

DEPARTMENT OF EDUCATION

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 1992

JUNE 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-34



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

John Plocker, Chair
State Board of Education

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, 1992. 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, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Department of Education in effect during June 1992.

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 transaction 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, contracts, 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.

Because of 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 and Agriculture Credit Aid,
- School Endowment Fund Apportionment Aid,
- Special Education Aid - Regular, and
- Maximum Effort School Loan Fund - Loans Receivable

Federal Programs:

- Food Distribution (CFDA# 10.550),
- National School Lunch Program (CFDA# 10.555),
- Child/Adult Care Food Program (CFDA# 10.558),
- Educationally Deprived Children (CFDA# 84.010), and
- Handicapped State Grants (CFDA# 84.027)

For all of the internal control structure categories 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 conditions discussed in findings 3 and 5-9 involving the internal control structure of the Minnesota Department of Education. We consider these conditions to be reportable conditions 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.

Senator Phil Riveness, Chair
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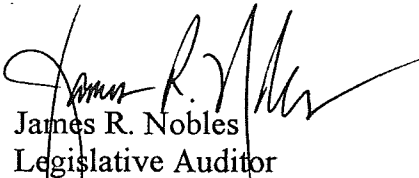
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported to the management of the Minnesota Department of Education at the exit conference held on March 11, 1993.

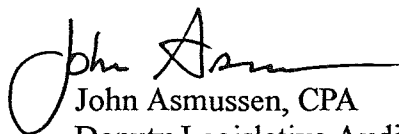
The results of our tests indicate that, except for the issues discussed in findings 1, 2, 4, and 10-12, with respect to the items tested, the Minnesota Department of Education complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not 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 June 24, 1993.

We thank the Minnesota 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 8, 1993

Report Signed On: June 18, 1993

Department of Education

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Agency Participation

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

| | |
|--------------------|----------------------------|
| John Asmussen, CPA | Deputy Legislative Auditor |
| Renee Redmer, LPA | Audit Manager |
| Lori Pellicci, CPA | Auditor-In-Charge |
| Kari Irber, CPA | Audit Staff |
| Jean Mellett, CPA | Audit Staff |
| Melissa Gamble | Audit Staff |
| Jon Ochetti | Intern |

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Education on March 11, 1993:

| | |
|-----------------|---|
| Eugene Mammenga | Commissioner |
| Jim Sauter | Deputy Commissioner |
| Ed Wilkins | Team Leader, Fiscal Services |
| Don Johnson | Senior Accountant, Fiscal Services |
| Sandy Hogen | Contract Coordinator, Fiscal Services |
| Don Pfiffner | Education Financial Specialist, Financial Management |
| Jessie Montano | Team Leader, Program Operations |
| Anne Cutler | Chapter I Program Coordinator, Program Operations |
| Bob Fischer | Education Specialist, Program Operations |
| Carolyn Brown | Food and Nutrition Services Specialist, Learner Foundation |

Department of Education

Introduction

The Minnesota Department of Education identifies its mission as ensuring the success of every learner. The department's main emphasis is on students in kindergarten through 12th grade. The Commissioner, Mr. Eugene Mammenga, is the administrative head of the department.

Department activities are financed mainly by General Fund appropriations and federal grants. Annual appropriations fund 85 percent of current year school aids and the final 15 percent of prior year aids. The schedule that follows shows fiscal year 1992 expenditures categorized by state and federal programs. 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. In addition to the amounts shown below, the department paid final 1992 school aids totalling \$363,883,000 from the 1993 appropriation. The department also administers the Maximum Effort School Loan Fund, which had loans receivable at June 30, 1992 of \$68,030,000.

State Programs:(1)

| | |
|---|-----------------|
| General Education Aid | \$1,603,823,796 |
| Special Education Aid - Regular | 166,698,573 |
| Homestead and Agriculture Credit Aid | 149,060,992 |
| School Endowment Fund Apportionment Aid | 34,381,539 |
| Other State Expenditures | 419,700,486 |

Federal Programs:(2)

| | |
|---|-------------------|
| Educationally Deprived Children (CFDA # 84.010) | 62,939,099 |
| National School Lunch Program (CFDA # 10.555) | 54,069,682 |
| Child Care Food Program (CFDA # 10.558) | 48,879,497 |
| Handicapped State Grants (CFDA # 84.027) | 33,249,962 |
| Food Distribution (CFDA # 10.550) | 16,788,532 |
| Other Federal Programs | <u>51,391,698</u> |

| | |
|-------------------------------|------------------------|
| Total Department Expenditures | <u>\$2,640,983,856</u> |
|-------------------------------|------------------------|

Sources: (1) The state program amounts are budgetary basis expenditures recorded on the Statewide Accounting System as of September 4, 1992.

