



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Department of Public Instruction

Audit Report for the Biennium Ended June 30, 2019

Client Code 201





WHAT WE LOOKED AT

Our team audited the Department of Public Instruction which included reviewing financial transactions, expenditures and blanket bond coverage. We also reviewed enrollment and transportation data used to make state aid payments to school districts.

WHAT WE FOUND

Lack of Guidance and Monitoring



By enhancing the procedures of reporting and monitoring both bus miles driven and rides given, school districts and taxpayers may be better served.

Read more on page 5

LACK OF AUTHORITY

The Assistant Attorney Generals assigned to the Office of the State Auditor and the Department of Public Instruction determined neither agency had the authority to obtain supporting enrollment and transportation documentation from the school districts for the audit. State aid payments of \$1.9 billion and transportation payments of \$54 million were made to school districts during the audit period.

TABLE OF CONTENTS

INTRODUCTION 2

 Terms Used in Report 3

AUDIT RESULTS

 Enrollment Data Objective 4

 Conclusion and Background 4

***Lack of Guidance and Monitoring for School District Transportation Funding* . . 5**

 Conclusion and Background 5

 Statutory Objective 9

AUDIT PROCEDURES

 Enrollment Data Objective 10

 Transportation Data Objective 13

 Statutory Objective 15

 Statutory Criteria 16

 Authority and Standards 16

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

 Responses to LAFRC Audit Questions 17

 LAFRC Audit Communications 18

FINANCIAL STATEMENTS

 Statement of Revenues and Expenditures 19

 Statement of Appropriations 20

STATUS OF PRIOR RECOMMENDATIONS 21

APPENDIX A 22

KEY PERSONNEL

Allison Bader
MBA, AUDIT MANAGER

Kristi Morlock
MBA, AUDIT SUPERVISOR

Robert Sipes
CPA, CISA, SENIOR AUDITOR

Richard Fuher
CPA, MBA, SENIOR AUDITOR

Holly Runia
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 Public Instruction

July 29, 2020

We are pleased to submit this audit of the Department of Public Instruction 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 Superintendent Kirsten Baesler and her 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.

Average Daily Membership: the number of students for which a school district is financially responsible.

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.

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.

Edit Check: A test programmed into a system that assesses what was entered by a user against a set of rules built in the system.

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.

Non-Conforming Vans: A van that does not meet national school bus standards and is designed to carry from 11-15 passengers including the driver.

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.

Other Vehicle: Automobiles, station wagons, etc., with a rated capacity of 10 passengers or less, including the driver.

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.

STARS: State Automated Reporting System, online application for collecting data required for state and federal reporting.

Weighted Average Daily Membership: Average Daily Membership plus an additional amount or weight as described in N.D.C.C. 15.1-27-03.1 for the applicable period.

Audit Results

Enrollment Data

OBJECTIVE

Is the enrollment data used to calculate state aid payments to school districts complete and accurate?

CONCLUSION

The Assistant Attorney Generals assigned to the Office of the State Auditor and the Department of Public Instruction determined neither agency had the authority to request student records from school districts.

Because of this, we were not able to request student records from school districts to verify enrollment data submitted to the Department of Public Instruction was complete and accurate.

Since our team was not able to review student records at the school district level to check the district's data submission, the focus of our audit was on the online reporting system (STARS), data analysis, as well as reviews of student data by the Department of Public Instruction.

No significant data issues were identified with the enrollment data available to the Department of Public Instruction, which is used to calculate state aid payments to school districts.



In the biennium ended June 30, 2019, **\$1.9 billion** was paid as state aid to school districts.

BACKGROUND

The Department of Public Instruction utilizes enrollment data to calculate the state aid payments to school districts. In the biennium ended June 30, 2019, \$1.9 billion was paid as state aid to school districts.

State law (N.D.C.C. chapter 15.1-27) gives criteria for calculating the payments. One of the ways payments are calculated are by using "Weighted Average Daily Memberships". The Superintendent of Public Instruction is required by state law to determine each school district's weighted Average Daily Membership and add it to the district's Average Daily Membership.

Annually, approximately 170 public school districts certify enrollment data including their Average Daily Membership to the Department of Public Instruction at the end of the school year. Average Daily Membership is then used to calculate the funding for the next school year.

A single reporting error for one student could impact a school district's state aid by as much as \$13,119 depending on the district's size. Such errors could result in increased costs to the state or underfunded teachers or student programs at the district level.

