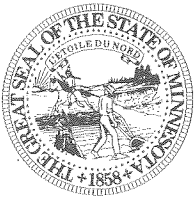


**STATEWIDE AUDIT
DEPARTMENT OF EDUCATION
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 1985**

MARCH 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

Dr. Ruth Randall, Commissioner
Department of Education
7th Floor, Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101

Dear Commissioner Randall:

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 financial audit recommendations; and
- the federal programs included in the Single Audit scope, specifically:

<u>CFDA Number</u>	<u>Program</u>
10.553	National School Breakfast
10.555	National School Lunch
10.558	Child Care Food
84.010	Educationally Deprived Children (Title I)
84.027	Handicapped Preschool and School
84.151	Education Consolidation Improvement (Block Grant)

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 recommendations developed during this audit and a reiteration of prior recommendations which have not yet been implemented. Attached to your management letter is a summary of the progress on all audit recommendations developed during our 1984 statewide audit.

The recommendations included in this management 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.

The Secondary Vocational Education Handicapped Children Program Unit does not monitor compliance of school district data for the required student-teacher ratios nor the maximum reimbursement for supplies.

The Secondary Vocational Education for Handicapped Children Program was established to educate handicapped students in employable occupations through classroom instruction, training, and work experience. Funding for fiscal year 1985 was provided by a state appropriation of \$3,038,000.

Participating districts submit applications by June 1, detailing anticipated expenditures for salaries, supplies and equipment, and travel for the next fiscal year. The secondary vocational education unit reviews and approves the applications. The applications are then processed on the special education section computer system, with a turnaround report showing the entitlement for each participating district. This turnaround report is sent to the districts quarterly for review and updating of expenses and student count. Payments totalling 85 percent of the entitlement are processed during the current year, with the final 15 percent paid in October of the following year. Our examination of the application and payment process found that the review process by the secondary vocational education unit over the documentation submitted by the districts needs to be improved.

Agency rule 3505.4700-Work Experience--states that the maximum number of students enrolled in the work experience handicapped program shall be 23 students, while agency rule 3505.4900-Support Services--provides the staff to student ratio for vocational education for each type of instructor. A district shall be eligible for vocational aid when the staff to student ratio is not exceeded. It is the responsibility of the secondary vocational education unit to review the staff to student ratio on the turnaround document submitted by each district.

We found this review to be inadequate, causing estimated overpayments in state aids to 18 districts totalling \$388,174. These amounts were paid to districts that did not meet the student-teacher ratio requirements. We examined the staff to student ratios reported on the March 31, 1985 turnaround documents submitted by all school districts enrolled in the program. We found 45 instructors that exceeded the eligible number of students as authorized by agency rules. For example, 9 work experience coordinators exceeded the 23 student maximum. The number of students reported for these instructors ranged from 24 to 52 which exceeded the maximum number of students allowed by 1 to 29. Other examples are shown in the following table.

<u>Number of Instruc- tors Exceeding Authorized Staff to Student Ratio</u>	<u>Type of Instructor</u>	<u>Agency Rule Maximum Stu- dent to Staff Ratio Allowed</u>	<u>Range of Student to Staff Ratio Reported</u>	<u>Number of Students Reported Above Allow- able Ratio</u>
9	Work Experience Coordinator	23	24- 52	1-29
24	Technical Tutor	10	20-100	10-90
9	Vocational Evaluator	5	45-90	40-85
3	Support Ser- vices Manager	60	90-96	30-36

Minn. Stat. Section 124.574 authorizes the payment of aid for supplies up to 50 percent of the cost not to exceed \$50 for secondary vocational handicapped education programs. The total cost of supplies for each district's program is included as a line item on the turnaround document submitted by each district. Because the unit did not apply the \$50 maximum to supply expenses, one district received \$3,800 in excess of the amount allowed. An adjustment had not been completed as of December 31, 1985.

