

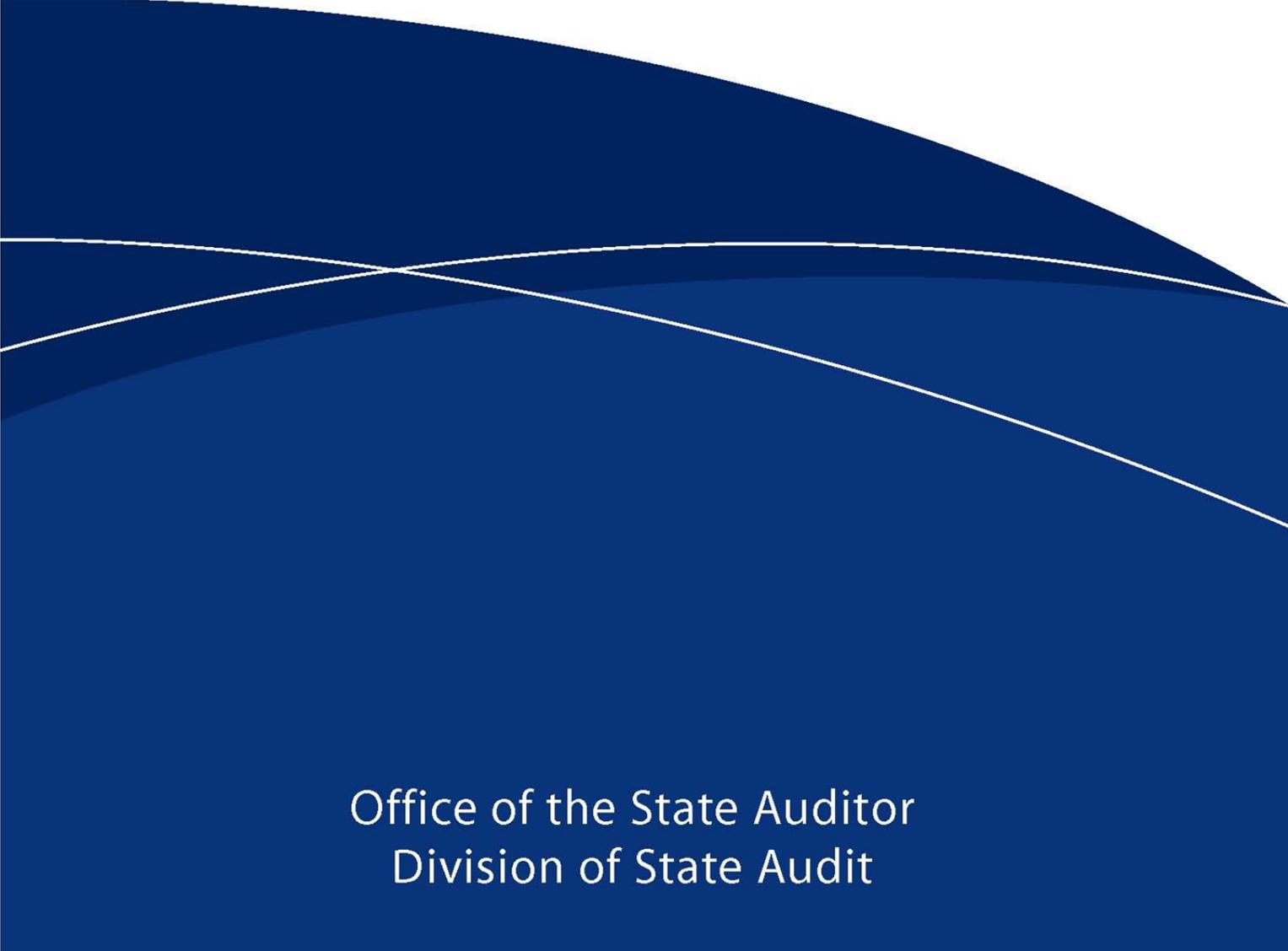
Department of Public
Instruction

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium ended June 30, 2011

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

December 20, 2011

The Honorable Jack Dalrymple, 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, 2011. 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. Kristi Morlock and Crystal Hoggarth were the staff auditors. Cindi Pederson, CPA, and Paul Welk, CPA, were the audit managers. Inquiries or comments relating to this audit may be directed to an audit manager by calling (701) 328-2241. 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 17), 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 "Title IID Grant Monitoring Procedures" (page 19); "Lack of Controls Surrounding the English Language Grant" (page 20); and "Lack of Controls Surrounding the State Personnel Development Grant" (page 21), there were no indications of lack of efficiency in financial operations and management of the Department of Public Instruction.

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 areas readdressed in the "Noncompliance with Procurement Laws" finding (page 17), and the "Title IID Grant Monitoring Procedures" finding (page 19).

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 24 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), the State Automated Reporting System including the Foundation Aid Payment System module, and the 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, 2011 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, 2011. 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:

- North Dakota Vision Services/School for the Blind (Grand Forks)
- North Dakota School for the Deaf (Devils Lake)
- North Dakota 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 developed a 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. 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.
- Reviewed applicable chapters of North Dakota Century Code as well as the 2009 and 2011 Session Laws.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed the Department's processes and procedures.
- Tested the State Automated Reporting System including the Foundation Aid Payment System module which 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 the future services plan and implementation at the School for the Deaf.

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

Discussion and Analysis

The accompanying financial statements have been prepared to present the Department of Public Instruction 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).

