

Office of the State Auditor

Division of State Audit

OFFICE OF MANAGEMENT AND BUDGET Bismarck, North Dakota

Audit Report for the
Biennium Ended June 30, 2007
Client Code 110

Robert R. Peterson
State Auditor



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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>Background Information</i>	<i>5</i>
<i>Audit Objectives, Scope, And Methodology</i>	<i>7</i>
<i>Discussion And Analysis</i>	<i>8</i>
<i>Financial Summary</i>	<i>8</i>
<i>Analysis of Significant Variances Between Final Budgeted and Actual Expenditures</i>	<i>9</i>
<i>Financial Statements</i>	<i>10</i>
<i>Statement of Revenues and Expenditures</i>	<i>10</i>
<i>Statement of Appropriations</i>	<i>11</i>
<i>Internal Control</i>	<i>14</i>
<i>Lack of General Ledger Transaction Approval Procedures</i>	<i>14</i>
<i>Accounting Policies and Procedures Manuals</i>	<i>15</i>
<i>Inadequate Segregation of Duties</i>	<i>16</i>
<i>Fraud Risk Assessment/Control Activities</i>	<i>16</i>
<i>ITD Developer Access to Peoplesoft Production Environment</i>	<i>17</i>
<i>Surplus Property Internal Control</i>	<i>18</i>
<i>Compliance With Legislative Intent</i>	<i>19</i>
<i>Operations</i>	<i>21</i>
<i>Prior Recommendations Not Implemented</i>	<i>22</i>
<i>Management Letter (Informal Recommendations)</i>	<i>23</i>

Transmittal Letter

November 9, 2007

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Ms. Pam Sharp, CPA, Director, Office of Management and Budget

We are pleased to submit this audit of the Office of Management and Budget for the biennium ended June 30, 2007. 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 senior auditor for this audit was Orlin Bensen, LPA. Al Stroklund, Aaron Petrowitz, and Rachel Ridl were the staff auditors. 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 manager by calling (701) 328-2320. We wish to express our appreciation to Ms. Pam Sharp and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

The North Dakota Office of Management and Budget is the central authority, vested with the control and supervision of the fiscal administration of the executive branch of the government, and is directly responsible for maintaining accounting records for the state's centralized accounting system, processing all warrants for payment, periodically reporting on the status of revenue, expenditures, appropriation accounts, and is vested with the duties, powers, and responsibilities involved in the operation of certain centralized services.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the Office of Management and Budget in accordance with generally accepted accounting standards 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?

Other than our finding addressing the "lack of general ledger transaction approval procedures" (see page 14), "accounting policies and procedures manuals" (see page 15), inadequate segregation of duties (see page 16), fraud risk assessment/control activities (see page 16), "ITD developer access to PeopleSoft production environment" (see page 17), and "surplus property internal control" (see page 18), we determined internal control was adequate.

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?*

The Office of Management and Budget has implemented all recommendations included in the prior audit report except for “lack of general ledger transaction approval procedures” (see page 14); and “accounting policies and procedures manuals” (see page 15).

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 23 of this report, along with management's response.

LAFRC AUDIT COMMUNICATIONS

1. *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.

2. *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 Management and Budget's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *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.

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

None.

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

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

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

None.

8. *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), and Central Duplicating System are high-risk information technology systems critical to the Office of Management and Budget.

Background Information

The mission of the North Dakota Office of Management and Budget is to provide a range of products and services resulting in a well-run government that meets the needs of North Dakota citizens.

The North Dakota Office of Management and Budget is headed by a director who is appointed by the Governor and is vested with the control and supervision of the fiscal administration of the executive branch of government. The Department is made up of six divisions: Administration; Fiscal Management; Human Resources Management Services; Facility Management; Central Services; and Risk Management.

OMB's divisions include:

- Administration
 - Fiscal Management
 - Human Resource Management Services
 - Facility Management
 - Central Services
 - Risk Management
-

Administration includes the director and an administrative assistant. The Administration Division provides management oversight to the other divisions of the Office of Management and Budget and is responsible for monitoring general fund revenue forecasts.

The Fiscal Management Division includes the budget office and accounting areas of the agency. This Division is responsible for preparing the budget recommendations, supervising and administering the financial transactions of the state, and preparing the state's Comprehensive Annual Financial Report.