The review of the supply expense data on the turnaround documents is currently completed manually and is a cumbersome procedure. In order to prevent similar errors in the future, the secondary vocational education unit met with the special education unit on December 27, 1985 to develop computer edits that would highlight incorrect students reported or excess supplies reimbursements.

RECOMMENDATION:

1. *The secondary vocational education unit should:*
 - *monitor compliance with the statutory student-teacher ratios and supplies reimbursements, and reduce aid accordingly for districts that are not eligible;*
 - *adjust school district payments for the amount overpaid by \$388,174; and*
 - *develop computer edits to highlight incorrect student numbers reported or excess supplies reimbursements.*

Administrative controls over the Education Consolidation and Improvement Programs - Chapter 2 Block Grant (CFDA #84.151) need improvement.

The Chapter 2 Block Grant consolidated 43 federal programs into one single authorization in 1981. Direct program administration was transferred from the federal government to the state and the local educational agencies. The Department of Education block grant unit is primarily responsible to

ensure state and local compliance with federal cash management directives, reporting requirements, level of expenditure effort, and other federal regulations. In fiscal year 1985, the state was awarded block grant funds of \$7.6 million, with \$6.1 million allocated to school districts and the remaining \$1.5 million reserved for special projects and state administration.

Block grant funds are allocated to the school districts based on a federally established formula. Student attendance within the district is the primary factor with adjustments for low income and economically deprived children. Funds allocated are advanced by the fiscal services unit to the districts according to a predetermined schedule developed by the block grant unit. The schedule provides advances of 30 percent of the formula amount on October 30, November 30, and December 30, and a final 10 percent on March 31 each year. Several problems were noted in the unit's administration of the block grant program.

The department monitors cash flow to school districts for state aids, and grants funds to districts on a reimbursement basis for most federal programs. However, the department does not monitor the cash needs of the districts for the block grant programs, but merely advances the three quarterly amounts and final payment as discussed above. The U.S. Department of Education, Office of the Assistant Secretary for Elementary and Secondary Education, cited the department for noncompliance with the U.S. Treasury Circular 1075 in a report dated July 16, 1984 and again in a program review in October 1985. The July 1984 report stated that treasury regulations require that the disbursement of federal funds be related, as closely as possible, to the actual need for the funds. The block grant unit should work with the fiscal services unit and the Department of Finance to establish appropriate procedures to monitor the local agencies' cash needs and disburse funds accordingly.

The block grant unit transmits listings of the school district advances to the fiscal services unit for payment throughout the year. However, at the end of the process, the block grant unit does not review the accuracy of the payments made by fiscal services to the Statewide Accounting System (SWA) reports. As a result, a January 1984 payment of \$1,148 was erroneously made to a school district. This payment was detected and corrected by the department, but not until October 1984. Errors such as this would be corrected sooner if the unit reconciled payments to SWA on a timely basis.

Finally, the block grant unit has not appropriately monitored compliance with the level of expenditure effort provided by the state and local educational agencies. 34 CFR 298.11 requires that the combined fiscal effort per student or the aggregate expenditures within the state for the preceding year be not less than 90 percent of the combined fiscal effort per student or aggregate expenditures for the second preceding year. The fiscal efforts in determining the maintainance of effort does not include expenditures for community services, capital outlay, debt services, and expenditures of federal funds. It is the Minnesota Department of Education's responsibility for obtaining the necessary expenditure documentation and monitoring the state and local educational agencies fiscal effort.

We found that the block grant unit used incorrect expenditure data in determining the maintenance of effort and also did not attempt to monitor the maintenance of effort on a routine basis. The block grant unit previously obtained a Uniform Financial Accounting and Reporting System (UFARS) summary report of school district data from the school financial management section to use in calculating the local level of effort. This report includes federal expenditures which are not eligible costs in determining the level of effort. In addition, the block grant unit computed the level of effort only once upon a recent request by the federal agency in June 1984. The block grant unit should compute the level of effort on at least an annual basis using only authorized expenditures to ensure that the state and local expenditure levels are maintained. A new UFARS report for this purpose was developed by the school financial management section using only authorized expenditures on November 13, 1985.