For the biennium ended June 30, 2011, operations of the Department of Public Instruction were primarily supported by appropriations from the state's general fund. This is supplemented by federal and special 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 reimbursements from other state agencies, payments for processing of food commodities, rent of building space, and conference registration fees. Total revenues were \$212,003,693 for the year ended June 30, 2011 as compared to \$279,451,265 for the year ended June 30, 2010. The decrease of \$67,447,572 in total revenue for fiscal year 2011 was mainly due to a decrease in Transfers In. During fiscal year 2010, the Department of Public Instruction was granted federal American Recovery and Reinvestment Act funds from the Governor's Office. These funds came into the Department of Public Instruction as a transfer since the Department of Public Instruction was the sub grantee of these funds.

Total expenditures for the Department of Public Instruction were \$799,735,182 for the year ended June 30, 2011 as compared to \$813,620,939 for the prior year. The decrease of \$13,885,757 in total expenditures for fiscal year 2011 was mainly due to a decrease in North Dakota school district requests for reimbursement of allowable federal program expenditures.

Analysis of Significant Variances – Final Budgeted and Actual Expenditures

The Department of Public Instruction had four significant variances between the final budgeted and actual amounts for the biennium ended June 30, 2011.

The unexpended appropriation authority in the Operating Expense line item was mainly due to the Department of Public Instruction applying for a federal grant in the amount of \$ 9,000,000 to be used for information technology contractual services. It took longer to spend these funds than the Department of Public Instruction had originally anticipated and so not all the money was spent in the 2009 biennium. Also, the Department of Public Instruction received additional budget authority for some significant increases in two of their largest contracts (the state assessment contract and the statewide commodity food storage and delivery contract) that they expected during the biennium, however, these increases did not happen.

The unexpended appropriation for the Grants - Foundation Aid Line was carried over as per Senate Bill 2013 Section 10, and 19 of the 2011 Legislative Session which authorized a carryover of \$8,500,000 for the 2011 biennium.

The unexpended appropriation for the Other Grants line was mainly due to an authorization to spend \$30,000,000 as per Senate Bill 2013 Section 6 of the 2011 Legislative Session, and the funding was not needed during the biennium.

The remaining unexpended funds in the Education Jobs Fund line remain available for obligation through September 30, 2012 as per a letter sent to Governor Hoeven on September 14, 2010 from the United States Department of Education.