To help ensure school districts are submitting complete and accurate enrollment data, the Department of Public Instruction:

- Provides training several times a year to school administrators and business managers.
- Implemented various edit checks in the State Automated Reporting System (STARS) to help detect bad data, such as students with overlapping enrollment dates within a district or across multiple districts.
- Reviews student data for excess Average Daily Membership.
- Each school district electronically signs a certification statement during the electronic data submission that states that it is a class A misdemeanor to make a false statement.

Audit Results

Transportation Data

OBJECTIVE

Is the transportation data used to calculate state aid payments to school districts complete and accurate?

FINDING
2019-01

Lack of Guidance and Monitoring for School District Transportation Funding

CONCLUSION

Our team was not able to determine if transportation data used to calculate state aid payments to school districts is complete and accurate. The Assistant Attorney Generals assigned to the Office of the State Auditor and the Department of Public Instruction determined neither agency had the authority to request necessary transportation documentation from the school districts.

The Department of Public Instruction should improve guidance and strengthen monitoring procedures surrounding transportation data that is submitted by each school district.

The lack of guidance as well as the lack of monitoring of transportation data provides school districts the potential to receive additional funding from the General Fund. For example, if a school district reports an additional 5,000 miles for a large bus for one of their in-city routes, the school district would receive an additional \$5,550 of General Funds for that route. If a school district reports an additional 25,000 miles for a large bus for one of their rural routes, the school would receive an additional \$27,750 of General Funds for that route.



DPI provided
\$54 million of General
Funds for transportation grant
payments to school districts
during the biennium.

BACKGROUND

The Department of Public Instruction provided \$54 million of General Funds for transportation grant payments to school districts during the biennium. School districts are expected to report transportation data including miles and rides each year. This data is used for transportation grant payments to school districts for the following school year. We reviewed transportation data that was submitted for the 2016-17 and 2017-18 school year as this data was used to make grant payments to the school districts during the 2017-18 and 2018-19 school year. In total, 43,611,025 miles and 30,344,245 rides were submitted for reimbursement by 177 school districts.

Transportation grant payments are calculated using numerous factors that include route types (see Appendix A, page 22), bus size, reimbursement rate, number of miles, and number of rides. (Reimbursement rates are either per mile or per ride as stated in 2017 Session Law, House Bill No. 1013, Section 13.)

The Department of Public Instruction implemented various edit checks in the STARS system to make sure transportation data is a positive value, required fields are filled out, and certain thresholds are not exceeded. In addition, each school district electronically signs a certification statement during the electronic data submission that states that it is a class A misdemeanor to make a false statement. Our team discovered that procedures are not implemented to look at prior year information to detect noticeable changes or lack of changes in data.

The transportation manual provided to school districts is the only guidance provided and does not define total annual miles. There is also no guidance provided to school districts on how to report transportation data so the number of miles and rides are inconsistently reported across school districts. Some school districts are using actual miles and rides while other school districts use prior year reporting because the interpretation of the Department of Public Instruction guidance is different. Because of the lack of guidance for consistent reporting, the Department of Public Instruction monitoring is unable to identify unusual activity and ensure accurate reporting since miles and rides may be reported in multiple ways.

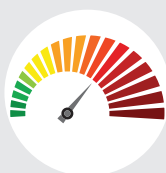
Several anomalies and other observations were identified with analytics that the Department of Public Instruction was unable to explain. These include:



CAPACITY

Expectation: Bus routes will not have 100% capacity every day of the school year. Students could be sick, on vacation, or picked up by parents.

Result: 5% of all routes (183 routes out of 3,757 total routes) have a capacity of 100% for the 2016-17 and 2017-18 school years for Extended Year, In-City, Rural, Special Education, Vocational Education, and Other Purposes route types.



ENROLLMENT VS: MILES AND RIDES

Expectation: Change in school districts' miles, rides and enrollment should generally trend in the same direction. For instance, a decrease in enrollment would most likely result in a decrease in rides and miles.

Result: 70% (117 out of 166 school districts with reported enrollment) of school districts change in miles, rides, and enrollment does not trend in the same direction for the audit period for city and rural route types.

