

Department of  
Public Instruction  
BISMARCK, NORTH DAKOTA

**Audit Report**

For the Biennium ended June 30, 2015

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

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December 22, 2015

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, 2015. 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. Paul Welk, 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 black ink that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## *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 unmodified 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?*

There were no 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 18 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***

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## **Audit Objectives**

The objectives of this audit of the Department of Public Instruction for the biennium ended June 30, 2015 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, 2015. 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.
- 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 that 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 2013 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.
- Tested significant internal controls related to the Foundation Aid Program.
- Documented the financial and programmatic procedures utilized by the Department of 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***

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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, 2015, 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 the 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 the processing of food commodities, rent of building space, and conference registration fees. These all remained fairly constant for the Department of Public Instruction, increasing only slightly with the exception of rent of building space which declined slightly. Total revenues and other sources were \$201,708,879 for the year ended June 30, 2015 as compared to \$197,673,710 for the year ended June 30, 2014. The increase in total revenue for fiscal year 2015 was due to an increase in federal revenue.

Total expenditures and other uses for the Department of Public Instruction were \$1,072,693,830 for the year ended June 30, 2015 as compared to \$1,027,545,075 for the prior year. The increase in total expenditures for the audited period reflects primarily an increase in grant expenditures related to foundation aid payments. All other expenditures remained fairly constant.

### ***Analysis of Significant Variances – Budgeted and Actual Expenditures***

The Department of Public Instruction had a significant variance in the operating expenses line item. The following items contributed to the variance:

- The 2012 Statewide Longitudinal Data Systems Grant was spent slower than budgeted and as a result the Department received an extension to spend the grant until June 30, 2016.
- The Department entered into a state assessment contract with a new vendor for the biennium under audit and with this new vendor a significant cost savings was experienced.
- The Department saw a decline in funds available for federal administration in several grants during the biennium resulting in additional federal spending authority in the operating expenses line item.

# Financial Statements

## Statement of Revenues and Expenditures

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$126,809,605	\$123,301,409
Commodity Food Processing	514,763	459,995
Conference Registration Fees	344,295	199,518
Rents	238,186	279,717
Other Revenue	291,756	281,907
Transfers in	73,510,274	73,151,164
<b>Total Revenues and Other Sources</b>	<b><u>\$201,708,879</u></b>	<b><u>\$197,673,710</u></b>
<b><u>Expenditures and Other Uses:</u></b>		
Grants	\$1,041,438,195	\$996,918,417
Salaries	14,366,936	13,831,660
Professional Services	5,795,318	5,552,603
Repairs and Maintenance	2,463,334	1,500,670
IT Contractual Services and Repairs	966,570	658,731
Data Processing/ Telecommunications	835,719	1,625,461
Travel	833,457	757,807
Operating Fees	781,699	706,716
Supplies	768,068	682,173
Professional Development	320,929	262,897
Purchase/Lease of equipment	313,240	198,342
Lease of Space	258,375	271,398
Utilities	196,387	197,242
Printing/Postage	192,578	166,137
Other Operating Expenses	366,166	365,633
Transfers Out	2,796,859	3,849,188
<b>Total Expenditures and Other Uses</b>	<b><u>\$1,072,693,830</u></b>	<b><u>\$1,027,545,075</u></b>

**Statement of Appropriations (Department of Public Instruction)**

**For The Biennium Ended June 30, 2015**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 15,940,953	\$ 335,460	\$ 16,276,413	\$ 14,278,367	\$ 1,998,046
Accrued Leave Payments	322,068		322,068	50,867	271,201
Operating Expenses	29,730,802	1,570,098	31,300,900	18,394,642	12,906,258
Integrated Formula Payments	1,752,100,000	408,150	1,752,508,150	1,713,750,475	38,757,675
Grants – Special Education	16,500,000		16,500,000	16,500,000	
School District Safety Grants	3,000,000		3,000,000	2,150,870	849,130
Grants – Transportation	53,500,000		53,500,000	53,492,406	7,594
Grants – Other Grants	286,166,261	6,302,600	292,468,861	255,878,494	36,590,367
Initiative Funding Pool	3,200,000	(3,200,000)			
Transportation Efficiency	30,000		30,000	3,442	26,558
National Board Certification	120,000		120,000	120,000	
<b>Totals</b>	<u>\$ 2,160,610,084</u>	<u>\$ 5,416,308</u>	<u>\$ 2,166,026,392</u>	<u>\$ 2,074,619,563</u>	<u>\$ 91,406,829</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 1,723,613,325	\$ 5,416,308	\$ 1,729,029,633	\$ 1,684,501,855	\$ 44,527,778
Other Funds	436,996,759		436,996,759	390,117,708	46,879,051
<b>Totals</b>	<u>\$ 2,160,610,084</u>	<u>\$ 5,416,308</u>	<u>\$ 2,166,026,392</u>	<u>\$ 2,074,619,563</u>	<u>\$ 91,406,829</u>

**Appropriation Adjustments:**

The \$335,460 increase in the Salaries and Benefits line was a result of the following adjustments:

- \$8,158 increase was from a transfer by the Office of Management and Budget as authorized by House Bill 1015, section 11 of the 2013 Legislative Session. The increase was used to pay for an internship at the Department of Public Instruction.
- \$327,302 increase was authorized by House Bill 2013, section 14 of the 2013 Legislative Session. The bill authorizes the Superintendent of Public Instruction to transfer from the Initiative Funding Pool line for initiatives line to the appropriate line for each initiative.