The block grant manager provided us with a memorandum on November 26, 1985 indicating that procedures have been established for reconciling transactions to SWA, determining the required maintenance of effort and monitoring cash at the local level.

RECOMMENDATION:

2. *Administrative controls over the block grant program should be improved by:*
 - *complying with U.S. Treasury Circular 1075 in disbursing funds to local educational agencies;*
 - *reconciling school district payments to the SWA expenditure reports; and*
 - *monitoring the federal level of effort requirements.*

Documentation of entitlement calculations and controls over the reimbursements for the Elementary and Secondary Education Act Title I Program (CFDA #84.010) need improvement.

The Title I Program provides federal assistance to school districts to meet the special needs of educationally deprived and disadvantaged children. Funds totalling approximately \$37 million were awarded by the Title I unit in fiscal year 1985 to participating school districts. Once the Title I unit notifies the school districts of their entitlement, project applications including funding requests are submitted by the districts to the unit for approval. School districts are reimbursed by fiscal services for project expenditures reported periodically during the grant year. Unexpended entitlement balances for the districts are authorized by Title I to be carried forward to the next year for additional projects. The following problems were noted in the fiscal administration of the Title I Program.

Title I approved project amounts were not reconciled by the Title I unit to the encumbrances on the statewide accounting system (SWA). Once the Title I unit forwards the approved project amounts for each district to fiscal services for encumbering and processing payments it does nothing

to assure that the payments were processed accurately. Although the Title I unit receives copies of the SWA Open Encumbrance Reports, they did not reconcile the encumbrances to the approved project amounts, resulting in one district receiving \$7,000 less than their approved amount. The department completed an adjustment for that district on September 18, 1985.

Line item expenditures are also not compared by the Title I to the approved budgeted amounts on the Uniform Financial Accounting and Reporting System (UFARS) Expenditure Reports. An annual UFARS budget report accompanies each district application submitted to the Title I unit. After the project and annual budget are approved, program rules require an addendum for any line item expenditure exceeding the approved budgeted amount by 10 percent. Fiscal Services receives the monthly UFARS expenditure reports which are the basis for reimbursing the districts. During discussions with fiscal services and the Title I unit, we found the policy unclear as to who is responsible for the review of line item expenditures. We noted one district that had two line item expenditures exceeding the approved budgeted amounts by 84 and 497 percent, totalling \$2,809 and \$1,493, respectively. This illustrates the weakness in the budgetary control by the Title I unit.

The Title I unit has not adequately monitored the level of expenditure effort at the local level. Regulations 34 CFR 200.60, 61 require that free public education expenditures in the school district for the preceding year be not less than 90 percent of the expenditures for the second preceding year. If the requirement is not met and a waiver is not appropriate, the allocation to the school district is to be reduced. There was no adjustment or waiver issued for one district not maintaining the required level of expenditures. This resulted in an overpayment to the district of \$1,652. The Title I unit had not made an adjustment as of December 31, 1985.

Documentation to support adjustments to the entitlement calculations was not maintained by the Title I unit. The number of poor children in each school district is one factor in the statewide Title I entitlement calculation. Statistics detailing the number of poor children in each district are included in the Title I Population Reports received from the U.S. Department of Education. We tested the 1985 entitlements to 20 school districts using the poor children statistics shown in these reports. Our calculations indicated that one school district received \$1,254 less than their entitlement and the other districts cumulatively received \$1,254 more than they were entitled. An adjustment for this amount will not be made for fiscal year 1985 by Title I because we were told that it is not economically feasible to adjust all 433 districts. Title I could not determine why these differences occurred and they did not maintain a worksheet showing how these statistics were used in the 1985 entitlement calculation. These statistics were also used for the 1986 entitlement which caused this error to recur. Historically, the same statistics would have been used for entitlement calculations until 1993. However, due to this error, the statistics will be revised beginning with the 1987 entitlement year.

