Department of Children, Families & Learning

Selected Programs Administered by the Former Department of Education
Fiscal Year 1995 Statewide Audit

March 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-12

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Jeanne Kling, Board President
Minnesota State Board of Education

Bruce H. Johnson, Commissioner
Department of Children, Families & Learning

We have audited selected programs of the former Department of Education, consolidated into the Department of Children, Families & Learning, for the fiscal year ended June 30, 1995, as further explained in Chapter 1. The work conducted in the department is part of our Statewide Audit of the state of Minnesota's fiscal year 1995 financial statements and Single Audit. The Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our report, issued thereon dated December 1, 1995. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995 will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1996. Therefore, we emphasize that this has not been a complete audit of all financial activities of the Department of Children, Families & Learning. The following Summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Department of Children, Families & Learning complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Department of Children, Families & Learning is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Children, Families & Learning. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 29, 1996.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 9, 1996

Report Signed On: March 26, 1996

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

Department of Children, Families & Learning

Selected Programs Administered by the Former Department of Education Fiscal Year 1995 Statewide Audit

Public Release Date: March 29, 1996 No. 96-12

Agency Background

The 1995 Legislature abolished the Department of Education and created the Department of Children, Families & Learning effective October 1, 1995. This new department assumed the responsibilities and programs formally operated by the Department of Education. Ms. Linda Powell served as the Commissioner of Education until July 28, 1995. The Department of Education administered about $3 billion for state and federal programs. The Governor appointed Bruce Johnson as the first Commissioner of the Department of Children, Families & Learning. The objective for the creation of the new department is to coordinate programs that serve children and families, providing easier access and fewer rules and reporting requirements.

Selected Audit Areas and Conclusions

The audit focused on selected programs previously administered by the Department of Education for the year ended June 30, 1995. Our audit scope was limited to those areas material to Minnesota's Comprehensive Annual Financial Report for fiscal year 1995 and to the Single Audit.

We concluded that the Department of Education's expenditures are presented fairly on Minnesota's Comprehensive Annual Financial Report for fiscal year 1995. We also concluded that the Department of Education complied with most U.S. Office of Management and Budget (OMB) Compliance Supplement general and specific program requirements for major federal programs. However, we found that the department had not complied with some provisions of the Cash Management Improvement Act and the maintenance of effort requirement for the Educationally Deprived Children Program (CFDA # 84.010).

Contact the Financial Audit Division for additional information.
296-1235

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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
Jack Hirschfeld, CPA	Auditor-In-Charge
Mary Annala, CPA	Auditor
Fubara Dapper, CPA	Auditor
Karen Klein, CPA	Auditor
Lori Kloos, CPA	Auditor
Leah Tetzlaff	Audtior
Laura Puig-White	Auditor
David Rosoff	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Children, Families & Learning on March 13, 1996:

Robert Wedl	Deputy Commissioner
John Edward Wilkins	Director, Finance & Management Services
Jessie Montano	Director, State & Federal Programs

Chapter 1. Introduction

The 1995 Legislature abolished the Department of Education and created the Department of Children, Families & Learning effective October 1, 1995. This new department assumed the responsibilities and programs formally operated by the Department of Education. Ms. Linda Powell served as the Commissioner of Education until July 28, 1995. The Governor appointed Bruce Johnson as the first commissioner of the Department of Children, Families & Learning.

General Fund appropriations and federal grants totaling approximately $3 billion financed the Department of Education activities in fiscal year 1995. Annual appropriations fund 85 percent of the current year school aids and the final 15 percent of prior year aids. Our audit scope focused on the 1995 expenditures of the department included in Table 1-1. We also included in our audit scope loans receivable totaling $115,207,000 in the Maximum Effort School Loan Fund. These financial activities were material to the state's financial statements and to the Single Audit objectives.