The Human Resource Management Services Division establishes and maintains classification and compensation plans as well as general policies and rules, which are to be binding on the affected agencies, relating to a unified system of personnel administration for the employees in the classified service of the state. The Division assigns position classifications, pay grades, and establishes and maintains required records for all employees in the classified service. The Division certifies appeals on employee grievances relating to demotion, reduction-in-force, forced relocation, reprisal action, discrimination, merit system qualification, and dismissal. The Division also coordinates and conducts training programs.

The Facility Management Division manages the physical plant operations, operates the central mail bureau, provides Capitol tours, and coordinates event scheduling for all of the buildings located on the 132-acre Capitol complex. Their mission is to provide a safe, pleasant environment for visitors and state employees on the Capitol grounds.

The Central Services Division is comprised of the functions of Central Duplicating, Central Supply, State Procurement, and Surplus Property. Central Duplicating is a centralized printing facility to provide departments and agencies with economical and efficient printing services. Central Supply provides a centralized store of the most commonly used office supply items to provide departments and agencies with an economic and efficient supply. State Procurement is the procurement authority for all state agencies not exempt by statute. State Procurement's rules and policies have been established to ensure fair treatment to all suppliers through the competitive bidding process in order to obtain the best value for the taxpayers of the state. Surplus Property is responsible for the acquisition and disposition of federal and state surplus property by administering the necessary policies and procedures.

The Risk Management Division is responsible for administering the state's risk management activities to address the state's exposure to tort liability claims and lawsuits due to the loss of the state's sovereign immunity. In addition, the Division administers the Workers Safety and Insurance Program for state agencies and related entities of North Dakota which includes the cross-agency Return to Work Program.

The budget for the North Dakota Office of Management for the 2005-2007 biennium totals \$72.9 million. This represents a 121% increase over the 2003-2005 budget. The increase is attributable to the inclusion of the Centers of Excellence appropriation within the OMB budget for the 2005-2007 biennium for \$41.3 million. The state general funds comprise \$20.8 million of the 2005-2007 budget.

More information about the agency can be obtained from the Office of Management and Budget's home page at:

www.nd.gov/omb

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of the Office of Management and Budget for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of the Office of Management and Budget for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- 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 for expenditures and receipts.
- Tested samples of expenditures, journal vouchers, and correcting entries.
- Reviewed prior year audit workpapers.
- Interviewed appropriate Office of Management and Budget personnel.
- Reviewed the Office of Management and Budget applicable manuals.
- Observed the Office of Management and Budget's processes and procedures.
- Reviewed North Dakota Century Code chapters 32-12.2, 48-10, 48-06, 54-06, 54-21, 54-27, 54-44, 54-44.3, 54-44.4, 65-04, and 2005 Session Laws.
- Reviewed industry best practices through the use of Internet searches.
- Searched for recent studies or reports relating to the Office of Management and Budget.

Discussion And Analysis

The accompanying financial statements have been prepared to present the Office of Management and Budget'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, 2007, operations of the Office of Management and Budget were primarily supported by appropriations from the state's general fund. This is supplemented by fees and other sources credited to the agency's operating fund.

FINANCIAL SUMMARY

Total revenues and other sources were \$165,075,614 for the year ended June 30, 2007 as compared to \$169,193,174 for the year ended June 30, 2006. Revenue and other sources consisted primarily of loan proceeds, risk management premiums, and central duplicating revenues. Other revenue during the audited period included various leases, rents, postage, sale of capital and non-capital assets, etc. The decrease in revenue and other sources was due to the receiving less loan proceeds in fiscal year 2007 than the prior year. Loan proceeds were needed to fund the Centers of Excellence payments.

Total expenditures including transfers for the Office of Management and Budget were \$190,485,611 for the year ended June 30, 2007 as compared to \$210,993,366 for the prior year. Expenditures consist primarily of salaries and benefits, loan and interest payments, operating fees and services, repairs, insurance, and grants. The decrease in total expenditures for the audited period was reflected primarily within transfers out and loan principal and interest payments. The decrease was the result of loan principal and interest payments made during fiscal year 2006 and fiscal year 2007 in the amounts of \$15,119,831 and \$5,119,204, respectively. The loan and interest payments were disbursements made to the Bank of North Dakota for loans to fund the Centers of Excellence payments. In addition, there were fewer transfers to the general fund and to the colleges during fiscal year 2007 than fiscal year 2006.

ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENDITURES

The Office of Management and Budget had approximately 8.2% of their budget unexpended at June 30, 2007. The primary areas where there was unexpended appropriation were salaries and benefits, operating expenses, and Centers of Excellence.

