

DEPARTMENT OF EDUCATION  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 1990

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FEBRUARY 1991

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota



# DEPARTMENT OF EDUCATION

## FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1990

Public Release Date: February 27, 1991

No. 91-11

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### OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Policies and procedures for the distribution of various state and federal grants.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

### CONCLUSIONS:

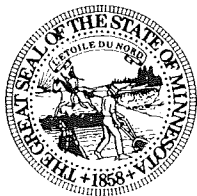
We found one area where the internal control structure needed improvement:

- Duties within the Child Care Food Program should be segregated to ensure that only eligible participants of the program receive payments.

We found no departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information.  
(612) 296-1730





STATE OF MINNESOTA

## OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Dee Long, Acting Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Eugene Mammenga, Commissioner  
Department of Education

### Audit Scope

We have conducted a financial related audit of the Minnesota Department of Education as of and for the fiscal year ended June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota Department of Education. We have also made a study and evaluation of the internal control structure of the Minnesota Department of Education in effect at June 30, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Minnesota Department of Education are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota Department of Education's compliance with certain provisions of laws, regulations, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

### Management Responsibilities

The management of the Minnesota Department of Education is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Due to inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

#### Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- State Programs:
  - General Education Aid
  - Homestead Credit Aid
  - Special Education Aid - Regular
  - Transportation Aid - Regular
- Federal Programs:
  - Food Distribution (CFDA #10.550)
  - National School Lunch Program (CFDA #10.555)
  - Child Care Food Program (CFDA #10.558)
  - Educationally Deprived Children (CFDA #84.010)
  - Migrant Education (CFDA #84.011)
  - Handicapped State Grants (CFDA #84.027)
  - Educational Improvement Partnerships (CFDA #84.151)

For all of the internal control structure categories and programs listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

#### Conclusions

Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of the Minnesota Department of Education. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

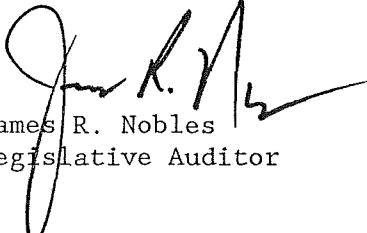
Representative Dee Long, Acting Chair  
Members of the Legislative Audit Commission  
Mr. Eugene Mammenga, Commissioner  
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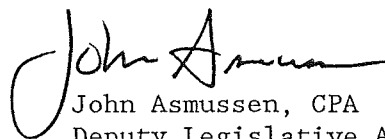
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We do not believe the reportable condition described above is a material weakness.

The results of our tests indicate that, with respect to the items tested, the Minnesota Department of Education complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Department of Education had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Minnesota Department of Education. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 27, 1991.

We thank the Department of Education staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: January 4, 1991

REPORT SIGNED ON: February 22, 1991





# DEPARTMENT OF EDUCATION

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## AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared the report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
Cecile Ferkul, CPA	Audit Supervisor
Sonya Hill	Audit Staff
Mary Jacobson, CPA	Audit Staff
John Wicklund, CPA	Audit Staff
Janet Knox, CPA	Audit Staff
Steve Larson	Intern

## EXIT CONFERENCE

The find and recommendation in this report were discussed with the following staff of the Department of Education on January 14, 1991:

Eugene Mammenga	Commissioner
James Sauter	Deputy Commissioner
Edward Wilkins	Manager of Fiscal Services



## DEPARTMENT OF EDUCATION

### I. INTRODUCTION

The mission of the Minnesota Department of Education is to provide leadership, service and regulation to maintain and improve an equitable, accessible, and quality system of public education for all learners. The department's functions include:

- developing, modifying, initiating, and recommending educational policies;
- improving the management of educational programs and services at state, regional, and local levels; and
- assisting local school districts in assessing educational needs, planning and restructuring programs and services, and evaluating the effectiveness of programs.

The Commissioner, Mr. Eugene Mammenga, succeeded Mr. Tom Nelson, on January 7, 1991 as the administrative head of the Department of Education. Mr. Nelson had been Commissioner since January 8, 1990. Departmental activities are financed mainly by General Fund appropriations and federal grants. The department also administers the Maximum Effort School Loan Fund which had loans receivable at June 30, 1990 totalling \$35,080,000 as shown in *Minnesota's Comprehensive Annual Financial Report*.

Fiscal year 1990 expenditures categorized by state and federal programs are shown below. Major federal financial assistance programs, including state matching expenditures, are shown by Catalog of Federal Domestic Assistance Number (CFDA). The amount shown for Food Distribution (CFDA 10.550) is the value of commodities distributed to local schools.