The School for the Deaf had one significant variance between the final budgeted and actual amounts for the biennium ended June 30, 2011. The unexpended appropriation authority in the Capital Assets line was mainly due to an appropriation to spend \$1,670,000 on remodeling the trades building after the School for the Deaf had received interest from several agencies to lease the building if it was remodeled. However, the remodeling was never completed due to a decrease in interest from these agencies willing to lease a remodeled trades building. In Senate Bill 2013 Section 16 of the 2011 legislative session, it was approved that \$ 835,000 of the funds originally allotted for the trades building be transferred to the School for the Deaf special fund for use in campus master facility plans.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$ 152,933,303	\$147,324,673
Intergovernmental Reimbursements	974,463	1,118,042
Food Commodity Processing	605,431	563,256
Rents	306,239	264,468
Conference Registration Fees	182,496	155,599
Other Revenue	330,961	299,455
Transfers In	56,670,800	129,725,772
Total Revenues and Other Sources	<u>\$212,003,693</u>	<u>\$279,451,265</u>
<u>Expenditures and Other Uses:</u>		
Grants	\$773,808,167	\$788,278,100
Salaries and Benefits	12,288,695	11,796,413
Major Operating Expenses		
Professional Services	7,103,467	7,977,986
Data Processing / Telecommunications	1,848,657	1,231,672
Operating Fees and Services	916,592	809,680
Travel	808,661	786,503
Supplies	701,668	327,446
Lease of Space / Utilities	370,332	306,803
Postage / Printing	304,493	221,245
IT Costs / Services and Equipment	142,418	59,395
Professional Development	250,910	251,892
Lease / Purchase Equipment	170,299	133,884
Other Operating Expenditures	369,910	514,025
Transfers Out	650,913	925,895
Total Expenditures and Other Uses	<u>\$799,735,182</u>	<u>\$813,620,939</u>

Statement of Appropriations (Department of Public Instruction)

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 13,504,455	\$ 217,958	\$ 13,722,413	\$ 12,646,571	\$ 1,075,842
Operating Expenses	31,270,801	100,000	31,370,801	20,570,715	10,800,086
Grants Foundation Aid	808,370,295	2,150,889	810,521,184	802,021,184	8,500,000
Grants- Special Education	15,500,000	(1,828,531)	13,671,469	13,671,469	
Grants- Transportation	43,500,000	5,000,000	48,500,000	47,500,000	1,000,000
Grants- Supplemental One-Time	85,644,337		85,644,337	85,644,337	
Grants- Supplemental Operations	16,795,584		16,795,584	16,795,584	
Grants- Other Grants	312,808,772	30,000,000	342,808,772	284,061,366	58,747,406
Grants- Mill Levy Reduction	295,000,000	4,444,264	299,444,264	299,444,264	
National Board Certification	500,000		500,000	500,000	
Education Jobs Fund Transportation		21,517,717	21,517,717	12,549,580	8,968,137
Efficiency	30,000		30,000	433	29,567
National Board Certification	102,500		102,500	57,750	44,750
Totals	<u>\$ 1,623,026,744</u>	<u>\$ 61,602,297</u>	<u>\$ 1,684,629,041</u>	<u>\$ 1,595,463,253</u>	<u>\$ 89,165,788</u>
Expenditures by Source:					
General Fund	\$ 1,109,405,590	\$ 5,261,264	\$ 1,114,666,854	\$ 1,103,726,148	\$ 10,940,706
Other Funds	513,621,154	56,341,033	569,962,187	491,737,105	78,225,082
Totals	<u>\$ 1,623,026,744</u>	<u>\$ 61,602,297</u>	<u>\$ 1,684,629,041</u>	<u>\$ 1,595,463,253</u>	<u>\$ 89,165,788</u>

Appropriation Adjustments:

The \$217,958 adjustment to the Salaries and Wages line consisted of the following adjustments:

- \$150,000 increase was the result of an equity pool increase approved by House Bill 1015 of the 2009 Legislative Session.

- \$67,958 adjustment (along with the \$100,000 adjustment to the Operating Expenses line item) was approved by the Emergency Commission to accept federal funds received under the American Recovery and Reinvestment Act (ARRA) for School Improvement Grants (SIG) as required under section 3 of House Bill 1013 of the 2009 Legislative Session.

