

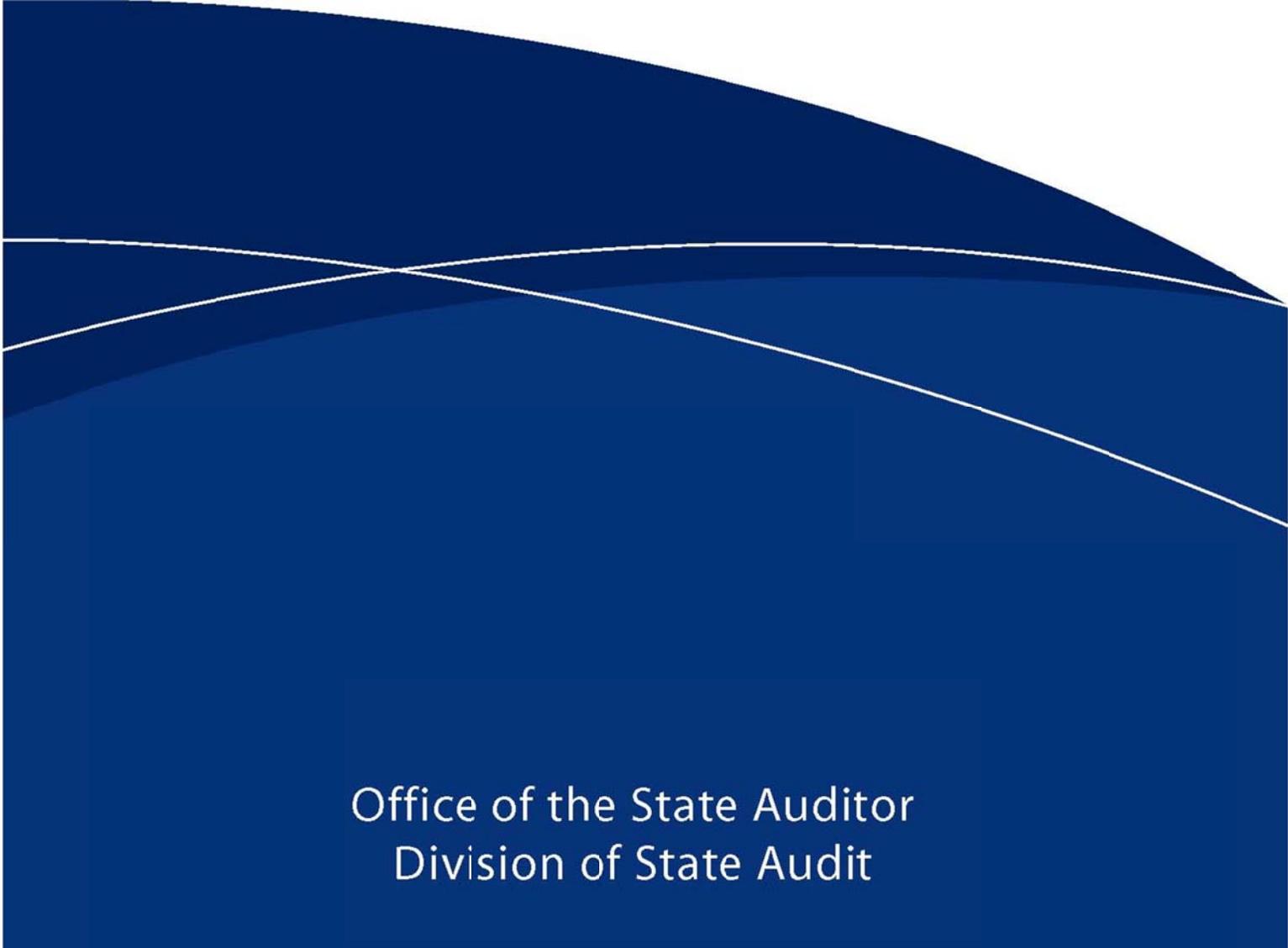


Office of the Governor
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2009

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

April 27, 2010

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly

We are pleased to submit this audit of the Office of the Governor for the biennium ended June 30, 2009. 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 Delan Hellman. Fred Ehrhardt, CPA, was the audit supervisor and Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-3647. We wish to express our appreciation to Governor Hoeven 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 Office of the Governor was established within Article V of the Constitution of North Dakota. The Governor is the chief executive of the state and shall have the responsibility to see that the state's business is well administered and the laws of the state are faithfully executed.

The Honorable John Hoeven currently holds the Office of the Governor. The Lieutenant Governor is Jack Dalrymple. The goals and objectives of the Hoeven administration are to create greater prioritization and efficiencies in state government with the cooperation of agencies to establish goals and objectives on an annual basis.