(2) The federal program amounts are from Minnesota's Financial and Compliance Report on Federally Assisted Programs.

Current Findings and Recommendations

Special Education Programs

The Department of Education receives both state and federal funds for special education programs. The Special Education Division is responsible for calculating aids paid to school districts for programs administered at the districts for disabled students. Some funds are also authorized for the administration of the division's activities. Education expended \$166,698,573 for state aids and \$33,249,962 for federal Handicapped State Grants (CFDA #84.027) in fiscal year 1992.

1. Prior Audit Recommendation Not Resolved: The department does not properly calculate reimbursements to school districts for contracted services.

The Special Education Technology and Aids Unit reimburses some school districts a larger share of contracted services than allowed by statute. Minn. Stat. Section 124.32, Subd.1(d), states that:

for special instruction and services provided to any pupil by contracting for services with public, private, or voluntary agencies other than school districts, the state shall pay each district 52 percent of the difference between the amount of the contract and the basic revenue of the district for that pupil for the amount of time the pupil receives services under the contract.

In many cases the unit properly reimburses schools for contract services. However, when the students receive the services on school premises or in addition to their regular school program, the unit does not deduct the amount of basic revenue. Twelve of 17 school districts reviewed had contracts for special services in fiscal year 1991-1992 which the unit reimbursed at 52 percent. For example, the unit paid the Minneapolis school district \$538,588 for contract services without a general revenue reduction. Because of many variables involved, we could not calculate the exact amount overpaid to the Minneapolis district.

The department acknowledges that it continues to calculate contractual service reimbursements differently than authorized by statute. However, the department believes its calculation is a more equitable approach than provided by the existing law. The department is seeking a statutory change to the reimbursement formula.

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Recommendation

- *The Department of Education should comply with Minn. Stat. Section 124.32, Subd.1(d) or obtain a statutory amendment to the reimbursement formula.*

2. The department does not have an adequate time distribution system to support employee payroll expenses charged to the special education programs.

The Special Education Division does not have an adequate system to document the propriety of salaries charged to state and federal funds. Specifically, the division does not properly document employees' time and effort charged to Handicapped State Grants (CFDA #84.027) and the Infants and Toddlers With Disabilities Program (CFDA #84.181). Special Education allocates payroll expenses to federal and state programs based on estimated percentages of time worked in these areas. However, the estimation process is not current and is not based on an actual time study or other appropriate time distribution system. We found variances between the percentages of employees' hours charged to state and federal programs and the allocation of hours shown on the employees' position descriptions.

The system used by the department does not produce an equitable distribution of time and effort charged to state and federal programs. Our review of 27 employees in the Special Education Division showed several inconsistencies between the employees' payroll charges and the employees' position descriptions. We found that the percentages allocated to multi-funded federal positions are not representative of actual work activities shown on the employees' position descriptions. We also found employees charged 100 percent to either state or federal funds working in both areas. Thus, the time distribution system does not reflect an accurate allocation of employees' time and effort to the respective funding sources in the division.

We found variances between the employees' payroll charges and position descriptions for several staff in the Special Education Division. The variances caused both overpayments and underpayments from federal and state resources. Because the variances went both ways, we did not calculate specific amounts overpaid or underpaid. Of 27 employees' reviewed, the following discrepancies were noted:

- Five employees showed different percentages of time allocated to state and federal programs on their position descriptions than on their actual payroll charges.
- Three employees were 100 percent federally funded although their position descriptions included state functions as well.
- Four 100 percent state funded employees showed federal program activities on their position descriptions.

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- Two employees that were state funded in 1991 and federally funded in 1992 showed both state and federal work activities on their position descriptions. Although their funding changed, their position descriptions did not indicate any change in their work activities.

The examples shown above demonstrate the need for the department to develop a more equitable time and effort system. This is necessary to properly allocate employee salaries to federal and state funds. With the department's current system, either the state or federal programs could be charged excess payroll expenses. The department should base the method used for payroll distribution on the actual workloads and update it periodically so it remains current. The department is in the process of reorganizing division activities. Thus, it is extremely important for the department to monitor actual hours spent on the state and federal programs.

Federal guidelines provide that the department should maintain an equitable time distribution system to support payroll costs to federal grants. The U. S. Office of Management and Budget Circulars A-87 and A-121 provide: "Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort."

