

O L A

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Education
Fiscal Year Ended June 30, 2006



March 22, 2007

07-06

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our web site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Department of Education

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Audit Participation

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

| | |
|-----------------------------|----------------------------|
| Cecile M. Ferkul, CPA, CISA | Deputy Legislative Auditor |
| David Polisenno, CPA, CISA | Audit Manager |
| Jack Hirschfeld, CPA | Auditor-in-Charge |
| Jennifer Cooper | Auditor |
| Thomas Derus | Auditor |
| Tracy Gebhard | Auditor |
| Tim Rekow | Auditor |
| David Westlund | Auditor |

Exit Conference

We discussed the results of the audit with the following representatives of the Department of Education at an exit conference on March 13, 2007:

| | |
|---------------|----------------------------------|
| Alice Seagren | Commissioner |
| Chas Anderson | Deputy Commissioner |
| Tammy McGlone | Administrative Services Director |

Report Summary

Audit Finding:

- The Department of Education did not properly administer a contract for student testing services for the State Assessment and Related Activities Program (CFDA #84.369). ([Finding 1, page 4](#))

The audit report contained one audit finding relating to legal compliance.

Audit Scope:

Programs material to the State of Minnesota's financial statements and to federal program compliance for fiscal year 2006

Selected Audit Areas:

- General Fund Educational Aids
- Federal programs, including:
 - Child Nutrition Cluster
 - Special Education Cluster
 - Child and Adult Food Care
 - Title 1 Grants to Local Education Agencies
 - Improving Teacher Quality State Grants
 - Grants for State Assessments and Related Activities

Background:

The Department of Education is responsible for establishing educational standards for pre-kindergarten through twelfth grade and adult learners. During fiscal year 2006, the department spent approximately \$7.5 billion on educational programs, including \$6.9 billion from the state's General Fund and \$578 million in federal funds.



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Alice Seagren, Commissioner
Department of Education

We have performed certain audit procedures at the Department of Education as part of our audit of the basic financial statements of the State of Minnesota as of and for the year ended June 30, 2006. We also audited the state's compliance with applicable requirements governing the administration of federal awards for the year ended June 30, 2006, as described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

The Department of Finance is primarily responsible for statewide financial reporting. The department prepares the *Comprehensive Annual Financial Report* that contains the state's basic financial statements and our opinion on those statements. The Department of Finance also annually prepares the *Financial and Compliance Report of Federally Assisted Programs*. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, including a conclusion on the state's internal controls for federal programs and findings about weaknesses detected.

The scope of our audit work at the Department of Education included activities that were material to the state's basic financial statements (mainly education aids paid to the local school districts) and six major federal programs administered by the department, as shown in Table 1. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its major federal programs. We also audited the department's cash management practices and other general compliance requirements related to federal assistance. We emphasize that this has not been a comprehensive audit of the Department of Education.

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Table 1
Major Federal Programs
Administered by the Department of Education
Fiscal Year 2006

| <u>CFDA #</u> ^(Note 1) | <u>Program Name</u> | <u>Expenditures</u> |
|-----------------------------------|---|---------------------|
| | <u>Child Nutrition Cluster:</u> ^(Note 2) | |
| 10.553 | School Breakfast | \$ 21,472,767 |
| 10.555 | National School Lunch | 94,450,946 |
| 10.556 | Special Milk Program for Children | 805,041 |
| 10.559 | Summer Food Service Program for Children | <u>2,626,314</u> |
| | Total Child Nutrition Cluster | \$119,355,068 |
| 10.558 | Child and Adult Care Food | \$ 55,475,958 |
| 84.010 | Title 1—Grants to Local Education Agencies | \$106,135,926 |
| | <u>Special Education Cluster:</u> | |
| 84.027 | Special Education State Grants | \$183,926,911 |
| 84.173 | Special Education Preschool Grants | <u>7,983,702</u> |
| | Total Special Education Cluster | \$191,910,613 |
| 84.367 | Improving Teacher Quality State Grants | \$ 39,402,665 |
| 84.369 | Grants for State Assessments and Related Activities | \$ 8,267,099 |

Note 1: The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

Note 2: A cluster of programs is a grouping of closely related programs that have similar compliance requirements and is treated as a single program for audit purposes.

Source: Selected accounting transactions within the Minnesota Accounting and Procurement System for fiscal year 2006.