<u>State Programs:(1)</u>	<u>Expenditures</u>
General Education Aid	\$1,234,088,566
Homestead Credit Aid	307,160,345
Special Education Aid - Regular	160,919,035
Transportation Aid - Regular	91,979,000
Other State Programs	297,568,604
<u>Federal Programs:(2)</u>	
Handicapped State Grants (CFDA #84.027)	\$ 28,815,879
Educationally Deprived Children (CFDA #84.010)	49,248,187
National School Lunch Program (CFDA #10.555)	45,764,253
Child Care Food Program (CFDA #10.558)	39,499,357
Educational Improved Partnerships (CFDA #84.151)	9,406,010
Migrant Education Grants (CFDA #84.011)	1,880,689
Food Distribution (CFDA # 10.550)	14,770,419
Nonmajor Federal Programs	<u>20,485,392</u>
 Total Departmental Expenditures	 <u>\$2,301,585,736</u>

Sources: (1) The four state aid amounts are derived from amounts recorded on the Statewide Accounting System, with any adjustments needed for presentation in the *Comprehensive Annual Financial Report*. "Other State Programs" amount is derived from budgetary basis expenditures recorded on the Statewide Accounting System.

(2) *Minnesota's Financial and Compliance Report on Federally Assisted Programs*.

## DEPARTMENT OF EDUCATION

### II. CURRENT FINDING AND RECOMMENDATION

1. The Minnesota Department of Education has not adequately segregated duties for the Child Care Food Program.

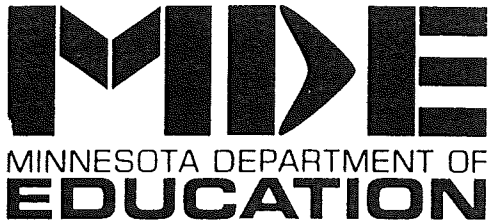
The person who approves monthly payment vouchers for the Child Care Food Program also enters payments to participants onto the computer system. This concentration of duties increases the possibility that payments could be made to ineligible organizations. There are no controls in place to prevent payments to ineligible organizations. There are no other significant controls in place that would detect improper payments in a timely manner, if they should occur. Although we did not detect any payments to ineligible organizations, this situation subjects the program to unnecessary risk of inappropriate use.

The Child Care Food Program (CFDA #10.558) reimburses over 200 organizations for approximately \$40 million of day care meals. About 90 percent of the reimbursements go to 11 sponsor organizations that represent thousands of day care providers. The remaining 10 percent is paid directly to day care organizations, such as public and private nonprofit non-residential institutions, and private for-profit day care centers.

There should be a separation of duties so that the person approving payment has no access to the computer system. Possibly, the responsibility for entering payments could be transferred to fiscal services.

#### RECOMMENDATION

- Duties within the Child Care Food Program should be segregated to ensure that only eligible participants of the program receive payments.



Capitol Square 550 Cedar Street  
Saint Paul, Minnesota 55101 612/296-6104

612/296-2358

February 21, 1991

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

Dear Mr. Nobles:

Enclosed is the response to the Fiscal Year 1989-90 statewide financial audit of the Minnesota Department of Education. We are in basic agreement with the finding and, as Margaret Drey, Director of Child Nutrition, suggests in the response, we will separate duties of Child and Adult Care Food Programs to obtain the suggested checks and balances in our payment system. Responsibility for implementing the change will be with Don Johnson, Fiscal Services, with assistance from Child Nutrition staff.

I would like to extend our appreciation to your staff for their recommendations and professional assistance with our financial management.

Sincerely,

*for James E. Santner, Deputy*  
Gene Mammenga  
Commissioner of Education

GM/EW:mpb

Enclosure

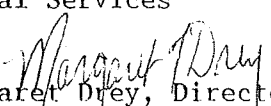


DEPARTMENT : Education

STATE OF MINNESOTA

## Office Memorandum

DATE : February 20, 1991

TO : Ed Wilkins, Director  
Fiscal ServicesFROM :   
Margaret Drey, Director  
Child Nutrition Section

PHONE : 296-6986

SUBJECT : Response to Legislative Audit Report

## II. CURRENT FINDING AND RECOMMENDATION

1. The Minnesota Department of Education has not adequately segregated duties for the Child Care Food Program (now entitled the Child and Adult Care Food Program)

## Recommendation

- o Duties within the Child and Adult Care Food Program should be segregated to ensure that only eligible program participants receive payments.

Response:

The department will separate the duties of the entry of program participant approval data from program payment duties. This will be accomplished by:

- a) Moving responsibility for processing and inputting CACFP payments to the Fiscal Services Section from the Child Nutrition Section.
- b) Data entry of program participant approval data will remain with the Child Nutrition Section.
- c) Access to the computerized payment system will not be available to Child Nutrition Section staff.

This will be accomplished over the time period of March 1 through April 15, 1991.

MTD:CAB:LFL