

Department of
Public Instruction
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2009

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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Transmittal Letter

December 17, 2009

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
The Honorable Dr. Wayne Sanstead, Superintendent, Department of Public Instruction

We are pleased to submit this audit of the Department of Public Instruction for the biennium ended June 30, 2009. 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 Delan Hellman. Kevin Scherbenske, CPA, and Aaron Petrowitz were the staff auditors. Cindi Pedersen, CPA, was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-4743. We wish to express our appreciation to Dr. Wayne Sanstead and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Department of Public Instruction (Department) is required to enforce all state statutes and federal regulations pertaining to the establishment and maintenance of public schools and related programs, and supervise the North Dakota School for the Deaf, Blind/Vision Services, and the State Library. The Department is to operate efficiently and effectively, expand the delivery options that increase educational opportunities for all North Dakota citizens, evaluate and communicate educational policy and vision to all North Dakota citizens, and serve as an advocate for adequate financial resources to support public education.

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 response 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 Public Instruction 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 unqualified opinion was issued.

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

Other than our finding addressing "Noncompliance With Procurement Laws" (page 19), the Department of Public Instruction was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

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?

Other than our work addressing "Grant Monitoring Procedures" (page 25) and "Purchase Card Usage" (page 27) there were no indications of lack of efficiency in financial operations and management of the Department of Public Instruction. We did note two additional potential safeguards to the operations of schools which the Department of Public Instruction oversees: "School Employee Background Checks" (page 22) and "School Emergency and Disaster Drills" (page 23).

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

The Department of Public Instruction has implemented all recommendations included in the prior audit report except for the area readdressed in the "Purchase Card Usage" finding (page 27).

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 30 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 Public Instruction'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, Human Resource Management System (HRMS), Foundation Aid Payment System, and Food and Nutrition Program are high-risk information technology systems critical to the Department of Public Instruction.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Department of Public Instruction for the biennium ended June 30, 2009 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Department of Public Instruction'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 Public Instruction and are they in compliance with these laws?
3. Are there areas of the Department of Public Instruction's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Department of Public Instruction is for the biennium ended June 30, 2009. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department of Public Instruction has operations in the following locations. Each location was included in the audit scope:

- The ND Vision Services/School for the Blind (Grand Forks)
- ND School for the Deaf (Devils Lake)
- ND State Library (Bismarck)

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.
- Reviewed prior year audit workpapers.
- 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. Nonstatistical 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.

- Reviewed the Department's biennial report.
- Interviewed appropriate agency personnel.
- Reviewed applicable chapters of North Dakota Century Code as well as the 2007 and 2009 Session Laws.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed the Department's processes and procedures.
- Tested the Foundation Aid Payment computer system that allocates the majority of the monies received by the schools.
- Tested the Food and Nutrition Program computer system.
- Documented the financial and programmatic procedures utilized by the Department over grant funds.
- Reviewed best practices relating to background checks for school personnel.
- Reviewed current laws and regulations in regards to emergency and disaster drills in schools.

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

The accompanying financial statements have been prepared to present the Department of Public Instruction'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 Public Instruction'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, 2009, operations of the Department of Public Instruction were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding.

Financial Summary

School for the Deaf, Vision Services\School for the Blind, and the State Library have been combined with the Department of Public Instruction for financial statement reporting purposes.

Revenues consisted primarily of federal funds, as well as transfers from the State Tuition and Common Schools Funds. Other revenues during the audited period include payments for processing of food commodities. Total revenues were \$160,212,879 for the year ended June 30, 2009 as compared to \$160,063,683 for the year ended June 30, 2008. The increase of \$149,196 in total revenue for the audited period was due to an increase in federal grant drawdown requests to reimburse North Dakota school districts for actual costs incurred under the various programs.

Total expenditures for the Department of Public Instruction were \$538,161,393 for the year ended June 30, 2009 as compared to \$511,386,016 for the prior year. The increase of \$26,775,377 in total expenditures for the audited period was mainly due to an increase in North Dakota school district requests for reimbursement of allowable federal program expenditures and an increase in state school aid for the second year of the biennium.

Analysis of Significant Variances Between Final Budgeted and Actual Expenditures

The Department had two significant variances between the final budgeted and actual amounts for the biennium ended June 30, 2009.

The unexpended appropriation authority in the Operating Expense line item was mainly due to a reduction in anticipated federal program administrative funds.

In the Grants – Other Grants line item, the unexpended appropriation authority was primarily due to the additional appropriation approved in order to allow school districts to begin spending federal stimulus funds available to the state under the American Recovery and Reinvestment Act of 2009.

The school districts did not spend the federal stimulus funds or other available federal grant funds at the rate the Department had anticipated.

