

Department of
Public Instruction
BISMARCK, NORTH DAKOTA

Audit Report

For the biennium ended June 30, 2013

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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STATE AUDITOR
ROBERT R. PETERSON



PHONE
(701) 328 - 2241
FAX
(701) 328 - 1406

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

Transmittal Letter

December 26, 2013

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
The Honorable Kirsten Baesler, Superintendent, Department of Public Instruction

We are pleased to submit this audit of the Department of Public Instruction for the biennium ended June 30, 2013. 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.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Michael W. Schmitcke, CPA. Cindi Pedersen, CPA, 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 Baesler and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Department of Public Instruction (Department) is required to enforce all state statutes and federal regulations pertaining to the establishment and maintenance of public schools and related programs, and supervise the North Dakota School for the Deaf, Blind/Vision Services, and the State Library. The Department is to operate efficiently and effectively, expand the delivery options that increase education opportunities for all North Dakota citizens, evaluate and communicate education policy and vision to all North Dakota citizens, and serve as an advocate for adequate financial resources to support public education.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

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 unqualified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

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 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.

Yes, a management letter was issued and is included on page 17 of this report, along with management's response.

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, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

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 Resource Management System (HRMS), the State Automated Reporting System including Foundation Aid Payment System module, and the NDFoods program are high-risk information technology systems critical to the Department of Public Instruction.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Department of Public Instruction for the biennium ended June 30, 2013 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Department of Public Instruction's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Department of Public Instruction and are they in compliance with these laws?
3. Are there areas of the Department of Public Instruction's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Department of Public Instruction is for the biennium ended June 30, 2013. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department of Public Instruction has operations in the following locations. Each location was included in the audit scope:

- Central Office (State Capitol)
- North Dakota Vision Services/School for the Blind (Grand Forks)
- North Dakota School for the Deaf (Devils Lake)
- North Dakota State Library (Bismarck)

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- 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.
- Reviewed prior year audit workpapers.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were

operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Reviewed applicable chapters of North Dakota Century Code as well as the 2009 and 2011 Session Laws.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed the Department of Public Instruction's processes and procedures.
- Tested significant internal controls related to the NDFoods computer system.
- Documented the financial and programmatic procedures utilized by the Department over grant funds.

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

Discussion and Analysis

The accompanying financial statements have been prepared to present the Department of Public Instruction's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2013, operations of the Department of Public Instruction were primarily supported by appropriations from the state's general fund. This is supplemented by federal and special funding.

Financial Summary

School for the Deaf, Vision Services/School for the Blind, and the State Library have been combined with the Department of Public Instruction for financial statement reporting purposes.

Revenues and other sources consisted primarily of federal funds, as well as transfers from the State Tuition and Common Schools Funds. Other revenues during the audit period include payments for processing of food commodities, rent of building space, and conference registration fees. These all remained fairly constant for the Department of Public Instruction, decreasing only slightly. Total revenues were \$195,092,973 for the year ended June 30, 2013 as compared to \$207,200,933 for the year ended June 30, 2012. The decrease in total revenue for fiscal year 2013 was mainly due to a decrease in Transfers In for the Education Jobs grant and federal revenue.

Total expenditures and other uses for the Department of Public Instruction were \$842,834,976 for the year ended June 30, 2013 as compared to \$815,180,436 for the prior year. The increase in grant expenditures for the audited period reflects primarily an increase in foundation aid payments. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The Department of Public Instruction had two significant variances between the final budgeted and actual amounts for the biennium ended June 30, 2013.

The unexpended appropriation authority in the Grants – Other Grants line item was mainly due to the authorization to spend \$25 million per House Bill 1013, section 3 of the 2013 Legislative Session which was declared an emergency measure. The authority was not needed during the biennium. In addition, the amount of federal funding has decreased which resulted in less federal grants paid to school districts.