The salaries and wages line item was unexpended by approximately \$1,000,000. Salaries and benefits had an unexpended balance that was the result of less Statewide Unemployment Compensation payments of approximately \$539,000 and most of the remainder comes from Central Services special funded divisions of approximately \$443,000.

The unexpended appropriation balance of approximately \$2.7 million for operating expenses was the result of remaining PeopleSoft modules that were planned to be implemented but were postponed and Central Services did not generate enough revenue to expend all of its spending authority.

Centers of Excellence had approximately \$1 million left in unexpended appropriation that was originally budgeted for in the 2005-2007 biennium as interest for the loans. The Office of Management and Budget paid the loans off faster than what was originally anticipated.

Financial Statements

STATEMENT OF REVENUES AND EXPENDITURES

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<u>Revenues and Other Sources:</u>		
Loan Proceeds	\$ 4,650,000	\$ 15,350,000
Risk Management Premiums	4,124,081	4,136,947
Central Duplicating Revenue	1,229,459	1,186,744
Lease and Rents	782,002	827,719
Intergovernmental Grants/Contracts	239,775	1,067,931
Postage	564,664	590,356
Sale of Capital Assets	558,692	449,880
Sale of Non-Capital Assets	478,962	459,321
Miscellaneous General Revenue	143,921	155,487
Transfers In	152,304,058	144,968,789
Total Revenues and Other Sources	<u>\$165,075,614</u>	<u>\$169,193,174</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 5,954,719	\$ 5,776,113
Loan Principal and Interest Payment	5,119,204	15,119,831
Operating Fees and Services	1,416,828	1,851,050
Extraordinary Repairs	2,660,701	694,445
Insurance	2,093,186	557,067
Grants, Benefits, and Claims	1,029,302	1,096,449
Fees – Professional Services	975,745	1,577,808
Utilities	910,647	907,256
IT- Data Processing	873,329	946,935
Postage	575,885	603,194
Office Supplies	557,888	521,310
Repairs	351,986	378,316
Professional Development	318,131	398,468
Miscellaneous Supplies	290,797	245,466
Rentals/Leases – Buildings/Land	259,580	93,796
Rentals/Leases – Equipment	189,413	182,337
Buildings, Grounds, Vehicle Supplies	159,319	225,167
Travel	130,947	134,675
Other Expenses	378,604	511,495
Transfers Out	166,239,400	179,172,188
Total Expenditures and Other Uses	<u>\$190,485,611</u>	<u>\$210,993,366</u>

STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2007

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	\$ 13,595,086		\$ 13,595,086	\$ 12,540,790	\$ 1,054,296
Operating Expenses	11,341,106	\$ (174,874)	11,166,232	8,410,970	2,755,262
Fiscal Carryover		915,104	915,104	391,895	523,209
Capital Assets	3,999,000		3,999,000	3,410,889	588,111
Grants	389,000		389,000	388,500	500
Prairie Public Broadcasting	1,337,138		1,337,138	1,337,138	
Procurement Assistance Study	150,000		150,000	150,000	
Centers of Excellence	36,000,000	5,300,000	41,300,000	40,239,035	1,060,965
Totals	<u>\$ 66,811,330</u>	<u>\$ 6,040,230</u>	<u>\$ 72,851,560</u>	<u>\$ 66,869,217</u>	<u>\$ 5,982,343</u>
Expenditures by Source:					
General Fund	\$ 20,156,011	\$ 640,230	\$ 20,796,241	\$ 18,329,662	\$ 2,466,579
Other Funds	46,655,319	5,400,000	52,055,319	48,539,555	3,515,764
Totals	<u>\$ 66,811,330</u>	<u>\$ 6,040,230</u>	<u>\$ 72,851,560</u>	<u>\$ 66,869,217</u>	<u>\$ 5,982,343</u>

Appropriation Adjustments:

The \$174,874 decrease in operating expenses was the net effect of an increase to Risk Management's operating fund by \$100,000 for federal Homeland Security funding and changes in the contingency fund by a decrease of \$274,874 by way of Emergency Commission action that resulted in transfers to other agencies. The action was approved by the Emergency Commission during December 2005.

The increase of \$915,104 in the Fiscal Carryover line is the amount of unexpended appropriation from the previous biennium. The amount was appropriated for the Fiscal Management Division pursuant to Chapter 15, Section 5 of the 2005 Session Laws.