RECOMMENDATION:

3. *The Title I unit should:*

- *compare the approved project amounts for each district with the SWA Open Encumbrance Report annually. They should also compare line item expenditures with budgeted amounts on the Title I UFARS Expenditure Report on a periodic basis;*
- *review the Level of Effort report for all districts to determine if a waiver or a reduction in aid entitlement is necessary; and*
- *maintain all worksheets supporting the number of poor children used in the calculation of Title I aid entitlements. The correct statistics should be determined before the 1987 school district entitlements are determined.*

Controls over the processing of secondary vocational education state aids should be improved.

School districts were paid approximately \$20 million in secondary vocational education state aids in fiscal year 1985. Districts were reimbursed about 45 percent of the total salary and travel costs for vocational education programs.

School districts report vocational education salary and travel expenditures to the MDE on computer tapes and/or MDE forms. School district data is further processed by MDE in accordance with a distribution formula established by the Minnesota Statutes and Code of Agency Rules. The MDE applies both manual and computer edits to check the validity of the data reported and to ensure compliance with applicable statutes and rules.

Our review indicated the following weaknesses in the processing of district data:

- *a lack of documentation for adjustments made by MDE to the amounts reimbursed;*
- *absence of an edit to check hours charged by instructors to vocational programs; and*
- *inconsistent treatment of teachers hours for extended employment and preparation time in the aid distribution formula.*

In 12 of the 20 districts tested, the MDE adjusted expenditure amounts during the edit process. We were told that some of the adjustments were due to district mathematical errors in reporting data, while others were due to districts submitting expenditures found to be ineligible for reimbursement. The MDE adjusted the aid amount but did not document the reasons why the adjustments were made. Adjustments must be supported to ensure that they are valid and are accurately reflected in the final payments. Without proper documentation, an improper amount could be paid and remain undetected.

There is no computer edit to ensure that an instructor does not charge more hours to vocational education programs than stated in their contract. For example, we noted an instructor who charged 6.4 hours to vocational education when her total contracted teaching day was only 6.3 hours resulting in an overpayment of state aid to the district involved. While the amount of this overpayment would not be material, the cumulative impact for all districts could result in a material overpayment. A computer edit to match contract hours with hours charged would have detected this error. This edit should be added to other computer edits currently in use.

The MDE is not consistent in its treatment of aid formula variables for vocational education salary reimbursements. These variables include extended employment and preparation time for vocational education instructors. MCAR 3505.53, Subp. 2 states that a full-time equivalent instructor is eligible for six days of extended employment. If, for example, an instructor was a half-time equivalent instructor, the MDE would allow three days of extended employment. The MDE subsequently prorates the amount of extended time allowed when the instructors time is less than the maximum amount indicated in the rules. We believe that this allocation method is a conservative and reasonable approach. However, MDE does not prorate instructors preparation time between vocational and nonvocational classes when vocational education instructors time is greater than 3.0 hours. MCAR 3505.53, Subp. 3 indicates that if vocational instructional contract hours are greater than 3.0, then a maximum of one hour of preparation time is allowed. The MDE does not prorate preparation time among actual classes instructed in the entire teaching day; but allows the maximum time regardless of any nonvocational classes in the schedule. This approach is more liberal and conflicts with the allocation method used for extended employment. In addition, the state is subsidizing instructors preparation time for nonvocational related classes which is an ineligible reimbursement from the secondary vocational funds. Our approach places emphasis on using actual data within the guidelines specified in the rules.

Consider the following example: an instructor has a 6.3 hour teaching day, including 1.0 hour of preparation time, 3.1 hours of vocational education, and 2.2 hours of nonvocational education. Currently, the entire 1.0 hour of preparation time would be charged to vocational education instead of its prorated share or 58 percent. For one district tested, 30 percent of the programs would have had a total reduction of almost \$3,000 or 3.2 percent in their secondary vocational education aid if proration would have been used. While we did not determine whether this treatment resulted in a material overpayment of the total 1985 vocational education aids, we believe that extended employment and preparation time should be allocated uniformly, consistently and in compliance with state requirements.