Conclusions

We issued an unqualified audit opinion,¹ dated December 14, 2006, on the State of Minnesota's basic financial statements for the year ended June 30, 2006. In accordance with *Government Auditing Standards*, we also issued our report,² dated December 14, 2006, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants.

As a result of our audit work, we identified the following weaknesses in internal control or instances of noncompliance with federal program requirements at the Department of Education.

¹ An unqualified audit opinion means that there were no exceptions to our verification of the state's basic financial statements.

² [Legislative Auditor Report #07-04.](#)

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1. The Department of Education did not properly administer its contract for student testing services.

The department did not properly monitor or administer a contract in compliance with state and federal requirements. The department entered into the contract with a vendor to perform testing services at elementary and secondary schools during fiscal year 2006. The contracted testing services were required by the federal government to assess the progress students are making toward the state's educational standards. The department funded the contract with \$7.5 million from the State Assessment and Related Activities federal program (CFDA #84.369) and \$8.4 million of state funds.

The department's administration of this contract did not comply with federal and state requirements, as described below:

- The department used \$347,000 (including \$245,000 of federal funds) for tests not included in the original contract. The department amended the contract after the work was completed to include these services.
- The department did not properly retain a percentage of the amount due to the vendor as required by state statute. Minnesota statutes³ require that state agencies pay no more than 90 percent of the amount due until the department has reviewed the final product and certified that the vendor has satisfactorily fulfilled the contract terms. The department paid \$974,000 to the vendor that it should have retained until it verified that the vendor had satisfactorily completed the services.
- The department did not make timely payments to the vendor. The department paid 11 of the 28 payments after the 30-day prompt payment period required by statute.⁴ In one instance, the department paid one invoice of \$108,900 dated June 20, 2006, on October 23, 2006.

By not properly administering this contract, the department increases the risk that it uses federal funds for other than the intended purpose, pays for services not included in the contract, or pays for services that do not meet their expectation.

Recommendation

- *The Department of Education should improve its contract administration process by:*
 - *Only paying vendors for services specified in the contract;*

³ *Minnesota Statute 2005, 16C.08 subd. 5(b).*

⁴ *Minnesota Statute 2005, 16A.124.*

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- *Retaining from payments the statutorily required percentage and holding the retained amounts until it determines that the vendor has satisfactorily completed contract duties;*
- *Processing vendor payments within 30 days, as required by statute.*

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Education. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 22, 2007.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: January 31, 2007

Report Signed On: March 19, 2007

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Status of Prior Audit Issues As of January 31, 2007

January 2006, Closure Letter reported the results of our examination of the department's activities and programs material to the State of Minnesota's *Comprehensive Annual Financial Report* and the Single Audit for the year ended June 30, 2005. Our audit work focused on the department's preparation of the state's financial statements and its centralized responsibilities. The financial statement scope included two material programs. The Single Audit scope covered compliance with federal requirements relating to five federal programs. The closure letter contained no issues.

Legislative Audit Report 06-26, issued in September 2006, covered the three fiscal years ending June 30, 2005. The audit scope included license and fee revenue, payroll, purchases of supplies and equipment, and Native American Indian scholarships. The report contained two findings related to the prompt deposit of license fees and the separation of receipt processing duties, three findings related to improper charges of severance payments to federal programs, a lack of performance reviews and supervisory reviews over timesheets, two findings related to the lack of controls over fixed assets and compliance with bidding requirements, and one finding related to the administration of Native American Indian scholarships payments. We did not follow up on the results of this audit report.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.



March 15, 2007

James Nobles
Legislative Auditor
Room 140 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles;

The response is provided to address corrective action implementation relating to findings from your Single Audit work at the Department of Education.

Findings and recommendations are related to paying vendors for services specified in contracts only, retaining the statutorily required percentage and holding the retained amount until work has been satisfactorily completed and processing vendor payments within 30 days as required by statute.

The three findings in this report will be implemented. I have assigned the responsibility for this implementation to Tammy McGlone, Administrative Services Director and the process changes must be in place by April 15, 2007.

If you have any questions, please feel free to contact Tammy McGlone at 651-582-8835 or tammy.mcglone@state.mn.us.

Sincerely,

A handwritten signature in black ink that reads "Alice Seagren".

Alice Seagren
Commissioner