Recommendations

- *The Department of Education should develop a method to monitor payroll charges that is a more equitable means of charging payroll costs.*
- *The department should update the payroll distribution method periodically so it remains current.*

3. The department does not properly monitor carryover funds for Handicapped State Grants (CFDA #84.027).

The department does not properly monitor prior year carryover funds to ensure that the money is properly obligated and expended within the required period of time. The federal guidelines allow school districts to carry over funds from the previous year for use in the next year if the money is obligated within 27 months. Fiscal Services generates reports from the statewide accounting system (SWA) showing the total amount carried over in SWA. Special Education calculates the individual carryover amounts for the school districts. However, the two divisions do not compare amounts carried over to the next fiscal year. As a result of not comparing records between the divisions, errors could occur. For example, the department may not obligate the total authorized carryover within the required 27 months. In addition, the department could award school districts their current year entitlement plus the prior year carryover money without sufficient funds in the statewide accounting system.

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A problem did occur when the department did not encumber \$3,615,938 of authorized carryover from fiscal year 1991 for use in fiscal year 1992. Staff erroneously used fiscal year 1992 funds to pay the 1991 carryover amounts to the districts. The department did not find this error until December 1992 when it made the appropriate adjustments. To prevent either a loss or unallowable use of federal funds, the department should compare the carryover amounts between the records in Special Education and Fiscal Services on a timely basis.

Recommendation

- *The Department of Education should systematically compare carryover totals from the Special Education records and the SWA reports.*

4. The department did not distribute entitlements to some newly consolidated school districts for Handicapped State Grants.

The department did not allocate Handicapped State Grants funds to four newly consolidated school districts in 1991-1992. When calculating the original entitlement, the department did not include these newly consolidated districts in the funding distribution program. For allocation purposes, cooperative or host districts may receive funds for several smaller districts. Since these districts were members of cooperative or host districts, the eligible funds should have been distributed to the cooperative or host district. As a result, the department underpaid the applicable hosts or cooperatives entitlements totaling \$54,524 that were due the four school districts. Special Education staff agreed with the omission of aid payments for these districts. The department plans to adjust the entitlement for these school districts in the 1992-1993 school year.

Recommendations

- *The Department of Education should implement procedures to ensure that newly consolidated school districts are properly included in the aid entitlement calculations.*
- *The department should correct the above entitlement calculations.*

5. The Special Education computer systems manual is outdated.

The Special Education systems manual was developed in 1988; however, the division has significantly changed the computer processing system since that time. The division's computer system calculates both the original entitlement amounts and the payments to the school districts. Currently, the computer programmer is the only person who knows the system changes. An updated systems manual defines responsibilities and provides continuity of operations. A current manual also provides information for training new staff. The department should revise the systems manual on a regular basis.

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Recommendation

- *The Department of Education needs to update its computer systems manual on a more current basis.*

Educationally Deprived Children Program (CFDA #84.010)

The Educationally Deprived Children Program (CFDA #84.010) provides federal funding to meet the needs of educationally deprived children from areas with low-income families. The Special Programs Unit within the department is responsible for administering the program and calculating the school district entitlements. There are two types of grants within this program: basic grants which are allocated to all school districts and concentration grants which are allocated to eligible school districts that reside in counties that have a large number of low-income families. The total amount allocated to the State of Minnesota for basic grants was \$58,740,707 and for concentration grants was \$3,854,317 for fiscal year 1992.

6. The department incorrectly calculated some grant entitlements to school districts.

The department incorrectly calculated some concentration and basic entitlements for school districts under the Educationally Deprived Children Program (Chapter I). Errors occurred in entitlement calculations for both fiscal years 1992 and 1993.

The department's computer program used to process 1992 concentration entitlements sometimes did not calculate the correct amounts. Concentration entitlements are awarded to school districts based on a high population of disadvantaged children in the respective county and school district. We noted that nine of eleven school districts tested received incorrect concentration entitlements in 1992. Errors ranged from underpayments of \$967 to overpayments of \$1,012 for individual districts. Since entitlements are prorated to the districts within the eligible counties, the department also incorrectly allocated the funds to the other districts within the affected counties.

The department was not able to explain the differences for 1992 concentration entitlements because staff did not document the calculations processed by the computer system. The department should recalculate the 1992 concentration entitlements to determine the correct allocation of funds to the respective school districts. The department should make the appropriate adjustments. For 1993 the department implemented a new computer system to calculate concentration entitlements.

In addition, the department did not adequately monitor the concentration entitlements made to newly consolidated districts in fiscal years 1992 and 1993. While testing, we noted the following errors:

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- The department incorrectly distributed 47 children to the wrong county for a newly consolidated district in 1992. As a result, the department made erroneous concentration entitlements to the consolidated district and the other districts within both affected counties in 1992.
- One newly consolidated school district did not receive a concentration entitlement for 1992 although it was eligible. We also noted two school districts that did not receive concentration entitlements for fiscal year 1993 even though these schools were eligible.

The calculations for the concentration entitlements for the newly consolidated districts must be calculated separately from the other districts. The computer system was not programmed to calculate the payments for these districts. The Department should implement procedures to ensure that newly consolidated districts are properly included in the aid entitlement calculations.

