

Department of Career and  
Technical Education  
BISMARCK, NORTH DAKOTA

# Audit Report

For the Biennium Ended  
June 30, 2015

ROBERT R. PETERSON  
STATE AUDITOR

Office of the State Auditor  
Division of State Audit

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## *Transmittal Letter*

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August 16, 2016

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
Mr. Wayne Kutzer, Director

We are pleased to submit this audit of the Department of Career and Technical Education for the biennium ended June 30, 2015. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Jacqueline Ressler. Dina Cashman, CPA was the staff auditor. Cindi Pedersen, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director Kutzer and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## *Introduction*

The North Dakota Department of Career and Technical Education provides career awareness, work readiness skills, occupational preparation, and retraining of workers throughout the state.

There are nine members of the State Board of Career and Technical Education (State Board). They include six individuals who are appointed by the Governor; the remaining three are the elected Superintendent of Public Instruction, the appointed Chancellor of Higher Education, and the appointed Executive Director of Job Service North Dakota.

The State Board appointed Wayne Kutzer as State Director and Executive Officer of the Department of Career and Technical Education as of July 1, 2000. The duties, terms of office, and compensation of the Director are determined by the State Board. The Director enforces the rules and regulations which the State Board may adopt, and prepares reports concerning Career and Technical Education as required by the State Board.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

## *Responses to LAFRC Audit Questions*

### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Department of Career and Technical Education in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

### *3. Was internal control adequate and functioning effectively?*

Yes.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

### *5. Has action been taken on findings and recommendations included in prior audit reports?*

There were no recommendations included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 14 of this report, along with management's response.

### **LAFRC Audit Communications**

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Department of Career and Technical Education's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

*14. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Department of Career and Technical Education.

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

The objectives of this audit of the Department of Career and Technical Education for the biennium ended June 30, 2015 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Department of Career and Technical Education's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Department of Career and Technical Education and are they in compliance with these laws?
3. Are there areas of the Department of Career and Technical Education's operations where we can help to improve efficiency or effectiveness?

## ***Audit Scope***

This audit of the Department of Career and Technical Education is for the biennium ended June 30, 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department of Career and Technical Education's sole location is its Bismarck office which was included in the audit scope.

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Department of Career and Technical Education's processes and procedures.
- Performed a detailed review of the STEM (Science, Technology, Engineering and Mathematics) Grant awarded by the state of North Dakota including:
  - Application review processes;
  - Grant awarding;
  - Performance monitoring; and
  - Management assessment of results.
- Performed a detailed review of the Program Enhancement Grant including:
  - Application review processes;
  - Grant awarding;
  - Performance monitoring; and
  - Management assessment of results.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## ***Management's Discussion and Analysis***

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The accompanying financial statements have been prepared to present the Department of Career and Technical Education's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by the Department of Career and Technical Education's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the biennium ended June 30, 2015, operations of the Department of Career and Technical Education were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

### ***Financial Summary***

Revenues and other sources consisted primarily of federal funds, which remained fairly constant for the Department of Career and Technical Education, increasing only slightly. Total revenues and other sources were \$4,681,946 for the year ended June 30, 2015 as compared to \$4,575,733 for the year ended June 30, 2014.

Total expenditures for the Department of Career and Technical Education were \$22,404,501 for the year ended June 30, 2015 as compared to \$18,961,817 for the prior year. The increase in total expenditures for the audited period is mostly reflected in Grants and it is due to the way in which the Department budgets for grants. Budgets are prepared on an annual basis with approximately 48% to 49% budgeted the first year of the biennium and the remaining amount goes to the second year of the biennium. This creates a fluctuation of 2% to 4% from one year to the next. This allows for an inflationary growth in reimbursements to schools to cover increases in program costs of which increases in teacher salaries are the main contributor. Additionally, funds budgeted in grants for the first year of the biennium don't always get spent and are carried over to the second year resulting in higher expenditures for the second year of the biennium.

### ***Analysis of Significant Variances - Budgeted and Actual Expenditures***

The Department of Career and Technical Education had a significant percentage of unexpended appropriations in their operating expenses line. At the end of the biennium approximately 40% or 497,861 was remaining in the operating expenses line. The remaining operating expenses line is mainly due to budgeting for anticipated federal funds that they never received. Some of the remaining balance is also due to budgeted funds for travel, professional development, printing, and office supplies not being spent.