Table 1-1: Department of Education
Audited Expenditures by Program for Fiscal Year 1995

State Programs: (1)	
General Education Aids	$1,984,775,713
Special Education Aid	245,302,908
Homestead and Agriculture Credit Aid	151,713,213
Pupil Transportation Aid	138,885,897
Capital Expenditure Aid	74,493,734
School Endowment Fund Apportionment Aid	35,729,987
Secondary Cooperative Facilities Aid	3,600,935
Capital Improvement Desegregation Grants	284,880
Federal Programs: (2)	
National School Lunch Program (CFDA #10.555)	63,232,007
Child Care Food Programs (CFDA #10.558)	63,183,783
Educationally Deprived Children (CFDA #84.010)	60,019,074
Handicapped State Grants (CFDA #84.027)	33,607,187
Food Distribution (CFDA #10.550)	15,758,717

Sources:

(1) State of Minnesota's Comprehensive Annual Financial Report for fiscal year 1995.
(2) Minnesota's Financial and Compliance Report on Federally Assisted Programs.

The primary objective of the Statewide Audit is to render an opinion on the state of Minnesota's financial statements included in its Comprehensive Annual Financial Report for fiscal year 1995. This includes determining whether the financial statements of the state present fairly its financial position, results of operations, and changes in cash flows in conformity with generally accepted accounting principles. As part of our work, we are required to gain an understanding of the internal control structure and ascertain whether the state complied with laws and regulations that may have a material effect on its financial statements.

Department of Children, Families & Learning

The Statewide Audit is designed to also meet the requirements of the Single Audit Act of 1984, relating to federal financial assistance. The Single Audit Act establishes two additional audit objectives and requires us to determine whether:

- the state complied with rules and regulations that may have a material effect on each major federal program;

- the state has internal accounting and other control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

To address these objectives, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of financial transactions.

Our work in the Department of Children, Families & Learning is completed as part of our audit to express an opinion of the state's financial statements. The Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our report, issued thereon dated December 1, 1995. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995 will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1996.

In addition to preparing those standard reports, we have also developed some audit findings and recommendations. In Chapter 2 we discuss our findings regarding federal programs.

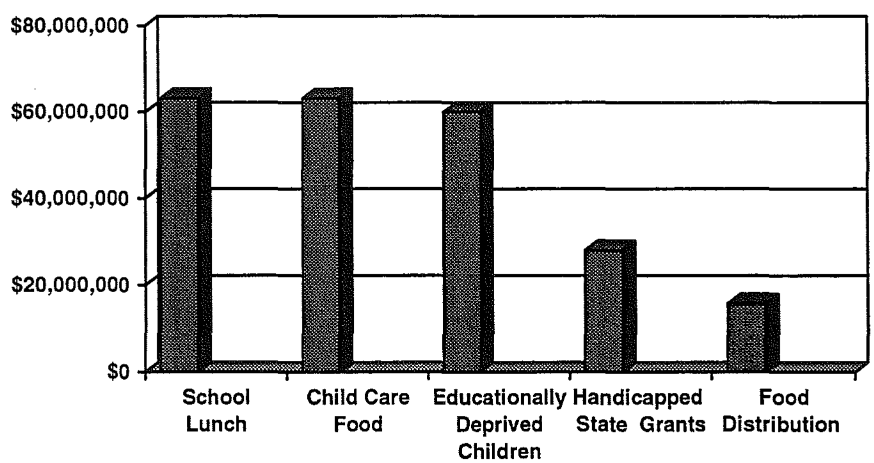
Chapter 2. Federal Programs

Chapter Conclusions

The Department of Education was responsible for administering 57 federal programs during fiscal year 1995. The department complied with most general and specific requirements for its major federal programs. However, we found that the department did not comply with some provisions of the Cash Management Improvement Act and the maintenance of effort requirement for the Educationally Deprived Children Program (CFDA #84.010).

The Department of Education administered 57 federal programs in fiscal year 1995. Of the 57 programs, only five programs are major federal programs under the Single Audit Act. The Single Audit Act defines major federal programs for the states as having expenditures exceeding $10 million in fiscal year 1995. Our audit focused on the five major programs identified in Figure 2-1.

