



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Career and Technical Education

Audit Report for the Biennium Ended June 30, 2019

Client Code 270





WHAT WE LOOKED AT

Our team audited the Department of Career and Technical Education which included reviewing financial transactions, expenditures, blanket bond coverage and appropriation requirements.

WHAT WE FOUND

No areas of concern were identified.

TABLE OF CONTENTS

INTRODUCTION 2

 Terms Used in Report 3

AUDIT RESULTS

 Objective 4

 Conclusion 4

AUDIT PROCEDURES

 Internal Control 5

 Scope 5

 Methodology 5

 Statutory Criteria Selected 6

 Authority and Standards 6

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

 Responses to LAFRC Audit Questions 7

 LAFRC Audit Communications 8

FINANCIAL STATEMENTS

 Statement of Revenues and Expenditures 9

 Statement of Appropriations 10

STATUS OF PRIOR RECOMMENDATIONS 11

KEY PERSONNEL

Allison Bader
MBA, AUDIT MANAGER

Kristi Morlock
MBA, AUDIT SUPERVISOR

Holly Runia
LEAD AUDITOR

Ian Ballantyne
CPA, AUDITOR

Lindsey Schneider
AUDITOR

HAVE QUESTIONS? ASK US.

NORTH DAKOTA STATE
AUDITOR'S OFFICE

600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota 58505

- 701-328-2241
- NDSAO@nd.gov
- ND.gov/Auditor
- Facebook.com/NDStateAuditor
- Linkedin.com/company/NDStateAuditor

Introduction

Department of Career and Technical Education

March 2, 2020

We are pleased to submit this audit of the Department of Career and Technical Education 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. Whenever possible, additional audit objectives are included to increase responsiveness and effectiveness of state government.

Allison Bader 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 Mr. Sick and his 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: Sum of money or total of assets devoted to a special purpose.

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

Conflict of Interest: Situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity.

ConnectND: The accounting system for North Dakota.

Default: Failures to do something required by duty or law.

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 conclusion 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.



Audit Results

▼ OBJECTIVE

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. Our team also evaluated blanket bond coverage.

CONCLUSION

No exceptions to our statutorily required audit testing were identified.



Audit Procedures

INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented. We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. We identified key controls significant to this audit objective related to the control activities component of internal control, specifically the principles related to the design of control activities to achieve objectives and respond to risks, design of appropriate types of control activities and design of control activities at various levels. (GAO-14-704G para 10.01, 10.03, 10.10).

Based upon the audit work performed, auditors are required to report deficiencies in internal control that are significant within the context of the audit objectives. A deficiency in internal control exists when the design, implementation, or operation of a control does not allow management or personnel to achieve control objectives and address related risks.

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.

SCOPE

This audit of the Department of Career and Technical Education is for the biennium ended June 30, 2019.

The Department of Career and Technical Education's sole location is its Bismarck office which was included in the audit scope.

METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Inspected documentary evidence.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- 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 compliance with appropriation laws and regulations including emergency commission action.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Where necessary, internal control was tested which included selecting representative samples to determine if controls were operating effectively. Internal control work included testing ConnectND budget limits, segregated and appropriate payment approvals, annual review of access privileges to the Budget and Reimbursement Process (BRP) system, and reconciliation between BRP and ConnectND.
- Non-statistical sampling, which allowed results to be projected to populations, was taken from ConnectND of high-risk payment transactions including grants and operating expenditures, for further testing of compliance with state laws.
- Random non-statistical sampling, which allowed results to be projected to populations, was taken of salary and travel expenditures and grant reimbursement rates in the Budget and Reimbursement Process (BRP) system, for further testing of compliance with state laws.

STATUTORY CRITERIA SELECTED

Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

The criteria used to evaluate legislative intent are the laws as published in the North Dakota Century Code and the North Dakota Session Laws. The following areas were identified to be of higher risk of noncompliance:

- Compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose. (2017 North Dakota Session Laws Chapter 44 (S.B. 2019) and N.D.C.C. 54-16-03)
- Blanket bond coverage maintained in accordance with state law and state guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10(1))
- Proper use of funds (State Constitution article 10 section 12, N.D.C.C. 44-08-05.1, N.D.C.C. 54-44.1-10)

AUTHORITY AND STANDARDS

This biennial performance audit of the Department of Career and Technical Education 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). Agency management must establish and maintain effective internal control in accordance with policy of the



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 unmodified opinion was issued.