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 response 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 Office of the Governor 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 12 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 Office of the Governor'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 the Human Resource Management System (HRMS) are high-risk information technology systems critical to the Office of the Governor.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Office of the Governor for the biennium ended June 30, 2009 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of the Office of the Governor is for the biennium ended June 30, 2009. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the Governor's sole location is in the State Capitol building, 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 Office of the Governor'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 Office of the Governor'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, 2009, operations of the Office of the Governor consisted of appropriations from the state's general fund, as well as a \$100,000 appropriation from the Community Health Trust Fund.

Financial Summary

Total expenditures for the Office of the Governor were \$1,556,792 for the year ended June 30, 2009 as compared to \$1,297,517 for the prior year. The increase in total expenditures for the audited period reflects primarily an increase in salaries and benefits due to general salary increases and the filling of staff positions that were open during parts of the first year of the biennium. Additionally, grants were distributed during the second year of the biennium by the Governor's Prevention and Advisory Council to discourage impaired driving and alcohol and drug abuse by minors. All other expenditures remained fairly constant.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<u>Revenues:</u>		
Miscellaneous Revenue	\$ 113	
Total Revenues	<u>\$ 113</u>	<u></u>
<u>Expenditures:</u>		
Salaries and Benefits	\$1,242,787	\$1,128,065
Prevention and Advisory Council Grants	93,724	
Major Operating Expenses		
Professional Services	92,798	66,054
Information Technology	63,716	46,470
Travel	27,965	22,351
Other Operating Expenses	35,802	34,577
Total Expenditures	<u>\$1,556,792</u>	<u>\$1,297,517</u>

Statement of Appropriations

For The Biennium Ended June 30, 2009

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	\$ 2,589,735		\$ 2,589,735	\$ 2,370,853	\$ 218,882
Operating Expenses	426,787		426,787	386,331	40,456
Contingency	10,000		10,000		10,000
Presidential Electors	500		500	167	333
Governor's Transition In	15,000		15,000		15,000
Governor's Transition Out	50,000		50,000		50,000
Prevention and Advisory Council	100,000		100,000	93,724	6,276
Roughrider Awards	10,800		10,800	3,235	7,565
Totals	<u>\$ 3,202,822</u>		<u>\$ 3,202,822</u>	<u>\$ 2,854,310</u>	<u>\$ 348,512</u>
Expenditures by Source:					
General Fund	\$ 3,102,822		\$ 3,102,822	\$ 2,760,586	\$ 342,236
Other Funds	100,000		100,000	93,724	6,276
Totals	<u>\$ 3,202,822</u>		<u>\$ 3,202,822</u>	<u>\$ 2,854,310</u>	<u>\$ 348,512</u>

Internal Control

In our audit for the biennium ended June 30, 2009, we identified the following areas of the Office of the Governor'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 Office of the Governor in a management letter dated April 27, 2010.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2009, we identified and tested the Office of the Governor's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations (2007 North Dakota Session Laws Chapter 28).
- Proper transfer and use of grant funds for the Prevention and Advisory Council to discourage impaired driving and alcohol and drug abuse by minors (Senate Bill 2276, Section 1 and 2 of the 2007 Legislative Session).
- Compliance with OMB's Purchasing Procedures Manual.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- 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 requires 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 Office of the Governor in a management letter dated April 27, 2010.

Operations

This audit did not identify areas of the Office of the Governor's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.



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600 E. BOULEVARD AVENUE - DEPT. 117
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Management Letter (Informal Recommendations)

April 27, 2010

The Honorable John Hoeven
Governor of North Dakota
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Governor Hoeven:

We have performed an audit of the Office of the Governor for the biennium ended June 30, 2009, and have issued a report thereon. As part of our audit, we gained an understanding of the Office of the Governor'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 09-1: We recommend the Office of the Governor ensure procurement procedures for services are performed in accordance with North Dakota State Procurement Office Guidelines.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 09-2: We recommend the Office of the Governor review and ensure transactions processed to the accounting records by the Office of Management and Budget are proper.

GENERAL

Informal Recommendation 09-3: We recommend the Office of the Governor:

- Effectively communicate the Code of Conduct or Business Code to all covered employees on a periodic basis.
- Have employees annually confirm their receipt and reading of the Code of Conduct or Business Code.

Informal Recommendation 09-4: We recommend the Office of the Governor:

- Establish and perform a fraud risk assessment on a recurring basis.
- Design and document the necessary control activities to ensure each significant fraud exposure identified during the risk assessment process has been adequately mitigated.

Management of the Office of the Governor 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,



Delan Hellman
Auditor in-charge

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
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