The increase of \$5,300,000 for the Centers of Excellence was approved by House Bill 1014, Section 7 of the 2007 legislative session as an emergency action clause.

Expenditures Without Appropriations Of Specific Amounts:

Insurance Recoveries Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1. (\$55,477 of expenditures for this biennium)

Risk Management Claims has a continuing appropriation authorized by NDCC section 32-12.2-07. (\$3,457,743 of expenditures for this biennium)

Risk Management Workers Compensation Fund has a continuing appropriation authorized by NDCC section 65-04-03.1. (\$4,024,941 of expenditures for this biennium)

Indigent Civil Legal Services Fund has a continuing appropriation authorized by NDCC section 54-06-20. (\$400,000 of expenditures for this biennium)

Preliminary Planning Loan Fund has a continuing appropriation authorized by NDCC section 54-27-22. (\$15,000 of expenditures for this biennium)

Postage Revolving Fund has a continuing appropriation authorized by NDCC section 48-06-06. (\$1,147,403 of expenditures for this biennium)

Human Resource Management Service's Training Fund has a continuing appropriation authorized by NDCC section 54-44-11. (\$95,497 of expenditures for this biennium)

Central Services Fund has a continuing appropriation authorized by NDCC section 54-44-11. (\$994,898 of expenditures for this biennium)

Capitol Building Fund has a continuing appropriation authorized by NDCC section 48-10-02. (\$35,351 expenditures for this biennium)

The Budget Stabilization Fund had transfers during the biennium in accordance with NDCC section 54-27.2-01. (\$200,000,000 for this biennium)

The Environment and Rangeland Protection Fund had transfers during the Biennium in accordance with NDCC section 19-18-02.1. (\$150,000 for the biennium)

The North Dakota Health Care Trust Fund had transfers during the biennium in accordance with NDCC section 50-30-02. (\$16,900,000 for the biennium)

The Tobacco Settlement Trust Fund had transfers during the biennium in accordance with NDCC section 54-27-25. (\$43,828,118 for the biennium)

The Permanent Oil Trust Fund had transfers during the biennium in accordance with NDCC section 57-51.1-07.2. (\$55,300,000 for the biennium)

The State Tuition Fund had transfers during the biennium in accordance with NDCC section 15.1-28-01. (\$9,066,366 for the biennium)

The Office of Management and Budget Unemployment/Payroll Clearing Fund had transactions during the biennium in accordance with NDCC section 54-44-04.2. (\$145,331,044 for the biennium)

The Children's Services Coordination Fund had one transaction during the biennium in accordance with NDCC chapter 54-56. (\$46 for the biennium)

The Compulsive Gambling Prevention Fund had transfers during the biennium in accordance with NDCC Chapter 50-06. (\$100,000 for the biennium)

Internal Control

In our audit for the biennium ended June 30, 2007, we identified the following areas of the Office of Management and Budget's internal control as being the most important:

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 computer-based Central Duplicating System.

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 significant. We concluded that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Office of Management and Budget's operations or ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements. Reportable conditions are described below. We also noted other matters involving internal control that we have reported to management of the Office of Management and Budget in a management letter dated November 9, 2007.

Finding 07-1

LACK OF GENERAL LEDGER TRANSACTION APPROVAL PROCEDURES

The PeopleSoft general ledger did not have an approval function for journal entries during our audit period. Until an online approval function is implemented, the Office of Management and Budget should manually approve journal entries. We noted that some of the journal entries were not properly approved. Proper internal controls require the review and approval of all accounting transactions. Journal entries that are not reviewed and approved have a greater risk of errors or irregularities.

Audit Recommendation and Agency Response

Recommendation:

We recommend the Office of Management and Budget implement the PeopleSoft General Ledger Workflow to improve General Ledger transaction approval procedures.

Office of Management and Budget Response:

OMB agrees with the recommendation. ConnectND online approval for General Ledger transactions has been implemented.

Finding 07-2

ACCOUNTING POLICES AND PROCEDURES MANUALS

The Office of Management and Budget (OMB) maintains the ConnectND Accounting Training Manual and ConnectND Payroll Training Manual to provide agencies information related to PeopleSoft systems. These manuals include “how to” procedures but do not include information relating to the internal controls applicable to policies and procedures. Accounting policies and procedures manuals should incorporate internal controls to ensure processed transactions provide reliable financial data and to minimize risk of fraud or error.