The department also arbitrarily increased a basic grant entitlement for one district. Basic program entitlements are allocated to schools mainly by the financial status of the children in the county. The department used the 1980 census to determine the number of low income children in each district by county. The census reports used did not assign 31 children to any district. To distribute the available funds for these children, the department arbitrarily increased the Duluth School District's entitlement by 31 children. As a result, the district received additional aid of \$20,814 in fiscal year 1992. The department had allocated the additional funding to the Duluth School District for about 10 years. Increasing one district's entitlement for extra funds is not an equitable distribution method. The department should determine a proper means of distributing these additional funds to all eligible school districts.

Recommendations

- *The Department of Education should recalculate the concentration grant entitlements for 1992 and 1993 and make the proper adjustments.*
- *The department should give special attention to the consolidated school districts to ensure the correct calculation of concentration entitlements.*
- *The department should resolve the excess basic grant entitlements to the Duluth School District.*

7. The department did not properly monitor approved budgets and expenditures for the Educationally Deprived Children Program (CFDA #84.010).

Department staff did not properly monitor expenditures reported by schools for the Educationally Deprived Children Program (Chapter I) to the authorized budgets. The department

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also did not compare final school district expenditure reports to the financial information reported on the Uniform Financial Accounting and Reporting System (UFARS) and investigate any differences.

The department did not properly monitor the approved budgets and expenditures reported by school districts. We noted the following problems when reviewing expenditures made by the districts:

- The department did not monitor whether the school districts exceeded the individual line item budget amounts. Schools submit budgets for approval by the department showing individual expense items such as salaries or rent. Department guidelines provide that the school districts should not exceed line item budgets by more than 10 percent or \$500 whichever is greater. In four of fourteen cases tested school districts exceeded the individual budgeted line items. However, the department made the final payments without questioning the districts about the excess expenditure categories.
- The department does not compare total expenditures shown on the schools' completion reports to the department's financial reporting system (UFARS). School districts must submit a completion report after the end of each school year which shows the total expenditures by line item. The department bases the final payment on the total expenditures shown on the completion report. This amount should agree with the UFARS reports. In one case tested, a school district was overpaid \$105,000 because the department did not compare the UFARS report to the completion report. The department plans to adjust the 1993 award by this amount. In three cases, the school districts did not submit a UFARS report with the completion report. Thus, the department did not confirm the correctness of the amounts reimbursed to these districts.

Recommendations

- *The Department of Education should monitor school district expenditures to ensure that budget guidelines are followed.*
- *The department should compare the schools completion reports to the UFARS reports and investigate any differences before distributing the final entitlement.*

8. The department did not properly monitor and allocate the usage of grant carryover funds for the Educationally Deprived Children Program.

The department did not correctly calculate the allowable amount of entitlement funds to carry forward from fiscal year 1991 to 1992 for some school districts. In addition, the department did not ensure that the total carryover amount from fiscal year 1991 was correct. The total carryover amount is the total amount of carryover from all districts.

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The department erroneously authorized four school districts to carry over funds from fiscal year 1991 to 1992. According to 34 CFR 200.46, subgrantees are allowed to carry over 15 percent of the total current year entitlement unless the subgrantee receives less than a \$50,000 entitlement. The department is allowed to reallocate excess carryover funds to other subgrantees; however, this did not occur for these four entities. Instead these four school districts were allowed to use the excess carryover funds in 1992, as noted below.

- Two school districts were inappropriately authorized to use excess carryover funds from 1991 to 1992. School districts receive entitlements on behalf of juvenile institutions that reside in the district. The department calculated the carryover amounts separately for the school districts and the juvenile institutions. However, the department should have combined the entitlements for the two entities. Since the total entitlement exceeded \$50,000, the 15 percent limitation for allowable carryover is applicable to the total grant balance of the district. The two districts received \$15,030 and \$6,796, respectively, in excess carryover funds.
- For two newly consolidated districts, the department calculated the allowable carryover amounts by individual schools. However, the department should have applied the 15 percent limitation to the total entitlement for the consolidated districts. One school district received \$33,831 in excess carryover funds and the other district received \$2,108 in excess funds.

In addition, the department does not properly monitor prior year carryover funds to ensure that the money is properly obligated and expended. Federal guidelines allow school districts to carry over funds from the previous year for use in the next year if the money is obligated within 27 months. The department does not verify that the total carryover amount per the statewide accounting system agrees with the internal records that list the total carryover by district. As a result, it is difficult to determine whether there is sufficient funding for the carryover amount and the current entitlement for the school districts. In fiscal year 1992, the carryover amount shown on the statewide accounting system was \$14,848 higher than the internal system.