The \$1,570,098 increase in the Operating Expenses line of the financial statements was a result of the following:

- \$1,611,698 increase in Operating Expenses line was authorized by House Bill 1013, section 14 of the 2013 legislative session. The bill authorizes the Superintendent of Public Instruction to transfer money from the Initiatives Funding Pool line to the appropriate line for each initiative.
- \$41,600 reduction in the Operating Expenses line was a result of a transfer to the Grants – Other Grants line, authorized by House Bill 1013, section 14 of the 2013 Legislative Session.

The \$408,150 increase in the Integrated Formula Payments line was authorized in House Bill 1013, sections 57 and 61 of the 2013 legislative session. Section 57 authorized \$158,150 of carryover to provide supplement assistance payments to school districts while section 61 authorized \$250,000 of carryover to provide funds to the Department of Career and Technical Education for the autism spectrum disorder grant.

The \$6,302,600 increase in the Grants – Other Grants line was a result of the following:

- \$1,261,000 increase was authorized in House Bill 1013, section 14 of the 2013 Legislative Session. The bill authorizes the Superintendent of Public Instruction to transfer money from the Initiative Funding Pool line to the appropriate line for each initiative.
- \$5,000,000 increase was authorized in Senate Bill 2003, section 3 of the 2013 Legislative Session. The bill authorized a contingency appropriation for the funding of a children's science center. The contingency was met and OMB released the funding.
- \$41,600 increase was a result of a transfer from the Operating Expenses line, authorized by House Bill 1013, section 14 of the 2013 Legislative Session.

The \$3,200,000 decrease in the Initiative Funding Pool line was authorized by House Bill 1013, section 14 of the 2013 Legislative Session which authorizes the Superintendent of Public Instruction to transfer funds from the Initiative Funding Pool line to the appropriate line for each initiative.

#### **Expenditures Without Appropriations Of Specific Amounts:**

The Statewide Conference Fund is nonappropriated in accordance with OMB Policy 211 (\$381,962 of expenditures this biennium).

The National Board Certificate Fund has a continuing appropriation authorized by NDCC 15.1-13.33 (\$166,521 of expenditures during the biennium).

Insurance recoveries fund has a continuing appropriation authorized by NDCC 54-44.1-09.1 (\$1,246.99 of expenditures for this biennium).

Revolving Printing Fund has a continuing appropriation authorized by NDCC 15.1-03-03 (\$13,931.48 of expenditures during the biennium).

**Statement of Appropriations (State Library)**

**For The Biennium Ended June 30, 2015**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 3,780,053		\$ 3,780,053	\$ 3,673,235	\$ 106,818
Accrued Leave Payments	75,354		75,354	13,023	62,331
Operating Expenses	1,895,726		1,895,726	1,548,900	346,826
Grants	2,519,000		2,519,000	2,518,792	208
<b>Totals</b>	<u>\$ 8,270,133</u>		<u>\$ 8,270,133</u>	<u>\$ 7,753,950</u>	<u>\$ 516,183</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 5,875,988		\$ 5,875,988	\$ 5,813,119	\$ 62,869
Other Funds	2,394,145		2,394,145	1,940,831	453,314
<b>Totals</b>	<u>\$ 8,270,133</u>		<u>\$ 8,270,133</u>	<u>\$ 7,753,950</u>	<u>\$ 516,183</u>

**Expenditures Without Appropriations Of Specific Amounts:**

The Statewide Conference Fund is nonappropriated in accordance with OMB Policy 211 (\$8,401 of expenditures this biennium).

**Statement of Appropriations (School for the Deaf)**

**For The Biennium Ended June 30, 2015**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 6,932,905		\$ 6,932,905	\$ 6,151,067	\$ 781,838
Accrued Leave Payments	134,846		134,846	15,827	119,019
Operating Expenses	1,908,794		1,908,794	1,612,009	296,785
Capital Assets	1,194,021		1,194,021	1,008,777	185,244
Grants	200,000	\$ 76,148	276,148	126,422	149,726
<b>Totals</b>	<u>\$ 10,370,566</u>	<u>\$ 76,148</u>	<u>\$ 10,446,714</u>	<u>\$ 8,914,102</u>	<u>\$ 1,532,612</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 7,799,379	\$ 76,148	\$ 7,875,527	\$ 7,578,092	\$ 297,435
Other Funds	2,571,187		2,571,187	1,336,010	1,235,177
<b>Totals</b>	<u>\$ 10,370,566</u>	<u>\$ 76,148</u>	<u>\$ 10,446,714</u>	<u>\$ 8,914,102</u>	<u>\$ 1,532,612</u>

**Appropriation Adjustments:**

The \$76,148 increase in the Grants line is an approved carry over per Senate Bill 2013, section 17 of the 2011 session. The funds are to be spent on interpreters and real time captioning for students who are deaf. The appropriation was not subject to NDCC 54-44.1-11 within the legislation.

