

North Dakota Office of the State Auditor

North Dakota School for the Deaf

Audit Report for the Biennium Ended June 30, 2019

Client Code 252



North Dakota State Auditor
Joshua C. Gallion



Why We Conducted this Audit

The purpose of this audit was to determine financial transactions including expenditures were made in accordance with law and appropriation requirements.

What We Found

This audit identified one exception or default.



Not Complying with State
Procurement Guidelines

The School did not follow
proper bidding requirements
and did not maintain proper
documentation.
See page 2.

KEY PERSONNEL

State Auditor's Office Staff

Robyn Hoffmann, CPA, Audit Manager
Dustin Walcker, Audit Supervisor
Alandra Kist, Auditor

Client Staff Contacts

Dr. Connie Hovendick, Superintendent
Michael Loff, Business Manager

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

Transmittal Letter

August 26, 2019

The Honorable Kirsten Baesler, Superintendent of Public Instruction
Dr. Connie Hovendick, Superintendent of School for the Deaf

We are pleased to submit this audit of the North Dakota School for the Deaf for the biennium ended June 30, 2019. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Additionally, whenever possible additional audit objectives are included to increase responsiveness and effectiveness of state government.

Robyn Hoffmann, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to Dr. Connie Hovendick and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

cc: Legislative Audit and Fiscal Review Committee
Chris Kadrmas, Legislative Council Fiscal Analyst

Audit Results

Statutory Audit Requirements

The objective related to our statutory audit requirements is:

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage. Defaults are defined as failures to do something required by duty or law. Bonding coverage provides insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

Conclusion

Except for the following finding, no exceptions relating to our statutorily required audit testing were identified. See finding 19-01.

Noncompliance with Procurement (Finding 19-01)

Condition:

The North Dakota School for the Deaf did not comply with the North Dakota State Procurement Manual. Three of seventeen transactions tested were not properly procured, resulting in an 18% error rate. The School for the Deaf failed to obtain bids or a request for proposal (RFP), and did not maintain proper documentation.

Criteria:

North Dakota Century Code section 54-44.4-02.1 states, "all services purchased by any agency in the executive branch of state government must comply with the standards and guidelines for procurement of services established by the Office of Management and Budget."

North Dakota State Procurement Manual Chapter 1.2 states, "It is a state policy that each agency and institution obtain necessary commodities and services at a competitive cost, consistent with quality, time, and performance requirements with fair and equal opportunity to all persons qualified to sell to the state."

Cause:

Management was unaware of all necessary procurement requirements.

Effect or Potential Effect:

The best purchase price may not have been obtained, because the appropriate level of competition required was not met.

Recommendation:

We recommend the North Dakota School for the Deaf properly procure commodities and services in compliance with the North Dakota State Procurement Manual.

Agency Response:

“NDSO acknowledges the three transactions that did not comply with procurement rules. All affected staff took refresher courses in procurement subsequent to the transaction dates in question. In addition, we have met with each affected individual to review the specifics of the transactions and implement corrective action for future transactions.”

Internal Control

We gained an understanding of internal control 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.

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: misstatements in financial or performance information, violations of laws and regulations or impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any deficiencies in internal control that were significant within the context of our audit objectives and based upon the audit work performed.

Scope

This audit of the North Dakota School for the Deaf is for the biennium ended June 30, 2019.

The School for the Deaf’s sole location is in Devils Lake which was included in the audit scope.

Methodology

To meet this objective, we:

- 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.
- 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 for data analysis. Significant evidence was obtained from ConnectND.
- Inspected documentary evidence.

- Tested compliance with appropriation laws and regulations including related transfers and emergency commission action. Where necessary, internal control was tested which included selecting representative samples to determine if controls were operating effectively and if laws were being followed consistently.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed an analysis and selected a sample of high-risk transactions, including travel vouchers, procurement, operating expenditures, and purchase cards for further testing.

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

Authority and Standards

This biennial performance audit of the North Dakota School for the Deaf has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. 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 criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Revenues and Other Sources:</u>		
Sale of Meals	\$ 144,324	\$ 123,482
Rental of Rooms and Buildings	123,426	77,016
Miscellaneous Revenue	69,254	39,096
Transfers In	847,124	937,883
Total Revenues and Other Sources	<u>\$1,184,128</u>	<u>\$1,177,477</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$3,550,256	\$3,601,311
Repairs and Maintenance	508,576	62,680
Travel	153,037	154,090
Equipment	116,814	70,437
Supplies	113,380	113,667
Grants	106,201	73,799
Utilities	93,809	97,050
Data Processing/Telecommunication	90,227	88,766
Food and Clothing	69,311	70,372
Professional Fees and Services	29,883	26,958
Rentals and Leases	25,116	24,446
Miscellaneous Expense	17,503	24,358
Operating Fees and Services	15,043	19,601
IT Contractual Services and Repairs	11,690	15,411
Total Expenditures and Other Uses	<u>\$4,900,846</u>	<u>\$4,442,946</u>

Source: ConnectND Financials

Statement of Appropriations

For the Biennium Ended June 30, 2019

Expenditures by Line Item:	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Wages	\$ 7,588,749	\$7,151,567	\$ 437,182
Operating Expenses	2,026,543	1,410,539	616,004
Capital Assets	891,678	578,191	313,487
Construction Carryover	23,495	23,495	
Grants	<u>389,115</u>	<u>180,000</u>	<u>209,115</u>
Total	<u>\$10,919,580</u>	<u>\$9,343,792</u>	<u>\$1,575,788</u>
Expenditures by Source:	Final Appropriation	Expenditures	Total
General	\$ 7,697,641	\$7,487,736	\$ 209,905
Other	<u>3,221,939</u>	<u>1,856,056</u>	<u>1,365,883</u>
Total	<u>\$10,919,580</u>	<u>\$9,343,792</u>	<u>\$1,575,788</u>

Source: ConnectND Financials

You may obtain audit reports on the internet at:

www.nd.gov/auditor

or by contacting the Office of the State Auditor at:

Email: ndsao@nd.gov

Phone: (701) 328-2241

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