Some examples of this include:

- Our audit identified 23 school districts with a decrease in enrollment, but an increase in miles and rides from the 2016-17 to 2017-18 school year. In one instance, a school enrollment decreased by six (65 to 59) students, but miles and rides increased 86% (169,400 to 314,300) and 91% (79,434 to 314,300). In this instance, the school self-reported the error a year later and refunded the overpayment. In another instance, a school enrollment decreased by 9%, but miles and rides increased by 96% (16,581 to 32,550) and 3,413% (551 to 19,358).
- We identified 11 school districts with a decrease in enrollment and rides, but an increase in miles from the 2016-17 to 2017-18 school year. In one instance, school enrollment and rides decreased by 57% (54 to 23) and 24% (15,050 to 11,458) however miles increased 241% (12,250 to 41,830).



Expectation: An increase in enrollment would reasonably result in an increase in rides and miles.

Result: Our audit identified nine school districts with an increase in enrollment, but a decrease in rides and miles from the 2016-17 to 2017-18 school year. In one instance, enrollment increased by 6% (85 to 90), but miles and rides decreased by 9% (59,325 to 53,792) and 42% (17,578 to 10,192), respectively.



MILES TRENDS

Expectation: It would not be reasonable for a school district to have the exact same miles for two or more years in a row.

Result: 9% of school districts (15 school districts out of 172 school districts) had 2 or more consecutive years with the exact same number of miles for rural, city, and special education route types with at least two of those consecutive years being in the audit period.

Result: 12% of school districts (20 school districts out of 172 school districts) had two or more consecutive years with the exact same number of miles for Rural, In-City, and Special Education route types with one of those years being in the audit period.



RIDE TREND

Expectation: It would not be reasonable for a school district to have the exact same rides for two or more years in a row.

Result: 8% of school districts (14 school districts out of 172 school districts) had two or more consecutive years with the exact same number of rides for rural, city, and special education route types with at least two of those years being in the audit period.

Result: 9% of school districts (15 school districts out of 172 school districts) had two or more consecutive years with the exact same number of rides for Rural, In-City, and Special Education route types with one of those years being in the audit period.



OTHER OBSERVATIONS

Ride Trend: 10% of school districts (17 school districts out of 172 school districts) had a change in rides between 30% and 33,134% from the 2016-17 to 2017-18 school year for rural, city, and special education routes.

Miles Trend: 11% of school districts (19 school districts out of 172 school districts) had a change in miles between 30% and 320% from the 2016-17 to 2017-18 school year for rural, city, and special education routes.

The lack of guidance as well as the lack of monitoring of transportation data provides school districts the potential opportunity for financial advantage to receive additional funding from the General Fund. For example, if a school district reports an additional 5,000 miles for a large bus for one of their in-city routes, the school district would receive an additional \$5,550 of General Funds for that route. If a school district reports an additional 25,000 miles for a large bus for one of their rural routes, the school would receive an additional \$27,750 of General Funds for that route.

Internal control standards require management to document policies in the appropriate level of detail to allow management to effectively monitor the control activity (GAO-14-704G para 12.03) Internal control standard require management to establish and operate monitoring activities to monitor the internal control system and evaluate the results. (GAO-14-704G para 16.01)

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.

to the Department of Public Instruction are also considered legal signatures. The North Dakota Attorney General allows 'signature by submission' and any submission of electronic data is considered to be signed. I recognize that it is a class A misdemeanor if I make a false statement when the statement is material and I do not believe it to be true (N.D.C.C. 12.1-11-02).

DEPARTMENT OF PUBLIC INSTRUCTION RESPONSE

The NDDPI agrees with the State Auditor on this finding.

Guidance is available providing districts with definitions and outlines how to submit correct data in STARS. [<https://www.nd.gov/dpi/sites/www/files/documents/STARS/help/Transportationhelp.pdf>] The guidance will be updated including a clearer definition of total annual miles and rides and reposted to STARS to be made readily available to districts by the spring of 2021.

We will also implement procedures to review data submissions beginning with the 2019-20 school year looking for:

- Comparison of vehicle capacity to reported annual rides.
- Comparison of trending miles and rides to district's enrollment.
- Comparison of year by year miles and rides looking for exact matches.
- Comparison of year by year looking for increases in excess of 30%.

If anomalies are discovered, Transportation Director will contact districts asking for explanations and track responses.

Please note that on the main page of STARS is a disclaimer (see below) and every year the districts must re-certify to enter the program. This includes submission of the transportation data.

