

North Dakota State Auditor's Office

NORTH DAKOTA STATE LIBRARY

Audit Report for the Biennium Ended June 30, 2019

Client Code: 250



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 the following exceptions or defaults.



Violated Agency Appropriation Law

The State Library exceeded its operating expenses by \$16,111 after audit corrections were made.
See page 2.



Violated Appropriation Law for Grants to Public Libraries

The State Library exceeded its appropriation for state aid to public libraries by \$19,092.
See page 3.



Improper Distribution of State Aid to Public Libraries

The State Library made incorrect eligibility determinations and misspent \$12,458 on ineligible libraries.
See page 4.



Lack of City/County Auditor Certified Applications

The State Library accepted applications without the required city/county auditor certifications.
See page 5.

KEY PERSONNEL

State Auditor's Office Staff

Allison Bader, MBA, Audit Manager
Kristi Morlock, MBA, Audit Supervisor
Rich Fuher, CPA, Senior Auditor
Holly Runia, Auditor
Paige Chapman, M.Acc, Auditor

Client Staff Contacts

Mary Soucie, State Librarian
Cynthia Clairmont-Schmidt, Asst. State Librarian
Michele Balliet Unrath, Administrative Assistant II

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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

September 10, 2019

The Honorable Kirsten Baesler, Superintendent of Public Instruction
Ms. Mary Soucie, State Librarian

We are pleased to submit this audit of the North Dakota State Library 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 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 the State Librarian 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

The audit identified four findings which are detailed below.

Noncompliance with Appropriation Laws (Finding 19-01)

Condition:

The State Library violated state law for appropriation authorized by the legislature in the 2017 Session Laws by inconsistently charging similar costs between the operating expenses line and the grants line. This resulted in \$79,766 of costs charged to grants that should have instead been charged to operating expenses. If these costs had been charged correctly, the State Library would have exceeded appropriation in the operating expenses line by \$16,111.

Money allocated for certain line items (such as grants) cannot be used for other purposes (such as operating expenses) without approval by the Emergency Commission to first move the appropriation between line items.

Criteria:

North Dakota Century Code (N.D.C.C.) section 54-16-03 states that it is unlawful for a state officer to expend, or agree to contract to expend, any amount in excess of the sum appropriated for that expenditure, and may not expend an amount appropriated for any specific purpose of fund or for any other purpose without prior approval by the Emergency Commission in the form of a transfer approval or expenditure authorization.

According to the United States Government Accountability Office *Standards for Internal Control in the Federal Government*, management should design preventative or detective control activities for accurate recording of transactions. (GAO-14-704G para 10.03 and 10.04)

Cause:

The State Library acknowledged that in the past, certain costs had been split between the operating expenses line and the grants line. In addition, the State Library coded grants as operating expenses to avoid overspending their grants line appropriation.

A contributing factor to this finding is the lack of guidance provided by the ND Office of Management and Budget, and the ND Legislative Council defining what can be included in the various appropriation line items.

Effect or Potential Effect:

The State Library exceeded its operating expenses appropriation by \$16,111 after audit corrections were made; however, the State Library did not exceed their overall final agency appropriation.

Recommendation:

We recommend the State Library comply with appropriation laws by ensuring costs are charged to the proper appropriation lines.

State Library Response:

The North Dakota State Library agrees with the audit recommendation 19-01. The State Library will comply with appropriation laws by ensuring costs are charged to the proper appropriation lines.

Noncompliance with Appropriation Laws for Grants to Public Libraries (Finding 19-02)

Condition:

The State Library violated state law for appropriation authorized by the legislature in the 2017 Session Laws related to state aid to public libraries. For the biennium, the State Library exceeded the amount appropriated by \$19,092.

Criteria:

2017 Session Law, chapter 12, section 18, appropriated \$1,737,528 to the State Library for state aid to public libraries from the state's general fund. Of that amount, no more than one-half could be expended during the fiscal year 2018.