The \$2,150,889 increase in spending authority to the Grants-Foundation Aid line item consisted of the following adjustments:

- \$325,358 adjustment was authorized by House Bill 1013, section 9 of the 2009 Legislative Session. This authorized any additional funds that became available for distribution from the state tuition fund. The \$3,000 decrease was due to an adjustment performed by the Office of Management and Budget upon receiving a revision letter in April of 2011.
- \$1,828,531 adjustment (along with the \$1,828,531 decrease adjustment to the Grants–Special Education line item) was authorized by Senate Bill 2013, section 19 of the 2011 Legislative Session which authorized any funds in special education contracts that remain after all statutory special education payment obligations to be added to the Foundation Aid line.

The \$5,000,000 increase in spending authority to the Grants–Transportation line item was authorized by House Bill 1013, section 16 of the 2009 Legislative Session and authorized funds for supplemental transportation aid payments.

The \$30,000,000 increase in spending authority to the Grants–Other Grants line item was authorized by Senate Bill 2013 Section 6 of the 2011 Legislative Session and authorized special funds derived from federal fund for grants.

The \$4,444,264 increase in spending authority to the Grants–Mill Levy Reduction line item consisted of \$4,233,000 authorized by Senate Bill 2023, section 1 of the 2011 Legislative Session and \$211,264 authorized by Senate Bill 2015, section 19 of the 2011 Legislative Session that authorized funds for the allocation of mill levy reduction grants to school districts.

The \$21,517,716 increase in the Education Jobs Fund was authorized by Senate Bill 2013, section 1, subdivision 1 of the 2011 Legislative Session which authorized the education jobs fund line.

Expenditures Without Appropriations Of Specific Amounts:

Revolving Printing Fund has a continuing appropriation authorized by NDCC section 15.1-03-03 (\$36,481 of expenditures for this biennium).

Conference Fund is non-appropriated per OMB Policy 211 (\$324,646 of expenditures for this biennium).

Statement of Appropriations (State Library)

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 3,193,791	\$ 57,500	\$ 3,251,291	\$ 3,089,438	\$ 161,853
Operating Expenses	1,482,573		1,482,573	1,457,070	25,503
Grants	1,852,500	200,000	2,052,500	2,041,198	11,302
Totals	<u>\$ 6,528,864</u>	<u>\$ 257,500</u>	<u>\$ 6,786,364</u>	<u>\$ 6,587,706</u>	<u>\$ 198,658</u>
Expenditures by Source:					
General Fund	\$ 4,601,028	\$ 50,000	\$ 4,651,028	\$ 4,650,110	\$ 918
Other Funds	1,927,836	207,500	2,135,336	1,937,596	197,740
Totals	<u>\$ 6,528,864</u>	<u>\$ 257,500</u>	<u>\$ 6,786,364</u>	<u>\$ 6,587,706</u>	<u>\$ 198,658</u>

Appropriation Adjustments:

The \$57,500 increase in the Salaries and Wages line item was the result of an equity pool increase approved by House Bill 1015 of the 2009 Legislative Session.

The \$200,000 increase in the Grants line item was approved by the Emergency Commission to allow the State Library to receive additional funds from the Institute of Museum and Library Services to increase existing grants to libraries in North Dakota.

Expenditures Without Appropriations Of Specific Amounts:

Conference Fund is non-appropriated per OMB Policy 211 (\$5,933 of expenditures for this biennium).