I hereby certify that the school identified meets all statutory requirements for school approval as stated in the North Dakota Century Code. Electronic data submissions each year

Additionally, each July 1 the districts reaccept the below statement in STARS.

I, UserName, the duly authorized representative of one or more educational entities within the state of North Dakota, do hereby certify the accuracy and completeness of all information provided and/or submitted through this online system to the North Dakota Department of Public Instruction.



Other Results

STATUTORY 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, and evaluating blanket bond coverage.

CONCLUSION

No exceptions to our statutorily required audit testing were identified.



Audit Procedures

ENROLLMENT DATA

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 and the design activities for the information system. We also identified key controls significant to this audit objective related to the information and communication component of internal control, specifically the principles related to the use of quality information and communication externally for quality information. (GAO-14-704G § 10.03, 11.06, 13.04, 15.02)

We did not identify deficiencies in internal control that were significant within the context of our audit objective.

SCOPE

Our team reviewed the enrollment data for the 2017-18 and 2018-19 school years used to calculate Average Daily Membership. Average Daily Membership is a key component used to calculate state aid payments to school districts. State aid payments to school districts were reviewed in the 2018 and 2019 audits of the state's Comprehensive Annual Financial Report (CAFR). No

errors were found in regards to the calculation and payment amounts to school districts.

Our review was limited to the Department of Public Instruction's role to ensure enrollment data is complete and accurate. During the audit, a limitation was identified. The Assistant Attorney Generals assigned to the Office of the State Auditor and the Department of Public Instruction determined neither agency had the authority to request student records from the school districts to verify the enrollment data submitted to the Department of Public Instruction. For example, when a child enrolls in a public school, state law requires proof of identity of the child, immunization records, and school records from the previous school attended. These types of student records could have been used to verify students' existence.

METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Determined which school districts were exempted from using PowerSchool, the state's student information system, and the impact other systems have on Average Daily Membership calculations. (N.D.C.C. 15.1-07-33).
- Inspected the certification statement related to school district enrollment data submissions, including submitter/ time stamp. DPI reporting requirement.
- Tested the Average Daily Membership calculation (days present + days absent)/ 182 or school calendar days) for 100% of the students with an Average Daily Membership calculation based on days present and days absent (approximately 226,000 student IDs). This test accounted for approximately 97% of all students with a generated Average Daily Membership. The remaining 3% of the students (approximately 7,700 student IDs) had their Average Daily Membership calculated based on membership hours, which primarily impacted students enrolled in early childhood special education programs or students enrolled in alternative high schools. (N.D.C.C.

15.1-27-35(1)) in effect during the audit period).

- Reviewed student data to ensure students with an enrolled status of resident student were properly not assigned to a district, which is also a STARS edit check (100% test).
- Performed year-to-year comparisons of school districts' Average Daily Membership calculations to identify unusual fluctuations.
- Reviewed student data for potential duplicate students based on name and date of birth (100% test of approximately 239,000 student names).
- Analyzed enrollment data for students with Average Daily Memberships exceeding 1.00. (N.D.C.C. 15.1-27-35(3)).
- Ensured the Department of Public Instruction was properly adjusting for students with Average Daily Memberships exceeding 1.00.
 - o DPI adjusts for students with an Average Daily Membership exceeding 1.00 within the same school district.
 - o DPI also queries student data looking for certain students with an Average Daily Membership exceeding 1.10 that were enrolled across multiple school districts during the school year. If such students are identified, DPI forwards the student information to the applicable school districts to resolve any reporting issues.
- Ensured only pre-kindergarten students identified as being enrolled in a special education program had a generated Average Daily Membership calculation (100% test). (N.D.C.C. 15.1-27-35(3)(c)).
- Selected a sample of 25 out of 4,193 pre-kindergarten-special education students using random non-statistical sampling, and compared the student ID of the selected students to redacted individualized educational plans (IEP)

obtained from the Department of Public Instruction's Special Education Division to ensure students identified as being pre-kindergarten-special education had a corresponding IEP to support the enrolled status.