According to the United States Government Accountability Office *Standards for Internal Control in the Federal Government*, management should design preventative or detective control activities to achieve objectives and respond to risks. (GAO-14-704G para 10.02 and 10.04)

Cause:

The majority of the error amount (\$19,038) was related to the State Library choosing not to redo the fiscal year 2018 distribution amounts after determining a public library that appealed was, in fact, eligible for funds. The State Library chose to make the payment out of their operating expenses line rather than adjust the fiscal year 2019 distribution to remain within the total budget allocated to their grants line.

Effect or Potential Effect:

The State Library exceeded its two-year appropriation for state aid to public libraries by \$19,092 and did not accurately calculate the distribution.

Recommendation:

We recommend the State Library comply with the appropriation laws related to state aid to public libraries by ensuring accurate distribution.

State Library Response:

The North Dakota State Library agrees with the audit recommendation 19-02. The State Library will comply with the appropriation laws related to state aid to public libraries by ensuring accurate distribution.

Improper Distribution of State Aid to Public Libraries (Finding 19-03)**Condition:**

The State Library made the incorrect eligibility determination for 3 of 97 public libraries that received state aid in fiscal year 2018. Two public libraries were not eligible to receive state aid; however, both received state aid totaling \$12,458. Additionally, a third public library did not receive \$19,038 initially, even though it met the criteria for state aid.

Criteria:

N.D.C.C. section 54-24.2-02.2 states, in part, that a public library is not eligible to receive funds under chapter 54-24.2 during a fiscal year if the governing body has diminished, from the average of the three preceding fiscal years, the appropriation, in dollars, derived from the mill levy for public library services under N.D.C.C. section 40-38-02.

According to the United States Government Accountability Office *Standards for Internal Control in the Federal Government*, management should design preventative or detective control activities to achieve objectives and respond to risks of manual overrides. (GAO-14-704G para 10.02 and 10.04)

Cause:

The calculation used to determine state aid to public libraries was altered for select public libraries for the public libraries to be eligible for state aid. For the fiscal year 2018 distribution, the State Library incorrectly included other public funds not derived from the mill levy in the local share of funding calculation. For the fiscal year 2019 distribution, the State Library corrected the calculation to exclude other public funds; however, incorrect amounts were carried forward in the calculation from prior years to determine eligibility.

Effect or Potential Effect:

Incorrect eligibility determinations impact all eligible public libraries. In fiscal year 2018, the \$12,458 paid out to public libraries not eligible to receive state aid proportionately reduced payments to eligible public libraries by the same amount. In addition, the State Library used its operating expenses appropriation for the \$19,038 payment to the public library that was initially deemed ineligible.

Recommendation:

We recommend the State Library ensure eligibility is properly determined to calculate the state aid distribution.

State Library Response:

The North Dakota State Library agrees with the audit recommendation 19-03. The State Library will ensure eligibility is properly determined to calculate the state aid distribution.

Lack of City/County Auditor Certified Applications (Finding 19-04)**Condition:**

The State Library used an incorrect taxable valuation to calculate a public library's incentive for local funding. The State Library has been filling in certain fields of the state financial aid applications for public libraries. Some of the information is obtained from the North Dakota Tax Department instead of having the public libraries complete the applications and have the information certified by the auditors of the city or county operating the library, as required by law.

Criteria:

N.D.C.C. section 54-24.2-03 provides an incentive for local funding to public libraries eligible to receive funds. Funds allocated to the eligible public libraries are to be modified in accordance with the formula listed in the section. The section also states, in part, the computation of mills must be based upon the levy on the taxable valuation and the mill levy equivalent of other public funds received and deposited in the library fund for the operation of the library by the governing body during the preceding fiscal year as certified by the auditor of the city or county operating the library.

Cause:

The State Library thought the taxable valuation for the city public library needed to be subtracted from the taxable valuation for the county public library and populated the taxable valuation field on the county public library's application with the difference. Since the county public library didn't detect this error, the State Library ended up using the incorrect amount in the state aid distribution.

Effect or Potential Effect:

For fiscal years 2018 and 2019, a public library received an overpayment of approximately \$10,000 each year while other eligible public libraries were underpaid by their proportionate share of the error amount.

Recommendation:

We recommend the State Library discontinue the practice of populating portions of the state financial aid applications for public libraries and ensure the applications are certified by the auditors of the city or county operating the library.

