

INDIAN AFFAIRS
COMMISSION
BISMARCK, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2014

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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Contents

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>4</i>
<i>Discussion and Analysis</i>	<i>6</i>
<i>Financial Summary</i>	<i>6</i>
<i>Analysis of Significant Changes in Operations</i>	<i>6</i>
<i>Financial Statements</i>	<i>7</i>
<i>Statement of Revenues and Expenditures</i>	<i>7</i>
<i>Statement of Appropriations</i>	<i>8</i>
<i>Internal Control</i>	<i>10</i>
<i>Compliance With Legislative Intent</i>	<i>11</i>
<i>Operations</i>	<i>12</i>
<i>Management Letter (Informal Recommendations)</i>	<i>13</i>

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Transmittal Letter

June 3, 2015

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Mr. Scott Davis, Executive Director, Indian Affairs Commission

We are pleased to submit this audit of the North Dakota Indian Affairs Commission for the two-year period ended June 30, 2014. 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 Elizabeth Rogers. 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 Mr. Davis 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 North Dakota Indian Affairs Commission was established by the 1949 State Legislature to facilitate working relationships between the state and tribal governments. The function of the Commission is to be the liaison between the executive branch and the tribes of North Dakota. Duties include mediation services with the tribes and state and working with other state agencies regarding proper protocol in working with Indian people and tribal governments.

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 North Dakota Indian Affairs Commission 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 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 North Dakota Indian Affairs Commission'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 North Dakota Indian Affairs Commission.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Indian Affairs Commission for the two-year period ended June 30, 2014 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Indian Affairs Commission'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 North Dakota Indian Affairs Commission and are they in compliance with these laws?
3. Are there areas of the North Dakota Indian Affairs Commission's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota Indian Affairs Commission is for the two-year period ended June 30, 2014. 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 North Dakota Indian Affairs Commission'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 the North Dakota Indian Affairs Commission'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 North Dakota Indian Affairs Commission'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 two-year period June 30, 2014, operations of the North Dakota Indian Affairs Commission were entirely supported by appropriations from the state's general fund.

Financial Summary

The North Dakota Indian Affairs Commission does not generate revenue. They receive an annual donation from the Bank of North Dakota of \$20,000 that is offset against expenditures related to the Youth Leadership Academy.

Total expenditures for the North Dakota Indian Affairs Commission were \$472,375 for the year ended June 30, 2014 as compared to \$408,589 for the prior year. The increase in total expenditures for the audited period reflects primarily salaries and benefits due to an additional position and salary increases. Additional travel and IT related expenditures were noted in fiscal year 2014. All other expenditures remained fairly consistent.

Analysis of Significant Changes in Operations

The North Dakota Indian Affairs Commission received additional funding of \$75,000 in conjunction with the State Department of Health to develop a suicide prevention program, including outreach, education, administration, and implementation of grants for suicide activities for the biennium beginning July 1, 2011 and ending June 30, 2013. A majority of the funding was granted to the Boys and Girls Club of the Three Affiliated Tribes and Sitting Bull College.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<u>Revenues:</u>		
Total Revenues	<u>\$0</u>	<u>\$0</u>
<u>Expenditures:</u>		
Salaries and Benefits	\$404,870	\$286,556
IT–Communication/Data Processing/Equipment	20,487	9,494
Travel	17,505	4,525
North Dakota Youth Leadership Academy	14,602	26,518
Office/Miscellaneous Supplies	6,112	3,542
Professional Development	6,062	7,158
Postage/Printing	1,072	1,282
Insurance	538	627
Booth and Room Rental	375	
Office Equipment	361	
Food Supplies	270	152
Operating Fees and Services	121	680
Grants		68,055
Total Expenditures	<u>\$472,375</u>	<u>\$408,589</u>