Major Agency Accomplishments/Initiatives

Department of Public Instruction

- The department implemented final, revised content standards for state science, state social studies, and state health and physical education standards, and established English language proficiency standards for all English language learners.
- The department established and implemented achievement standards in reading, mathematics, and science for the general state assessments.
- The department successfully integrated statewide collection of student data regarding Suspension, Expulsion, and Truancy and Gun Violations into the statewide “STARS” student data system.
- The department prepared and proposed statewide growth model accountability reporting as an alternative manner of determining school and school district progress for the purposes of reporting annual Adequate Yearly Progress.
- An online application was developed to be used by school districts to apply for federal stimulus grants.
- The department developed partnerships with family and community-based organizations to better address academic and non-academic barriers to student performance.
- The department extended use of a web-based special education management system to all public schools in the state.
- The department developed a recruitment video and a brochure regarding ND Careers in Special Education and Speech-Language Pathology.

School for the Deaf

- Development of a Strategic Plan for the NDSD Outreach Department.
- Updated Interactive Video Network (IVN) Equipment.
- Installation of an elevator to serve all three floors of the Smith Building.
- Food Service received Outstanding Rating from Child Nutrition.
- Met the No Child Left Behind (NCLB) requirement for teacher credentials.

Vision Services/School for the Blind (NDVS/SB)

- On-going development of short-term, center-based programming for students and adults to meet the needs for instruction in Braille, technology, mobility, vocational, daily living skills, and other special skills essential for independence.
- Implementation of a Special Education Course Code for grades 9-12 for instruction in the expanded core curriculum allowing students to accrue credit when attending programming at NDVS/SB.
- Innovative partnership with UND Counseling and Psychology Departments provides counseling, testing, and adjustment to blindness for individuals and their family members.
- Family Weekends held in Jamestown in 2008 and Fargo in 2009 (in conjunction with Dakota AER Conference). These yearly events aim to provide education and support for parents who have children with visual impairment.

- Passage of Senate Bill 1013 resulted in the addition of one FTE (Adult Rehabilitation Specialist) to provide direct service to adult clients in response to the much anticipated increase in demand.
- Celebrated ND Vision Services/School for the Blind centennial that included the completion of the centennial book "Recollections of 100 Years of Excellence, 1908-2008" and open house and All School Reunion September 11-12, 2008.

State Library

- Provided additional Online Library Resources (OLR) to all citizens of North Dakota, which allows access to thousands of online articles to any North Dakotan who has access to the Internet.
- Secured and distributed a 20% increase in funding for the State Aid to Public Libraries grant program.
- Acted as the interlibrary loan hub for libraries throughout North Dakota; facilitated 68,742 interlibrary loans with a 1-2 day turn-around time.
- Provided professional reference and information services: answered 8,311 subject requests; received or placed 20,379 telephone calls responding to requests for information; circulated 63,792 items from the agency collection; and provided 121,369 talking books to 2291 North Dakotans who are visually impaired or cannot hold a book.
- Cataloged the 600,000th item for the 58 libraries that staff provided professional cataloging services for in the Statewide Cataloging Development Department.
- Continued to provide library development services to libraries, librarians, and board members, including training and grant administration.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$120,726,720	\$120,273,778
Sales and Services	578,014	555,878
Rents	271,332	267,324
Intergovernmental Reimbursements	154,282	358,522
Other Revenue	106,094	147,041
Conference Registration Fees	104,913	79,131
Transfers In	38,271,524	38,382,009
Total Revenues and Other Sources	<u>\$160,212,879</u>	<u>\$160,063,683</u>
<u>Expenditures and Other Uses:</u>		
Grants	\$516,210,232	\$489,740,793
Salaries and Benefits	10,525,531	10,271,466
Major Operating Expenses		
Professional Services	7,131,799	7,102,827
Travel	662,890	648,924
Data Processing / Telecommunications	585,972	623,095
Operating Fees and Services	536,405	460,569
Supplies	485,255	422,334
Lease of Space / Utilities	313,312	289,074
Postage / Printing	280,938	256,245
IT Costs	161,567	144,609
Professional Development	153,389	124,649
Lease / Purchase Equipment Under \$5,000	138,133	482,087
Other Operating Expenditures	378,160	356,590
Transfers Out	597,810	462,754
Total Expenditures and Other Uses	<u>\$538,161,393</u>	<u>\$511,386,016</u>

Statement of Appropriations (DPI)

For The Biennium Ended June 30, 2009

Expenditures by Line Item:	Original Appropriation	Adjustments	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Benefits	\$ 11,415,534	\$ 399,341	\$ 11,814,875	\$ 10,631,985	\$ 1,182,891
Operating Expenses	19,738,294	1,033,160	20,771,454	15,922,169	4,849,285
Grants- Foundation Aid	726,165,879	10,528,820	736,694,699	736,438,152	256,548
Grants- Special Education	17,500,000	(4,361,721)	13,138,279	13,138,279	
Grants- Transportation	33,500,000		33,500,000	33,500,000	
Grants- Other Grants	227,701,806	93,898,667	321,600,473	224,352,504	97,247,969
Transportation Efficiency	30,000		30,000	5,000	25,000
National Board Certification	40,000		40,000	40,000	
Totals	<u>\$ 1,036,091,513</u>	<u>\$ 101,498,267</u>	<u>\$ 1,137,589,780</u>	<u>\$ 1,034,028,088</u>	<u>\$ 103,561,692</u>
Expenditures by Source:					
General Fund	\$ 710,423,275	\$ 11,215,021	\$ 721,638,296	\$ 721,612,441	\$ 25,855
Other Funds	<u>325,668,238</u>	<u>90,283,246</u>	<u>415,951,484</u>	<u>312,415,647</u>	<u>103,535,837</u>
Totals	<u>\$ 1,036,091,513</u>	<u>\$ 101,498,267</u>	<u>\$ 1,137,589,780</u>	<u>\$ 1,034,028,088</u>	<u>\$ 103,561,692</u>

