

# Department of Education

## Programs Selected for Fiscal Year 1994 Statewide Audit

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April 1995

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

95-14



# SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155  
612/296-4708

## Department of Education

### Programs Selected for Fiscal Year 1994 Statewide Audit

Public Release Date: May 5, 1995

No. 95-14

#### Objectives:

- Review Internal Control Structure: Various state and federal grants/aids; professional and technical services and purchases services.
- Test compliance with certain finance-related provisions.

#### Conclusions:

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

- The Department of Education did not comply with Alternative Delivery Program requirements for the St. Paul school district.

We found one area where the department had not complied with finance-related legal provisions:

- The Department of Education does not properly monitor federal draw downs.

Contact the Financial Audit Division for additional information.

296-1235





STATE OF MINNESOTA

## OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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### Members of the Legislative Audit Commission

Georgina Stephens, Board President  
Minnesota State Board of Education

Ms. Linda Powell, Commissioner  
Minnesota Department of Education

### Audit Scope

We have completed a financial related audit of the Minnesota Department of Education for the period July 1, 1993 through June 30, 1994 as outlined below, and as further discussed in the Introduction. The work conducted in the department is part of our Statewide Audit of the State of Minnesota's fiscal year 1994 financial statements and Single Audit. The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by the department during fiscal year 1994.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit, and that we perform tests of the department's compliance with certain material provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

### Internal Control Structure

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

#### State Programs:

- General Education Aid
- Special Education Aid - Regular
- Homestead and Agriculture Credit Aid
- Pupil Transportation Aid
- Capital Expenditure Aids
- Maximum Effort School Loan Fund - Loans Receivable
- School Endowment Fund Apportionment Aid
- Cooperative Secondary Facilities Aid
- Capital Improvement Desegregation Grants
- Professional and technical services
- Purchased services

Members of the Legislative Audit Commission  
Georgina Stephens, Board President  
Ms. Linda Powell, Commissioner  
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**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)
- Handicapped State Grants (CFDA# 84.027)

For 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.

## **Management Responsibilities**

Management of the Minnesota Department of Education is responsible for establishing and maintaining the 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 internal control 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.

## **Conclusions**

Our audit disclosed the conditions discussed in finding one 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.

Members of the Legislative Audit Commission  
Georgina Stephens, Board President  
Ms. Linda Powell, 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. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.


The results of our tests of compliance indicate that, except for the issues discussed in findings 1 and 2, 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. Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial activities being audited. With respect to the items not tested, nothing else 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.

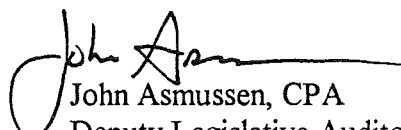
We also noted other matters involving the internal control structure and its operation and compliance with laws and regulations that we reported to the management of the Minnesota Department of Education at the exit conference held on February 22, 1995.

Pursuant to Minn. Stat. Section 3.975, this report shall be referred to the Attorney General and the Legislative Audit Commission. Finding 1 discusses the department's noncompliance with the statutory formula in calculating aid entitlements to the St. Paul school district. Accordingly, we believe that the department overpaid the school district for its 1994 and 1995 aid entitlements. In its response to this report, the department disagrees in large part with our finding. The department indicates that it will request the Attorney General to review its conformance to the law.

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 May 5, 1995.

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: February 24, 1995  
Report Signed On: April 27, 1995





## Department of Education

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### Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Lori Pellicci, CPA	Auditor-In-Charge
Dave Polisen, CPA	Audit Staff
Mark Johnson	Audit Staff
Lori Kloos	Audit Staff
Matthew Hoffer	Intern

### Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Education on February 22, 1995:

John Mercer	Deputy Commissioner
Ed Wilkins	Director - Fiscal Services
Don Johnson	Accounting Officer - Fiscal Services
Wayne Erickson	Director - Special Education
Bob Fisher	Supervisor - Special Education



# Department of Education

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## Introduction

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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, Ms. Linda Powell, 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 the current year school aids and the final 15 percent of prior year aids. The following schedule shows fiscal year 1994 expenditures categorized by state and federal programs. Major federal financial assistance programs, including state match expenditures, are shown by a Catalog of Federal Domestic Assistance (CFDA) number. 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 1994 school aids totaling \$395,011,059 from the 1995 appropriation. The department also administers the Maximum Effort School Loan Fund, which had loans receivable at June 30, 1994 of \$99,813,773.