- Reviewed STARS coding used to ensure pre-kindergarten-special education students received an average of 4 hours of service per week enrolled to generate reimbursable Average Daily Membership. DPI policy.
- Determined if any school districts had a reduction in grade levels or dissolved and whether the Department of Public Instruction properly adjusted impacted district's Average Daily Membership. (N.D.C.C. 15.1-27-35.1 and 15.1-27-35.2).
- Inspected the Department of Public Instruction and South Dakota Department of Education's reconciliation of students with cross-border attendance related to 2017-18 cross-border enrollments. In addition, cross-border settlement documentation related to 2017-18 and 2018-19 cross-border enrollments was traced to amounts paid in ConnectND to the South Dakota Department of Education. (N.D.C.C. 15.1-29-02.1(3)).
- Tested the following STARS edit checks for ensuring accuracy of data submitted by school districts by observing the Department of Public Instruction staff demonstrate each edit check in STARS production using test students and school districts.
 - o STARS will not allow school districts to submit enrollment reports until all validation errors are corrected.
 - o Days present cannot be greater than 183 (certain school districts had 183 school calendar days).
 - o Overlapping student enrolled across districts.
 - o Overlapping student within districts.

- o State ID cannot be represented more than one time in the import file for the same school year, serving entity, and StartDate.

- o A student with the same name, date of birth but different State ID was recognized with a duplicate warning.

- o A special education student who is pre-kindergarten must have membership hours recorded in course 19150-Early Childhood Ed/Disabled.

- o This student's grade enrolled is not in the school's grade level organization.

- o Student with Resident District – Out of State must be Tuition – Out of State.

- o A student with an enrolled status of home-based, Out of State, Nonpublic Enrolled, Other State Placement must be enrolled in the district.

TRANSPORTATION DATA

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 design activities for the information system. (GAO-14-704G § 11.06)

Based on 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 identified a deficiency in internal control that was significant within the context of our audit objectives and based on the audit work performed. The deficiency is identified in Finding 2019-01.

SCOPE

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

The scope of this audit was to test the transportation data that was submitted from the 2016-17 and 2017-18 school year as this data was used to make the transportation aid payments to the school districts for the 2017-18 and 2018-19 school year. Transportation aid distribution was tested in the 2018 and 2019 audit of the state's Comprehensive

Annual Financial Report. No errors were noted in the annual CAFR testing for calculation and reimbursement rates used to provide transportation aid to school districts. During the performance of the audit, a limitation was identified. The Assistant Attorney Generals assigned to the Office of the State Auditor and the Department of Public Instruction determined neither agency had the authority to request necessary transportation documentation from the school districts.

During the performance of the audit, a limitation was identified. The Assistant Attorney Generals assigned to the Office of the State Auditor and the Department of Public Instruction determined neither agency had the authority to request necessary transportation documentation from the school districts.

METHODOLOGY

To meet this objective, we performed procedures to gain an understanding of the Department of Public Instructions procedures and analyzed transportation data submitted by the school districts as follows:

- Interviewed appropriate personnel.
- Reviewed DPI's STARS Transportation manual.
- Tested STARS edit checks for transportation data to ensure they are in place including vehicle has a capacity, vehicle listed does not have a capacity greater than 100 passengers, school buses have a capacity of nine or more, non-conforming vans have a capacity between 11-15, other vehicles have a capacity of 10 or less, total rides does not exceed capacity times total runs, miles per run are a positive value less than 500, annual rides and runs are a positive value, total annual rides and total annual runs has a value, and run miles is not greater than 300.
- Reviewed total annual rides and total annual miles for 172 school districts for In City, Rural, and Special Education route types over the past six school years (2013-14 to 2018-19) to identify any unusual trends or outliers.

The expectation is that it is not reasonable for a school district to have the exact same miles or rides for two or more years in a row.

- Compared the total number of routes for all school districts over the past six years (2013-14 to 2018-19) to identify any unusual trends in the number of routes for Extended Year, In City, Other Purpose, Rural, Vocational Education and Special Education route types.
- Reviewed 3,757 routes submitted for the 2016-17 and 2017-18 school year to compare the percent capacity to average ridership to identify how many routes have 90-100% capacity for Extended Year, In-City, Rural, Special Education, Vocational Education, and Other Purposes route types. The expectation is that bus routes won't have 100% capacity every day of the school year. Students could be sick, on vacation, or picked up by parents.
- Compared 2016-2017 and 2017-18 school year enrollment numbers to total miles and total rides submitted for those school years for 166 school districts for In City and Rural route types to identify any unusual trends.
- Reviewed and compared the fiscal year 2018 and 2019 payments for 175 school districts to identify noticeable increases or decreases in payments, as well as school districts with no change in payments.
- Analyze the effect that the change in miles and rides would cause a noticeable change in General Fund transportation grants given to school districts.