Appropriation Adjustments:

The \$399,341 increase in spending authority for the Salaries and Benefits line item included: \$158,157 for market equity increases for classified state employees that was approved pursuant to Senate Bill 2189 from the 2007 Legislative Session; \$152,533 in Federal Stimulus Funds that was made available under the American Recovery and Reinvestment Act (ARRA) of 2009 and authorized within Section 4 of House Bill 1013 of the 2009 Legislative Session for the period beginning May 19, 2009; \$88,651 to accept additional federal funds for the Head Start Program that was approved by the Emergency Commission.

The \$1,033,160 increase in spending authority for the Operating Expenses line item included: \$525,800 to accept additional federal funds for the development of a software program that was approved by the Emergency Commission; \$313,545 to accept additional federal funds for the Head Start Program that was approved by the Emergency Commission; \$193,815 in Federal Stimulus Funds that was made available under the American Recovery and Reinvestment Act (ARRA) of 2009 and authorized within Section 4 of House Bill 1013 of the 2009 Legislative Session for the period beginning May 19, 2009.

The \$10,528,820 increase in spending authority for the Grants – Foundation Aid line item included: \$4,361,721 transfer from the Grants – Special Education line item for unobligated special education funding pursuant to House Bill 1400 Section 58 from the 2009 Legislative Session that was effective as of May 19, 2009; \$6,167,099 for unobligated foundation aid funding from the 2005-07 biennium pursuant to Senate Bill 2013 Section 28 from the 2007 Legislative Session.

The \$4,361,721 decrease in spending authority for the Grants – Special Education line item was due to a transfer to the Grants – Foundation Aid line item for unobligated special education funding pursuant to House Bill 1400 Section 58 from the 2009 Legislative Session that was effective as of May 19, 2009.

The \$93,898,667 increase in spending authority for the Grants – Other Grants line item included: \$67,379,051 in Federal Stimulus Funds that was made available under the American Recovery and Reinvestment Act (ARRA) of 2009 and authorized within Section 3 of House Bill 1013 of the 2009 Legislative Session for the period beginning May 19, 2009; 20,000,000 to accept additional special funds derived from federal funds for grants pursuant to House Bill 1013 Section 8 from the 2009 Legislative Session that was effective as of May 19, 2009; \$5,000,000 for deferred maintenance and physical plant improvement grants pursuant to Senate Bill 2200 Section 50 from the 2007 Legislative Session; \$1,519,616 to accept additional federal funds for the Head Start Program that was approved by the Emergency Commission.

Expenditures Without Appropriations Of Specific Amounts:

Revolving Printing Fund has a continuing appropriation authorized by NDCC section 15.1-03-03 (\$22,223 of expenditures for this biennium).

Conference Fund is non-appropriated per OMB Policy 211 (\$175,386 of expenditures for this biennium).

Statement of Appropriations (State Library)

For The Biennium Ended June 30, 2009

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 2,628,494	\$ 117,746	\$ 2,746,240	\$ 2,697,334	\$ 48,906
Operating Expenses	1,477,772		1,477,772	1,373,440	104,332
Grants	1,752,500		1,752,500	1,607,853	144,647
Totals	<u>\$ 5,858,766</u>	<u>\$ 117,746</u>	<u>\$ 5,976,512</u>	<u>\$ 5,678,626</u>	<u>\$ 297,886</u>
Expenditures by Source:					
General Fund	\$ 3,977,513	\$ 100,674	\$ 4,078,187	\$ 4,077,730	\$ 457
Other Funds	1,881,253	17,072	1,898,325	1,600,897	297,428
Totals	<u>\$ 5,858,766</u>	<u>\$ 117,746</u>	<u>\$ 5,976,512</u>	<u>\$ 5,678,626</u>	<u>\$ 297,886</u>

Appropriation Adjustments:

The \$117,746 increase in the Salaries and Benefits line item was for market equity increases for classified state employees. The appropriated funds were approved by the 60th legislative assembly within Senate Bill 2189.

Expenditures Without Appropriations Of Specific Amounts:

Conference Fund is non-appropriated per OMB Policy 211 (\$7,468 of expenditures for this biennium).

