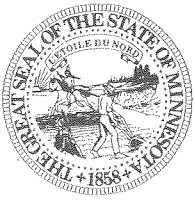


**DEPARTMENT OF EDUCATION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1986**

JULY 1987

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Ruth E. Randall, Commissioner
Department of Education

Audit Scope

We have completed a financial and compliance audit of the Department of Education for the three years ended June 30, 1986. Section I provides a brief description of the department's activities and finances. Our audit was made in accordance with generally accepted auditing standards, and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Our audit procedures are further described in the audit techniques section of this letter. Field work was completed on March 6, 1987.

We have issued separate management letters, dated February 19, 1985, February 24, 1986, and February 25, 1987, as part of our Statewide Financial and Single Audit work in the department for fiscal years 1984, 1985, and 1986. The management letters contained 18 recommendations for fiscal year 1984, 6 recommendations for fiscal year 1985, and 6 recommendations for fiscal year 1986, relating primarily to the department's administration of state and federal grant and aid programs.

The audit objectives were to:

- study and evaluate major internal control systems at the Department of Education, including a review of receipts, payroll, administrative and grant and aid disbursements;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minnesota Statutes Chapters 119 to 134, and other finance-related laws and regulations; and
- verify that financial transactions were properly recorded in the statewide accounting (SWA) system.

The Department of Education also provides administrative and financial support for the Minnesota State Academies for the Blind and Deaf in Faribault. These schools are not a part of the scope of this audit.

Management Responsibilities

The management of Education is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of Education is also responsible for the department's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the department. The purpose of our testing of transactions was to obtain reasonable assurance that Education had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Audit Techniques

The Statewide Financial and Single Audits for the three years ended June 30, 1986, covered material state and federal grant and aid programs such as Foundation, Transportation, Special Education, Child Nutrition, Educationally Deprived Children (Title I), and the Education Consolidation Improvement Block Grant. This departmental audit which also covered the three years ended June 30, 1986 supplements the Statewide Financial and Single Audit and was specifically designed to review teacher licensure fees and administrative expenditures, including payroll, travel, contractual services, and other operating expenses. We also examined eight other programs listed below which were not subject to review during the 1984-1986 Statewide Audits.

- Public Library Aid
- Community Education Aids
- Adult Education Aids
- Limited English Proficiency
- Indian Scholarship Program
- Arts Education Aid
- Gifted and Talented Aid
- Technology Demonstration Site Aids

Conclusions

In our opinion, except for the issues addressed in Section II, recommendations 1-5, and except for the issues raised in our management letter dated February 25, 1987, recommendations 1, 2, and 6, the Department of Education's system of internal accounting control in effect on March 6, 1987, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance, that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization.

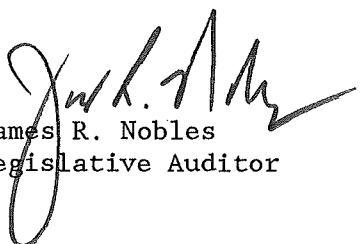
In our opinion, for the three years ended June 30, 1986, the financial transactions of the Department of Education were properly recorded in the statewide accounting system.

In our opinion, except for the issues raised in our management letters dated February 19, 1985, recommendations 4-6, and 9, February 24, 1986, recommendations 3 and 5, and February 25, 1987, recommendations 3-5, for the years ended June 30, 1984, 1985, and 1986, the Department of Education administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.


Section II of this Audit Report contains the recommendations we developed during this audit. It is presented to assist you in improving accounting procedures and controls. We will be monitoring and reviewing your progress on implementing these recommendations.

Pursuant to Minn. Stat. Section 3.975, this report has been referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds, and in fulfilling that role may negotiate the propriety of individual claims.