Audit Recommendation and Agency Response

Recommendation:

We recommend the Office of Management and Budget incorporate internal controls objectives and related procedures into their financial and payroll manuals.

Office of Management and Budget Response:

OMB agrees with the recommendation. We will be updating Connect ND training Manuals and will incorporate internal control procedures into the appropriate manuals or policies.

INADEQUATE SEGREGATION OF DUTIES

Finding 07-3

The Office of Management and Budget's Divisions Central Services and Human Resources Management Services are lacking proper segregation of duties when processing cash and checks. The duties of endorsing the check, writing receipts or creating a remittance list, preparing online deposits, and reconciling deposits to receipts or remittance lists are not properly segregated.

Audit Recommendation and
Agency Response

Recommendation:

We recommend Central Services and Human Resource Management Services strengthen internal control by having someone who does not have access to cash and checks update the accounting records and prepare an independent reconciliation of receipts to deposits.

Office of Management and Budget Response:

OMB agrees with the recommendation. An independent reconciliation of receipts to deposits will be done.

FRAUD RISK ASSESSMENT/CONTROL ACTIVITIES

Finding 07-4

The Office of Management and Budget does not have a system in place to identify possible instances of fraud or fraudulent activities in the state's financial and operational areas.

The most important guidance relating to internal control is contained in *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This guidance dictates that a Fraud Risk Assessment program be established and practiced to identify risks of fraudulent type activities, including when special circumstances arise, when changing operating environments, and for restructuring. In addition, the Office of Management and Budget does not have the necessary control activities designed/documented to ensure significant fraud exposures are identified and mitigated. Management must design the necessary internal controls to ensure that each of the significant fraud exposures identified during the risk assessment process are adequately mitigated and that the system of control activities addressing each of the identified fraud risks has been adequately tested by management.

Recommendation:

We recommend the Office of Management and Budget:

- Establish and perform a fraud risk assessment on a recurring basis.
- Design and document the necessary control activities to ensure that each significant fraud exposure identified during the risk assessment process has been adequately mitigated, including background investigations, and that each of the identified fraud risks has been adequately tested by management.

Office of Management and Budget Response:

OMB agrees with the recommendation. We will develop the necessary policies and documents for fraud risk assessments and perform such assessments periodically.

ITD DEVELOPER ACCESS TO PEOPLESOFT PRODUCTION ENVIRONMENT

Information Technology Department software developers have access to the production environment in PeopleSoft. This increases the likelihood of unauthorized access to confidential or sensitive information and fraud. Access to the production environment of PeopleSoft should be reviewed by the Office of Management and Budget periodically to determine if the personnel and the rolls assigned to the Information Technology personnel are within the parameters of good internal control to protect information assets from unauthorized access and use.

Recommendation:

We recommend the Office of Management and Budget properly limit Information Technology Department developer's access to the production environment of PeopleSoft.

Office of Management and Budget Response:

OMB agrees with the recommendation. We will periodically review and evaluate the security roles given to ITD developers to determine if they are necessary to perform their job duties.

Finding 07-7

SURPLUS PROPERTY INTERNAL CONTROL

State Surplus Property lacks the internal control environment to detect surplus property misuse or theft. We noted the following internal control weakness:

- An annual inventory of state surplus property is not taken nor is there a reconciliation of inventory system additions and deletions to supporting documentation to verify items received were either sold, properly disposed of, or remain on inventory.
- Employees responsible for the custody of inventory and the approval of deletions have full access to the computer inventory system which would allow them to delete an item from the system and take it for personal use.

An improved internal control environment should be designed to provide reasonable assurance that State Surplus Property effectively prevents theft or abuse.

Audit Recommendation and Agency Response

Recommendation:

We recommend State Surplus Property strengthen internal controls to prevent loss by theft of abuse.

