



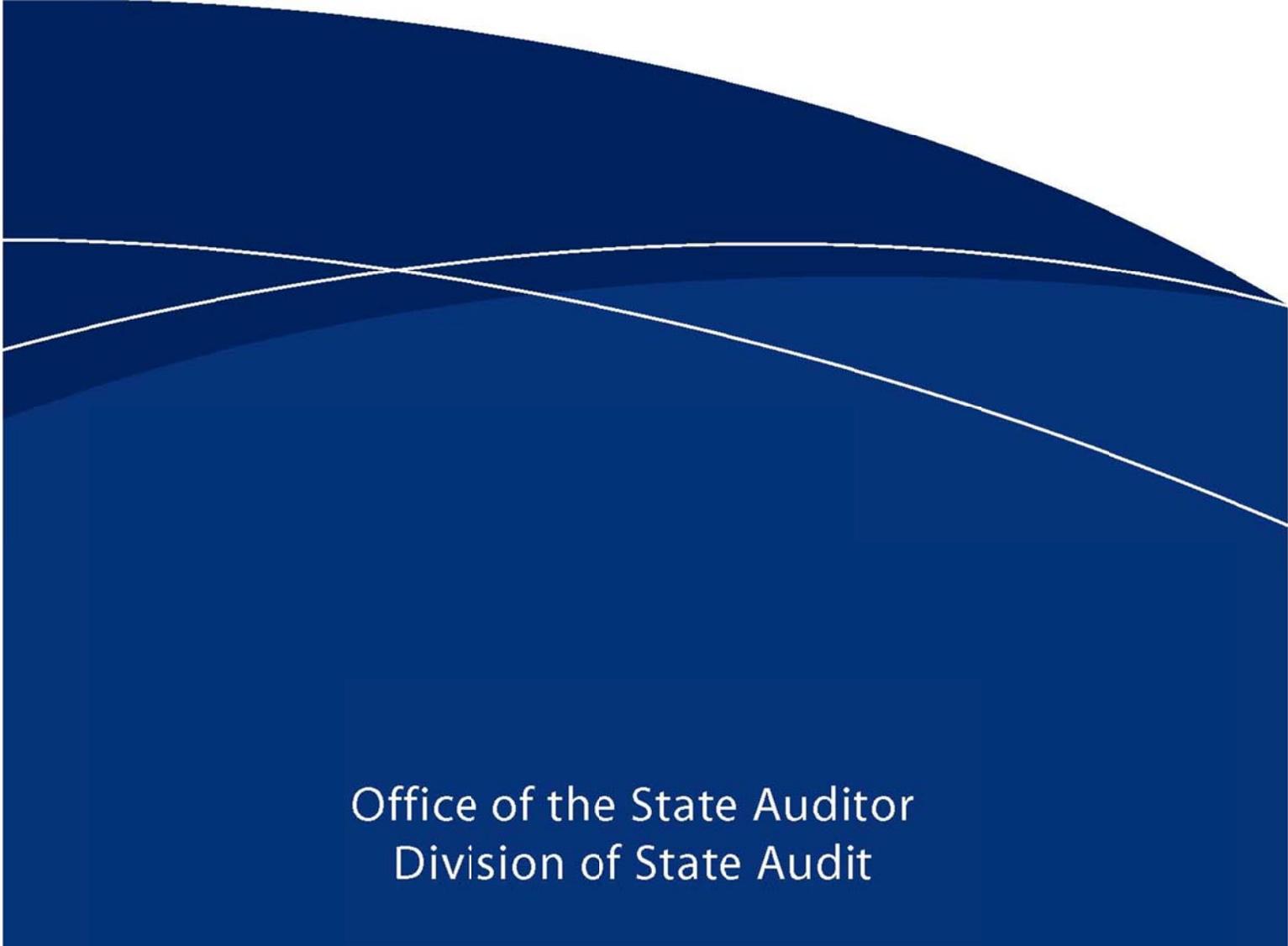
OFFICE OF MANAGEMENT
AND BUDGET

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Period Ended
June 30, 2009

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

Senator Randel Christmann – Chairman
Representative RaeAnn G. Kelsch – Vice Chairman