Statement of Appropriations

For The Fiscal Year Ended June 30, 2014

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	\$ 852,869		\$ 852,869	\$ 401,424	\$ 451,445
Accrued Leave Payments	8,421		8,421	3,446	4,975
Operating Expenses	166,268		166,268	67,494	98,774
Totals	<u>\$ 1,027,558</u>	<u>\$ 0</u>	<u>\$ 1,027,558</u>	<u>\$ 472,364</u>	<u>\$ 555,194</u>
Expenditures by Source:					
General Fund	\$ 1,027,558		\$ 1,027,558	\$ 472,364	\$ 555,194
Totals	<u>\$ 1,027,558</u>	<u>\$ 0</u>	<u>\$ 1,027,558</u>	<u>\$ 472,364</u>	<u>\$ 555,194</u>

Appropriation Adjustments:

There were no appropriation adjustments.

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	\$ 601,373	\$ 2,328	\$ 603,701	\$ 584,922	\$ 18,779
Operating Expenses	221,505		221,505	209,389	12,116
Totals	<u>\$ 822,878</u>	<u>\$ 2,328</u>	<u>\$ 825,206</u>	<u>\$ 794,311</u>	<u>\$ 30,895</u>
Expenditures by Source:					
General Fund	\$ 822,878	\$ 2,328	\$ 825,206	\$ 794,311	\$ 30,895
Totals	<u>\$ 822,878</u>	<u>\$ 2,328</u>	<u>\$ 825,206</u>	<u>\$ 794,311</u>	<u>\$ 30,895</u>

Appropriation Adjustments:

The \$2,328 increase in the Salaries and Benefits line was due to the state government Internship Stipend Program per Senate Bill 2015 of the 2011 Legislative Session.

Internal Control

In our audit for the two-year period ended June 30, 2014, we identified the following areas of the North Dakota Indian Affairs Commission'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. However, we noted other matters involving internal control that we have reported to management of the North Dakota Indian Affairs Commission in a management letter dated June 3, 2015.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2014, we identified and tested North Dakota Indian Affairs Commission's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Proper authorization of funds.
- Compliance with OMB's Purchasing Procedures Manual.
- Compliance with appropriation laws.
- 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 and surplus property.
- 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 North Dakota Indian Affairs Commission in a management letter dated June 3, 2015.

Operations

This audit did not identify areas of North Dakota Indian Affairs Commission's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Management Letter (Informal Recommendations)

June 3, 2015

The Honorable Jack Dalrymple, Governor
Mr. Scott Davis, Executive Director, Indian Affairs Commission
600 E. Boulevard Avenue
Bismarck, ND 58505

The Honorable Jack Dalrymple:

We have performed an audit of the North Dakota Indian Affairs Commission for the two-year period ended June 30, 2014, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Indian Affairs Commission'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.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 14-1: We recommend the Indian Affairs Commission properly code transactions in the state's accounting system.

Informal Recommendation 14-2: We recommend the Indian Affairs Commission ensure travel expenditures are made in accordance with OMB policy 505.

Informal Recommendation 14-3: We recommend the Indian Affairs Commission comply with OMB policy 300 surrounding purchase card reconciliations.

Informal Recommendation 14-4: We recommend the Indian Affairs Commission comply with state procurement requirements.

LEGISLATIVE INTENT

Informal Recommendation 14-5: We recommend the Indian Affairs Commission maintain a complete listing of fixed assets that includes the purchase date and dollar value of all items, and perform an annual inventory of fixed assets in accordance with NDCC 44-04-07.

GENERAL

Informal Recommendation 14-6: We recommend the Indian Affairs Commission establish and perform a fraud risk assessment on at least a biennial basis in accordance with OMB policy 216.

Informal Recommendation 14-7: We recommend the Indian Affairs Commission use available ConnectND queries to identify transactions prepared by other agencies for the Indian Affairs Commission and develop procedures to approve these transactions.

Management of the Indian Affairs Commission 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,



Elizabeth Rogers
Auditor in-charge

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or by contacting the
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