

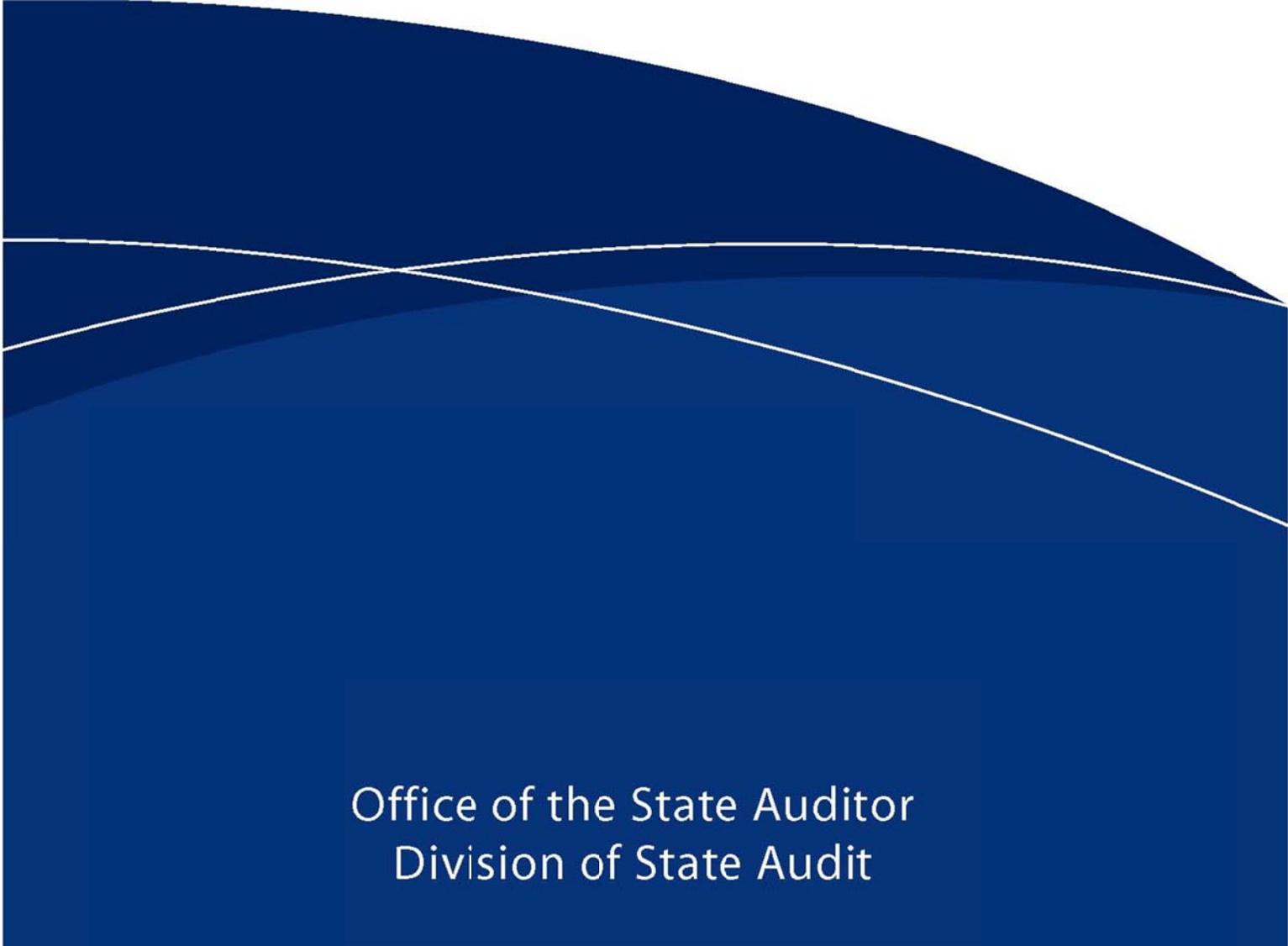


Department of Career and
Technical Education
BISMARCK, NORTH DAKOTA

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

June 9, 2010

The Honorable John Hoeven, 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, 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 Angela Klubberud. Kristi Morlock was the staff auditor. Fred Ehrhardt, CPA was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor (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 cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The 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 for 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 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 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 unqualified 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?

The Department of Career and Technical Education has implemented the recommendation 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

Audit Objectives

The objectives of this audit of the Department of Career and Technical Education 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 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, 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 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.

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 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, 2009, 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, as well as conference registration fees for the annual North Dakota Professional Development Conference held during the first week in August each year and annual license renewal fees from private postsecondary institutions. These all remained fairly constant for the Department of Career and Technical Education, decreasing only slightly. Total revenues were \$4,601,715 for the year ended June 30, 2009 as compared to \$4,898,020 for the year ended June 30, 2008. A majority of intergovernmental revenue received is reimbursement from the federal government, in the amounts of \$4,633,818 for the year ended June 30, 2008 and \$4,472,746 for the year ended June 30, 2009. The decrease in funds were the result of federal Incentive grants that ended in fiscal year 2008.

Total expenditures for the Department of Career and Technical Education were \$16,374,712 for the year ended June 30, 2009 as compared to \$14,929,197 for the prior year. The increase in total expenditures for the audited period reflects primarily the establishment of new virtual area centers along with a smaller amount of Career and Technical Education grants and other grants (which also account for 86% of total expenditures in both years). All other expenditures remained fairly constant.