Recommendation

- *The Department of Education should properly monitor the calculations of carryover funds and ensure that excess funds are reallocated.*

Department of Education

Other Federal and State Compliance Areas

9. The department should improve computer security for the Food Distribution Program (CFDA #10.550) and the Child/Adult Care Food Program (CFDA #10.558).

The department does not have sufficient access controls over the computer systems it uses for Food Distribution and the Child/Adult Care Food Programs. Three individuals who work closely with the food distribution program know each other's passwords for access into the computer programs. These three individuals provide backup services for each other. However, they should have their own secret passwords. Two of these individuals intentionally use the same password to access each other's computers. One individual who works on the child/adult care food program has access to the claims processing program. However, the employee no longer works on claims processing. The purpose of passwords is to limit access to the computer. To prevent misuse of the system and ensure the transactions are valid, the department should tighten access to the computer system.

Recommendation

- *The Department of Education should tighten security to the computers systems.*

10. Indirect cost controls over state compliance are inadequate.

The department did not comply with certain state indirect cost regulations. Specifically, the department did not obtain approval from the commissioner of finance before decreasing its indirect cost rate and did not promptly request indirect cost waivers for some programs. In addition, the department did not promptly reimburse the Department of Finance for indirect costs and did not correctly calculate the amount paid.

The department negotiated an indirect cost provisional rate with the U.S. Department of Education without obtaining prior written approval from the commissioner of finance. The department's fiscal year 1992 cost allocation plan provided for a 17.5 percent rate. However, due to budget cuts, the department requested the U.S. Department of Education to lower its rate to 15 percent. The department did not receive written approval from the Department of Finance to lower the rate. Minn. Stat. Section 16A.127, Subd. 4 states that federal indirect cost proposals "must have the prior approval of the commissioner of finance." Department of Finance Operating Policy and Procedure 06:03:22 further states:

If an agency receives federal funds, the agency indirect cost plan and any amendments must be approved by the commissioner of finance prior to submission to the federal cognizant agency.

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The department did not promptly request the commissioner of finance to waive indirect costs for certain federal programs. The department requested waivers of fiscal year 1992 indirect costs on August 26, 1992, after the end of the state fiscal year. Department of Finance Operating Policy and Procedure 06:03:22 requires agencies to request waivers when they determine the need for an indirect cost plan.

The department did not make final indirect cost payment of \$35,000 until October 30, 1992, which was 25 days late. Department of Finance Operating Policy and Procedure 06:03:22 requires agencies to make final payments within 30 days after the fiscal year closing when rates are based on total direct costs.

The department underpaid indirect costs by \$30,867. Staff erroneously entered a lower state-wide indirect cost rate on the computer program that the department uses to calculate indirect costs. Staff did not discover the error because they did not review the calculation. The department paid the deficiency on December 22, 1992.

Recommendations

- *The Department of Education should request the commissioner of finance to approve its indirect cost plan and any amendments before submitting proposals to the federal cognizant agency.*
- *The department should request indirect cost waivers timely and promptly pay indirect costs.*
- *The department should recheck computer calculations of indirect costs.*

11. Prior Audit Recommendation Not Resolved: The department did not resolve subrecipient audit issues timely.

The department did not resolve subrecipient audit findings for the year ended June 30, 1991 by June 30, 1992, as required. The department did not begin the finding resolution process for 1991 subrecipient audit reports until September 1992. As of January 1993, the department had identified the audit issues but had not fully resolved the findings with the affected subrecipients. The department needs to resolve subrecipient audit findings promptly to ensure that subrecipients are using funds properly and to comply with federal guidelines.

The department did not resolve subrecipient audit issues within the federally mandated time requirements. Of five school district reports reviewed for 1991, no audit findings were resolved within six months of receiving the audit reports. Federal guidelines require the department to resolve audit issues within six months after the receipt of audit reports. The U.S. Office of Management and Budget Circular A-128 requires each state to review subrecipient audit reports and identify findings pertaining to federal financial assistance passed through to the subrecipients. Part 9(c) of the Circular requires states to verify that corrective

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action is taken on instances of material noncompliance with applicable laws and regulations within six months after receipt of the audit report.

The department has not met the federal requirement for the past two years. In our report last year, we recommended that the department improve its subrecipient monitoring system and promptly resolve subrecipient audit findings. The department has not yet promptly resolved audit findings. However, personnel responsible for monitoring audit reports has changed. New staff plan to develop a procedures manual and to resolve fiscal year 1991 subrecipient audit findings by January 31, 1993.

Recommendation

- *The Department of Education should resolve subrecipient issues within six months after receiving audit reports.*

12. The department improperly executed a professional services contract.

The department hired a consultant to develop and implement a quality improvement process without following state contract guidelines. The department did not publicize the contract in the state register. In addition, the department incurred obligations before it finalized the contract. Finally, the department did not adequately research the availability of other contractors or the use of state agency services before hiring the consultant.