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**Table 1**  
**Department of Education**  
**Expenditures by Major Program Year Ended June 30, 1994**

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State Programs: (1)	
General Education Aid	\$1,957,253,915
Special Education Aid - Regular	219,104,409
Homestead and Agriculture Credit Aid	189,350,634
Pupil Transportation Aid	124,270,015
Capital Expenditure Aid	108,302,547
School Endowment Fund Apportionment Aid	33,771,823
Secondary Cooperative Facilities Aid	4,231,563
Capital Improvement Desegregation Grants	3,155,120
Purchased Services	8,414,087
Professional and Technical Services	1,468,300
Other State Expenditures	175,545,843
Federal Programs: (2)	
Educationally Deprived Children (CFDA #84.010)	74,614,113
National School Lunch Program (CFDA #10.555)	55,661,076
Child Care Food Programs (CFDA #10.558)	58,654,070
Handicapped State Grants (CFDA #84.027)	30,440,360
Food Distribution (CFDA #10.550)	15,281,533
Other Federal Programs	19,378,630
Total Department Expenditures	<u>\$3,573,722,870</u>

Sources: (1) The state program amounts are budgetary basis expenditures recorded on the Statewide Accounting System as of September 2, 1994.

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

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## Current Findings and Recommendations

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**1. The Department of Education did not comply with Alternative Delivery Program requirements for the St. Paul school district.**

The department did not adhere to the application, reporting or funding requirements of the Alternative Delivery Program for the St. Paul school district. It did not properly approve the program application or require annual reports from the district. In addition, the department made changes to the funding formula for the St. Paul school district that were not in compliance with state statutes.

The Alternative Delivery Program began in 1990 and is an alternative to Special Education Aid. The program is designed to allow funding for special education students who are in regular education classes. In fiscal year 1994 the department entitled \$196 million for Special Education Aid. This entitlement included \$15,813,681 for the Alternative Delivery Program, which was entitled to three districts that participated in the program. St. Paul, the largest district, was entitled \$15,631,518.

The department did not formally approve the program application for the St. Paul school district for the 1994-1996 school years. Minn. Stat. Section 120.173, Subd. 2 and 4 require that any school interested in the program submit a three-year application, which must be approved by the Commissioner of Education. The St. Paul School District was required to submit an application to continue under the program for the 1994 -1996 school years. St. Paul submitted the original 1990 application rather than a revised application, even though it had added three new schools to the program. The department did not formally approve an application for 1994-1996, yet it allowed St. Paul to continue in the program for these years.

St. Paul did not complete a program evaluation of the program or submit an annual report. Minn. Stat. Section 120.173 Subds. 3 and 5 require the districts to complete annual evaluations of the program and report the results to the department. St. Paul completed a two-year evaluation for the 1991 and 1992 school years and submitted the results. However, no evaluation was completed for the 1993 school year and no report was submitted.

The department did not comply with the Alternative Delivery Program statutory formula in calculating the 1994 entitlement to the St. Paul school district. Instead, the department made a number of adjustments to the district's entitlement that were not contemplated by the statutes. Under the statutory formula, the entitlement for St. Paul would have been approximately \$14 million. The adjustments increased the district's aid by \$1.6 million to a total of \$15.6 million. The department could not support the propriety of the 1994 adjustments, which we listed below. In addition, the department made similar adjustments to the 1995 entitlement.

- \$1.5 million for regular education staff. There is inadequate documentation supporting the propriety of these expenditures.

## Department of Education

- \$411,170 to provide preparation time for teachers. These positions have been funded in the existing base.
- \$726,544 in special education expenditures not incurred until the next year.
- \$346,648 for special education for staff employed at the Wilder Treatment Program. This request is for time spent with regular education students and only special education students should be funded in the program.