We would like to thank the Department of Education staff for the cooperation extended to us during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

June 17, 1987

DEPARTMENT OF EDUCATION

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
Mike Hassing	Auditor-in-Charge
Kari Bergum	Staff Auditor
Rhonda Warner	Staff Auditor
John Wicklund	Staff Auditor
Michelle Shirley	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Education on March 19, 1987:

Curman Gaines	Deputy Commissioner
George Fortmeyer	Director, Administrative Services
John E. Wilkins	Supervisor, Fiscal Services

DEPARTMENT OF EDUCATION

I. INTRODUCTION

The purpose of the Minnesota Department of Education (MDE) is to provide leadership and service in maintaining and improving a uniform and quality system of public education, in providing opportunities for the development of the potential of all learners, and in improving the productivity and performance of learners. To accomplish this purpose, the department's functions include:

- developing, modifying, initiating, and recommending educational policies;
- developing, implementing, and monitoring programs and services required in rule and statute;
- assisting local school districts in assessing educational needs, planning and restructuring programs and services, and evaluating the effectiveness of programs;
- improving the management of educational programs and services at state, regional, and local levels; and
- increasing the efficiency and effectiveness of MDE through staff development, increased office automation, and improved information exchange.

The Commissioner, Dr. Ruth Randall, is the administrative head of the Department of Education. Departmental activities are financed mainly by General Fund appropriations and federal grants. Fiscal year 1986 expenditures, including encumbrances, on a budgetary basis, were as follows:

	GENERAL FUND	FEDERAL FUND	OTHER FUNDS	TOTAL
Grants and Aids	\$1,359,795,465	\$123,299,430	\$27,303,145	\$1,510,398,040
Personal Services	8,821,132	4,276,694	281,285	13,379,111
Contractual Services	605,347	266,153	24,061	895,561
Travel and Sub- sistence	364,508	279,995	21,307	665,810
Supplies and Equipment	583,649	164,679	31,785	780,113
Other Administra- tive Expenditures	<u>2,382,794</u>	<u>1,263,030</u>	<u>2,102,770</u>	<u>5,748,594</u>
TOTAL	<u>\$1,372,552,895</u>	<u>\$129,549,981</u>	<u>\$29,764,353</u>	<u>\$1,531,867,229</u>

The department also collected approximately \$1.6 million in teacher licensure fees during 1986.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

Mileage reimbursements have been inappropriately claimed by certain employees of the Department of Education.

Mileage reimbursements claimed by seven employees appear to include excessive payments. The employees' mileage claims may improperly include mileage which exceeds the most direct route to a destination. State rules only permit reimbursement for mileage representing the most direct route. Additional miles traveled because of indirect routes, incurred either intentionally or inadvertently, would not represent a valid claim against the state. The employees would have to provide additional evidence to substantiate the propriety of their claims. However, based upon the original mileage claims and any additional information provided upon request of the department, the claims appear to include ineligible payments. Cumulatively, the seven employees have received a potential overpayment of \$1,399.56.

The Departments of Finance, Employee Relations, and Administration and the various labor agreements provide the travel regulations for state employees. Employees are to be reimbursed for mileage expenses at the standard rates of either 21¢ or 27¢ per mile, depending upon the circumstances. The regulations provide that, ". . . in all cases, mileage must be on the most direct route according to Department of Transportation records." Thus, both trip miles (i.e., miles between cities) and local miles (i.e., miles within the vicinity of the home station or destination) are allowable for reimbursement, but only for those miles along the most direct route. The mileage for the most direct routes for trip miles is provided through the Department of Transportation; the mileage for local miles must be documented by the individual seeking reimbursement, and considered reasonable and valid by the reimbursing agency.

We reviewed a sample of expense reports submitted by the Department of Education employees for fiscal year 1986. Our sample included those employees with the highest mileage reimbursements and a random selection of other employees with travel reimbursements. The total mileage claimed on the sample reimbursement requests of 43 employees was 45,679 miles. We calculated the direct route mileage for these claims as 35,690 miles. We discussed the mileage shown on these expense reports with department officials in March 1987, and asked for further documentation to substantiate the mileage claimed. The department contacted the employees with the most excessive mileage variances and requested further explanations and evidence to support the claimed miles. The department provided us with the employees' written responses in April 1987.