The department did not publicize the contract for quality improvement in the state register and did not publish the required request for proposal. The department entered into an initial contract with the consultant in October 1991 for \$22,000 to make an assessment of the department. It received the assessment report and decided to contract for additional services from the consultant. The contract was amended for an additional amount of \$81,191 on December 9, 1991. The amended contract provided for additional evaluation and implementation of a quality improvement process in the department. The department paid \$36,000 to the consultant under the amended contract for training sessions, team leadership and other consultations performed from September 3 to December 17, 1991.

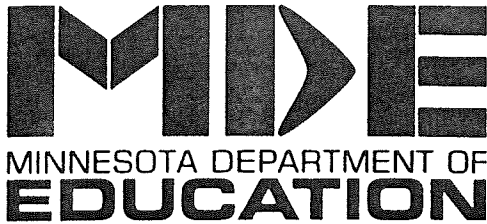
The department also incurred obligations on the amendment to the contract before it finalized the amended contract. The department paid \$25,000 of the \$36,000 on the amended contract for obligations before it finalized the amendment. The department ultimately cancelled the remainder of the amended contract on December 16, 1991.

The department did not initially research the availability of other contractors or state agency services in quality management before it contracted with the private consultant. After the department cancelled the contract, it entered into a new contract for the same type of service with the Department of Administration's Management Analysis Division.

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Recommendations

- *The Department of Education should ensure that it complies with all state guidelines when entering into professional/technical contracts.*
- *The department should specifically consider the availability of other contractors or state agency services before it contracts with private consultants.*



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

June 11, 1993

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


Dear Mr. Nobles:

Enclosed are individual responses to findings from the Fiscal Year 1992 statewide audit. Basically, we are in agreement with the findings; although one or two may not have been a material weakness as indicated.

Accountability for the expenditure of public funds is a concern that we share with your office. In education, more than ever, we are also concerned about program outcomes. Some veteran staff members felt the audit report placed more emphasis on precise procedural correctness than in the past. With the 20 percent staff reduction we received from the 1991 legislature, we can no longer take extra or unnecessary procedural steps and instead we need to be cost effective with internal controls and insert them in administrative processes strategically. Perhaps we can discuss this with your staff at the next entrance conference.

Many of the recommendations have already been implemented. If there are questions or items needing clarification, please contact Ed Wilkins, Fiscal Services, or other staff members named in the response. Thank you.

Sincerely,


Gene Mammenga
Commissioner of Education

GM/EW:mpb

Enclosures



May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 1. Prior Audit Recommendation Not Resolved: The department does not properly calculate reimbursements to school districts for contracted services.

Recommendation:

The Department of Education should comply with Minn. Stat. Section 124.32, Subd.1(d) or obtain a statutory amendment to the reimbursement formula.

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees

Person Responsible for Implementation: Jessie Montano

Projected Completion Date: Completed in 1993 Legislative Session

Department Comments/Corrective Action:

The language in M. S. 124.32 Subd.1(d) was changed during the 1993 legislative session to be consistent with practice. A copy of the revised language is enclosed.

May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 2. The department does not have an adequate time distribution system to support employee payroll expenses charged to the special education programs.

Recommendation:

- *The Department of Education should develop a method to monitor payroll charges that is a more equitable means of charging payroll costs.*
- *The department should update the payroll distribution method periodically so it remains current.*

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees - In Part

Person Responsible for Implementation: Wayne Erickson/Ed Wilkins

Projected Completion Date: October 1, 1993

Department Comments/Corrective Action:

The Department and its Special Education Division agree that it needs to update its time distribution system and to re-write some position descriptions to properly reflect current assignments. It should be noted that the department places much importance in properly charging employee time, including those who are assigned to more than one grant program.

Now that the department's restructuring process (implemented during F.Y. 1993) has been completed, the department will review all position descriptions so that they accurately reflect current duties. In addition, job assignments that have a bearing on spending plans and payroll distribution will be reviewed, and if necessary, the payroll system updated. Also, a uniform means to equitably distribute and document time and effort for employees with more than one cost center will be implemented by September 30, 1993.

May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 3. The department does not properly monitor carryover funds for Handicapped State Grants (CFDA #84.027)

Recommendation:

The Department of Education should systematically compare carryover totals from the Special Education records and the SWA reports.

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees

Person Responsible for Implementation: Don Johnson/Jessie Montano

Projected Completion Date: September 30, 1993

Department Comments/Corrective Action:

Fiscal Services will prepare on a quarterly basis a reconciliation of the Handicapped State Grant (CFDA #84.027) using data from SWA. These reports will be used to compare data obtained from the Special Education EDRS system with data obtained from SWA. This will ensure that carryover funds are spent appropriately and in a timely manner.