The unexpended appropriation authority in the Grants – Mill Levy Reductions line item was mainly due to the difference in projected and actual taxable valuation used in the grant calculations.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$ 137,201,510	\$ 142,302,511
Commodity Food Processing	638,320	715,982
Rents	291,893	289,639
Conference Registration Fees	181,011	169,501
Other Revenue	245,070	246,455
Transfers In	56,535,169	63,476,845
Total Revenues and Other Sources	<u>\$ 195,092,973</u>	<u>\$ 207,200,933</u>
<u>Expenditures and Other Uses:</u>		
Grants	\$ 810,515,747	\$ 784,230,273
Salaries and Benefits	13,156,101	12,623,118
Professional Services	7,497,283	7,712,494
Data Processing / Telecommunications	3,122,276	2,751,232
Operating Fees and Services	728,717	1,376,619
Travel	724,393	904,635
Supplies	625,396	632,328
IT Contractual Services and Repairs	587,061	79,805
Professional Development	276,860	198,162
Lease / Purchase of Equipment	265,630	269,764
Printing / Postage	252,511	216,493
Lease of Space	236,538	234,746
Utilities	185,561	154,879
Other Operating Expenses	566,838	402,645
School for the Deaf Building Repairs	967,439	305,070
Transfers Out	3,126,625	3,088,173
Total Expenditures and Other Uses	<u>\$ 842,834,976</u>	<u>\$ 815,180,436</u>

Statement of Appropriations (Department of Public Instruction)

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 14,409,300	\$ 2,500	\$ 14,411,800	\$ 13,229,452	\$ 1,182,348
Operating Expenses	29,683,187		29,683,187	25,652,855	4,030,332
Integrated Formula Payments	918,459,478	11,214,423	929,673,901	929,265,751	408,150
Grants-Special Education	16,000,000		16,000,000	16,000,000	
Grants-Transportation	48,500,000		48,500,000	48,500,000	
Grants-Other Grants	309,609,393	545,000	310,154,393	263,995,515	46,158,878
Grants-Mill Levy Reductions	341,790,000		341,790,000	331,585,019	10,204,981
Education Jobs Fund	21,517,716	(12,231,795)	9,285,921	9,217,832	68,089
Transportation Efficiency	30,000		30,000	5,830	24,170
National Board Certification	185,000		185,000	35,050	149,950
Totals	<u>\$1,700,184,074</u>	<u>\$ (469,872)</u>	<u>\$1,699,714,202</u>	<u>\$1,637,487,304</u>	<u>\$ 62,226,898</u>
Expenditures by Source:					
General Fund	\$1,243,980,651	\$ 9,547,500	\$1,253,528,151	\$1,241,231,311	\$ 12,296,840
Other Funds	456,203,423	(10,017,372)	446,186,051	396,255,993	49,930,058
Totals	<u>\$1,700,184,074</u>	<u>\$ (469,872)</u>	<u>\$1,699,714,202</u>	<u>\$1,637,487,304</u>	<u>\$62,226,898</u>

Appropriation Adjustments:

The \$2,500 increase to the Salaries and Wages line item was transferred by the Office of Management and Budget as authorized by Senate Bill 2015, section 7 of the 2011 Legislative Session. The increase was used to pay for an internship at the Department of Public Instruction through the Office of Management and Budget's State Student Internship Program.

The \$11,214,423 increase in spending authority to the Integrated Formula Payments line item consisted of the following adjustments:

- \$8,000,000 adjustment was authorized by Senate Bill 2013, section 19 of the 2011 Legislative Session. This bill authorized the first \$8,000,000 of any remaining appropriations in the 2009-2011 biennium Grants – School Aid line item be spent to provide State Aid payments to schools.

- \$1,000,000 adjustment was authorized by Senate Bill 2013, section 18 of the 2011 Legislative Session. This bill authorized the first \$1,000,000 of any remaining appropriations in the 2009-2011 biennium Grants – Transportation line item be spent to provide State Aid payments to schools.
- \$2,214,423 adjustment was authorized by Senate Bill 2013, section 7 of the 2011 Legislative Session. This section appropriated any additional monies in the state tuition fund that become available for distribution to public schools by the Department of Public Instruction.

