts used in the calculation of aid entitlements.



Ms. Renee Redmer
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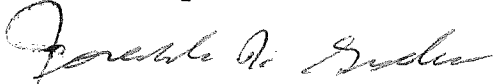
RESPONSE

2. The Board has established a two-party review process in the formula distribution process. This should eliminate any future errors in the aid distribution. This system is already implemented. It will be the responsibility of Mel Johnson to ensure that the aid recapture is accomplished prior to June 30, 1986.

In addition, any adjustments to the variables used in the formula will be documented. It will be the responsibility of Ron Dreyer to ensure that all adjustments are recorded.

We would like to express our appreciation for the excellent working relationship that Mr. Hirschfeld has established with our agency. He has been very much responsible for the fact that the accounting procedures and controls have improved substantially through the years.

Sincerely,



Joseph P. Graba, State Director
State Board of Vocational Technical Education

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