Statement of Appropriations (School for the Deaf)

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 5,429,998	\$ 42,100	\$ 5,472,098	\$ 4,960,969	\$ 511,129
Operating Expenses	1,638,603		1,638,603	1,403,283	235,320
Capital Assets	1,899,140	32,332	1,931,472	175,931	1,755,541
Construction Carryover		232,887	232,887	232,887	
Deferred Maintenance	98,605		98,605	65,469	33,136
Grants	200,000		200,000	173,066	26,934
Totals	<u>\$ 9,266,346</u>	<u>\$ 307,319</u>	<u>\$ 9,573,665</u>	<u>\$ 7,011,605</u>	<u>\$ 2,562,060</u>
Expenditures by Source:					
General Fund	\$ 7,099,896	\$ 305,219	\$ 7,405,115	\$ 6,422,800	\$ 982,315
Other Funds	2,166,450	2,100	2,168,550	588,805	1,579,745
Totals	<u>\$ 9,266,346</u>	<u>\$ 307,319</u>	<u>\$ 9,573,665</u>	<u>\$ 7,011,605</u>	<u>\$ 2,562,060</u>

Appropriation Adjustments:

The \$42,100 increase in the Salaries and Wages line item was the result of an equity pool increase approved by House Bill 1015 of the 2009 Legislative Session.

The \$32,332 increase in the Capital Assets line item was done per House Bill 1013, section 21 of the 2009 Legislative Session which allowed any unexpended funds from Senate Bill 2013, section 3, subdivision 3 of the 2007 Legislative Session to be carried over to the 2009 biennium to be used for the remodel of the trades building.

The \$232,887 increase in the Construction Carryover line item was authorized by NDCC section 54-44.1-11 that allows for unexpended capital construction budgets to be carried forward to the next biennium. The adjustment was properly approved by the Construction Carryover Committee for the Smith Building Elevator.

Expenditures Without Appropriations Of Specific Amounts:

Conference Fund is non-appropriated per OMB Policy 211 (\$550 of expenditures for this biennium).

Insurance recoveries has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$6,143 of expenditures for this biennium).

Statement of Appropriations (School for the Blind/ Vision Services)

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 3,531,264	\$ 21,000	\$ 3,552,264	\$ 3,361,959	\$ 190,305
Operating Expenses	685,206		685,206	609,339	75,867
Capital Improvements	27,000		27,000	21,555	5,445
Deferred Maintenance	64,500		64,500	57,356	7,144
Totals	<u>\$ 4,307,970</u>	<u>\$ 21,000</u>	<u>\$ 4,328,970</u>	<u>\$ 4,050,209</u>	<u>\$ 278,761</u>
Expenditures by Source:					
General Fund	\$ 3,492,068	\$ 8,000	\$ 3,510,068	\$ 3,503,594	\$ 6,474
Other Funds	815,902	3,000	818,902	546,615	272,287
Totals	<u>\$ 4,307,970</u>	<u>\$ 21,000</u>	<u>\$ 4,328,970</u>	<u>\$ 4,050,209</u>	<u>\$ 278,761</u>

Appropriation Adjustments:

The \$21,000 increase in the Salaries and Wages line item was the result of an equity pool increase approved by House Bill 1015 of the 2009 Legislative Session.

Expenditures Without Appropriations Of Specific Amounts:

Visual Aids, Devices, and Appliances Fund has a continuing appropriation authorized by NDCC section 25-06-10 (\$14,283 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 (\$196,122 of expenditures for this biennium).