Statement of Appropriations (School for the Deaf)

For The Biennium Ended June 30, 2009

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 4,765,173	\$ (102,300)	\$ 4,662,873	\$ 4,620,780	\$ 42,093
Operating Expenses	1,514,283		1,514,283	1,289,709	224,574
Capital Assets	150,000	140,500	290,500	57,613	232,887
Construction Carryover		179,000	179,000	179,000	
Totals	<u>\$ 6,429,456</u>	<u>\$ 217,200</u>	<u>\$ 6,646,656</u>	<u>\$ 6,147,101</u>	<u>\$ 499,555</u>
Expenditures by Source:					
General Fund	\$ 5,390,438	\$ 154,717	\$ 5,545,155	\$ 5,279,936	\$ 265,219
Other Funds	1,039,018	62,483	1,101,501	867,165	234,336
Totals	<u>\$ 6,429,456</u>	<u>\$ 217,200</u>	<u>\$ 6,646,656</u>	<u>\$ 6,147,101</u>	<u>\$ 499,555</u>

Appropriation Adjustments:

The \$102,300 decrease in spending authority for the Salaries and Benefits line item included: \$38,200 for market equity increases for classified state employees that was approved pursuant to Senate Bill 2189 from the 2007 Legislative Session; \$115,000 transfer to the Capital Assets line item that was made pursuant to Senate Bill 2013 Section 11 from the 2007 Legislative Session for increased instructional costs and extraordinary repair needs; \$25,500 transfer to the Capital Assets line item that was approved by the Emergency Commission to purchase audiology equipment and architect fees pertaining to the installation of an elevator.

The \$140,500 increase in spending authority for the Capital Assets line item included: \$115,000 transfer from the Salaries and Benefits line item that was made pursuant to Senate Bill 2013 Section 11 from the 2007 Legislative Session for increased instructional costs and extraordinary repair needs; \$25,500 transfer from the Salaries and Benefits line item that was approved by the Emergency Commission to purchase audiology equipment and architect fees pertaining to the installation of an elevator.

The increase in the Capital Construction Carryover line by \$179,000 was authorized by section 54-44.1-11 of the North Dakota Century Code that allows for unexpended capital construction budgets to be carried forward to the next biennium. The adjustment was properly approved by the Carryover Committee.

Expenditures Without Appropriations Of Specific Amounts:

Conference Fund is non-appropriated per OMB Policy 211 (\$3,775 of expenditures for this biennium).

Statement of Appropriations (Blind/Vision Services)

For The Biennium Ended June 30, 2009

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 2,978,895	\$ 13,636	\$ 2,992,531	\$ 2,840,719	\$ 151,812
Operating Expenses	640,798		640,798	572,543	68,255
Capital Improvements	142,100		142,100	133,126	8,974
Totals	<u>\$ 3,761,793</u>	<u>\$ 13,636</u>	<u>\$ 3,775,429</u>	<u>\$ 3,546,388</u>	<u>\$ 229,041</u>
Expenditures by Source:					
General Fund	\$ 2,917,936	\$ 9,532	\$ 2,927,468	\$ 2,927,033	\$ 435
Other Funds	843,857	4,104	847,961	619,356	228,605
Totals	<u>\$ 3,761,793</u>	<u>\$ 13,636</u>	<u>\$ 3,775,429</u>	<u>\$ 3,546,388</u>	<u>\$ 229,041</u>

Appropriation Adjustments:

The \$13,636 increase in the Salaries and Benefits line item was for market equity increases for classified state employees. The appropriated funds were approved by the 60th legislative assembly within Senate Bill 2189.

Expenditures Without Appropriations Of Specific Amounts:

Visual Aids and Appliances Fund has a continuing appropriation authorized by NDCC section 25-06-10 (\$12,877 of expenditures for this biennium).

Federal Quota is an annual credit at the American Printing House for the Blind that the agency can use to purchase educational materials for the legally blind (\$118,938 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2009, we identified the following areas of the Department of Public Instruction'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 effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the computer-based Food and Nutrition Program.
- Controls surrounding the Foundation Aid Payment System.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

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. However, we noted other matters involving internal control that we have reported to management of the Department of Public Instruction in a management letter dated December 17, 2009.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2009, we identified and tested Department of Public Instruction's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- Adherence to payment restrictions for the distributions of special education aid (Senate Bill 2013, section 8 of the 2007 Legislative Session) and aid to public libraries (Senate Bill 2013, section 10 of the 2007 Legislative Session).
- The use of the Blind/Vision Services Operating Fund for statutory purposes (Senate Bill 2013, section 12 of the 2007 Legislative Session).
- Proper reporting to the sixty-first legislative assembly on the status of a possible collaboration with Lake Region State College on the college's wind energy project (Senate Bill 2013, section 15 of the 2007 Legislative Session).
- Proper reporting to an interim committee of any schools which had a two-third's vote of the school board to not use at least 70% of all new money received by the district for per student payments to increase the compensation paid to teachers (Senate Bill 2013, section 19 of the 2007 Legislative Session).
- Proper purchase and distribution of automated external defibrillators to school districts for placement in schools or at the site of school-related activities (Senate Bill 2313, section 1 of the 2007 Legislative Session).
- Proper reporting to legislative council regarding the planning and development of the electronic course delivery approval process (House Bill 1491, section 2 of the 2007 Legislative Session).
- Tracking mechanism in place to ensure complete collection of the school district employee compensation reports (NDCC section 15.1-02-13).
- Proper instruction provided by elementary and middle schools for 4th and 8th grade students in Social Studies – Geography and ND Studies (NDCC section 15.1-21-01).
- Establishment by high schools of making available a ½ unit of ND Studies to students every two years (NDCC section 15.1-21-02).
- Proper reporting to an interim legislative committee on or before 7/1/08 of the results of the comprehensive status and trends report survey of the state's young people regarding drug usage (NDCC section 19-03.1-44).
- Proper preparation of the biennial report for the State Library (NDCC section 54-24-03).
- Proper calculation of grants awarded to public libraries based on the formula cited in statute (NDCC section 54-24.2-02 and NDCC section 54-24.2-03).
- Compliance with the maintenance of local effort on grant awards to public libraries (NDCC section 54-24.2-02.2).
- Compliance with limitations on grant awards to public libraries (NDCC section 54-24.2-05).
- Proper withholding or distribution of public library state aid dollars during the 2007-09 biennium based on the amount distributed during the 2005-07 biennium (NDCC section 54-24.2-07).