RECOMMENDATION:

4. *Controls should be improved by:*

- *documenting adjustments made during the editing process;*

- *adding a computer edit to ensure that instructors cannot charge more than their daily contracted teaching hours to vocational education; and*
- *prorating all variables used in the calculation of secondary vocational education aid.*

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Departmental procedures need to be developed to resolve subrecipient questioned costs and other Single Audit issues.

The Office of the State Auditor receives the annual Single Audit reports for the school districts and other subrecipients within Minnesota. From these audit reports, they prepare and submit to the Minnesota Department of Education's (MDE) school financial management section a report listing school district questioned costs, grant non-compliance findings, and management letter recommendations. The report for fiscal year 1984 included 12 districts with questioned costs totaling \$25,616, eight districts with nine federal grant non-compliance findings, and 152 districts with other management letter recommendations. The school financial management section summarized only the questioned costs by district and distributed 13 memorandums on May 24, 1985 to the appropriate departmental program directors requesting them to "make whatever resolution of these costs that is deemed necessary in light of the amount of the claim." The memorandum also required that program directors document the resolution and submit the supporting documentation to school financial management. School financial management did not refer the federal grant non-compliance and other federal program related management letter findings to departmental program directors for resolution. These clearly must be resolved pursuant to the Single Audit Act of 1984. (Public Law 98.502)

In reviewing the corrective actions taken by the Department of Education during 1985 to resolve the questioned costs, we found that:

- only one of the three directors resolved the questioned costs and sent documentation to school financial management;
- documentation was not maintained by the other two program directors to support any communications with school district personnel on corrective actions taken; and
- school financial management did not follow-up the resolution of questioned costs with the directors.

The Department of Finance held a meeting on April 11, 1985 with state agencies and provided instructions on how to resolve subrecipient questioned costs and non-compliance findings. The Single Audit Act also requires the resolution of subrecipient questioned costs by the recipient within six months after the audit report is issued.

RECOMMENDATION:

5. *MDE should ensure that all subrecipient questioned costs, non-compliance, and management letter findings related to federal programs are resolved.*

PRIOR RECOMMENDATION NOT IMPLEMENTED: The contracts for the State Food Storage Program do not comply with Department of Administration requirements.

The department receives donated commodities from the U.S. Department of Agriculture (USDA) under Section 416 of the U.S. Agricultural Act of 1949. This food is in turn redistributed to school districts and other local agencies. Contracts totalling \$685,000 were entered into by the department in 1985 with four food storage warehouses to handle, store, and distribute the donated commodities. However, these contracts were not processed in accordance with the requirements of the Department of Administration Contract Management Division. State contracts in excess of \$2,000 must be reviewed and approved by Administration.

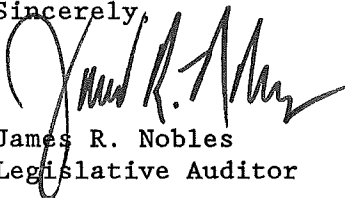
Discussions with the fiscal services director, the child nutrition director and assistant director in December 1985, indicated several complications in following the competitive negotiation procedures of the state. For example, the location of the vendor in proximity to the school districts is critical to the program administration. Also, food commodity contracts with the USDA are let up to two years prior to receipt of goods. Perishable goods would also have to be transported to other warehouses if vendors change during the years, increasing transportation costs and spoilage of goods. We were told that verbal arrangements had been made by the department and Administration over the past years because of these problems. However, the department should work with Administration to seek a written agreement for the storage of donated commodities.

RECOMMENDATION:


6. *The Department of Education should work with the Department of Administration to develop a contract with the food storage warehouses that would comply with state requirements.*

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 24, 1986

DEPARTMENT OF EDUCATION

Attachment

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND

PROGRESS TOWARD IMPLEMENTATION

The federal grant cash management policies and procedures at the Department of Education need improvement.