Representatives

Rick Berg
Merle Boucher
Jeff Delzer
Patrick R. Hatlestad
Jerry Kelsh
Keith Kempenich
Gary Kreidt
Louis Pinkerton
Chet Pollert
Bob Skarphol
Blair Thoreson
Benjamin A. Vig
Lonny Winrich

Senators

Joan Heckaman
Jerry Klein
Judy Lee

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 Variances Between Final Budgeted and Actual Expenditures</i> | <i>7</i> |
| <i>Funds Used to Account for Assets Held by the State in a Trustee Capacity</i> | <i>7</i> |
| <i>Financial Statements</i> | <i>8</i> |
| <i>Statement of Revenues and Expenditures</i> | <i>8</i> |
| <i>Statement of Appropriations</i> | <i>9</i> |
| <i>Internal Control</i> | <i>11</i> |
| <i>Compliance With Legislative Intent</i> | <i>12</i> |
| <i>Noncompliance With Transfer Requirements (Finding 09-1)</i> | <i>12</i> |
| <i>Operations</i> | <i>14</i> |
| <i>Management Letter (Informal Recommendations)</i> | <i>15</i> |

STATE AUDITOR
ROBERT R. PETERSON



PHONE
(701) 328 - 2241
FAX
(701) 328 - 1406

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

March 22, 2010

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, 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 Allison Bader. Orlin Bensen, LPA, and Richard Fuher, CPA, 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) 328-2241. 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,

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Office of Management and Budget is established under the North Dakota Century Code Chapter (NDCC) 55-44. The Department, headed by a Director appointed by the Governor, is vested with the control and supervision of the fiscal administration of the executive branch of government. The Department divisions include fiscal management, human resources management services, central services, facility management, and risk management.

Additional information can be obtained from the Office of Management and Budget website, <http://www.nd.gov/omb>.

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 Management and Budget 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?

Other than our findings addressing "noncompliance with transfer requirements" (page 12), the Office of Management and Budget was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

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?

The Office of Management and Budget has implemented all 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 15 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 Management and Budget'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 Systems (HRMS) are high-risk information technology systems critical to the Office of Management and Budget.

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, 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 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 and 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 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 Management and Budget has operations in the following locations. Each location was included in the audit scope:

- The Administration, Fiscal Management, Human Resource Management Services, Facility Management, and Central Services Divisions in the Capitol.
- Risk Management Division in north Bismarck.

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.
- Interviewed appropriate agency personnel.
 - Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
 - Observed Office of Management and Budget'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 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, 2009, 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 funds.

Financial Summary

The Office of Management and Budget's capital assets include buildings, equipment, and infrastructure, all of which are valued at historical cost. All capital assets with an original cost of \$5,000 or more per unit and an estimated useful life in excess of one year are capitalized. The Office of Management and Budget's total capital assets before deducting accumulated depreciation were \$72.9 million for fiscal year ended June 30, 2009 as compared to \$70.8 million for the year ended June 30, 2008. The majority of capital assets for the Office of Management and Budget are buildings which are valued at approximately \$59 million.

Revenues consisted primarily of risk management premiums and central duplicating revenues. Other revenue during the audited period included various leases, rents, indirect cost recoveries, sale of capital and non-capital assets, postage, interest and investment earnings, and legislatively mandated transfers.

The fluctuation in revenue during the biennium resulted from increases in revenue transfers and risk management premiums and a decrease in interest and investment earnings. Revenue transfers increased \$3.1 million due to an increase in legislatively mandated transfers. Pursuant to House Bill 1014, Section 15 of the 2007 legislative session, \$3.1 million was transferred from the student loan trust fund to the general fund to ensure sufficient funds remain available to pay debt service on student loan trust bonds, required rebate payments to the United States treasury, and program operating expenses. Risk management premium revenue increased due to a 50% discount in premiums that was returned to the agencies in fiscal year 2008. The premium discount was retained in the risk management workers' compensation fund in fiscal year 2009 due to anticipated underfunding identified by an actuarial study. Interest and investment earnings decreased during the biennium due to turmoil in the U.S. economy. Pursuant to NDCC Chapter 54-27.2, any interest or other earnings are to be deposited or transferred from the budget stabilization fund to the general fund if the balance in the fund exceeds the threshold percentages. Due to the declining market value of investments, these transfers were not applicable during fiscal year 2009. All other revenues remained fairly constant. Total revenues and transfers in were \$32,554,156 for the year ended June 30, 2009 as compared to \$28,971,178 for the year ended June 30, 2008.

