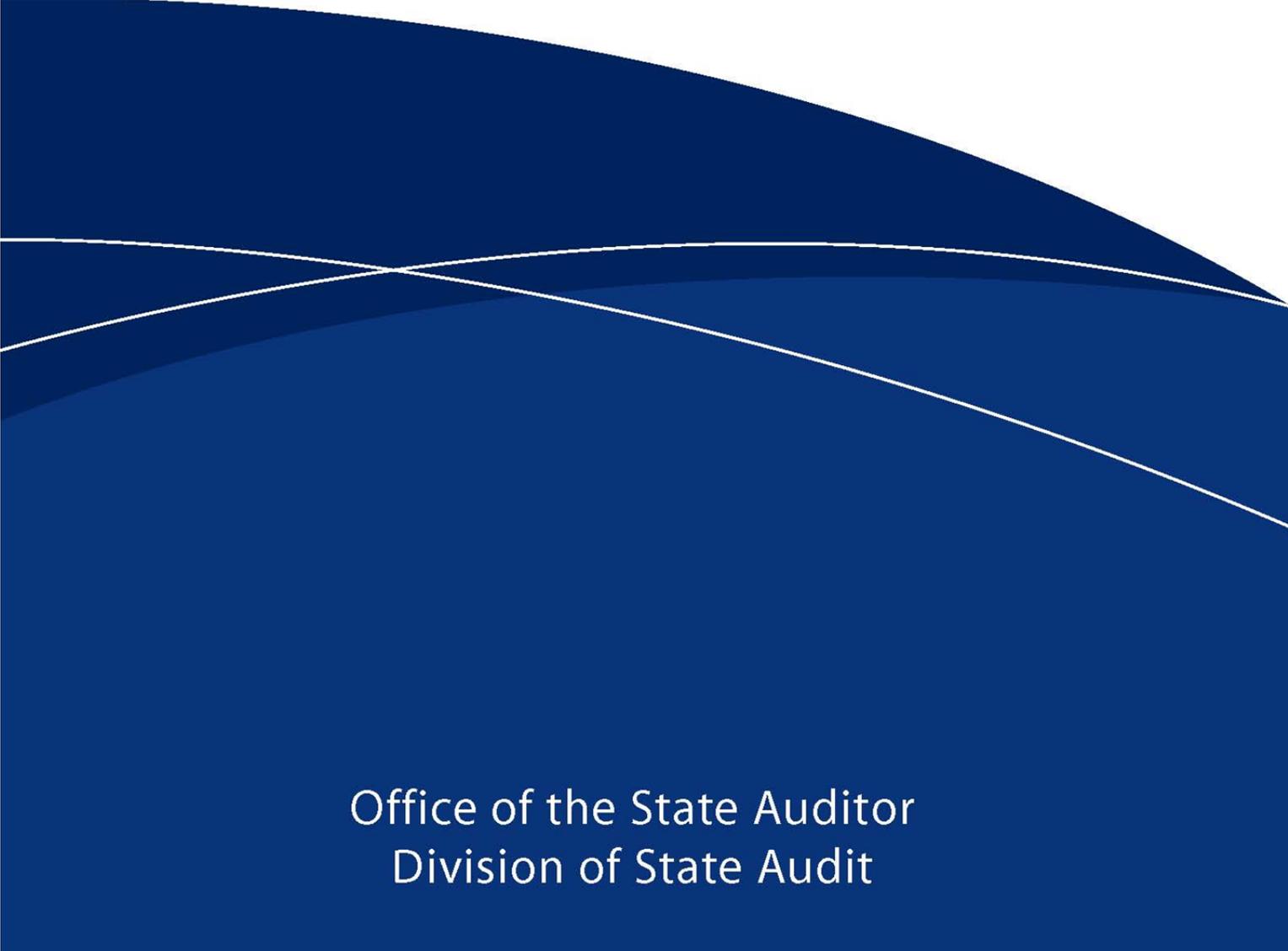


Department of Career and  
Technical Education  
BISMARCK, NORTH DAKOTA

# Audit Report

For the Biennium Ended  
June 30, 2011

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

***Representative Dan Ruby – Chairman***  
***Senator Terry M. Wanzek – Vice Chairman***

Representatives

*Dick Anderson*  
*Tracy Boe*  
*Patrick Hatlestad*  
*RaeAnn G. Kelsch*  
*Keith Kempenich*  
*Gary Kreidt*  
*Joe Kroeber*  
*Andrew Maragos*  
*Corey Mock*  
*David Monson*  
*Chet Pollert*  
*Bob Skarphol*  
*Lonny Winrich*  
*Dwight Wrangham*

Senators

*Randel Christmann*  
*Joan Heckaman*  
*Jerry Klein*  
*Judy Lee*

# *Contents*

---

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>4</i>
<i>Management's Discussion and Analysis</i>	<i>6</i>
<i>Financial Summary</i>	<i>6</i>
<i>Analysis of Significant Variances - Budgeted and Actual Expenditures</i>	<i>6</i>
<i>Financial Statements</i>	<i>8</i>
<i>Statement of Revenues and Expenditures</i>	<i>8</i>
<i>Statement of Appropriations</i>	<i>9</i>
<i>Internal Control</i>	<i>10</i>
<i>Compliance With Legislative Intent</i>	<i>11</i>
<i>Operations</i>	<i>12</i>

STATE AUDITOR  
ROBERT R. PETERSON



PHONE  
(701) 328 - 2241  
FAX  
(701) 328 - 1406

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

## *Transmittal Letter*

---

April 11, 2012

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

We are pleased to submit this audit of the Department of Career and Technical Education for the biennium ended June 30, 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 Kristi Morlock. Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director Kutzer and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

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

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

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

There were no recommendations included in the prior audit report.