1. The Department of Education should comply with U.S. Treasury Circular 1075, specifically ensuring that:
 - drawdowns are based on actual costs;
 - drawdowns are completed based on individual program needs; and
 - drawdowns be supported by adequate documentation.

Recommendation Implemented. Fiscal services instituted procedures during fiscal year 1985 resulting in drawdowns being based on actual costs for individual programs. The drawdown amounts are now numerically referenced to supporting program documentation and approved by the program supervisors. The U.S.D.A. Food and Nutrition Service which was assigned responsibility to resolve statewide cash management issues approved the department's procedures in a memorandum dated November 22, 1985.

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

2. The department should comply with the reporting requirements stipulated by OMB Circular A-102, Attachment H.

Recommendation Implemented. The reassignment in fiscal year 1985 of the responsibility for the issuance of federal reports has resulted in the department complying with OMB Circular A-102, Attachment H. Our testing of material federal programs in the department 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.

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

3. Federal program expenditures should be reconciled to SWA.

Recommendation Implemented. In fiscal year 1985, fiscal services developed and distributed to federal program managers written procedures designating the responsibility for reconciliation of expenditures to SWA. Our testing indicated that the expenditures of the federal programs were reconciled to SWA as required by these procedures. This implementation has not yet received final acceptance by the federal government.

The department is not in compliance with certain of the indirect cost requirements of OMB Circular A-87, "Cost Principles for State and Local Governments."

4. The department should obtain approval from the cognizant indirect cost federal agency for use of a provisional indirect cost rate during the interim period until the final indirect cost rate is approved by the U.S. Department of Education.

Recommendation Implemented. The department was verbally advised by the U.S. Department of Education, Office of Management, during the week of November 24, 1985 that the indirect cost rate for fiscal years 1982 through 1985 have been approved. The federal agency indicated that written notification would follow. We will consider this recommendation to have received final acceptance by the federal government once typewritten notification is received.

5. The department should ensure that costs which benefit specific programs are charged directly and not included in the indirect cost plan.

RECOMMENDATION WITHDRAWN. We were advised in November of 1985 by our federal cognizant audit agency that the U.S. Department of Education is currently reviewing its position on the "Service Center" cost pool concept, and will issue a ruling on the appropriateness of this concept. We were also provided additional information indicating that the child nutrition employee in question also works on other federal programs.

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

6. The department 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 on the various programs each pay period.

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 employee's timesheet. 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.

The department maintains inadequate inventory records for property purchased with federal funds.

7. The department should complete a physical inventory to identify all property acquired with federal funds and maintain the necessary records to comply with Attachment N of Circular A-102.

Recommendation Implemented. The department completed a physical inventory in April 1985. Based on the results of the physical inventory, their inventory records were updated and corrected to include all information required by Attachment N of OMB Circular A-102. This implementation has not yet received final acceptance by the federal government.

The department does not include computer files on the state's record retention system.

8. The department should include all computer tapes and files on the record retention system.

Recommendation Implemented. The department has developed a plan to be implemented in fiscal year 1986 that includes the inventorying and recording of all computer tapes and files on the record retention system. This plan has not yet received final acceptance by the federal government.

Departmental procedures need to be developed to resolve the audited questioned costs of school districts.

9. The department should consult with the Department of Finance on establishing procedures for ensuring that all questioned costs and procedural findings are resolved, documented, and properly reported on a timely basis.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current recommendation #5.

The Department of Education has not formalized the Education Consolidation and Improvement Program - Chapter 2 Block Grant (CFDA #84.151) procedures in the state rules or statutes.

10. The department should promulgate rules or regulations to formalize their administrative procedures in implementing the provisions of the Omnibus Budget Reconciliation Act.