**Expenditures Without Appropriations Of Specific Amounts:**

The Statewide Conference Fund is nonappropriated in accordance with OMB Policy 211 (\$8,465 of expenditures this biennium).

**Statement of Appropriations (School for the Blind)**

**For The Biennium Ended June 30, 2015**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 4,415,180		\$ 4,415,180	\$ 3,996,115	\$ 419,065
Accrued Leave Payments	87,463		87,463	21,186	66,277
Operating Expenses	720,806		720,806	683,822	36,984
Capital Improvements	3,324,400		3,324,400	3,285,796	38,604
<b>Totals</b>	<u>\$ 8,547,849</u>		<u>\$ 8,547,849</u>	<u>\$ 7,986,919</u>	<u>\$ 560,930</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 7,694,093		\$ 7,694,093	\$ 7,485,793	\$ 208,300
Other Funds	853,756		853,756	501,126	352,630
<b>Totals</b>	<u>\$ 8,547,849</u>		<u>\$ 8,547,849</u>	<u>\$ 7,986,919</u>	<u>\$ 560,930</u>

**Expenditures Without Appropriations Of Specific Amounts:**

The Statewide Conference Fund is nonappropriated in accordance with OMB Policy 211 (\$855 of expenditures this biennium).

Visual Aids, Devices, and Appliance Fund has a continuing appropriation authorized by NDCC 25-06-10 (\$18,125 of expenditures during the biennium).

## ***Internal Control***

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In our audit for the biennium ended June 30, 2015, 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. However, we noted other matters involving internal control that we have reported to management of the Department of Public Instruction in a management letter dated December 22, 2015.



## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2015, 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 (House Bill 1013, section 18 of the 2013 Legislative Session).
- Proper distribution of transportation grants to school districts (House Bill 1013, section 9 of the 2013 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 (House Bill 1013, section 8 of the 2013 Legislative Session).
- Proper payment of up to \$800,000 in reimbursements to school districts or special education units for their gifted and talented programs (House Bill 1013, section 7 of the 2013 Legislative Session).
- Proper payment of up to \$13,600,000 in grants to school districts that experience rapid enrollment growth (House Bill 1261, section 1 of the 2013 Legislative Session).
- Proper administration of state aid to public libraries (NDCC Chapter 54-24.2).
- Legality of investments held including deposits of interest income.
- Proper authorization of all funds used by the Department of Public Instruction.
- Proper use of the following legally restricted funds:
  - Vision Aids and Appliances Fund.
  - Displaced Homemakers Fund.
  - Revolving Printing Fund.
  - National Board Certification Fund.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2013 North Dakota Session Laws chapter 13).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts.
- 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, annual inventory of fixed assets, 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 certain inconsequential or insignificant instances of non-compliance that we have reported to management of the Department of Public Instruction in a management letter dated December 22, 2015.

## *Operations*

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This audit did not identify areas of the 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 note a certain matter involving operations that we have reported to management of the Department of Public Instruction in a management letter dated December 22, 2015.

## ***Management Letter (Informal Recommendations)***

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December 22, 2015

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, 2015, 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.

### **FIXED ASSETS**

Informal Recommendation 09-1: We recommend the School for the Blind update their physical inventory policy to include identifying and locating all sensitive items in accordance with OMB Policy 205.

Informal Recommendation 09-2: We recommend the School for the Deaf:

- Ensure the individual responsible for initiating, evaluating, and approving capital expenditures, leases, and maintenance repair projects does not have access to the electronic fixed asset records;
- Ensure the individual responsible for authorizing deletions does not have access to the electronic fixed asset records; and
- Develop a policy that outlines the types of assets that are to be included during the annual physical inventory.

## **PAYROLL**

Informal Recommendation 09-3: We recommend the School for the Deaf properly restrict access to PeopleSoft payroll to only those individuals who need access to perform their duties.

## **LEGISLATIVE INTENT**

Informal Recommendation 09-4: We recommend the School for the Blind and School for the Deaf review NDCC for authorization of their School for the Blind and School for the Deaf special revenue operating funds and obtain authorization, if necessary.

## **OPERATIONS**

Informal Recommendation 09-5: We recommend the Department of Public Instruction properly segregate duties surrounding the Adult Education grant award so there is a separation between the appraisal of applications and the approval of grant awards.

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

I encourage you to call me 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

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