Figure 2-1: Department of Education Major Federal Program Expenditures



Source: Minnesota's Financial and Compliance Report on Federally Assisted Programs.

Department of Children, Families & Learning

Following is a brief description of each of the five major programs.

- National School Lunch (CFDA #10.555)-Program makes cash grants and food donations for states to provide breakfast and lunch to school children.

- Child Care Food (CFDA #10.558)-Program provides supplemental food to low-income persons in critical periods of growth and development.

- Educationally Deprived Children (CFDA #84.010)-Program that helps children from low income families attain grade level proficiency and improve achievements.

- Handicapped State Grants (CFDA #84.027)-Program assists states in providing free, appropriate public education to all handicapped children.

- Food Distribution (CFDA #10.550)-Program provides food assistance for school children, needy persons, and the elderly.

Audit Objectives and Methodology

The objectives of the Single Audit Act related to federal financial assistance include:

- Determine compliance with rules and regulations that may have a material effect on each major federal program; and,

- Determine whether the state has internal accounting and other controls systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

To address these objectives we conducted interviews and reviewed the agency's internal controls for managing the five major federal programs in compliance with federal laws and regulations. We also tested financial transactions for the major programs to determine compliance with program regulations.

Federal financial assistance programs are governed by several statutory and regulatory requirements. The general requirements include: Political Activity, Davis-Bacon Act, Civil Rights, Cash Management, Relocation Assistance and Real Property Acquisition, Federal Financial Reports, Drug-Free Workplace Act, Allowable Costs/Cost Principles, and Administrative Requirements. Our audit scope included testing of the department's compliance with most of these general requirements.

The objective of cash management is to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee. In September 1992, the Financial Management Service published a final rule implementing the interest accrual provisions of the Cash Management Improvement Act of 1990 (CMIA). The U.S. Treasury enacted the CMIA to ensure efficiency, effectiveness, and equity in the transfer of federal funds between state agencies and the federal government. The Minnesota Department of Finance established an agreement with the U.S. Treasury to implement the requirements of the CMIA.

The agreement includes a listing of federal programs subject to the agreement, their average clearance day, and defines the method for drawing down money for indirect costs and administrative costs. State agencies not drawing down money based upon the terms of the agreement may incur an interest liability.

Federal regulations govern specific compliance features for its programs. These requirements are categorized as follows: types of services allowed or unallowed, eligibility, matching, level of effort and/or earmarking requirements, special reporting requirements, and special tests and provisions. We tested the department's compliance with these specific requirements for the major programs.

The department did not comply with some provisions of cash management agreement as discussed in Finding 1. In addition, as discussed in Finding 2, the department did not comply with the maintenance of effort requirement for the Educationally Deprived Children Program.

1. The Department of Education did not comply with the provisions of the CMIA agreement.

The department did not follow the terms of the agreement for drawing down federal funds for subgrant, indirect, and administrative expenditures. The department's failure to follow the CMIA agreement resulted in an interest liability for fiscal year 1995. The department did not comply with some provisions of the agreement.

- The department did not draw down federal funds based upon the terms of the CMIA agreement. The agreement defines the date of the drawdown for subgrant expenditures based upon the clearance pattern for each individual federal program. We tested a sample of drawdowns for all material programs, and noted a variance of up to two days for 5 of the 17 drawdowns. These five drawdowns result in an estimated net of $1,197 in interest due to the U.S. Treasury.

- The department drew down federal money for payroll and administrative costs in a manner that is detrimental to the state. The agreement required state agencies in fiscal year 1995 to draw down money for payroll costs on the date the agency issues the check. However, for all payroll periods in fiscal year 1995, the department drew down money for payroll one day late. The agreement also requires the department to drawdown money for indirect and administrative costs with the payroll drawdown. The amount should be sufficient to equal the costs the agency will incur up to the mid-point of the upcoming pay period. During fiscal year 1995, the department drew down money based upon their immediate cash needs. The timing of these drawdowns conflicted with agreement requirements and did result in the state incurring costs to cover the clearing of payroll checks for one day each payperiod.