These unsupported adjustments are not permitted in the state laws for the Alternative Delivery Program. Allowing St. Paul to increase its base aid gives the district an unfair amount of special education funds and decreases the amount of funding available to the other school districts.

### *Recommendations*

- *The department needs to require current applications for the Alternative Delivery Program.*
- *The department needs to implement a formal review process for approving applications.*
- *The department should calculate aid according to the statutory formula and ensure the propriety of any adjustments.*
- *The department should review the 1994 and 1995 entitlements to the St. Paul school district and adjust its aid accordingly.*

## **2. The Department of Education does not properly monitor federal draw downs.**

The department is not properly tracking the federal draw downs or reporting the correct results to the Minnesota Department of Finance as required. In our testing of 33 federal draw downs we found 10 instances where the department drew down federal funds one or two days early. Yet the department did not report any of these instances to the Minnesota Department of Finance. The increased interest due to the federal government for these 10 instances is approximately \$4,750.

The Cash Management Improvement Act (CMIA) specifies that the department should receive funds four days after the payments have been mailed. Any deviations must be reported annually to the Department of Finance

### *Recommendations*

- *The department needs to document its monitoring of federal cash draw downs.*
- *The Department of Education needs to accurately report its cash management activity to the Department of Finance.*



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

April 26, 1995

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

Dear Mr. Nobles:

Enclosed are individual responses to the two findings from the Fiscal Year 1994 Statewide Audit for the Department of Education.

The department agrees with finding number two on federal cash drawdowns and intends to implement necessary corrective action no later than May 1, 1995. However, the department disagrees in large part with finding number one and the related recommendations regarding the Alternative Delivery Program for the St. Paul School District. The disagreement is based on different interpretations of Minnesota Statutes. Therefore, at the earliest possible date, the department will request the Office of Attorney General to review departmental decisions for conformance to law. A more detailed statement is provided in the attached response. Wayne Erickson, Director, Office of Special Education (phone number 296-1793), has overall responsibility for the Alternative Delivery Program and is available to discuss the finding or to help resolve issues or possible conflicting interpretations of statutes among MDE staff and the auditor.

We thank the audit staff for their helpful professionalism during the course of the audit. Please contact Ed Wilkins, Director, Office of Finance and Management Services, at 296-6253, or Wayne Erickson if there are any questions regarding our response.

Sincerely,

A handwritten signature in cursive script that reads 'Linda Powell'. The signature is written in dark ink and is positioned above the printed name and title of the Commissioner.

Linda Powell  
Commissioner

LP/EW:mpb  
Enclosures



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DEPARTMENT OF EDUCATION  
Draft Audit Report, Period ending June 30, 1994

**Finding:** 1. The Department of Education did not comply with Alternative Delivery Program requirements for the St. Paul District.

The auditor made four specific recommendations relating to this legislation.

The first two address issues surrounding submission and approval of applications from the St. Paul district.

The second two address issues surrounding approval of adjustments of the base upon which state special education aids are paid to the St. Paul district.

**AUDITOR RECOMMENDATIONS RELATING TO THE SUBMISSION AND APPROVAL OF APPLICATIONS FROM THE ST. PAUL DISTRICT.**

- \* The department needs to require current applications for the Alternative Delivery Program.
- \* The department needs to implement a formal review process for approving applications.

**DEPARTMENT OF EDUCATION RESPONSE**

Department disagrees with the Finding. As a result of this disagreement the Department proposes to request that the Office of the Attorney General review Departmental decisions to determine conformance to laws.

Wayne Erickson and staff of the Office of Special Education are responsible for implementation of the program and any corrective actions.

M.S. 120.173 requires that the Commissioner approve applications for three years. As noted, the St. Paul district submitted an application for the second three year period but it was the same application that had been submitted for the original three year program. Due to that, the department was cited for approving an inaccurate application because, in fact, the St. Paul schools had added additional schools to their program.

The application that was approved for the second two-year period included additional schools. That application was approved based on the fact that the St. Paul schools had authority to include all schools in the program, the original application proposed a multi-year phase-in of all schools and the St. Paul district was simply implementing the original plan as approved.

The Department does have a formal review process. That process is as follows:

- The first step is the assignment of a team of MDE staff to read the project.