Internal Control

In our audit for the biennium two-year period ended June 30, 2011, 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 State Automated Reporting System including the Foundation Aid Payment System module.
- Controls surrounding the Food and Nutrition Program computer 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 20, 2011.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2011, we identified and tested the Department of Public Instruction's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper use of \$800,000 in funding in the State School Aid line to distribute reimbursement to school districts or special education units for their gifted and talented programs (House Bill 1013, section 11 of the 2009 Legislative Session).
- The monthly salary for the superintendent of the School for the Deaf for the 2009 Biennium not to exceed the monthly salary level in effect for this position in January 2009 (House Bill 1013, section 5 of the 2009 Legislative Session).
- Properly provide \$1,300,000 in aid to public libraries, of which no more than one-half is expended during the year ended June 30, 2010 (House Bill 1013, section 14 of the 2009 Legislative Session).
- Proper deposit into the ND Vision Services - School for the Blind Operating Fund for any fees collected for subscriptions or Braille (House Bill 1013, section 15 of the 2009 Legislative Session).
- Proper verification that the North Dakota schools districts are obtaining appraisals, conducting an inventory, and reviewing insurance policies during the 2009-10 school year and every eight years thereafter (House Bill 1400, section 10 of the 2009 Legislative Session).
- Proper compensation of North Dakota Commission on Education Improvement not exceeding \$40,000 (House Bill 1400, section 40, 3b of the 2009 Legislative Session).
- Use up to \$2,300,000 to provide a grant to the Education Standards and Practice Board for a Teacher Support System (House Bill 1400, section 48 of the 2009 Legislative Session).
- Properly provide \$100,000 for continuing education grants (House Bill 1400, section 50 of the 2009 Legislative Session).
- Properly expended up to \$200,000 for grants to Regional Education Associations (House Bill 1400, section 56 of the 2009 Legislative Session).
- Proper steps completed following a contingent transfer by the Bank of North Dakota (House Bill 1400, section 60 of the 2009 Legislative Session).
- Properly appointed an advisory committee on truancy (Senate Bill 2217, section 2 of the 2009 Legislative Session).
- 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 use of the following legally restricted funds:
 - Vision Aids and Appliances Fund.
 - Displaced Homemakers Fund.
 - Revolving Printing Fund.
 - National Board Certification 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 (2009 North Dakota Session Laws chapter 13).
- 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*. This 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 20, 2011.

Noncompliance with Procurement Laws (Finding 11-1)

Condition:

The State Library and the Department of Public Instruction do not have controls in place to properly ensure procurement procedures are performed in accordance with North Dakota State Procurement Office Guidelines.

Five instances with four different vendors were noted at the State Library where items totaling \$314,766 were purchased and there was no support documentation on file to show that procurement guidelines were followed for the transactions.

Two instances were noted at the Department of Public Instruction where items over \$2,500 were purchased for a total of \$10,380 and less than three bids were received without written justification. The two items were bought on a purchase card by an employee who did not have proper procurement training for the purchases.

Criteria:

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.

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.

Office of Management and Budget's Fiscal and Administrative Policy #300 states that the use of a purchase card does not exempt the agency from the state's purchasing/procurement requirements.

The State Procurement Training and Certification Program states that employees who make purchases up to \$25,000 must have Level 2 Certification.

Cause:

The State Library and the Department of Public Instruction did not implement our prior formal recommendation.

Effect or Potential Effect:

Possible misuse of state funds if the lowest cost was not achieved through the procurement process.

Recommendation:

We recommend the State Library and the Department of Public Instruction ensure procurement procedures are performed in accordance with North Dakota Procurement Office Guidelines.

State Library Response:

The Department of Public Instruction and the State Library agree with this recommendation and will make every effort to ensure procurement procedures are performed in accordance with North Dakota Procurement Office Guidelines.

Operations

Our audit of the Department of Public Instruction identified the following areas of potential improvements to operations, as expressed by our operational objectives:

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

Title IID Grant Monitoring Procedures (Finding 11-2)

Condition:

The Department of Public Instruction does not have monitoring procedures like site visits and financial reviews established for the competitive grants portion of the Title IID grant program.

Criteria:

Studies prepared by federal and state organizations including the Department of Treasury and Finance and the National State Auditor's Association focus attention on the importance of grant accountability and establish guidelines that will result in efficient, effective, and accountable grant administration and performance monitoring.

Cause:

The Department of Public Instruction did not implement our prior operational recommendation.

Effect or Potential Effect:

The Department of Public Instruction is unable to verify that the subrecipients are using the funds as required.

Operational Improvement:

We recommend the Department of Public Instruction strengthen monitoring procedures surrounding the Title IID grant program. This would include establishing procedures for site visits and financial reviews of the competitive grants.

Department of Public Instruction Response:

The Department of Public Instruction agrees with this recommendation and will make every effort to strengthen monitoring procedures surrounding the Title IID grant program.

