



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Department of Public Instruction

Audit Report for the Biennium Ended June 30, 2021

Client Code 201





WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This includes a review of financial transactions and determining that expenditures are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified in significant or high-risk functions of the agency.

WHAT WE FOUND



Expenditures Not Approved by Emergency Commission

The Department of Public Instruction spent funds on a program other than the program approved for additional spending authority by the Emergency Commission.

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HAVE QUESTIONS? ASK US.

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Introduction

Department of Public Instruction

July 7, 2022

We are pleased to submit this audit of the Department of Public Instruction for the biennium ended June 30, 2021. 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. Whenever possible, additional audit objectives are included to increase responsiveness and effectiveness of state government.

Lindsey Slappy, MAcc, 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 the Department of Public Instruction staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

Blanket Bond Coverage: Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

ConnectND: The accounting system for North Dakota.

Emergency Commission: Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Administrative Code (N.D.A.C): Codification of all rules of state administrative agencies.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

WebGrants System: Statewide grants management system used by the Department of Public Instruction.

Audit Results

PRIMARY OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency?

The Department is required to spend funding for the specific purpose of the appropriation (NDCC 54-16-03(1)).

DPI did not have procedures in place to track expenditures for the specific purpose of the request and ensure that any money not spent on this purpose was returned at the end of the biennium. Proper internal controls would have contained activities that support the achievement of this requirement (Greenbook Para 10.10).

FINDING
2021-01

Expenditures Not Approved by Emergency Commission

RECOMMENDATION

We recommend the Department of Public Instruction develop procedures to track expenditures for Emergency Commission requests to ensure money is spent for the approved purpose or returned at the end of the biennium.

CONCLUSION

The DPI spent funds on a program other than the program approved for additional spending authority by the Emergency Commission.

BACKGROUND

DPI received approval from the Emergency Commission for a total of \$16,918,463 to spend on the Comprehensive Literacy State Development Program. This program is funded by the federal government to improve literacy for disadvantaged children.

We found DPI only spent \$3,117,564 on the Literacy program, and the remaining amount of \$13,800,899 was spent on the Summer Foods program, which was not part of the approved purpose from the Emergency Commission.

DEPARTMENT OF PUBLIC INSTRUCTION RESPONSE

DPI agrees with the auditor's recommendation. As part of our monthly review of budget reports and reconciliations, we have incorporated separate tracking of Emergency Commission approvals to prevent this issue from reoccurring.



DPI received \$16.9 million for a specific program, but **spent \$13.8 million** of it **on a different program.**



Audit Procedures

Primary Objective

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentation and electronic data records. We planned our audit work to assess the design, implementation and effectiveness of those internal controls that were significant to our audit objective.

The specific internal control testing completed for this audit objective is identified below:

- Segregated preparation and approval of expenditures is tested statewide in the State of North Dakota Annual Financial Report.
- Appropriation adjustments are being tracked using unique coding within ConnectND.
- Unique ConectND coding was established for tracking expenditures related to 2019 North Dakota Session Laws Chapter 38 (S.B. 2013 Sections 2, 9, 10, and 11).
- Continuing Education Grant applications were approved by the program administrator or Director of the Office of School Approval and Opportunity related to 2019 North Dakota Session Laws Chapter 38 (S.B. 2013 Section 11).
- Unique PeopleSoft coding was established for tracking expenditures in regards to 2019 North Dakota Session Laws Chapter 149 (S.B. 2265 Sections 20 and 21).
- Teacher Shortage Loan Forgiveness Program payments are being properly approved by the program director related to 2019 North Dakota Session Laws Chapter 146 (H.B. 1429 Section 3).
- WebGrants System grant expenditures are being properly approved.

- A reconciliation of grant expenditures from the WebGrants System (SBS) to PeopleSoft was completed.
- Non WebGrants System grant expenditures are being properly approved.
- Procurement process was completed by an individual with the proper level of training.
- Purchase card expenditures were approved by an appropriate individual.

There were no deficiencies identified.

SCOPE

The audit of the Department of Public Instruction is for the biennium ended June 30, 2021.

The Department of Public Instruction's sole location is its Bismarck office which was included in the audit scope.

METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population.
- Interviewed appropriate agency personnel.
- Observed the Department of Public Instruction's processes and procedures.
- Inspected documentary evidence.
- Analyzed financial data in ConnectND to determine areas of risk.
- Analyzed accounts charged to each appropriation line to determine that expenditures were not charged to an inappropriate line to circumvent appropriation spending authority (N.D.C.C. 54-16-03).
- Reviewed non-appropriated fund activity to ensure the Department of Public Instruction had legislative approval for non-appropriated expenditures (N.D.C.C. 54-44.1-09).

- Reviewed expenditures related to all appropriation adjustments approved by the Emergency Commission to ensure the Department of Public Instruction complied with the documented intent of the adjustment.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10).
- Determined if the Department of Public Instruction overspent their spending authority for any individual appropriation line items (N.D.C.C. 54-44.1-09).
- Selected a random sample of expenditures to ensure the funds were used for the approved purpose including one time funding for state automated reporting system rewrite and the state school aid formula rewrite (2019 North Dakota Session Laws Chapter 38 (S.B. 2013 Section 2)).
- Selected a random sample of school districts to determine if state school aid payments for special education were reduced by the amount of matching funds required to be paid by school districts or special education units for students participating in the Medicaid program (2019 North Dakota Session Laws Chapter 38 (S.B. 2013 Section 9 (2))).
- Determined if \$800,000 that was included in the integrated formula payments appropriation line was distributed to reimburse school districts or special education units for gifted and talented programs (2019 North Dakota Session Laws Chapter 38 (S.B. 2013 Section 9 (1))).
- Selected a random sample of expenditures charged to the transportation grants appropriation line to determine if they were paid out using the approved rate of reimbursement (2019 North Dakota Session Laws Chapter 38 (S.B. 2013 Section 10)).
- Selected a random sample of grantees to determine if continuing education grant funds were distributed in accordance with legislative intent (2019 North Dakota Session Laws Chapter 38 (S.B. 2013 Section 11)).
- Determined if rapid enrollment grants were given out in accordance with legislative intent (2019 North Dakota Session Laws Chapter 149 (S.B. 2265 Section 20)).
- Selected a sample of closing package entries to ensure they were applied to the correct fiscal year.
- Selected a random sample of grantees to determine if \$800,000 of music education grants were distributed and reported upon in accordance with legislative intent (2019 North Dakota Session Laws Chapter 149 (S.B. 2265 Section 21)).
- Selected a judgmental sample of expenditures to determine if teacher shortage loan forgiveness payments were distributed in accordance with legislative intent (2019 North Dakota Session Laws Chapter 146 (H.B. 1429 Section 3,7,8)).
- Selected a sample of operating expenditures to ensure expenditures were for lawful and official purposes and properly coded and supported (N.D.C.C Chapter 44-08-05.1 (1a)). The sample consisted of some high-risk items and some randomly selected items.
- Selected a stratified sample of WebGrants System grant expenditures to ensure expenditures were properly coded and supported.
- Selected a stratified sample of non-WebGrants System grant expenditures to ensure expenditures were properly coded, supported, and for a business purpose (N.D.C.C Chapter 44-08-05.1 (1a)).
- Selected a judgmental sample of expenditures to ensure goods and services were properly procured in accordance with N.D.C.C. 54-44.4-05, N.D.A.C. Article 4-12, and OMB Policies and Guidelines).
- Selected a judgmental sample of purchase card expenditures to ensure receipts support individual purchase card charges, the purchase was reasonable and related to the function of the agency, and that the coding was adequate for financial reporting purposes.

AUTHORITY AND STANDARDS

This biennial audit of the Department of Public Instruction 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. 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 standards used to evaluate internal control are 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).



Responses to LAFRC Audit Questions

1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?

Revenues, expenditures, and appropriation information was 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 unmodified opinion was issued.

2. WAS THERE COMPLIANCE WITH STATUTES, LAWS, RULES, AND REGULATIONS UNDER WHICH THE AGENCY WAS CREATED AND IS FUNCTIONING?

Other than Finding 2021-01 in this report, 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?

Other than Finding 21-01 in this report, we did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

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 Public Instruction has partially 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.