**.page 2 Department revised response to draft audit report.**

- The applicant district is scheduled to meet with staff in the state offices to answer questions and discuss the project.
- The MDE Team then reacts to whether the proposal meets stated criteria and recommends its approval - disapproval.
- The review Team's recommendation is then sent to the Director of the Office of Special Education and the Assistant Commissioner for approval and signature.

The Department did not use this thorough process for the second application because the application was appropriately unchanged.

**RECOMMENDATIONS RELATING TO THE PAYMENT OF STATE AIDS AND ADJUSTMENTS TO THE BASE YEAR FORMULA.**

- \* The Department should calculate aid according to the statutory formula and ensure the propriety of any adjustments.
- \* The Department should review the 1994 and 1995 entitlements to the St. Paul school district and adjust its aid accordingly.

**DEPARTMENT OF EDUCATION RESPONSE**

Department disagrees with the finding. As a result of this disagreement the Department proposes to request that the Office of the Attorney General review Departmental decisions to determine their conformance to laws.

Wayne Erickson and staff of the Office of Special Education are responsible for implementation of the program and any corrective actions.

M. S. 124.332 Alternative Delivery Revenue subdivision 1a (3) states:

**" (3) for the third fiscal year after approval of a district's application, and thereafter, base revenue means the sum of the revenue a district would have been entitled to in the second prior fiscal year for its special education program under sections 124.32 subdivisions 1b, 1d, 2, 5, and 10, and 124.321 subdivision 1, based on activities defined as reimbursable under state board rules for, special education and nonspecial education students, and additional activities as detailed and approved by the commissioner of education."**

This language provides the authority for the Department to make adjustments to the base year computed on additional expenditures submitted by the district for activities as stipulated in the law and, in some instances, approved by the Commissioner.

The St. Paul district submitted requests for adjustments to the base year for FY 94 (base year is FY 92) and for the base year for FY 95 (base year is FY 93). The Department approved the following requests:



**page 3 Department revised response to draft audit report.**

1. Adjustments for additional special education staff employed to meet the needs of students with disabilities.
2. Adjustments for additional special education staff employed to provide related services (treatment) to students with disabilities.
3. Adjustments for additional special education staff to provide direct special education services during teacher preparation time.
4. Adjustments to include general education staff working in the prevention program.

The authority for approval of adjustments one and two stem from this phrase in the law: "...based on activities defined as reimbursable under state board rules for special education..."

The authority for approval of adjustments three and four stem from this phrase in the law: "...additional activities as detailed and approved by the commissioner of education."

The Department did not detail expenditures approvable by the Commissioner prior to the St. Paul request for adjustments. The Department believes that prior stipulation was not possible due the experimental nature of the program. Experimentation requires an evolutionary approach rather than predetermination of all steps.

Adjustments made for FY 92 did not affect aid payments made until FY 94 and adjustments made for FY 93 did not affect aid payments until FY 95.

April 3, 1995

DEPARTMENT OF EDUCATION  
Draft Audit Report, Period Ending June 30, 1994

**Finding:** 2. The Department of Education does not properly monitor federal draw downs.

**Recommendation:**

- The department needs to document its monitoring of federal cash draw downs.
- The Department of Education needs to accurately report its cash management activity to the Department of Finance.

\*\*\*\*\*

DEPARTMENT OF EDUCATION RESPONSE

Department Agrees/Disagrees with Finding: Agrees

Person Responsible for Implementation: Don Johnson & Pat Baggenstoss

Projected Completion Date: Immediate for accurate reporting; May 1, 1995  
for improved documentation.

**Department Comments/Corrective Action:**

The Department of Education, Fiscal Services Unit, acknowledges there are some minor instances of incorrect timing during the implementation year of the new Cash Management Improvement Act (CMIA). Requirements and procedural steps are now more fully understood; therefore, errors and omissions should be well within normal tolerance levels in the future.

Documentation of cash monitoring activities will be improved to accommodate internal needs and requirements of the auditor. Documentation guidelines had not been provided to help implement the CMIA and, as the auditor has indicated, Fiscal Services' initial format did not fully meet everyone's needs.