The Department of Education did not submit accurate cash management data to the Department of Finance. The agreement required the Department of Finance to submit a report to the U.S. Treasury identifying the amount of interest owed to or due from the U.S. Treasury. To develop the amounts for this report, Finance required all appropriate state agencies to report the amount of interest due or receivable. Education's data did not reflect the interest due as a result of drawdowns occurring other than on the prescribed days. Education also did not advise Finance of its delay in drawing down money for payroll or its process for drawing down funds for indirect and administrative costs.

The department has several options available to address its variance from prescribed drawdown procedures. For subgrant expenditures, it could change its drawdown procedures to comply with the methods allowed by the agreement between the State and the U.S. Treasury and change its drawdown procedures, thereby avoiding any interest accruals. The department could also continue to use its present method and pay any accrued interest charges. Finally, the department could work with the Department of Finance to renegotiate the agreement to allow the current drawdown process for administrative expenditures. However, Education needs to keep the Department of Finance apprised of its drawdown procedures and recognize any potential interest accruals.

Recommendations

- *The Department of Children, Family & Learning should correct its cash management report for fiscal year 1995 and include interest accruals totaling $1,197.*
- *The Department of Children, Family & Learning should comply with the current agreement or negotiate any changes with Finance.*

2. The Department of Education did not have adequate procedures to ensure the reduction of entitlements for districts not in compliance with the maintenance of effort requirement.

The Department of Education did not comply with the maintenance of effort requirement for the federal Educationally Deprived Children Program (CFDA #84.010). This program requires that expenditures for each school district must equal 90 percent of the preceding year. The department became aware of four districts that did not meet this requirement and intended to reduce their entitlement by $3,352. However, the department did not complete the entitlement reductions for these districts.

There are no procedures in place to ensure that system unit staff make the reductions. The program director assumes that the systems unit will make the reductions after issuing the memorandum. However, the program director does not verify that the reduction occurred, and the systems unit does not certify the reduction to the program director. Internal controls should include a mechanism for verifying that the department applied the reduction to the applicable school districts.

Recommendations

- *The Department of Children, Family & Learning should verify program reductions for districts not complying with the maintenance of effort requirement.*
- *The Department of Children, Family & Learning should reduce the entitlements totaling $3,352 for the four districts.*

Minnesota Children
Minnesota Department of Children, Families & Learning

March 22, 1996

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

Dear Mr. Nobles:

This is in response to the two findings from the Fiscal Year 1995 Statewide Audit for the former Department of Education. As our responses below will indicate, the department is in basic agreement with the auditor and will bring about full compliance prior to June 30, 1996.

Finding:

1. "The Department of Education did not comply with the Cash Management and Improvement Act (CMIA) Agreement."

   Response: There were, in fact, timing problems with draw downs for salaries, administrative and indirect costs which conflicted with agreement requirements. Also, accurate cash management data was not submitted to the Department of Finance. The draw down problems have been identified and will be corrected with subsequent draw downs prior to April 1, 1996. Corrected financial data has already been submitted to the Department of Finance. Pat Baggenstoss and Don Johnson of the Fiscal Services Office are responsible for implementation.

Finding:

2. "The Department of Education did not have adequate procedures to ensure the reduction of entitlements for districts not in compliance with the maintenance of effort requirement."

   Response: The auditor correctly notes that four school districts did not yet meet the 90 percent of prior year expenditure level requirement for the federal Educational Deprived Children Program (CFDA #84.010). Necessary action including the reduction of entitlement will be taken by June 30, 1996. In addition, internal procedures will be reviewed and where necessary, modified to monitor maintenance of effort requirements. Jessie Montano and Anne Cutler of the Office of State and Federal Programs are responsible for implementation.

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Mr. James R. Nobles
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March 22, 1996

Please contact Ed Wilkins, Manager of Finance and Management Services, if there are any questions regarding our response. Thank you.

Sincerely,

Ed Wilkins for Robert Wedl
Robert Wedl
Deputy Commissioner

RW/EW:mpb