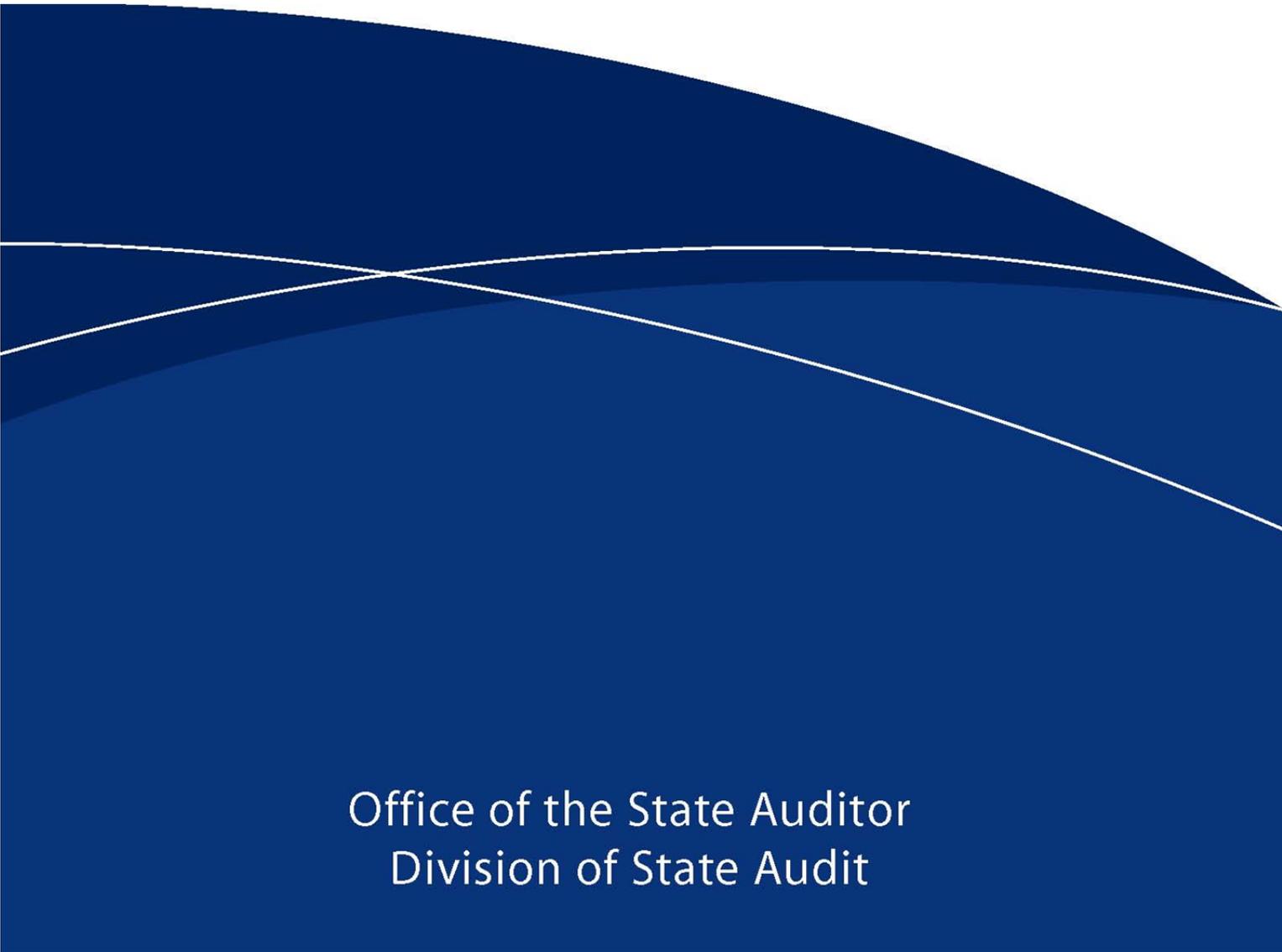


Office of the Governor
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2011

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

April 24, 2012

The Honorable Jack Dalrymple, 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, 2011. 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. 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 Governor Dalrymple 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 Jack Dalrymple currently holds the Office of the Governor. The Lieutenant Governor is Drew Wrigley. The goals and objectives of the Dalrymple administration are to grow and diversify North Dakota's economy and create good jobs and economic opportunities for its citizens.

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 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, 2011 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, 2011. 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 the 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, 2011, operations of the Office of the Governor were supported by appropriations from the state's general fund as well as federal funding.