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

No, a management letter was not issued.

### **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, 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 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, 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 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, 2011, 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. Total revenues were \$4,565,481 for the year ended June 30, 2011 as compared to \$4,810,564 for the year ended June 30, 2010.

Total expenditures for the Department of Career and Technical Education were \$18,323,472 for the year ended June 30, 2011 as compared to \$17,028,104 for the prior year. The increase in total expenditures for the audited period is mostly reflected in Grants and it is due to the way in which the Department budgets for grants. Budgets are prepared on an annual basis with approximately 48% to 49% budgeted the first year of the biennium and the remaining amount goes to the second year of the biennium. This creates a fluctuation of 2% to 4% from one year to the next. This allows for an inflationary growth in reimbursements to schools to cover increases in program costs of which increases in teacher salaries are the main contributor. Additionally, funds budgeted in grants for the first year of the biennium don't always get spent and are carried over to the second year resulting in higher expenditures for the second year of the biennium.

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

The Department of Career and Technical Education had unexpended appropriations in the following categories:

Salaries and Wages (\$345,741): The balance is due mostly to the effects of having vacant positions. These positions were vacant for a period of time due to the difficulty in hiring qualified candidates and evaluating the open positions to make sure they continue to fit the department's needs. When the positions were filled they were generally filled at a lower salary. Also, there were temporary positions budgeted for and not utilized. In addition, Board members pay was budgeted for having 12 monthly meetings; however they did not hold all 12 meetings.

Operating Expenses (\$496,089): The balance was the result of federal funds that were anticipated and originally budgeted for, but not received.

Grants (\$666,417): The balance is attributed to the anticipation of receiving an increase in federal funding and allowing for additional federal grants, neither of which was received.

# Financial Statements

---

## Statement of Revenues and Expenditures

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$ 4,469,768	\$ 4,584,437
Conference Registration Fees	71,408	78,508
Contributions and Private Grants	12,500	15,938
Renewal License Fee	10,000	14,000
Transfers In	1,805	117,682
<b>Total Revenues and Other Sources</b>	<b>\$ 4,565,481</b>	<b>\$ 4,810,564</b>
<b><u>Expenditures and Other Uses:</u></b>		
Grants	\$ 15,895,572	\$ 14,566,469
Salaries and Benefits	1,910,117	1,959,081
Travel	141,111	150,280
Professional Development	127,791	155,015
IT Services	65,732	50,163
Other Operating	50,918	46,182
Supplies	49,133	40,825
Fees, Services, and Repairs	43,907	26,403
Equipment	19,587	15,373
Rentals and Leases	17,800	18,315
Transfers Out	1,805	
<b>Total Expenditures and Other Uses</b>	<b>\$ 18,323,472</b>	<b>\$ 17,028,105</b>

## Statement of Appropriations

For The Biennium Ended June 30, 2011

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 4,170,030	\$ 40,000	\$ 4,210,030	\$ 3,864,289	\$ 345,741
Operating Expenses	1,226,606		1,226,606	730,517	496,089
Grants	27,200,000		27,200,000	26,533,583	666,417
Grants – Postsecondary	357,452		357,452	357,452	
Adult Farm Management	749,802		749,802	699,802	50,000
Workforce Training	3,000,000		3,000,000	3,000,000	
<b>Totals</b>	<u>\$ 36,703,890</u>	<u>\$ 40,000</u>	<u>\$ 36,743,890</u>	<u>\$ 35,185,643</u>	<u>\$ 1,558,247</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 25,941,008	\$ 40,000	\$ 25,981,008	\$ 25,981,008	
Other Funds	10,762,882		10,762,882	9,204,635	\$ 1,558,247
<b>Totals</b>	<u>\$ 36,703,890</u>	<u>\$ 40,000</u>	<u>\$ 36,743,890</u>	<u>\$ 35,185,643</u>	<u>\$ 1,558,247</u>

### Appropriation Adjustments:

The \$40,000 increase in the Salaries and Benefits line was authorized by House Bill 1015 of the 2009 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 (\$165,934 of expenditures for this biennium).

## *Internal Control*

---

In our audit for the biennium ended June 30, 2011, 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.

## *Compliance With Legislative Intent*

---

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

- Compliance with appropriations and related transfers (2009 North Dakota Session Laws, chapter 47).
- 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.

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.

## *Operations*

---

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

You may obtain audit reports on the internet at:

[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

or by contacting the  
Division of State Audit

Office of the State Auditor  
600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060

(701) 328-2241