# Financial Statements

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## Statement of Revenues and Expenditures

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$4,539,846	\$4,230,373
Conference Registration Fees	96,616	91,637
Refunds	42,984	823
Renewal License Fee	2,500	2,500
Transfers In		250,000
Private Grant		400
<b>Total Revenues and Other Sources</b>	<b><u>\$4,681,946</u></b>	<b><u>\$4,575,733</u></b>
<b><u>Expenditures:</u></b>		
Grants, Benefits, and Claims	\$19,812,629	\$16,285,981
Salaries and Benefits	2,126,330	2,114,179
Travel	130,217	160,463
Professional Development	119,160	151,051
IT Services	88,081	100,625
Operating Expenses	39,441	45,621
Fees, Services, and Repairs	29,366	29,841
Equipment	24,493	2,566
Supplies	18,333	55,242
Rentals and Leases	16,451	16,248
<b>Total Expenditures</b>	<b><u>\$22,404,501</u></b>	<b><u>\$18,961,817</u></b>

## Statement of Appropriations

For The Biennium Ended June 30, 2015

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 4,669,943		\$ 4,669,943	\$ 4,195,394	\$ 474,549
Accrued Leave Payments	96,477		96,477	45,115	51,362
Operating Expenses	1,253,339		1,253,339	755,477	497,862
Grants	31,063,698		31,063,698	30,695,212	368,486
Grants – Postsecondary	847,452		847,452	789,134	58,318
Adult Farm Management	749,802		749,802	699,802	50,000
Workforce Training	4,000,000		4,000,000	4,000,000	
<b>Totals</b>	<u>\$ 42,680,711</u>		<u>\$ 42,680,711</u>	<u>\$ 41,180,134</u>	<u>\$1,500,577</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 32,392,916		\$ 32,392,916	\$ 32,283,711	\$ 109,205
Other Funds	10,287,795		10,287,795	8,896,423	1,391,372
<b>Totals</b>	<u>\$ 42,680,711</u>		<u>\$ 42,680,711</u>	<u>\$ 41,180,134</u>	<u>\$ 1,500,577</u>

### Expenditures Without Appropriations Of Specific Amounts:

Statewide Conference Fund has a continuing appropriation in accordance with OMB Policy 211 (\$186,183 of expenditures for this biennium).

## ***Internal Control***

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In our audit for the biennium ended June 30, 2015, we identified the following areas of the Department of Career and Technical Education's internal control as being the highest risk:

### ***Internal Controls Subjected to Testing:***

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216) and, for programs receiving federal funds, the Code of Federal Regulation as set forth by the federal government (2 CFR 200.303).

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2015, we identified and tested Department of Career and Technical Education's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations and related transfers (2015 North Dakota Session Laws, chapter 19).
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Proper use of the Bank of North Dakota as depository for credit card revenue in accordance with NDCC 54-06-08.2.
- Proper authorization of the Department's funds.
- Compliance with fixed asset requirements including record-keeping and inventory.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

# *Operations*

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Our audit of the Department of Career and Technical Education included reviewing operations surrounding the STEM (Science, Technology, Engineering and Mathematics) Grant Program and the Program Enhancement Grant Program.

## **STEM Grant**

### Background

The purpose of the STEM Grant is to encourage business and industry partners to participate and contribute to STEM activities in K-12 education that innovates and integrates STEM methodologies into new or existing programming.

Our audit of the Department of Career and Technical Education's STEM Grant was designed and conducted to meet the following objectives:

- Were grants awarded using an adequate selection process?
- Are grantees required to submit status updates on their progress toward the established goal of the award?
- Do grant agreements include all important information, such as the necessary reports grantees must submit, conflict of interest, expected results, and any potential consequences?
- Are there established performance measures to identify whether funds received by grantees are being used to achieve objectives or require additional action due to noncompliance?
- Were the results of the grant reviewed to establish whether identified goals were achieved?

## **Program Enhancement Grant**

### Background

The Program Enhancement program provides funding for new programs or expanding/enhancing existing programs at the five 2-year colleges (Bismarck State College, Williston State College, Lake Region State College, State College of Science, and Dakota College) and new instructor training for teachers coming into the industry.

Our audit of the Department of Career and Technical Education's Program Enhancement Grant was designed and conducted to meet the following objectives:

- Were grants awarded using an adequate selection process?
- Are grantees required to submit status updates on their progress toward the established goal of the award?

- Do grant agreements include all important information, such as the necessary reports grantees must submit, conflict of interest, expected results, and any potential consequences?
- Are there established performance measures to identify whether funds received by grantees are being used to achieve objectives or require additional action due to noncompliance?
- Were the results of the grant reviewed to establish whether identified goals were achieved?

Our audit determined the objectives were met, except for an inconsequential matter that we have reported to the management of the Department of Career and Technical Education in a management letter dated August 16, 2016.

## *Management Letter (Informal Recommendations)*

August 16, 2016

Mr. Wayne Kutzer, Director  
Department of Career and Technical Education  
600 E. Boulevard Avenue  
Bismarck, ND 58505

Dear Mr. Kutzer:

We have performed an audit of the Department of Career and Technical Education for the biennium ended June 30, 2015, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Career and Technical Education's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

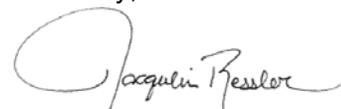
In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted a certain condition we did not consider reportable within the context of your audit report. This condition relates to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider the status.

Our informal recommendation is: We recommend the Department of Career and Technical Education develop a formal tracking process to ensure recommendations made during on-campus reviews are implemented in a timely manner.

Management of the Department of Career and Technical Education agreed with this recommendation.

I encourage you to call me or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Jacqueline Ressler  
Auditor in-charge

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