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

Yes. The Department of Career and Technical Education 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. We determined internal control was adequate and we did not identify any other 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. There were no indications of lack of efficiency in financial operations and management of the agency significant within the context of our audit objectives.

5. HAS ACTION BEEN TAKEN ON FINDINGS AND RECOMMENDATIONS INCLUDED IN PRIOR AUDIT REPORTS?

All five prior findings were considered implemented. See the *Status of Prior Recommendations* section of this 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 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, Human Resource Management System (HRMS) and Budget and Reimbursement Process (BRP) system are high-risk information technology systems critical to the Department of Career and Technical Education.

Financial Statements

Statement of Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2019	JUNE 30, 2018
Revenue from Federal Government	\$ 4,954,742	\$ 4,377,095
Conference Registration Fees	103,886	102,300
Donations and Private Grants	6,125	16,350
Miscellaneous Revenue	3,814	2,500
Transfers In	-	2,477,000
Total Revenues and Other Sources	\$ 5,068,567	\$ 6,975,245

EXPENDITURES AND OTHER USES	JUNE 30, 2019	JUNE 30, 2018
Grant Expenditures	\$ 18,430,734	\$ 16,720,898
Salaries and Benefits	2,236,093	2,210,611
Travel	136,941	102,522
Professional Development	127,401	109,029
IT Data Processing, Communications and Services	106,954	230,393
Supplies	49,524	18,857
Professional Fees and Services	47,275	21,250
Postage and Printing	47,042	40,588
Rent	14,289	12,304
Equipment	12,555	16,142
Operating Fees and Services	10,908	5,137
Insurance	753	752
Transfers Out	508,029	-
Total Expenditures and Other Uses	\$ 21,728,498	\$ 19,488,483

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	\$ 4,699,975	\$ 4,446,703	\$ 253,272
Operating Expenses	1,240,589	894,430	346,159
Grants	33,311,512	32,327,581	983,931
Grants - Postsecondary	296,207	279,601	16,606
Adult Farm Management	579,822	579,822	0
Workforce Training	2,000,000	2,000,000	0
Totals	\$ 42,128,105	\$ 40,528,137	\$ 1,599,968

EXPENDITURES BY SOURCE	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
General	\$ 29,556,283	\$ 29,145,924	\$ 410,359
Other	12,571,822	11,382,213	1,189,609
Totals	\$ 42,128,105	\$ 40,528,137	\$ 1,599,968

Source: ConnectND Financials



Status of Prior Recommendations

Improper Coding of Expenditures (Finding 17-1)

Implemented

Recommendation: We recommend the Department of Career and Technical Education properly code expenditures in the state's accounting system to the proper appropriation lines and accounts.

Status: Implemented. No significant errors with coding expenditures to the proper appropriation lines and accounts were noted.

Overspent General Fund Spending Authority (Finding 17-2)

Implemented

Recommendation: We recommend the Department of Career and Technical Education ensure compliance with the specific appropriation limits set by the North Dakota Legislature.

Status: Implemented.

Improper and Unsupported Payments to School Districts (Finding 17-3)

Implemented

Recommendation: We recommend the Department of Career and Technical Education provide reimbursement payments to school districts based on proper reimbursement rates and after receiving supporting receipts.

We also recommend the Department of Career and Technical Education require school districts to upload supporting documents for reimbursement requests into the Budget and Reimbursement Process system.

Status: Implemented. The prior audit identified overpayments to school districts. No overpayments to school districts were identified.



Status of Prior Recommendations

Lack of Review of Access Privileges (Finding 17-4)

Implemented

Recommendation: We recommend the Department of Career and Technical Education complete and document a review of access privileges of the Budget and Reimbursement Process system on an annual basis at a minimum.

Status: Implemented. A documented review of individuals with access was completed as of December 2019.

Lack of Reconciliation Between Accounting Systems (Finding 17-5)

Implemented

Recommendation: We recommend the Department of Career and Technical Education complete timely reconciliations between the state's accounting system, ConnectND, and the Budget and Reimbursement Process system.

Status: Implemented. The Department completed a reconciliation on secondary state BRP plans covering 61% of overall grant expenditures. The auditor completed a reconciliation on the remaining expenditures and no significant differences were noted.



NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505

 [ND.gov/Auditor](https://nd.gov/Auditor)

 NDSAO@nd.gov

 701-328-2241

 Facebook.com/NDStateAuditor

 Linkedin.com/company/NDStateAuditor