

Department of Career and
Technical Education
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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Transmittal Letter

October 16, 2013

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Mr. Wayne Kutzer, Director

We are pleased to submit this audit of the Department of Career and Technical Education 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 Kristi Morlock. 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 Director Kutzer and his 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 Department of Career and Technical Education provides career awareness, work readiness skills, occupational preparation, and retraining of workers throughout the state.

There are nine members of the State Board of Career and Technical Education (State Board). They include six individuals who are appointed by the Governor; the remaining three are the elected Superintendent of Public Instruction, the appointed Chancellor of Higher Education, and the appointed Executive Director of Job Service North Dakota.

The State Board appointed Wayne Kutzer as State Director and Executive Officer of the Department of Career and Technical Education as of July 1, 2000. The duties, terms of office, and compensation of the Director are determined by the State Board. The Director enforces the rules and regulations which the State Board may adopt and prepares reports concerning Career and Technical Education as required by the State Board.

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 Career and Technical Education in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an 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?

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 13 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 Career and Technical Education's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Department of Career and Technical Education.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Department of Career and Technical Education 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 Career and Technical Education'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 Career and Technical Education and are they in compliance with these laws?
3. Are there areas of the Department of Career and Technical Education's operations where we can help to improve efficiency or effectiveness?

Audit Scope

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

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.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Department of Career and Technical Education's processes and procedures.

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 Career and Technical Education'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 Career and Technical Education were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Revenues consisted primarily of federal funds, which remained fairly constant for the Department of Career and Technical Education, increasing only slightly. Total revenues were \$4,521,707 for the year ended June 30, 2013 as compared to \$4,354,329 for the year ended June 30, 2012.

Total expenditures for the Department of Career and Technical Education were \$19,071,358 for the year ended June 30, 2013 as compared to \$17,775,631 for the prior year. The increase in total expenditures for the audited period is mostly reflected in Grants and it is due to the way in which the Department budgets for grants. Budgets are prepared on an annual basis with approximately 48% to 49% budgeted the first year of the biennium and the remaining amount goes to the second year of the biennium. This creates a fluctuation of 2% to 4% from one year to the next. This allows for an inflationary growth in reimbursements to schools to cover increases in program costs of which increases in teacher salaries are the main contributor. Additionally, funds budgeted in grants for the first year of the biennium don't always get spent and are carried over to the second year resulting in higher expenditures for the second year of the biennium.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The Department of Career and Technical Education had a significant percentage of unexpended appropriations in their operating line. At the end of the biennium approximately 36% of \$452,983 was remaining in this line. This is mainly due to budgeting for anticipated federal funds that they never received. Some of the remaining balance is also due to budgeted funds for travel, professional development, printing, and office supplies not being spent.

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	\$ 4,211,369	\$ 4,171,993
Conference Registration Fees	80,205	105,307
Renewal License Fee	7,750	9,750
Transfers In	222,383	67,279
Total Revenues and Other Sources	\$ 4,521,707	\$ 4,354,329
<u>Expenditures and Other Uses:</u>		
Grants	\$ 16,516,072	\$ 15,262,194
Salaries and Benefits	1,984,588	1,905,856
Travel	148,861	135,813
Professional Development	132,273	141,252
IT Services	108,912	91,504
Supplies	69,031	98,904
Other Operating	46,728	50,366
Fees, Services, and Repairs	36,266	62,589
Rentals and Leases	14,319	14,729
Equipment	14,308	12,424
Total Expenditures and Other Uses	\$ 19,071,358	\$ 17,775,631

Statement of Appropriations

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 Benefits	\$ 4,362,974		\$ 4,362,974	\$ 3,890,444	\$ 472,530
Operating Expenses	1,253,339		1,253,339	800,356	452,983
Grants	29,025,000		29,025,000	27,916,528	1,108,472
Grants - Postsecondary	357,452		357,452	357,452	
Adult Farm Management	749,802		749,802	699,802	50,000
Workforce Training	3,000,000		3,000,000	3,000,000	
Totals	<u>\$ 38,748,567</u>		<u>\$ 38,748,567</u>	<u>\$ 36,664,582</u>	<u>\$ 2,083,985</u>
Expenditures by Source:					
General Fund	\$ 27,981,679		\$ 27,981,679	\$ 27,981,679	
Other Funds	10,766,888		10,766,888	8,682,903	\$ 2,083,985
Totals	<u>\$ 38,748,567</u>		<u>\$ 38,748,567</u>	<u>\$ 36,664,582</u>	<u>\$ 2,083,985</u>

Expenditures Without Appropriations Of Specific Amounts:

Statewide Conference Fund has a continuing appropriation in accordance with OMB Policy 211 (\$182,408 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 Career and Technical Education'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 relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

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 Career and Technical Education's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations and related transfers (2013 North Dakota Session Laws chapter 18).
- 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.

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.

Operations

This audit did not identify areas of the Department of Career and Technical Education'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 Career and Technical Education in a management letter dated October, 16, 2013.

Management Letter (Informal Recommendations)

October 16, 2013

Mr. Wayne Kutzer, Director
Department of Career and Technical Education
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Mr. Kutzer:

We have performed an audit of the Department of Career and Technical Education for the biennium ended June 30, 2013, and issued a report thereon. As part of our audit, we gained an understanding of the Department of Career and Technical Education'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 a certain condition we did not consider reportable within the context of your audit report. This condition relates 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 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 presents our informal recommendation.

OPERATIONAL IMPROVEMENT

Informal Recommendation 13-1: We recommend the Department of Career and Technical Education monitor and evaluate the results of the WIA Incentive Grant to determine if desired outcomes were achieved.

Management of Department of Career and Technical Education agreed with the recommendation.

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,

A handwritten signature in cursive script that reads "Kristi Morlock".

Kristi Morlock
Auditor in-charge

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www.nd.gov/auditor/

or by contacting the
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