The Learning Program Operations Team will work with Fiscal Services to devise a procedure for reviewing federal carry over amounts by district.

May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 4. The department did not distribute entitlements to some newly consolidated school districts for Handicapped State Grants.

Recommendation:

- *The Department of Education should implement procedures to ensure that newly consolidated school districts are properly included in the aid entitlement calculations.*
- *The department should correct the above entitlement calculations.*

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees

Person Responsible for Implementation: Jessie Montano

Projected Completion Date: Completed - Spring 1993

Department Comments/Corrective Action:

This was an oversight because of numerous school district consolidations and school district movement from one cooperative to another. This was an oversight and not a systemic problem with the system. The correction has been made.

May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 5. The Special Education computer systems manual is outdated.

Recommendation:

The Department of Education needs to update its computer systems manual on a more current basis.

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees

Person Responsible for Implementation: Jessie Montano

Projected Completion Date: Spring 1994

Department Comments/Corrective Action:

There are parts of this manual that are out of date but it is substantially correct. We are working on the out of date sections and expect to have the manual updated by spring of 1994.

May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 6. The department incorrectly calculated some grant entitlements to school districts.

Recommendation:

- The Department of Education should recalculate the concentration grant entitlements for 1992 and 1993 and make the proper adjustments.
- The department should give special attention to the consolidated school districts to ensure the correct calculation of concentration entitlements.
- The department should resolve the excess basic grant entitlements to the Duluth School District.

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees with Parts 1 & 2

Person Responsible for Implementation: Anne Cutler/Paul Ward

Projected Completion Date: Completed

Department Comments/Corrective Action:

During school year 1992-93, the Chapter 1 Office implemented a new computer system to assist in the administration of the program. This system, which was designed specifically for Chapter 1 program administration and operates from the Department's mainframe computer instead of the PC's and converted commercial software which was previously used, has resulted in greater accuracy and accountability.

In designing the new system, all aspects of the process used to calculate entitlements (both basic and concentration grants), and carryover were examined. Program errors which caused discrepancies in the calculations of concentration grants and carry over amounts were identified and corrected. The Department has already taken corrective action to recalculate concentration grants for school years 1991-92 and 1992-93, has made the adjustments and has notified school districts.

A component of the Chapter 1 computer program accesses the information on district consolidations entered and stored in the mainframe database. As the information on consolidating

districts is entered into the database, the information is transferred to the Chapter 1 program. Adjustments to the entitlement and carryover balances of the participating districts are automatically made to reflect the configuration of the new consolidated district.

Duluth Public Schools is no longer receiving additional funds for extra formula children assigned to the district from the 1980 census. The assignment of the 31 additional formula children resulted from a discrepancy in the number of formula children assigned to the state by district from the 1980 census mapping project and the number of formula children the US Department of Education used to calculate the state allocation. There were no discrepancies in the 1990 census mapping of low income children by district. The low income children have been accurately assigned to each district; no district is receiving any additional funds beyond the entitlement generated by the formula children assigned to the district by the 1990 census mapping.

May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 7. The department did not properly monitor approved budgets and expenditures for the Educationally Deprived Children Program (CFDA #84.010).

Recommendation:

- *The Department of Education should monitor school district expenditures to ensure that budget guidelines are followed.*
- *The department should compare the schools completion reports to the UFARS reports and investigate any differences before distributing the final entitlement.*

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees

Person Responsible for Implementation: Don Johnson

Projected Completion Date: Upon Receipt of 92-93 Completion
Reports (Approximately July, 1993)

Department Comments/Corrective Action:

All school districts are now reporting expenditures for the Educationally Deprived Children Program (CFDA #84.010) through the EDRS on-line computer system. This system automatically flags and denies payment of any expenditure that exceeds the program guidelines (10% over budget item or \$500, whichever is greater). This will ensure that budget guidelines are followed.

The Department's Fiscal Services team did compare and reconcile FY 1992 expenditure data shortly after the auditor reviewed the process. In the past expenditure claims were always reconciled, but more recently staff shortages have precluded this task. In the future, however, Fiscal Services will compare final UFARS data submitted to the state with data obtained from completion reports and the EDRS system. Any differences will be resolved and adjustments made accordingly.

May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 8. The department did not properly monitor and allocate the usage of grant carryover funds for the Educationally Deprived Children Program.

Recommendation:

The Department of Education should properly monitor the calculations of carryover funds and ensure that excess funds are reallocated.

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees

Person Responsible for Implementation: Anne Cutler/Paul Ward

Projected Completion Date: Completed

Department Comments/Corrective Action:

The Department has already taken corrective action to assure that the carryover balances for districts serving institutions for neglected or delinquent children are properly calculated.