Total expenditures and transfers out for the Office of Management and Budget were \$71,687,376 for the year ended June 30, 2009 as compared to \$104,365,750 for the prior year. The decrease in total expenditures and transfers out for the biennium reflects primarily a decrease in legislatively mandated transfers. Pursuant to House Bill 1015, Section 8 of the 2007 legislative session, \$41 million was transferred in fiscal year 2008 to the state penitentiary

land fund to be used for correctional facilities. The increase in other repairs is related to the development of reporting management within the ConnectND accounting system. The decrease in grants, benefits, and claims resulted from one-time funding of \$2,023,138 appropriated pursuant to House Bill 1018, Section 16 of the 2007 legislative session for providing funding to prairie public broadcasting. The majority of this funding was paid in fiscal year 2008. All other expenditures remained fairly constant.

Analysis of Significant Variances Between Final Budgeted and Actual Expenditures

The Office of Management and Budget had approximately 39% of their budget unexpended at June 30, 2009. The unexpended appropriation reflects primarily remaining legislatively mandated transfers and unrequested centers of excellence funding. Senate Bill 2012, Section 5 of the 2007 legislative session authorized \$43 million be transferred to the state disaster relief fund. The Office of Management and Budget transferred \$6 million during the biennium. The remaining \$37,000,000 was transferred in the 2009-11 biennium appropriation. House Bill 1018, Section 14 of the 2007 legislative session appropriated \$15 million to provide funding for the centers of excellence. Approximately \$6.6 million had not been requested by the centers of excellence commission at the end of the biennium. House Bill 1018, Section 15 of the 2007 legislative session appropriated authority of \$5 million for a loan from BND to providing funding for the centers of excellence. The funding was not needed during the biennium.

Funds Used to Account for Assets Held by the State in a Trustee Capacity

The Office of Management and Budget accounts for employers and employees payroll taxes and other deductions including insurance, garnishments, and credit union deductions in accordance with NDCC 54-44. These collections are remitted to federal and state tax institutions, credit unions, state child support, and other court authorized entities. Remitted payroll withholdings were \$86,802,680 for the year ended June 30, 2009, as compared to \$80,256,498 for the prior year.