While an understanding of the transportation data was obtained and various elements of the data were reviewed, a limitation was identified that impacted our ability to obtain sufficient audit evidence to conclude on the stated objective. See "Scope" section for this objective on prior page.

STATUTORY OBJECTIVE

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. (GAO-14-704G §10.01, 10.10)

We did not identify deficiencies in internal control that were significant within the context of our audit objective.

SCOPE

This audit of the Department of Public Instruction is for the biennium ended June 30, 2019.

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:

- Interviewed appropriate agency personnel.
- Inspected documentary evidence.
- Observed the Department of Public Instruction's processes and procedures.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.

- 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 and if laws were being followed consistently. Internal control work included testing ConnectND budget limits, authorizations for appropriations and adjustments, segregated and appropriate payment approvals in testing operating and grant expenditures, appropriation adjustments and special appropriations tracked with unique coding, and final determination of procurement performed by an individual with proper level of training during procurement testing.

- Tested compliance with state laws including 2017 Session laws, emergency commission actions, procurement of expenditures, and ensured operating and grant expenditures were for a business purpose.

- Selected a sample of high-risk procurement transactions from ConnectND for further testing using random non-statistical sampling.

- Selected a sample of high-risk operating expenditure transactions from ConnectND for further testing using random non-statistical sampling. This allowed results to be projected to the populations.

- Performed an analysis of grant expenditures and selected a sample of high-risk transactions from ConnectND for further testing using random non-statistical sampling. This allowed results to be projected to the population.

STATUTORY CRITERIA

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 368 (S.B. 2272)

- o Section 14- \$6,000,000 from the foundation aid stabilization fund for providing rapid enrollment grants to school districts based on legislative criteria.

- o Section 15- \$500,000 from the foundation aid stabilization fund for providing English language learner grants to school districts based on legislative criteria.

- 2017 North Dakota Session Laws Chapter 12 (H.B. 1013)

- o Section 9- Ensured carryover funds from 2015-17 biennium to be used for providing program grants to leveraging the senior year, leadership program, continuing education grants, curriculum alignment grants, and teacher and principal evaluation system grants.

- o Section 21- \$2,100,000 in pass-through grants for writing projects, an entrepreneur program, and a mentoring program. Grant recipients established performance measures that were reviewed by the Department of Public Instruction and reported performance measure results to the Department of Public Instruction timely.

- Expenditures exceeding appropriation for emergency commission action. (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

- o For within appropriation limits. (State Constitution article 10 section 12)

- o Expenditures were for lawful and official purposes. (N.D.C.C. 44-08-05.1(1a))

- o Payments made pursuant to law only. (N.D.C.C. 54-44.1-10)

- Goods, services, and public improvements procured in accordance with state law. (N.D.C.C. Chapter 54-44.4, N.D.C.C. Chapter 48-01.2, N.D.A.C. Article 4-12)

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?

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 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 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 our finding in this report, 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?

The Department of Public Instruction has implemented all 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, 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 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 Capital Management (HCM) and the State Automated Reporting System (STARS) are high-risk information technology systems critical to the Department of Public Instruction.

None of the exceptions identified in the audit report are directly related to these systems.

Financial Statements

Statement of Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2019	JUNE 30, 2018
Revenue from Federal Government	\$ 144,005,039	\$ 131,192,718
Commodity Food Processing	605,806	584,204
Conference Registration Fees	216,482	192,941
Other Revenue	23,802	64,068
Transfers In	305,080,674	301,106,386
Total Revenue and Other Sources	\$ 449,931,803	\$ 433,140,317

EXPENDITURES AND OTHER USES	JUNE 30, 2019	JUNE 30, 2018
Grants	\$ 1,151,022,709	\$ 1,122,104,337
Salaries and Benefits	7,846,128	7,873,673
Professional Fees and Services	6,500,950	6,087,429
IT Contractual Services and Repairs	2,097,327	1,882,313
Data Processing/Telecommunications	878,470	1,146,875
Operating Fees and Services	885,740	799,489
Travel	493,794	549,825
Other Operating Expenses	352,672	325,287
Rent of Space	201,953	240,846
Professional Development	123,133	174,023
Lease/Purchase of Equipment	216,495	51,968
Transfers Out	7,392,925	3,299,895
Total Expenditures and Other Uses	\$ 1,178,012,296	\$ 1,144,535,960