State Library Response:

The North Dakota State Library agrees with the audit recommendation 19-04. The State Library will discontinue the practice of populating portions of the state financial aid applications for public libraries and ensure the applications are certified by the auditors of the city or county operating the library.

Internal Control

We gained an understanding of internal control surrounding these areas and concluded on 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 (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified deficiencies in internal control that were significant within the context of our audit objective and based upon the audit work performed. The deficiencies are identified in Findings 19-01, 19-02 and 19-03.

We also noted other matters involving internal control that we have reported to the management of the State Library in a management letter dated September 10, 2019.

Scope

This audit of the State Library is for the biennium ended June 30, 2019.

The State Library's sole location is in Bismarck. This location 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.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed the State Library's processes and procedures.

- Inspected documentary evidence.
- Reconciled federal revenue to support provided by the Institute of Museum and Library Services.
- Tested compliance with appropriation laws and regulations including 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.
- Tested compliance with laws and internal control related to state aid to public libraries.
- 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 federal and purchasing card expenditures, 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 State Library has been conducted by the Office of the State Auditor according to authority within N.D.C.C. 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 the policy of the ND 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> | | |
| Federal Revenue | \$ 1,073,616 | \$ 903,131 |
| Miscellaneous Revenue | 44,318 | 68,825 |
| Total Revenues and Other Sources | \$ 1,117,934 | \$ 971,956 |
| <u>Expenditures and Other Uses:</u> | | |
| Salaries and Benefits | \$ 1,983,936 | \$ 1,955,078 |
| Grants | 1,100,608 | 1,016,537 |
| Resource Materials | 334,233 | 312,483 |
| Professional Fees and Services | 195,307 | 152,094 |
| IT Data Processing and Communications | 113,798 | 120,962 |
| Postage | 80,283 | 532 |
| Travel | 55,815 | 48,714 |
| Rentals and Leases | 32,705 | 33,224 |
| Printing and Supplies | 29,474 | 21,410 |
| Equipment | 19,980 | |
| Miscellaneous Expenditures | 19,127 | 18,002 |
| Professional Development | 19,106 | 17,775 |
| Total Expenditures and Other Uses | \$ 3,984,372 | \$ 3,696,811 |

Source: ConnectND Financials adjusted for aggregate errors

Statement of Appropriations

For the Biennium Ended June 30, 2019

| Expenditures by Line Item: | Final Appropriation | Expenditures | Unexpended Appropriation |
|-----------------------------------|----------------------------|----------------------------|---------------------------------|
| Salaries and Wages | \$ 4,152,758 | \$ 3,939,014 | \$ 213,744 |
| Operating Expenses | 1,604,075 | 1,620,186 | (16,111) |
| Grants | <u>2,233,528</u> | <u>2,117,145</u> | <u>116,383</u> |
| Totals | <u>\$ 7,990,361</u> | <u>\$ 7,676,345</u> | <u>\$ 314,016</u> |
| Expenditures by Source: | | | |
| General | \$ 5,618,301 | \$ 5,607,870 | \$ 10,431 |
| Other | <u>2,372,060</u> | <u>2,068,475</u> | <u>303,585</u> |
| Totals | <u>\$ 7,990,361</u> | <u>\$ 7,676,345</u> | <u>\$ 314,016</u> |

Source: ConnectND Financials adjusted for aggregate errors

Management Letter (Informal Recommendations)

September 10, 2019

Mary J. Soucie
State Librarian
North Dakota State Library
604 E Boulevard Avenue
Bismarck, ND 58505

Dear Ms. Soucie:

We have performed an audit of the State Library for the biennium ended June 30, 2019 and have issued a report thereon. As part of our audit, we gained an understanding of the State Library's internal control structure to the extent we considered necessary to achieve our audit objective. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objective and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted a certain condition we did not consider reportable within the context of your audit report. This condition related to an area of general business practice or a control issue that had no significant bearing on the administration of federal funds. We do, however, want to present our recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider its status.

The following present our informal recommendation.

Informal Recommendation 19-1: We recommend the State Library ensure proper support for federal expenditures including written agreements for professional services and honoraria.

Management of the State Library agreed with the recommendation.

I encourage you to call me at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Allison Bader
Audit Manager

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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