Financial Statements

Statement of Revenues and Expenditures

| | <u>June 30, 2009</u> | <u>June 30, 2008</u> |
|---|-----------------------------|------------------------------|
| <u>Revenues and Other Sources:</u> | | |
| Risk Management Premiums | \$ 5,513,476 | \$ 3,672,711 |
| Central Duplicating Revenue | 1,398,271 | 1,261,955 |
| Leases and Rents | 814,888 | 820,278 |
| Indirect Cost Recoveries | 741,740 | 681,602 |
| Sale of Capital Assets | 619,074 | 587,122 |
| Postage | 607,499 | 586,925 |
| Sale of Non-Capital Assets | 526,888 | 607,826 |
| Interest and Investment Earnings | 24,746 | 1,710,999 |
| Miscellaneous Revenue | 299,380 | 212,257 |
| Transfers In | 22,008,194 | 18,829,503 |
| Total Revenues and Other Sources | <u>\$ 32,554,156</u> | <u>\$ 28,971,178</u> |
| <u>Expenditures and Other Uses:</u> | | |
| Salaries and Benefits | \$ 6,779,490 | \$ 6,314,222 |
| Operating Fees and Services | 3,015,142 | 2,803,514 |
| Extraordinary Repairs | 1,945,088 | 1,007,802 |
| Supplies | 1,873,878 | 1,122,140 |
| IT Data Processing | 1,285,246 | 1,064,131 |
| Other Repairs | 1,210,494 | 495,362 |
| Fees – Professional Services | 1,067,536 | 1,335,338 |
| Insurance | 1,044,468 | 525,726 |
| Utilities | 1,008,115 | 1,183,942 |
| Grants Benefits and Claims | 800,758 | 1,676,380 |
| Postage | 611,044 | 613,662 |
| Professional Development | 352,041 | 358,109 |
| Rentals/Leases – Buildings, Land, Equipment | 330,509 | 279,537 |
| Special Assessment Taxes | 196,558 | 6,496 |
| Equipment Under \$5,000 | 66,401 | 48,577 |
| Equipment Over \$5,000 | 20,498 | 17,804 |
| Other Expenses | 246,990 | 225,515 |
| Transfers Out | 49,833,120 | 85,287,493 |
| Total Expenditures and Other Uses | <u>\$ 71,687,376</u> | <u>\$ 104,365,750</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 | \$ 15,213,766 | \$ 112,668 | \$ 15,326,434 | \$ 14,053,241 | \$ 1,273,193 |
| Operating Expenses | 11,692,136 | (137,832) | 11,554,304 | 9,751,052 | 1,803,251 |
| Fiscal Carryover | | 2,161,702 | 2,161,702 | 1,641,270 | 520,432 |
| Capital Assets | 4,645,019 | (300,000) | 4,345,019 | 2,723,793 | 1,621,226 |
| Construction Carryover | | 365,059 | 365,059 | 365,059 | |
| Grants | 54,000 | | 54,000 | 54,000 | |
| Prairie Public Broadcasting | 2,023,138 | | 2,023,138 | 2,023,138 | |
| Centers of Excellence | 25,300,000 | (5,300,000) | 20,000,000 | 8,379,459 | 11,620,541 |
| Heritage Expansion Project | 1,500,000 | | 1,500,000 | 870,679 | 629,321 |
| Statewide Equity Plan | 10,000,000 | (8,540,896) | 1,459,104 | | 1,459,104 |
| State Transfers | 43,150,000 | 43,250,000 | 86,400,000 | 49,400,000 | 37,000,000 |
| Federal Stimulus Funds-2009 | | 289,494 | 289,494 | 5,813 | 283,682 |
| Totals | <u>\$113,578,059</u> | <u>\$31,900,195</u> | <u>\$145,478,254</u> | <u>\$ 89,267,504</u> | <u>\$ 56,210,750</u> |
| Expenditures by Source: | | | | | |
| General Fund | \$ 73,348,944 | \$39,808,179 | \$113,157,123 | \$ 72,961,018 | \$ 40,196,105 |
| Other Funds | 40,229,115 | (7,907,984) | 32,321,131 | 16,306,487 | 16,014,644 |
| Totals | <u>\$113,578,059</u> | <u>\$31,900,195</u> | <u>\$145,478,254</u> | <u>\$ 89,267,504</u> | <u>\$ 56,210,750</u> |

Appropriation Adjustments:

The increase of \$112,668 in the Salaries and Benefits line item was for market equity increases for classified state employees. The appropriated funds were approved by Senate Bill 2189 of the 2007 legislative assembly.

The increase of \$2,161,702 in the Fiscal Carryover line was approved for continued development and operating costs of the accounting, management, and payroll systems pursuant to House Bill 1522 of the 2007 Legislative Assembly.

The \$300,000 decrease in the Capital Assets line was transferred to the Operating Expenses line for the increased cost of utilities for the capitol complex. Transfer was approved by the Emergency Commission during September 2008. The remaining fluctuation to the Operating Expenses line (\$437,832) was a result of transfers of contingency funds to other state agencies as approved by the Emergency Commission.

The increase of \$365,059 in the Construction Carryover line was approved by the Construction Carryover Committee for the development of the fire suppression system for the Capitol Complex.

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 and expended during the prior biennium.

The \$8,540,896 decrease in the Statewide Equity Plan line was approved by Senate Bill 2189 of the 2007 legislative session for the statewide salary equity pool. Appropriation was transferred to state agency appropriations.

The increase of \$43,250,000 in the State Transfers line was approved by emergency action of House Bill 2012, Section 5 of the 2009 Legislative Session for the purpose of matching federal funds received for flooding relief of North Dakota ranchers.

The increase of \$289,494 in the Federal Stimulus Funds line was approved by emergency action of House Bill 1015, Section 2 of the 2009 legislative session for information technology, accounting, and verification.