Several employees provided satisfactory evidence to support their claimed mileage. However, seven employees with 5,898 questionable miles, did not provide sufficient explanation or information to substantiate the propriety of their mileage claims. In many cases, these employees indicated that they had incurred additional miles because they traveled indirect routes. We believe that the amounts reimbursed to the employees for these

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indirect and unaccountable miles should be repaid, since the regulations only allow reimbursement for the most direct routes taken while on state business.

We are referring this report to the Attorney General to pursue the recovery of funds. Since the department did not receive sufficient information from the seven employees to substantiate their claimed mileage, it now seems necessary to have the Attorney General obtain adequate evidence or recover the funds. The Attorney General is responsible to negotiate final settlement of questionable claims with state employees.

RECOMMENDATIONS:

1. The seven employees whose travel reimbursements are still in question should repay \$1,399.56 for unsubstantiated and ineligible mileage claims.
2. In the future, the Department of Education should ensure that employees properly document mileage claims. Employees should only be reimbursed mileage for the most direct route, in accordance with the state travel regulations.

Travel advances issued through the imprest cash account need to be settled more promptly.

The Department of Education has established a policy to provide travel advance payments from its imprest cash fund to employees when the estimated expenses of a business trip will exceed \$50. The policy states that the employee, upon receipt of payment for all expenses of the trip from the state finance system, must immediately reimburse the department for the full amount of the advance. The Department of Finance's employee expense reimbursement procedures also require travel advances to be settled within 30 days.

As of February 25, 1987, there were six outstanding travel advances issued by the department for a total of \$2,377 that had been unreimbursed for periods of 49 to 159 days. This amount includes \$708 for one employee who has resigned from state employment. The department indicated that they usually monitor advance repayments by when the employee is reimbursed for expenses through the statewide accounting system. Some of these employees had not filed expense reimbursement claims for the period of their advance or they were to be reimbursed from a non-state organization. If repayments are not obtained promptly, the department is not in compliance with the Department of Finance's policies. The Central Payroll Division could also assist the department in withholding current employee paychecks or adjusting the final payroll checks for unsettled travel advances.

RECOMMENDATIONS:

3. The department should pursue settlement of all travel advances outstanding for more than 30 days from the period of travel.

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4. The department should pursue collection of the \$708 outstanding travel advance from the former employee or refer collection to the Attorney General.
5. The department should also work with Central Payroll to withhold employees paychecks or adjust final paychecks, if travel advances are not settled.



Minnesota Department of Education

Capitol Square 550 Cedar Street Saint Paul, Minnesota 55101

Phone: 296-2358

June 17, 1987

Mr. James R. Nobles
Legislative Auditor
Veteran's Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

With respect to Current Findings and Recommendations pertaining to the audit of the Department of Education, I wish to provide the following:

Recommendation 1 - The claims described are being referred by your office to the Office of the Attorney General. We believe the final settlement of each should be determined there.

Recommendation 2 - Mileage claims are and will continue to be monitored by our Accounts Payable Unit in accordance with rules currently in effect. The Department of Finance is in the process of promulgating new rules and as quickly as these are adopted, our review process will be modified to accommodate them. It is our understanding that the new rules will incorporate many changes recommended by this Department in response to your audit findings in this case. George W. Fortmeyer and Ed Wilkins are responsible for the review of expense report mileage claims.

Recommendation 3 - The Department is strengthening the process for settling travel advances more expeditiously. The primary problem is the failure of some employees to devote the time necessary to prepare and file expense reports on a timely basis. Our emphasis will be directed toward getting reports filed as well as obtaining re-payment. An improved process should be in place by August 1987. Ed Wilkins is responsible for implementation.

Recommendation 4 - The outstanding advance of \$708.00 has been settled. There were offsetting claims which were settled by mutual action of the Department and the Department of Finance.

Recommendation 5 - The Department agrees to pursue possible payroll withholding to recover delinquent travel advances. Any agreed upon process will be made part of the improved process described under Recommendation 3.

Please let me know if there are further questions or if additional information is required.

Sincerely,

DR. RUTH E. RANDALL
Commissioner of Education

RER/GWF/fml