- Proper use of the following legally restricted funds:
 - Visual Aids and Appliances Fund.
 - Displaced Homemakers Fund.
 - Revolving Printing Fund.
- Application of proper statutory rates relating to revenue.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2007 North Dakota Session Laws chapter 40).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts, petty cash funds, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*. The finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of the Department of Public Instruction in a management letter dated December 17, 2009.

Noncompliance With Procurement Laws (Finding 09-1)

The Department of Public Instruction, School for the Deaf, and State Library do not have controls in place to properly ensure procurement procedures are performed in accordance with North Dakota Administrative Code (NDAC) Chapter 4-12, and North Dakota State Procurement Office Guidelines.

Several instances were noted where the Department of Public Instruction, School for the Deaf, and State Library did not follow proper state procurement procedures or did not provide the necessary documentation for purchases made during the audit period.

- Chapter 6.1 of the North Dakota State Procurement Manual states that the agency must solicit no fewer than three vendors, insofar as practical, to submit oral or written informal bids or proposals for purchases from \$2,500.01 to \$25,000. If three bids or proposals are not received, written justification must be provided. Two instances were noted at the Department of Public Instruction, one instance was noted at School for the Deaf, and one instance was noted at State Library where items over \$2,500 were purchased and less than three bids were received without written justification.
- Chapter 9.9 of the North Dakota State Procurement Manual states that each procurement transaction must be adequately documented for audit and public record purposes. One instance was noted at the Department of Public Instruction where items, valued at \$5,032, were purchased and there was no support documentation on file to show that procurement guidelines were followed for the transaction.
- Chapter 4 of the Office of Management and Budget's (OMB) Guidelines for State Procurement of Printing Manual states that agencies must submit a Purchase Request to the OMB State Procurement Office for any printing over \$2,500. One instance was noted at the Department of Public Instruction where \$2,758 of printing costs were paid and the purchase was not submitted to the OMB State Procurement Office.
- NDAC Section 4-12-08-04, subsection 9 states that offerors must be accorded fair and equal treatment with respect to any opportunity for discussion and revision of proposals, and revisions may be permitted after submissions and prior to award for the purpose of obtaining best and final offers. One instance was noted where the Department of Public Instruction did not provide to all vendors the Request for Best and Final offer when it was issued.
- NDAC Section 4-12-08-04, subsection 10 states that after proposals have been evaluated and the successful vendor selected, notice of intent to award must be promptly issued to all offerors that submitted proposals. One instance was noted where the Department of Public Instruction did not issue a notice of intent to award letter to all vendors.
- NDAC Section 4-12-08-08, subsection 3 states that during the competitive bidding process, if a potential bidder has a question or request for clarification that contains information that is material to the solicitation process that cannot be answered by directing the potential bidder to a specific section within the solicitation document, the procurement officer will prepare a written response that must be distributed to all potential bidders. One instance was noted at the Department of Public Instruction where a response to a bidder's question was given verbally instead of in writing and was not provided to all of the remaining bidders.

Recommendation:

We recommend the Department of Public Instruction, School for the Deaf, and State Library ensure procurement procedures are performed in accordance with North Dakota Administrative Code Chapter 4-12, and North Dakota State Procurement Office Guidelines.

Department of Public Instruction Response:

The Department of Public Instruction, School for the Deaf, and State Library agree with the recommendation and will make every effort to ensure procurement procedures are performed in accordance with Administrative Code and State Procurement Office guidelines.

Operations

Our audit of the Department of Public Instruction identified the following areas of potential improvements to operations:

School Employee Background Checks (Finding 09-2)

Objective:

Is the Department of Public Instruction ensuring that North Dakota school districts are doing all they can in the area of school employee background checks to adequately protect our students?

Criteria:

The criteria used for this operational improvement was North Dakota Century Code (NDCC) 15.1-13-14 - which requires the Education Standards and Practices Board to perform a background check for each initial teacher license request; NDCC 12-60-24 subsection 2(x)(y) – which authorizes the Bureau of Criminal Investigation to provide background checks of other school employees as requested by the governing board (or the superintendent of public instruction for a nonpublic school); and North Dakota Administrative Code 67.1-02-02-02 section 8 – which lists the criteria for existing background check requirements for school personnel in the state of North Dakota.