Recommendation Withdrawn. Information made available by the block grant section in November 1985 indicated that all material program policy decisions are included in federal law, thus eliminating the need to include in state law.

Procedures to compare Uniform Financial Accounting and Reporting System (UFARS) expenditures to approved budgeted amounts have not been developed for the Education Consolidation and Improvement - Chapter 2 Block Grant (CFDA #84.151).

11. The department should compare actual UFARS expenditures to the approved budget for local educational agencies and resolve any differences.

Recommendation Implemented. In September 1984, the department began testing expenditures as reported on UFAR's for a sample of school districts. This process was also reviewed and accepted by the Division of Educational Support of the U.S. Department of Education in June 1984 with no recommendations issued.

Special education aid entitlements are not reconciled to the Integrated Department of Education Aids System (IDEAS) payments.

12. The special education section should reconcile the entitlement amounts calculated by special education to the amounts used by IDEAS for the processing of aid payments.

Recommendation Implemented.

The contracts for the State Food Storage Program do not comply with Department of Administration requirements.

13. Food storage warehouse contracts should be processed through the Department of Administration.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #6.

The administrative expense accounts for the Child Nutrition Programs are not separate.

14. The child nutrition section should establish separate budgets and accounts for administrative expenditures for each program.

Recommendation Implemented. Separate accounts for administrative expenditures were established for each federal program in July 1984. This implementation has not yet received final acceptance by the federal government.

15. The department should resolve the conflict with the respective federal grantor agency.

Recommendation Implemented. The establishment of separate budgets in July 1984 has resulted in each federal program being charged only those costs related to the particular program. We reviewed costs charged to each of the budgets during fiscal year 1985 and determined that all salary and supply costs were charged to the appropriate federal program. This implementation has not yet received final acceptance by the federal government.

The special education section did not comply with a requirement of the Handicapped Preschool and School Programs (CFDA #84.027).

16. The department should consult with the U.S. Department of Education to determine if the certification from the State Planning Agency under OMB Circular A-95 meets the requirements of 20 U.S.C. 1413(A).

Recommendation Withdrawn. On August 23, 1985, we requested assistance from our federal cognizant audit agency and the U.S. Department of Education Regional Inspector General to resolve the conflicting federal requirements [Executive Order 12372 and 20 U.S.C. 1413(A)]. We attempted to determine if the 1984 certification obtained by the Minnesota Department of Education from the State Planning Agency under the Office of Management and Budget Circular A-95 satisfied the federal requirements.

Our cognizant audit agency responded on November 12, 1985, that the granting agency was having difficulty in reaching a determination on whether the certification from the State Planning Agency complied with the grant requirements. We were also advised that this issue would be further addressed during the formal audit resolution process.

Controls over the payments for the Work Experience for the Handicapped (WEH) Program need to be strengthened.

17. Controls over the Work Experience for the Handicapped Program should be strengthened by including a review of any adjustments.

Recommendation Implemented.

The Child Nutrition aids are not independently reviewed.

18. Child nutrition payments should be reviewed for accuracy by someone independent of the aids process.

Recommendation Implemented. An accounting officer independent of the Child Nutrition aids payment process began reviewing aid rates and payment amounts in July 1984. This implementation has not yet received final acceptance by the federal government.



Minnesota Department of Education

Capitol Square 550 Cedar Street Saint Paul, Minnesota 55101

Phone: 296-2358

February 24, 1986

Mr. James R. Nobles
Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

The statements that follow represent our response to your comments and recommendations concerning the 1985 Statewide Audit. Additional information will be provided if you feel it necessary and appropriate. We share the concern you have for strong accounting procedures and controls and are committed to compliance with state and federal regulations. I would like to take this opportunity to acknowledge the fine efforts of your staff who have made an effective contribution toward the improvement of our procedures. For the most part, we are in agreement with the draft recommendations, although there may be instances when processing alternatives are being considered for reasons of cost or circumstance.