Lack of Controls Surrounding the English Language Grant (Finding 11-3)

Condition:

The Department of Public Instruction does not have all of the necessary controls in place surrounding the English Language Grant. During our review of this grant we noted the following areas of concern:

1. The signed contract or grant agreement between the Department of Public Instruction and the grantee did not include conflict of interest statements or steps to manage or eliminate conflict elements.
2. Desk reviews were not being completed.
3. Performance monitoring was not being completed.
4. The program does not have site visit tools such as checklists, questionnaires, guidance to assess prior findings, pre-visit document review lists, sampling forms, etc.
5. Feedback from site visits and progress reports is not provided within a reasonable period of time.
6. The grantees are not required to submit status reports to the Department of Public Instruction.

Criteria:

Studies prepared by federal and state organizations including the Department of Treasury and Finance and the National State Auditor's Association focus attention on the importance of grant accountability and establish guidelines that will result in efficient, effective, and accountable grant administration and performance monitoring.

Cause:

The Department of Public Instruction was not aware of all the necessary control procedures when they developed the English Language Grant program.

Effect or Potential Effect:

The Department of Public Instruction is unable to verify the grantees are using the English Language grant funds as required.

Operational Improvement:

We recommend the Department of Public Instruction strengthen procedures surrounding the English Language Grant for the following areas:

1. Include in the signed contract or grant agreement between the Department of Public Instruction and the grantee conflict of interest statements or steps to manage or eliminate conflict elements.
2. Complete desk reviews.
3. Complete performance monitoring, including:
 - a. requiring expected outputs and outcomes in the grant application;
 - b. ensuring grantees report progress in achieving outputs and outcomes;
 - c. enforcing the cut off of grant funding if deliverables aren't being met; and
 - d. setting standards for frequency, consistency, and quality of monitoring.
4. Have site visit tools such as checklists, questionnaires, guidance to assess prior findings, pre-visit document review lists, sampling forms, etc.
5. Provide feedback to the grantees within a reasonable time period for site visits and for progress reports.
6. Require status reports to be submitted by the grantees and ensure these status reports contain proper and adequate support.

Department of Public Instruction Response:

The Department of Public Instruction agrees with this recommendation and will make every effort to strengthen procedures surrounding the English Language Grant.

Lack of Controls Surrounding the State Personnel Development Grant (Finding 11-4)

Condition:

The Department of Public Instruction does not have all of the necessary controls in place surrounding the State Personnel Development Grant. During our review of this grant we noted the following areas of concern:

1. The Department of Public Instruction does not conduct on-site visits of the universities. The Department of Public Instruction has an external evaluator that assess the universities, however the evaluator also does not conduct on-site visits.
2. Compliance issues are not documented in writing, and there are no consequences for non-compliance and no procedures in place to handle the cutting off of grant funding.
3. The Grant Coordinator only receives a summary of the annual survey results from the University of North Dakota, the actual surveys are not seen by the Department of Public Instruction.
4. There is no repayment plan provided to the student at the time the agreement for the scholarship is signed.

5. The Department of Public Instruction did not establish a performance measure for the Resident Teachers Program. Since the Department of Public Instruction is funding the scholarship recipients there should be some agreement with the recipients if they do not fulfill the requirements outlined in the University of North Dakota's resident teacher's guidelines that the recipient will need to reimburse the Department of Public Instruction for scholarship monies received.

Criteria:

Studies prepared by federal and state organizations including the Department of Treasury and Finance and the National State Auditor's Association focus attention on the importance of grant accountability and establish guidelines that will result in efficient, effective, and accountable grant administration and performance monitoring.

Cause:

The Department of Public Instruction felt that their current control procedures surrounding the State Personnel Development Grant were sufficient.

Effect or Potential Effect:

The Department of Public Instruction is unable to verify that the recipients of the State Personnel Development Grant are using the funds as required.

Operational Improvement:

We recommend the Department of Public Instruction strengthen procedures surrounding the State Personnel Development Grant for the following areas:

1. Conduct on site visits of the universities.
2. Document compliance issues in writing, and establish a policy for handling non-compliance.
3. Receive annual survey results for all surveys conducted; maintaining these results on file.
4. Establish a repayment plan that outlines how the Department of Public Instruction will accept repayments for scholarship recipients that do not fulfill their performance measures. The repayment plan shall be provided to the scholarship recipient at the time the scholarship is awarded.
5. Establish performance measures for the Resident Teachers Program.