The \$545,000 increase in spending authority to the Grants – Other Grants line item consisted of the following adjustments:

- \$500,000 adjustment was authorized by Senate Bill 2013, section 10 of the 2011 Legislative Session. This bill authorized after the first \$8,000,000, as noted in the Integrated Formula Payments line item above, the next \$500,000 of any remaining appropriations in the 2009-2011 biennium Grants – School Aid line item must be used to provide adult education learning center grants.
- \$45,000 adjustment was authorized by House Bill 1023 of the 2013 Legislative Session. This bill was a deficiency appropriation for the purpose of defraying expenses for the 2011-2013 biennium.

The \$12,231,795 decrease in spending authority to the Education Jobs Fund line item consisted of the following adjustments:

- (\$12,549,580) adjustment was authorized by Senate Bill 2013, section 24 of the 2011 Legislative Session. This bill was passed as an emergency bill and as a result, the Department spent this amount in the 2009-2011 biennium. The 2011-2013 appropriation for this line was reduced by the expenditures incurred during the prior biennium.
- \$317,785 adjustment was authorized by the Emergency Commission to accept additional federal funds from the U.S. Department of Education for the Education Jobs Fund.

Expenditures Without Appropriations Of Specific Amounts:

Conference Fund is non-appropriated per OMB policy 211 (\$335,359 of expenditures for this biennium).

Insurance recoveries has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$1,045 of expenditures for this biennium).

Revolving Printing Fund has a continuing appropriation authorized by NDCC section 15.1-03-03 (\$9,096 of expenditures for this biennium).

Statement of Appropriations (State Library)

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 3,450,359		\$ 3,450,359	\$ 3,394,878	\$ 55,481
Operating Expenses	1,695,726		1,695,726	1,635,569	60,157
Grants	2,252,500		2,252,500	2,251,714	786
Totals	<u>\$ 7,398,585</u>		<u>\$ 7,398,585</u>	<u>\$ 7,282,161</u>	<u>\$ 116,424</u>
Expenditures by Source:					
General Fund	\$ 5,263,975		\$ 5,263,975	\$ 5,263,134	\$ 841
Other Funds	2,134,610		2,134,610	2,019,027	115,583
Totals	<u>\$ 7,398,585</u>		<u>\$ 7,398,585</u>	<u>\$ 7,282,161</u>	<u>\$ 116,424</u>

Expenditures Without Appropriations Of Specific Amounts:

Conference Fund is non-appropriated per OMB policy 211 (\$6,008 of expenditures for this biennium).

Statement of Appropriations (School for the Deaf)

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 5,932,638		\$ 5,932,638	\$ 5,526,720	\$ 405,918
Operating Expenses	1,633,911		1,633,911	1,500,040	133,871
Capital Assets Construction	1,040,230	\$ 200,000	1,240,230	1,232,580	7,650
Carryover		118,677	118,677	118,630	47
Grants	200,000	26,934	226,934	150,787	76,147
Totals	<u>\$ 8,806,779</u>	<u>\$ 345,611</u>	<u>\$ 9,152,390</u>	<u>\$ 8,528,757</u>	<u>\$ 623,633</u>
Expenditures by Source:					
General Fund	\$ 6,718,772	\$ 145,611	\$ 6,864,383	\$ 6,785,955	\$ 78,428
Other Funds	2,088,007	200,000	2,288,007	1,742,802	545,205
Totals	<u>\$ 8,806,779</u>	<u>\$ 345,611</u>	<u>\$ 9,152,390</u>	<u>\$ 8,528,757</u>	<u>\$ 623,633</u>

Appropriation Adjustments:

The \$200,000 increase in the Capital Assets line item was approved by the Emergency Commission to allow the School for the Deaf to receive additional funds from the Resource Center for Deaf and Hard of Hearing for facility updates.

The \$118,677 increase in the Construction Carryover line item was approved by OMB to allow the School for the Deaf to complete a backup power generator project and parking lot improvements.

The \$26,934 increase in the Grants line item was authorized by Senate Bill 2155, section 1 of the 2009 Legislative Session to provide grants to assist institutions under the control of the State Board of Higher Education with the cost of interpreters and real-time captioning for students who are deaf or hard of hearing for the 2009-2011 biennium. The bill allowed any funds remaining at the end of the biennium to be carried forward to the 2011-2013 biennium.

Expenditures Without Appropriations Of Specific Amounts:

Conference Fund is non-appropriated per OMB policy 211 (\$6,450 of expenditures for this biennium).