Challenge:

During our review of school employee background checks, the following information was determined:

- School teachers in the state receive a background check during their initial license application by the Education Standards and Practices Board. No further background checks are required once the teachers are initially licensed. Since background checks are not periodically required after the initial check, it is possible that a school would be unaware of a current teacher committing a crime which would normally be cause for school disciplinary action or dismissal against the teacher.
- There is no state law requiring background checks for other school employees (including bus drivers, cooks, coaches, etc.). School districts, however, do have the authority to request background checks through the Bureau of Criminal Investigation for other school employees in their district. As these requests are based on various school district policies, we were unable to determine if there is any consistency in how this law is being implemented. This could result in school districts having different policies to cover background checks for non-teacher employees. Also, some school districts may have chosen to not perform background checks on other school employees which could result in hiring individuals with criminal backgrounds to work in close proximity to children.

Operational Improvement:

We recommend the Department of Public Instruction:

- Perform a study of North Dakota school districts to determine the extent they are performing background checks on non-teaching employees and volunteers.
- Review other states' policies regarding background check policies for teachers and non-teaching employees/volunteers and determine if additional guidance is necessary for North Dakota school districts.

Department of Public Instruction Response:

The Department of Public Instruction agrees with the recommendation. North Dakota school districts will be surveyed to determine the extent to which they are performing background checks on non-teaching employees and volunteers. Other states' policies regarding such background checks will be reviewed to determine if additional guidance is necessary for North Dakota school districts.

School Emergency and Disaster Drills (Finding 09-3)**Objective:**

Is the Department of Public Instruction following current laws/regulations in regards to emergency and disaster drills in schools?

Criteria:

The criteria used for this operational improvement was North Dakota Century Code (NDCC) section 15.1-06-12 – Emergency and Disaster Drills and the National Fire Protection Association Life Safety Code 11-7-1 - Drills.

Challenge:

State law does not specify how many of each type of school emergency or disaster drill that needs to be completed by schools in the state. In addition, the law does not list any penalties for not completing the necessary school drills. As a result, it appears no one is tracking or reviewing the results of any non-fire emergency drills performed by schools.

NDCC 15.1-06-12 states that each school district superintendent shall implement fire, tornado, and other emergency or disaster drills. To determine if the Department of Public Instruction is following NDCC the following information was gathered:

- Fire drills: The Bismarck Regional Fire Marshal stated that the Fire Marshal's office is required to review school fire safety issues every 3 years, but currently have them on a two-year rotation. Large cities that have their own fire inspection programs cover these reviews in their city and then send a report to the State Fire Marshal. The six Regional Fire Marshals in the state do the reviews in the remaining cities without a local fire inspection program. Schools must provide documentation regarding the day the drills were held, the number of students/staff involved in the drill, the weather conditions, and the time to evacuate. For their inspections, the State Fire Marshal's office uses criteria from the National Fire Protection Association – Life Safety Code (11-7-1, Drills) which suggests at least one fire drill per month shall be conducted. Any deviation from this criteria is considered a deficiency which is reported to the superintendent of the school, the ND Insurance Department, and the Department of Public Instruction.

- Tornado and other emergency or disaster drills: No monitoring is done for the tornado and other emergency/disaster drill requirements. The Bismarck Regional Fire Marshal noted some schools record this information with their fire drill information and others do not. The State Fire Marshal is only interested in fire drills. If they see no documentation of tornado drills or other emergency drills, they would not make any comment on this lack of documentation. Therefore, nothing is reported to the superintendent of the school, the ND Insurance Department, or the Department of Public Instruction for these other drills.

The Fire Marshal's guidance is based on best practices, not current law, so as long as the schools have 'implemented' fire drills they would be in compliance with the NDCC. Also, as it appears no one is monitoring tornado or other disaster drills, there is no way to determine if schools are in compliance with the requirements.

Operational Improvement:

We recommend that the Department of Public Instruction:

- Clarify NDCC 15.1-06-12 to specify exactly how many of the various types of drills are considered sufficient. This could be done in Administrative Rules if necessary. This clarification should consider input from the State Fire Marshal's office on the required number of fire drills.

- Require annual reporting by schools of the drill information to ensure compliance with the law.

- Consider including consequences for schools not following the law. If possible, the required report could be included in the necessary reporting requirements needed by the Department of Public Instruction before foundation aid payments are made.

Department of Public Instruction Response:

The Department of Public Instruction agrees with the recommendation. North Dakota school districts will be surveyed to determine how many of the various types of drills are currently being conducted. The State Fire Marshal's office has agreed to assist in the review of the survey results. The components of the recommendation will be addressed once the survey results have been reviewed.

Grant Monitoring Procedures (Finding 09-4)

Objective:

Is the Department of Public Instruction following best practices as it relates to the administration and monitoring of grants?