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, management, conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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 revenues, expenditures, and appropriation information does 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 Capital Management (HCM), State Automated Reporting System (STARS), and WebGrants System are high-risk information technology systems critical to the Department of Public Instruction. The exception identified in question two is not directly related to these systems.

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2021	JUNE 30, 2020
Revenue from Federal Government	\$ 223,026,945	\$ 171,719,348
Commodity Food Processing	844,151	889,538
Other Revenue	3,538	10,950
Conference Registration Fees	2,367	173,355
Transfers In	308,709,953	247,968,924
Total Revenue and Other Sources	\$ 532,586,954	\$ 420,762,115

EXPENDITURES AND OTHER USES	JUNE 30, 2021	JUNE 30, 2020
Grants	\$ 1,336,376,183	\$ 1,194,492,118
Professional Fees and Services	10,976,981	7,708,895
Salaries and Benefits	7,878,711	7,491,484
Operating Fees and Services	1,067,514	1,025,783
Data Processing/Telecommunications	970,629	922,486
IT Contractual Services and Repairs	918,752	2,184,380
Supplies	210,776	178,632
Rent of Building Space	167,651	167,068
Professional Development	100,392	126,564
Printing	96,542	107,192
Purchase/Lease of Equipment	83,677	75,568
Travel	55,787	357,269
Other Operating Expenses	22,511	44,222
Transfers Out	3,322,083	3,260,568
Total Expenditures and Other Uses	\$ 1,362,248,189	\$ 1,218,142,229

Source: ConnectND Financials

Appropriations

For the Biennium Ended June 30, 2021

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Salaries and Wages	\$ 18,033,263	\$ 15,364,503	\$ 2,668,760
Operating Expenses	35,800,191	27,215,138	8,585,053
Integrated Formula Payments	2,098,202,429	2,023,568,014	74,634,415
Grants - Special Education	24,000,000	23,628,994	371,006
Disabilities Education Act Grant	8,632,569	-	8,632,569
Grants - Transportation	56,500,000	49,453,654	7,046,346
Grants - Program Grants	9,330,000	7,760,098	1,569,902
Grants - Pass Thru Grants	2,863,764	2,847,514	16,250
Grants - Other Grants	404,897,385	403,652,317	1,245,068
Rapid Enrollment Grants	3,000,000	3,000,000	-
Power School	5,500,000	5,438,151	61,849
Emergency Education Relief - Schools	449,869,950	17,246,051	432,623,899
Emergency Education Relief - State	13,661,117	28,156	13,632,961
Assist to Nonpublic Schools	4,151,371	-	4,151,371
Homeless Children and Youth Program	1,999,661	-	1,999,661
State Automated Reporting System Rewrite	1,200,000	880,640	319,360
Governor's - Emergency Education Relief Fund	3,998,745	9,421	3,989,324
National Board Certification	108,000	108,000	-
Totals	\$ 3,141,748,445	\$ 2,580,200,651	\$ 561,547,794

Source: ConnectND Financials

Continued on following page

Appropriations

For the Biennium Ended June 30, 2021

EXPENDITURES BY SOURCE		FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
General		\$ 1,722,221,274	\$ 1,636,863,625	\$ 85,357,649
Other		1,419,527,171	943,337,026	476,190,145
Totals		\$ 3,141,748,445	\$ 2,580,200,651	\$ 561,547,794

Source: ConnectND Financials



Status of Prior Recommendations

Lack of Guidance and Monitoring for School District Transportation Funding (Finding 2019-01)

Partially Implemented

Recommendation: We recommend the Department of Public Instruction improve guidance to school districts on how to report miles and rides as well as strengthen procedures surrounding the monitoring of transportation data submitted by the school district.

Status: Partially Implemented. The Department of Public Instruction has updated the STARS Transportation Reports Reference Guide to provide clarity and guidance to school districts when reporting miles and rides. However, processes put in place to monitor transportation data submitted by the school district were not going to be put into use until the 2021–22 school year, which is after our audit period ended on June 30, 2021. Therefore, the Department of Public Instruction’s monitoring procedures over school districts could not be reviewed during the current audit to determine if they were implemented.



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