Department of Public Instruction Response:

The Department of Public Instruction agrees with this recommendation and will make every effort to strengthen procedures surrounding the State Personnel Development Grant.

Prior Recommendations Not Implemented

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

Noncompliance With Procurement Laws (Finding 09-1)

Recommendation:

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

Status:

Partially Implemented – Recommendation re-addressed at page 17.

Grant Monitoring Procedures (Finding 09-4)

Recommendation:

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.

Status:

Partially Implemented – Recommendation re-addressed at page 19.

Management Letter (Informal Recommendations)

December 20, 2011

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, 2011, 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 11-1: We recommend the State Library obtain a report from each federal agency that the State Library receives federal funds from, showing the amount that the State Library has received. We also recommend that someone independent of drawing down federal funds perform a reconciliation of the federal funds shown on the reports to the federal revenue reflected on PeopleSoft.

Informal Recommendation 11-2: We recommend the School for the Deaf ensure:

- Checks received are immediately endorsed upon receipt;
- Access to cash by business personnel is properly restricted to allow for the proper segregation of duties; and
- The individual responsible for preparing bank reconciliations does not have access to cash.

FIXED ASSETS

Informal Recommendation 11-3: We recommend the Department of Public Instruction establish controls to ensure that the disposition of assets is properly recorded.

Informal Recommendation 11-4: We recommend the School for the Deaf ensure the individual responsible for:

- Initiating, evaluating, and approving capital expenditures, leases, and maintenance repair projects does not have access to the electronic fixed asset records;
- Completing the annual physical inventory is not also responsible for maintaining the electronic fixed asset records; and
- Authorizing deletions does not have access to the electronic fixed asset records.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 11-5: We recommend the Department of Public Instruction, School for the Deaf, North Dakota Vision Services/School for the Blind, and State Library code expenditures using PeopleSoft coding that is consistent with the nature of the expenditures.

Informal Recommendation 11-6: We recommend the Department of Public Instruction code grant payments to an adequate account code that descriptively reflects the nature of the expense, and account for expenses in the appropriate appropriation line.

Informal Recommendation 11-7: We recommend the Department of Public Instruction establish procedures to segregate the responsibility for data input from the person responsible for checking the accuracy and completeness of the data for the Foundation Aid Payments.

Informal Recommendation 11-8: We recommend the North Dakota State Library properly account for expenses in the appropriate appropriation line.

Informal Recommendation 11-9: We recommend the School for the Deaf ensure the entity-wide statement is reconciled to the individual purchase card statements by a non-cardholder.

Informal Recommendation 11-10: We recommend the School for the Deaf ensure checks written from the Student Benefit Fund are signed by an individual independent of the check writing process.

PAYROLL

Informal Recommendation 11-11: We recommend the School for the Deaf properly restrict access to PeopleSoft payroll to only those individuals who need access to perform their duties.

Informal Recommendation 11-12: We recommend the School for the Deaf develop a process to ensure PAF reports received from OMB are approved by an appropriate level of management.

GENERAL LEDGER

Informal Recommendation 11-13: We recommend the Department of Public Instruction and the School for the Blind develop procedures to approve all ConnectND entries done by other agencies for the Department of Public Instruction and the School for the Blind.

Informal Recommendation 11-14: We recommend the School for the Deaf run the NDSALL_VIEW_OMB_STO_JRNLS query on a regular basis and ensure that all entries listed on the query are reviewed and approved.

LEGISLATIVE INTENT

Informal Recommendation 11-15: We recommend the Department of Public Instruction establish monitoring procedures for the school districts that are not receiving the ND Fire and Tornado report, to ensure that the school districts are in compliance with the requirements of NDCC 15.1-09-59.

Management of Department of Public Instruction 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,



Delan Hellman
Auditor in-charge

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or by contacting the
Division of State Audit

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