The Chapter 1 computer system referred to in finding number six assures that the 15% carryover restriction is applied to the combined entitlements for basic and neglected/delinquent grants. The program also assures that the carryover balances are appropriately credited to the basic program as well as the neglected/delinquent program.

In addition, the Chapter 1 computer system now calculates maximum carryover balances for districts that are consolidating as of July 1 based on the combined entitlement of the participating districts. The maximum carryover allowed now reflects the entitlement of the consolidated district rather than that of the individual districts.

The Department has the authority under Section 200.46 of the Regulations to grant a one time waiver to districts which exceed

the carryover restrictions. The Department has granted that waiver to the districts in question which received excess carryover amounts.

Fiscal Services will reconcile the EDRS calculation of carryover funds with state accounting records on a yearly basis. This will ensure that all carryover and reallocated funds are spent within the 27 month project period.

May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 9. The department should improve computer security for the Food Distribution Program (CFDA #10.550) and the Child/Adult Care Food Program (CFDA #10.558).

Recommendation:

The Department of Education should tighten security to the computers systems.

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees

Person Responsible for Implementation: Joleen Durken

Projected Completion Date: Partially Implemented
Full Implementation by July 2, 1993

Department Comments/Corrective Action:

The auditor states that one individual who works on the Child/Adult Care Food Program (CFDA #10.558) has access to the claims processing programs which is no longer a job responsibility of the employee's. The department agrees with the finding - corrective action has been taken.

The auditor states that three individuals who work closely with the food distribution program (CFDA #10.550) know each other's passwords for access into the computer programs. The department feels the auditor may have a point here but that there is no security problem in the usual sense. The employees have individual passwords which are unknown to each other. However, there is a shared code for the three staff that have access to Food Program computer files since the transactions they handle are essentially the same, either on a direct basis or as a backup to one of the others. To comply with the auditor's request, "menu" passwords to the specific program files will be changed and each of the three individuals will have their own "secret" password.

May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 10. Indirect cost controls over state compliance are inadequate.

Recommendation:

- *The Department of Education should request the commissioner of finance to approve its indirect cost plan and any amendments before submitting proposals to the federal cognizant agency.*
- *The department should request indirect cost waivers timely and promptly pay indirect costs.*
- *The department should recheck computer calculations of indirect costs.*

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees

Person Responsible for Implementation: Don Johnson

Projected Completion Date: Already Implemented

Department Comments/Corrective Action:

The Department will administer the indirect cost plan in a timely fashion fully meeting all state regulations in future years. The problems cited in 1992 were one-time in nature and will not occur again. Also, contributing factors with misplaced paperwork (for the waiver part) and incorrect computer calculations should be avoided in the future due to a more clear delegation of assignments and responsibilities. Beyond that, we wish to point out that the findings were internal to the state, and in no way affected the agreement with the federal cognizant agency or the costs assessed to the federal government.

May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 11. Prior Audit Recommendation Not Resolved: The department did not resolve subrecipient audit issues timely.

Recommendation:

The Department of Education should resolve subrecipient issues within six months after receiving audit reports.

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees

Person Responsible for Implementation: Kerry Smith

Projected Completion Date: January, 1994

Department Comments/Corrective Action:

For fiscal year end 1992, a support staff member has been added to assist the program staff person to attain greater timeliness in the single audit process. Improved technology is being utilized to maximize efficiency of data input. It is anticipated that the corrective action plans submitted by local educational agencies will be reviewed and accepted by the MDE by September 30, 1993. This is four months earlier than the prior fiscal year review. The MDE is aware of and will strive to meet the six month audit finding resolution timeline for fiscal year end 1993. It is our intent to develop a procedures manual by January 1994.

May 27, 1993

DEPARTMENT OF EDUCATION
Draft Audit Report, Period Ending June 30, 1992

Finding: 12. The department improperly executed a professional services contract.

Recommendation:

- *The Department of Education should ensure that it complies with all state guidelines when entering into professional/technical contracts.*
- *The department should specifically consider the availability of other contractors or state agency services before it contracts with private consultants.*

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees

Person Responsible for Implementation: Sandra Hogen

Projected Completion Date: Immediate

Department Comments/Corrective Action:

The Department of Education makes and will continue to make every effort to properly execute professional/technical services contracts. In the case cited, new incoming management was immediately confronted with the need to pursue an outside professional to advance quality improvement concepts already under discussion. The management team was not fully aware of contract procedures and through oversight did not properly publicize or enter into the contract. As the auditor has indicated, the department did cancel the contract (after about one-half was spent) and continued the initiative with the Department of Administration, Management Analysis Division.

Efforts to familiarize incoming management and other staff with contract requirements will be increased. Services of other state agencies are and will continue to be utilized when applicable.