Statement of Appropriations (School for the Blind/Vision Services)

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 3,815,825		\$ 3,815,825	\$ 3,592,867	\$ 222,958
Operating Expenses	751,506		751,506	712,126	39,380
Capital Improvements	65,000		65,000	59,739	5,261
Totals	<u>\$ 4,632,331</u>		<u>\$ 4,632,331</u>	<u>\$ 4,364,732</u>	<u>\$ 267,599</u>
Expenditures by Source:					
General Fund	\$ 3,797,240		\$ 3,797,240	\$ 3,797,127	\$ 113
Other Funds	835,091		835,091	567,605	267,486
Totals	<u>\$ 4,632,331</u>		<u>\$ 4,632,331</u>	<u>\$ 4,364,732</u>	<u>\$ 267,599</u>

Expenditures Without Appropriations Of Specific Amounts:

Visual Aids, Devices, and Appliances Fund has a continuing appropriation authorized by NDCC section 25-06-10 (\$12,927 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2013, we identified the following areas of the Department of Public Instruction's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the NDFoods computer system.
- Controls surrounding the State Automated Reporting System including the Foundation Aid Payment System module.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

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 did not identify any significant deficiencies in internal control.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested the Department of Public Instruction's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper limitation of grants to public libraries in the first year of the biennium to one-half the amount appropriated (Senate Bill 2013, section 14 of the 2011 Legislative Session).
- Proper payment of up to \$800,000 in grants to regional education associations to assist each association with the cost of compensating a coordinator (Senate Bill 2013, section 9 of the 2011 Legislative Session).
- Proper payment of up to \$800,000 in reimbursements to school districts or special education units for their gifted and talented programs (Senate Bill 2013, section 12 of the 2011 Legislative Session).
- Proper payment of up to \$5,000,000 in grants to school districts that experience rapid enrollment growth (Senate Bill 2150, section 34 of the 2011 Legislative Session).
- Proper administration of state aid to public libraries (NDCC Chapter 54-24.2).
- Proper use of the following legally restricted funds:
 - Vision Aids and Appliances Fund.
 - Displaced Homemakers Fund.
 - Revolving Printing Fund.
 - National Board Certification Fund.
- Application of proper statutory rates relating to revenue.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2011 North Dakota Session Laws chapter 39).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted a certain inconsequential or insignificant instance of non-compliance that we have reported to management of the Department of Public Instruction in a management letter dated December 26, 2013.

Operations

This audit did not identify areas of Department of Public Instruction's operations where we determined it was practical at this time to help to improve efficiency or effectiveness. However, we did certain matters involving operations that we have reported to management of the Department of Public Instruction in a management letter dated December 26, 2013.

Management Letter (Informal Recommendations)

December 26, 2013

The Honorable Kirsten Baesler, Superintendent
Department of Public Instruction
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Ms. Baesler:

We have performed an audit of the Department of Public Instruction for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Public Instruction's internal control structure to the extent we considered necessary to achieve our audit objectives. 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 objectives including those related to internal control and compliance with laws and regulations 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 certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

Legislative Intent

Informal Recommendation 13-1: We recommend the North Dakota State Library review North Dakota Century Code for authorization of their State Library special revenue operating fund and obtain authorization, if necessary.

Operational Improvements

Informal Recommendation 13-2: We recommend the Department of Public Instruction develop appropriate monitoring and evaluation methods for determining whether outcomes of grant projects were proper. The monitoring and evaluation methods should include the following:

- Document and communicate expected project results to grantees.
- Develop consequences for not meeting expected results and methods to evaluate project results.
- Require reports summarizing the results of the completed project.
- Develop performance measures.
- Develop a performance evaluation process.
- Develop methods to review various types of expenditures to ensure they were for grant purposes.

Informal Recommendation 13-3: We recommend the Department of Public Instruction properly review grant expenditures to ensure expenditures were for costs allowable under the grant. In addition, conduct site visits or desk reviews to verify construction or remodel projects were completed at the school districts.

Management of the Department of Public Instruction agreed with these recommendations.

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

Sincerely,



Michael W. Schmitcke, CPA
Auditor In-charge

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241