Financial Summary

Federal revenue makes up 99.9% of total revenue. During the biennium, the Office of the Governor received federal stimulus funds through the American Recovery and Reinvestment Act of 2009 (ARRA) along with some funding through the Federal Education Jobs Fund Program. The Office of the Governor was designated as the prime recipient of these funds by the federal government, who then passed the funding through to state agencies or state colleges for their use. Total revenues were \$21,498,413 for the year ended June 30, 2011 as compared to \$92,202,261 for the year ended June 30, 2010.

Total expenditures and other uses for the Office of the Governor were \$23,182,550 for the year ended June 30, 2011 as compared to \$93,724,229 for the prior year. The increase in total expenditures and other uses for the audited period reflects primarily transfers out of federal revenue that the Office of the Governor had received. The federal government required this funding to pass through the Office of the Governor rather than have it go directly to the state agency or state college that would utilize it. These transfers account for 97.3% of total expenditures and other uses in the biennium. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The Office of the Governor had two significant variances between the final budgeted and actual amounts for the biennium ended June 30, 2011.

The unexpended appropriation for the Federal Stimulus Funds – 2009 line represents capital projects that were not completed in the 2009-2011 biennium. These unspent funds were appropriated by the 2011 Legislature and could be spent in the 2011-2013 biennium to complete the started projects.

The unexpended appropriation in the Education Jobs Fund Program line represents money not yet requested by school districts. All of the Education Jobs Fund Program line went to school districts and any remaining appropriation was carried over to the 2011-2013 biennium and again made available for school districts to use.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$21,498,413	\$92,193,538
Miscellaneous Revenue		2,251
Transfers In		6,473
Total Revenues and Other Sources	<u>\$21,498,413</u>	<u>\$92,202,261</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$1,470,309	\$ 1,361,261
Major Operating Expenses:		
Professional Services	71,941	65,331
Travel	49,473	26,836
Information Technology	51,988	44,533
Printing	11,181	5,105
Other Operating Expenses	29,245	21,152
Transfers Out	21,498,413	92,200,011
Total Expenditures and Other Uses	<u>\$23,182,550</u>	<u>\$93,724,229</u>

Statement of Appropriations

For The Biennium Ended June 30, 2011

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	\$ 2,999,771	\$ 27,000	\$ 3,026,771	\$ 2,831,570	\$ 195,201
Operating Expenses	426,787		426,787	373,347	53,440
Contingency	10,000		10,000		10,000
Roughrider Awards	10,800		10,800	2,753	8,047
Federal Stimulus Funds - 2009	104,699,679		104,699,679	101,141,607	3,558,072
Education Jobs Fund Program		21,517,716	21,517,716	12,550,343	8,967,373
Totals	<u>\$108,147,037</u>	<u>\$21,544,716</u>	<u>\$129,691,753</u>	<u>\$116,899,620</u>	<u>\$ 12,792,133</u>
Expenditures by Source:					
General Fund	\$ 3,447,358	\$ 27,000	\$ 3,474,358	\$ 3,207,670	\$ 266,688
Other Funds	104,699,679	21,517,716	126,217,395	113,691,950	12,525,445
Totals	<u>\$108,147,037</u>	<u>\$21,544,716</u>	<u>\$129,691,753</u>	<u>\$116,899,620</u>	<u>\$ 12,792,133</u>

Appropriation Adjustments:

This \$27,000 increase in the Salaries and Benefits line was authorized by House Bill 1015 of the 2009 Session Laws, section 18, for market equity increases.

The \$21,517,716 increase to the Education Jobs Fund Program line was authorized by Senate Bill 2001 of the 2011 Session Laws, section 3, for federal education jobs funding spending authority. According to Section 7 of this same Senate Bill, this was considered to be an emergency measure, so the amount was added as an adjustment to appropriations during the Biennium ended June 30, 2011 for the Office of the Governor.

Expenditures Without Appropriations Of Specific Amounts:

The Governor's Special Fund has a continuing appropriation pursuant to House Bill 1001, section 3 of the 61st Legislative Assembly (\$7,158 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2011, 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 an other matter involving internal control that we have reported to management of the Office of the Governor in a management letter dated April 24, 2012.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2011, we identified and tested the Office of the Governor's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations (2009 North Dakota Session Laws, chapter 1).
- 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 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.

Operations

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

Management Letter (Informal Recommendations)

April 24, 2012

The Honorable Jack Dalrymple
Governor of North Dakota
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Governor Dalrymple:

We have performed an audit of the Office of the Governor for the biennium ended June 30, 2011, 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 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.

GENERAL LEDGER

Informal Recommendation 11-1: We recommend the Office of the Governor develop procedures to approve on a monthly basis all PeopleSoft entries prepared by other agencies for the Office of the Governor.

Management of the Office of the Governor agreed with this 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 "Delan Hellman". The signature is written in a dark ink and is positioned above the printed name and title.

Delan Hellman
Auditor in-charge

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