Criteria:

The criteria used for this operational improvement were best practices selected from five publications. The first is entitled *Guide to Opportunities for Improving Grant Accountability* (October, 2005) published through the Grant Accountability Project of the Domestic Working Group. This group, chaired by the Comptroller General of the United States, consists of 19 federal, state, and local audit organizations. The second is entitled *Best Practice Guide for the Administration of Grants* (February, 2005), 3rd edition, published by the Department of Treasury and Finance. The third is entitled *Best Practices in Carrying out State Economic Development Efforts* (2004) published by the National State Auditors Association. The fourth is a written report from the State Administrative Standards review of the North Dakota Commission on National and Community Service (March, 2004) published by the State Administrative Standards, a Corporation for National and Community Service. The fifth is entitled *Guide on Grants, Contributions, and Other Transfer Payments* (October, 2000) published by the Treasury Board of Canada Secretariat. The purpose of these best practice studies is to focus attention on the importance of grant accountability and provide sufficient best practice for establishing guidelines that will result in efficient, effective, and accountable grant administration and performance monitoring.

Overview:

We completed a risk analysis of all of the grant programs at the Department of Public Instruction and selected two grant programs that were in the highest risk category. These two grant programs were reviewed and evaluated in the following areas:

1. Internal control systems including the application review process, pre-award process, work plans, program guidance, and performance measures.
2. Management of grant performance including the financial status, outputs/outcomes, site visits, communication, and follow-up.

Of the two programs selected, we found that the Deferred Maintenance and Physical Plant Improvement state grant program appears to be properly managed and monitored and the disbursement of moneys is effective.

For the remaining program, Title IID federal grant, we noted areas that could be improved.

The Title IID grant has the primary goal of improving student academic achievement through the use of technology in elementary and secondary schools. It is designed to assist every student in becoming technologically literate by the end of the eighth grade. It is made up of two types of grants with the following types of monitoring procedures:

1. Formula Grants – monitored through desk reviews that are done on a five year rotational basis. The staff of the Department of Public Instruction (DPI) financial office does the fiscal portion of the review where invoices are selected and support is reviewed. There is also a checklist which has questions for each of the Title programs being reviewed which is to be completed by the applicable program manager. The program manager then signs off on the review. During testing, one instance was noted where the Department of Public Instruction could not locate the review file for a school selected for testing. Additionally, one instance was noted where the financial portion of the review was completed for the school but the checklist was incomplete and the review was not signed off on by the applicable program manager.
2. Competitive Grants – monitored by EduTech, a division of the Information Technology Department which does an initial first year assessment of the program and then programmatic monitoring throughout the life of the grant. There is no financial review that is done by any DPI employees. The program manager stated that she was going to start this in the upcoming year. No site visits to monitor the program are being done.

Based on our review of the Title IID grant, we recommend the following:

Operational Improvement:

We recommend the Department of Public Instruction strengthen monitoring procedures surrounding the Title IID grant program including:

- Ensure support for the desk reviews is maintained.
- Ensure all desk reviews are reviewed by the applicable program managers.
- Establish procedures to include site visits and financial reviews of the competitive grants.

Department of Public Instruction Response:

The Department of Public Instruction agrees with the recommendation and has strengthened Title II D grant program monitoring procedures. The fiscal portion of the formula grant desk reviews was completed for all schools selected for testing. Due to staffing vacancies, the desk reviews for the program portion of the formula grants and the financial portion of the competitive grants were not completed.

Purchase Card Usage (Finding 09-5)

Objective:

Did the Department of Public Instruction, State Library, School for the Deaf, and Vision Services/School for the Blind adequately utilize the P-card program so as to maximize the amount of applicable purchases made on the P-card versus making payment through the Accounts Payable (AP) module?

Criteria:

The criteria used for this operational improvement was:

- NDCC §44-08-05.1 ~ gives the Office of Management and Budget (OMB) the authority to designate state agencies that are required to use the purchasing card system.
- OMB Policy #300 ~ authorizes the use of a P-card for individual transactions.
- OMB Purchasing Card manual ~ denotes some of the benefits of using the P-card to include: 1) reducing administrative costs for the state; 2) reducing the amount of paperwork; and 3) reducing the number of checks issued... among others.
- Government Finance Officers Association (GFOA) Recommended Best Practice ~ use of purchasing cards improves the efficiency of purchasing procedures and reduces overall purchase processing costs.
- National Association of Purchasing Card Professionals ~ estimates that P-cards can save anywhere from 55% to 90% off the cost of a payment transaction.
- RPMG Research Corp. ~ 2003 Purchasing Card Benchmarking Study demonstrated that P-cards reduce the procurement cycle time by 74%.
- RPMG Research Corp. ~ 2005 Purchasing Card Benchmarking Study highlighted the cost savings of using a P-card ranges from \$23 (normal purchase process) up to \$67 (making a purchase via a purchase order) per transaction.

Challenge:

The Department of Public Instruction, State Library, School for the Deaf, and Vision Services/School for the Blind have implemented the use of purchase cards (P-cards) for use in the procurement of small dollar purchases. However, the agencies are not utilizing the P-card to the extent possible. Based on an analysis of expenditures that could have been paid with a P-card we noted:

- The Department of Public Instruction only made 27% of those payments with the P-card.
- The State Library only made 2% of those payments with the P-card.
- The School for the Deaf only made 21% of those payments with the P-card.
- The Vision Services/School for the Blind only made 22% of those payments with the P-card.