Office of Management and Budget Response:

OMB partially agrees with the recommendation. We will review our internal controls to determine the areas we can feasibly strengthen.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2007, we identified and tested Office of Management and Budget's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected To Testing

- The lease of additional space outside of the capitol was properly conducted. (NDCC section 54-21-24.1)
- The space utilization study has been updated. (NDCC section 54-21-28)
- The transfer to the budget stabilization fund was done properly. (NDCC section 54-27.2-01)
- Adherence with the restrictions regarding the purchase oil and gas tax put options. (NDCC section 54-44-16)
- Determined that all funds remaining in the state Purchasing Operating Fund did not exceed \$125,000 at fiscal year-end. (NDCC section 54-44-11)
- Determined that all funds remaining in the state Operating Training and Development Fund did not exceed \$25,000. (NDCC section 54-44-11)
- Twenty percent of the paper products purchased had at least 25% recycled material. (NDCC section 54-44.4-08)
- The Office of Management and Budget furnished supplies and maintained the capitol, state offices, and the executive mansion and charged an amount equal to the fair value of the office space and other services rendered to all departments that receive and expend moneys from other than the general fund. (NDCC section 54-21-19)
- Claims against the state or a state employee for injury were properly paid out of the Risk Management Fund. (NDCC section 32-12.2-04)
- Vendors that desire to bid or submit a proposal on contracts for commodities or services to the state were approved vendors. (NDCC section 54-44.4-09)
- Surplus Property properly distributed federal surplus property; developed, submitted, and implemented a state plan of operation for distribution of federal surplus property; and assessed and collected service charges from participating recipients to cover direct and reasonable cost of services. (NDCC section 54-44-04.5)
- Surplus property was transferred to recipients eligible to receive it; property not transferred was then sold on sealed bids or at public auction to the highest bidder for property valued at more than three thousand dollars; surplus property proceeds received from the transfer or sale of surplus property was deposited with the State Treasurer for deposit in the Surplus property operating fund; and that

surplus property funds that were deposited within the surplus operating fund did not exceed the amount needed for operating surplus property for one year and therefore there was no need to transfer any excess funds to the general fund. (NDCC section 54-44-4.6)

- The use of the following legally restricted funds:
- Indigent Civil Legal Services Fund
- Capitol Grounds Planning Committee Fund
- Risk Management Worker's Compensation Fund
- Risk Management Fund
- Tobacco Settlement Trust Fund
- Preliminary Planning Revolving Loan Fund
- Foundation Aid Stabilization
- Postage Revolving Fund
- Central Personnel Training Fund
- Central Services Fund
- Capitol Renovation Fund
- Compliance with appropriations and related transfers (2005 North Dakota Session Laws chapter 15).
- 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 fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including certification of payroll.

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 legislative intent identified above.

Operations

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

Prior Recommendations Not Implemented

Prior recommendations have been implemented with the exception of the following:

Finding 05-2

LACK OF GENERAL LEDGER TRANSACTION APPROVAL PROCEDURES

The PeopleSoft general ledger lacks an approval function for journal entries. Until an online approval function is implemented, agencies are required to manually approve journal entries. We noted several agencies do not have proper approval procedures in place as they are not manually approving journal entries. Proper internal controls require the review and approval of all accounting transactions. Journal entries that are not reviewed and approved have a greater risk of errors or irregularities.

Audit Recommendation

Recommendation:

We recommend the Office of Management and Budget implement the PeopleSoft General Ledger Workflow to improve General Ledger transaction approval procedures.

Status

Not Implemented – See page 14.

Finding 05-3

CONNECTND ACCOUNTING AND PAYROLL/HRMS MANUALS

The Office of Management and Budget and North Dakota State agencies use the ConnectND Accounting Training Manual and ConnectND Payroll Training Manual to give users information related to PeopleSoft Systems. These manuals include “how to” procedures but do not include information relating to the internal controls applicable to polices and procedures.

Audit Recommendation

Recommendation:

We recommend the Office of Management and Budget incorporate internal controls objectives and related procedures into their financial and payroll manuals.

Status

Not Implemented – See page 15.

Management Letter (Informal Recommendations)

November 9, 2007

Ms. Pam Sharp, Director
Office of Management and Budget
State Capitol
600 E. Boulevard Avenue
Bismarck, North Dakota 58505

Dear Ms. Sharp:

We have performed an audit of the Office of Management and Budget for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of the Office of Management and Budget'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 as non-reportable conditions.

The following present our informal recommendations.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 07-1: We recommend the Division of Risk Management purchase card holders perform a monthly reconciliation of receipts to their statement and sign it.

GENERAL

Informal Recommendation 07-02: We recommend the Office of Management and Budget's Human Resource Policy Manual be updated to include:

- A description/definition of what constitutes fraudulent behavior and what to do if fraudulent behavior is discovered.
- A Code of Conduct/Business Code to all covered employees and require the employees to annually confirm their receipt and reading of the Code of Conduct/Business Code.

Management of the Office of Management and Budget 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,

Orlin Bensen
Senior Auditor