There was \$1,058,893 of unexpended appropriation in the grants line item for the biennium ended June 30, 2009. This was due to potential anticipated federal grants that did not materialize.

ACCOMPLISHMENTS

Virtual Area Career and Technology Centers

The Department of Career and Technical Education established three new secondary area career and technology centers in the 2008-2009 school year. These area centers will focus on virtual delivery of Career and Technical Education programming to students in outlining districts.

These will be the first area centers that have been approved and funded since 1974, which brings the total number of area centers in the state to eight. The new centers are the Roughrider ACTC (Southwest), North Central ACTC (North Central), and Missouri River ACTC (South Central) which are located in parts of the state where access to quality Career and Technical Education programs has been limited.

Career and Technical Education courses delivered through ITV and online

The Department of Career and Technical Education, through incentives to schools, has expanded the number of secondary CTE courses available to students in the state. There were 39 schools receiving 20 different CTE courses through ITV and another 8 schools receiving 3 different CTE courses online. In each of these schools it made CTE courses available that would not have been possible without incentive funding to schools so that they would put courses online or on ITV.

Math in Career and Technical Education

The Department participated in a national study which focused on increasing the math skills in CTE students. The study used a professional development process with CTE and math teacher teams to more fully develop math already embedded in CTE courses. Using a scientifically based approach the study demonstrated that students could increase their math scores on standardized tests by five to ten percent without reducing the CTE content. We have continued that model of professional development with additional training.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<u>Revenues and Other Sources:</u>		
Revenue from Federal Government	\$4,472,746	\$4,633,818
Conference Registration Fees	77,584	84,788
Contributions and Private Grants	13,916	11,735
Miscellaneous Revenue	6,250	8,864
Transfers In	31,219	158,815
Total Revenues and Other Sources	<u>\$4,601,715</u>	<u>\$4,898,020</u>
<u>Expenditures:</u>		
Grants	\$14,251,519	\$12,816,188
Salaries and Benefits	1,686,238	1,590,675
Professional Development	126,148	135,936
Travel	99,615	135,809
IT Services	52,316	51,364
Other Operating	36,275	39,170
Fees, Services, and Repairs	35,152	87,879
Supplies	33,165	33,708
Equipment	31,591	16,336
Rentals and Leases	22,693	22,132
Total Expenditures	<u>\$16,374,712</u>	<u>\$14,929,197</u>

Statement of Appropriations

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	\$ 3,575,692	\$ 19,404	\$ 3,595,096	\$ 3,272,855	\$ 322,240
Operating Expenses	986,606		986,606	720,476	266,130
Grants	24,370,116		24,370,116	23,311,223	1,058,893
Grants – Postsecondary	357,452		357,452	357,452	
Adult Farm Management	549,802		549,802	499,802	50,000
Workforce Training	3,000,000		3,000,000	3,000,000	
Totals	<u>\$ 32,839,668</u>	<u>\$ 19,404</u>	<u>\$ 32,859,072</u>	<u>\$ 31,161,808</u>	<u>\$ 1,697,263</u>
Expenditures by Source:					
General Fund	\$ 21,804,036	\$ 19,404	\$ 21,823,440	\$ 21,823,440	
Other Funds	11,035,632		11,035,632	9,338,368	\$ 1,697,263
Totals	<u>\$ 32,839,668</u>	<u>\$ 19,404</u>	<u>\$ 32,859,072</u>	<u>\$ 31,161,808</u>	<u>\$ 1,697,263</u>

Appropriation Adjustments:

The \$19,404 increase in the Salaries and Benefits line was authorized by Senate Bill 2189 of the 2007 Session laws for market equity increases.

Expenditures Without Appropriations Of Specific Amounts:

Statewide Conference Fund has a continuing appropriation in accordance with OMB Policy 211 (\$142,101 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 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 effecting the safeguarding of assets.
- 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 *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 Career and Technical Education in a management letter dated June 9, 2010.

Compliance With Legislative Intent

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

- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations (2007 North Dakota Session Laws chapter 19).
- \$1.2 million of grant funds for at least 2 new career and technology centers in areas of the state that are currently not served. (2007 North Dakota Session Laws House Bill 1019, Section 4)
- \$800,000 of grant funds to increase cost-share incentives for cooperative delivery efforts for CTE programs. (2007 North Dakota Session Laws House Bill 1019, Section 4)
- \$1.65 million for workforce training grants to institutions of higher education. (2007 North Dakota Session Laws House Bill 1019, Section 5)
- \$250,000 in grants funds to support the North Dakota elementary student entrepreneurship program. (2007 North Dakota Session Laws House Bill 1019, Section 12)
- Compliance with OMB's Purchasing Procedures Manual.
- 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).
- 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 require 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.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the Department of Career and Technical Education in a management letter dated June 9, 2010.

Operations

This audit did not identify areas of Department of Career and Technical Education's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Management Letter (Informal Recommendations)

June 9, 2010

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

Dear Mr. Wayne Kutzer:

We have performed an audit of the Department of Career and Technical Education 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 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 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.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 09-1: We recommend the Department of Career and Technical Education properly review transactions to ensure proper coding of expenditures.

Informal Recommendation 09-2: We recommend the Department of Career and Technical Education comply with the OMB Procurement Policies for purchases and have proper supporting documentation.

Management of the Department of Career and Technical Education agreed with these recommendations.

I encourage you to call myself 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,

A handwritten signature in cursive script, appearing to read "Angela Klubberud".

Angela Klubberud
Auditor in-charge

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www.nd.gov/auditor/

or by contacting the
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