Several national studies have noted that the benefits of making payments with a P-card instead of through the AP system include: lower overall transaction cost per purchase, rebate revenue to the state's general fund through the program contract, reduced paperwork, and a reduction in the number of invoices processed on the AP system allowing the agency to focus on other value added activities. Based on the above-noted benefits of using the P-card including the opportunity to reduce the state's overall procurement costs plus increase the state's revenues through the rebate program without substantial effort or investment on the part of state agencies, we conclude the department should be doing more to maximize the use of P-cards instead of paying invoices through the AP system.

Operational Improvement:

We recommend that the Department of Public Instruction, State Library, School for the Deaf, and Vision Services/School for the Blind look for ways to increase their usage of the P-card as a form of payment. We further recommend, if necessary, they meet with officials from the Office of Management and Budget (OMB) to facilitate this process by determining which of their vendors they could be making P-card payments to.

Department of Public Instruction Response:

The Department of Public Instruction, State Library, School for the Deaf, and Vision Services/School for the Blind agree with the recommendation and will continue to look for opportunities to increase the P-card usage. The Department of Public Instruction met with the Office of Management and Budget to discuss appropriate P-card transactions, account reconciliation, and transaction queries.

Prior Recommendations Not Implemented

Prior recommendations have been implemented with the exception of the following:

Purchase Card Usage (Finding 07-2)

Recommendation:

We recommend that the Department of Public Instruction, State Library, School for the Deaf, and Blind/Vision Services utilize the P-card program by using purchasing cards whenever possible, following the guidelines contained in OMB Policy 300 – Purchasing Card and the Purchasing Card Users Manual issued by the Office of Management and Budget.

Status:

Not Implemented – Recommendation re-addressed at page 27.



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Management Letter (Informal Recommendations)

December 17, 2009

Dr. Wayne Sanstead, Superintendent
Department of Public Instruction
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Dr. Sanstead:

We have performed an audit of the Department of Public Instruction for the biennium ended June 30, 2009, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Public Instruction'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 certain conditions we did not consider reportable within the context of your audit report. These conditions relate 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 recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

CASH

Informal Recommendation 09-1: We recommend the School for the Deaf:

- Have someone update accounts receivable records that does not have access to cash.
- Have someone without access to cash perform a reconciliation of deposits to receipts after the deposit is posted to PeopleSoft.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 09-2: We recommend that the Department of Public Instruction:

- Have all P-card holders reconcile their own individual P-card statements to receipts and sign the statement indicating the charges are proper.
- Implement controls to ensure all P-card statements are reconciled to itemized receipts by someone independent of the cardholder.
- Ensure all P-card holders are aware of the tax exempt status of P-card purchases and avoid paying sales tax in the future.

Informal Recommendation 09-3: We recommend the School for the Deaf have an individual that is independent of preparation, review and approve the correcting entries processed in the General Ledger after they have been posted to PeopleSoft.

PAYROLL

Informal Recommendation 09-4: We recommend the School for the Deaf have someone without PeopleSoft payroll access receive HRMS/Payroll (job data) forms from OMB, reconcile the new forms to the originating form, and run the one-time payment query for approval by an appropriate individual.

LEGISLATIVE INTENT

Informal Recommendation 09-5: We recommend the State Library comply with NDCC 54-24-03(7) by:

- Including statistical data outlined in NDCC in its biennial report, or
- Suggest legislation to change the law to say that the State Library shall make a separate statistical report and a biennial report as is currently being done.

Informal Recommendation 09-6: We recommend the State Library follow disbursement limits to public libraries as outlined in the Legislative session laws.

Informal Recommendation 09-7: We recommend the State Library comply with Section 44-08-04 of NDCC regarding reimbursement of in state lodging.

Informal Recommendation 09-8: We recommend the North Dakota Vision Services/School for the Blind increase their blanket bond coverage in accordance with North Dakota Insurance Department guidelines.

GENERAL

Informal Recommendation 09-9: We recommend the Department of Public Instruction restrict access privileges to computer applications to only necessary individuals.

Informal Recommendation 09-10: We recommend the Department of Public Instruction ensure that their fraud risk assessment is designed to encompass the entire agency including School for the Deaf, North Dakota Vision Services/School for the Blind, and State Library.

Informal Recommendation 09-11: We recommend the Department of Public Instruction ensure:

- All the key elements are addressed in its code of ethics or code of business conduct policy.
- Accounting/financial employees with oversight roles annually acknowledge their receipt and reading of the code of ethics or code of business conduct policy.

Informal Recommendation 09-12: We recommend the School for the Deaf establish policies and procedures for proper NDGOV account management and that responsibility for annually reviewing security access roles be assigned to an appropriate individual.

Management of the Department of Public Instruction agreed with these recommendations.

I encourage you to call myself or Cindi Pedersen, audit supervisor, at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in cursive script that reads "Delan Hellman".

Delan Hellman
Auditor in-charge

You may obtain audit reports on the internet at:

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