Source: ConnectND Financials

Statement of Appropriations

For the Biennium Ended June 30, 2019

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Salaries and Wages	\$ 17,439,176	15,715,001	\$ 1,724,175
Operating Expenses	30,165,005	21,685,785	8,479,220
Integrated Formula Payments	1,931,204,163	1,918,414,040	12,790,123
Grants - Special Education	23,300,000	23,300,000	-
Grants - Transportation	55,400,000	54,302,673	1,097,327
Grants - Program Grants	6,910,711	6,761,772	148,939
Grants - Pass Thru Grants	2,898,000	2,898,000	-
Grants - Other Grants	272,882,705	263,433,695	9,449,010
Rapid Enrollment Grants	6,000,000	6,000,000	-
Power School	5,500,000	5,177,275	322,725
Transportation Efficiency	30,000	3,735	26,265
National Board Certification	120,000	120,000	-
Totals	\$ 2,351,849,760	\$ 2,317,811,976	\$ 34,037,784

EXPENDITURES BY SOURCE	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
General	\$ 1,436,302,695	\$ 1,423,099,588	\$ 13,203,107
Other	915,547,065	894,712,388	20,834,677
Totals	\$ 2,351,849,760	\$ 2,317,811,976	\$ 34,037,784

Source: ConnectND Financials



Status of Prior Recommendations

Noncompliance with Appropriation Laws (Finding 2017-1)

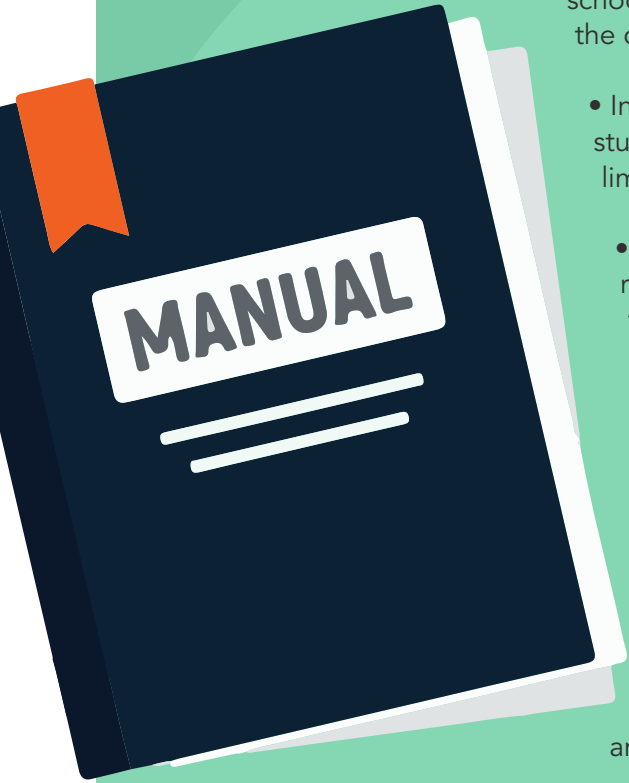
Implemented

Recommendation: We recommend that the Department of Public Instruction ensure spending remains within the amounts appropriated by the Legislature.

Status: Implemented. No errors were noted during our appropriation review.

State Automated Reporting System (STARS) Transportation Manual

ROUTE TYPE

- 
- Rural routes are those established for transporting students between home and school that are outside the incorporated limits of the city in which the district is located.
 - In-City routes are those established for transporting students between home and school within the incorporated limits of the city in which the district is located.
 - Family – to School routes are those where family members are reimbursed for transporting students within their care to and from school.
 - Family – to Bus routes are those where family members are reimbursed for transporting students within their care to and from a bus stop.
 - Special Education (Spec. Ed.) routes are those established for the sole purpose of transporting students with disabilities between home and school, or from school to school.
 - Vocational Education (Voc. Ed.) routes are those established for the sole purpose of transporting students between home and school, or from school to school for vocational programs.
 - Extended Year routes are those established for transporting students to and from school programs provided out-side the regular school year.
 - Public transit routes are used for situations where a public transit system is used to transport students to and from school.
 - Other Purpose routes are those not properly identified under any of the choices above. An example would be transporting students between schools during the school day.

nd.gov/dpi/sites/www/files/documents/STARS/help/Transportationhelp.pdf



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