Recommendation 1 - The Secondary Vocational Education Handicapped Children Program Unit does not monitor compliance of school district data for the required student-teacher ratios nor the maximum reimbursement for supplies.

Much of the problem with student-teacher ratios is with reporting methods. Effective in 1987 a new student data collection system will be utilized to obtain full time equivalents (rather than total number of students) similarly to agency rules.

Computer edits will be utilized to detect incorrect student counts and excess supplies reimbursements.

School districts receiving FY 1985 overpayments will be adjusted. Secondary Vocational staff will need additional information from Legislative Audit staff to reconcile the \$388,174 cited.

Corrective action will be taken by Ron Koebnick and J. Thomas Strom of the Secondary Vocational Section prior to the 1986 audit.

Recommendation 2 - Administrative controls over the Education Consolidation and Improvement Program - Chapter 2, Block Grant (CFDA #84.151) need improvement.

Review of cash balances in local units has already begun. Effective next fiscal year we anticipate implementing a new payment system similar to other programs which features cash flow criteria.

A procedure to compare to SWA expenditure reports has been initiated by Block Grant staff who plan to continue this monitoring activity.

Block Grant staff will continue to ascertain that maintenance of effort requirements have been met.

Gayle Anderson of the Education Development Section has directed the implementation of the improvements. Wanda Vaillancourt, Fiscal Services will assist Mr. Anderson with the new payment system which is proposed for FY 1987.

Recommendation 3 - Documentation of entitlement calculations and controls over the reimbursements for the Elementary and Secondary Education Act Title I Program (CFDA #84.010) need improvement.

The Title I Unit has compared approved current year project amounts with SWA open encumbrance report and will continue to do so in subsequent fiscal years. Title I and Fiscal Services staff have devised a means to monitor line item expenditure control so that districts will be advised about budget adjustments or expenditure correction as appropriate.

Strict review of Level of Effort is planned for all future fiscal years.

A new computerized distribution system of Title I aid entitlements should eliminate future errors. The message on retaining worksheets and adjustment documentation has been understood.

Jack Hanson, Title I/Chapter I Section is responsible for implementation of improvements. Wanda Vaillancourt, Fiscal Services is responsible for payments and carryover data.

Recommendation 4 - Controls over the processing of Secondary Vocational Education state aids should be improved.

Means to improve controls for state aid processing is being taken under advisement so that cost feasible processes consistent with rules presently in force can be adopted. The Department is interested in resolving the problem, but may need further consultation with Legislative Audit staff.

J. Thomas Strom is responsible for implementation. The intention is to ameliorate the audit concern prior to next year's audit.

Recommendation 5 - Departmental procedures need to be developed to resolve subrecipient questioned costs and other Single Audit issues (Prior recommendation partially implemented).

The Department concurs that methods should be developed if at all possible to improve local level compliance monitoring. It should be noted, however, that the numerical scope of audit issues and documentation maintained was stated incorrectly in the draft management letter perhaps causing the problem to appear worse than actual.

The School Financial Management Section has already identified an improved follow-up and documentation system for FY 1985 audits. Other matters involving improved communication, written procedures and role identification will be addressed internally and with the State Auditor and Legislative Auditor.

James R. Nobles
February 24, 1986
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Ken Zastrow, School Financial Management and George Fortmeyer, Administrative Services will work toward implementation coincidental to the 1985 federal response.

Recommendation 6 - The contracts for the State Food Storage Program do not comply with Department of Administration requirements (Prior recommendation not implemented).

The Department has had one meeting with Department of Administration and is currently drafting a request for sole source contracts (which appears to be advisable at the present time). If the sole source concept is not permissible, the Department will seek bids effective July 1, 1986.

Charles Matthew, Child Nutrition Section and George Fortmeyer, Administrative Services are responsible for implementation.

Sincerely,

A handwritten signature in cursive script that reads "Ruth E. Randall". The signature is written in dark ink and is positioned above the printed name and title.

DR. RUTH E. RANDALL
Commissioner of Education

RER:JEW:fm1