Expenditures Without Appropriations Of Specific Amounts:

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

Risk Management Workers Compensation Fund has a continuing appropriation authorized by NDCC section 65-04-03.1. (\$5,311,161 of expenditures for the biennium)

Risk Management Claims has a continuing appropriation authorized by NDCC section 32-12.2-07. (\$1,540,036 of expenditures for the biennium)

The Tobacco Settlement Trust Fund had transfers during the biennium in accordance with NDCC section 54-27-25. (\$61,495,398)

The Permanent Oil Trust Fund had transfers during the biennium in accordance with chapter 55, section 1 (\$6,483,226) of the 2007 legislative session laws.

The State Tuition Fund had transfers during the biennium in accordance with NDCC section 15.1-28-03. (\$9,127,506)

Postage Revolving Fund has a continuing appropriation authorized by NDCC section 48-06-06. (\$1,192,576 of expenditures for this biennium)

Human Resource Management Service's Training Fund has a continuing appropriation authorized by NDCC section 54-44-11. (\$157,163 of expenditures for this biennium)

Central Services Fund has a continuing appropriation authorized by NDCC section 54-44-11. (\$1,078,557 of expenditures for this biennium)

Internal Control

In our audit for the biennium ended June 30, 2009, we identified the following areas of the Office of Management and Budget'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 effecting the safeguarding of assets.
- 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 Management and Budget in a management letter dated March 22, 2010.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2009, we identified and tested the 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:

- Expenditures from the Capital Building Fund did not exceed \$750,000 during the 2007-09 biennium. (2007 North Dakota Session Laws chapter 27, section 5)
- Grant and special item appropriations authorized for the 2007-2009 biennium were not exceeded. (2007 North Dakota Session Laws chapter 27, section 6)
- Deferred maintenance appropriation authorized for the 2007-2009 biennium was not exceeded. (2007 North Dakota Session Laws chapter 27, section 7)
- Development of bio-based procurement program guidelines. (2007 North Dakota Session Laws chapter 481, section 1)
- Development of indemnification and insurance provision contract guidelines. (2007 North Dakota Session Laws chapter 292, section 1)
- Proper amounts transferred to the Disaster Relief Fund (2009 North Dakota Session Laws, chapter 40, section 5, emergency measure)
- Compliance with appropriations and related transfers (2007 North Dakota Session Laws chapter 27).
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including lease analysis requirements.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above.

Noncompliance With Transfer Requirements (Finding 09-1)

The Office of Management and Budget did not transfer \$37,000,000 from the state's general fund to the state disaster relief fund by June 30, 2009 as required by 2009 North Dakota session law chapter 40, sections 4 and 5, deemed emergency measures. These session law sections dictate that the Office of Management and Budget transfer \$43,000,000 from the state's general fund to the state disaster relief fund and any interest or other earnings of the state disaster relief fund must be deposited to this fund. The Office of Management and Budget transferred \$6 million of the required \$43 million by June 30, 2009. The Office of Management and Budget transferred the remaining \$37,000,000 to the state disaster relief fund on September 4, 2009.

Recommendation:

We recommend the Office of Management and Budget transfer legislatively mandated amounts in accordance with North Dakota session laws.

Office of Management and Budget Response:

The Office of Management and Budget agrees with the recommendation. Future legislatively mandated transfers will be made in a timely manner.

Operations

The 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 improve efficiency or effectiveness. However, we did note certain matters involving operations that we have reported in a management letter dated March 22, 2010 to management of the Office of Management and Budget.

Management Letter (Informal Recommendations)

March 22, 2010

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

Dear Ms. Sharp:

We have performed an audit of the Office of Management and Budget 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 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.

The following present our informal recommendations.

PERVASIVE CONTROLS

Informal Recommendation 09-1: We recommend the Office of Management and Budget perform a fraud risk assessment for the Divisions of Risk Management, Human Resource Management Services, and Central Services.

GENERAL LEDGER

Informal Recommendation 09-2: We recommend the Office of Management and Budget maintain proper support for correcting entries processed into the general ledger.

Informal Recommendation 09-3: We recommend the Office of Management and Budget review transactions processed by the Treasurer's Office to ensure all transactions processed to the Office of Management and Budget's accounting records are proper.

Informal Recommendation 09-4: We recommend the Office of Management and Budget ensure transactions posted to ConnectND by individuals with superuser or security administrator access are properly reviewed and approved.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 09-5: We recommend the Office of Management and Budget increase the use of the purchasing card as a form of payment.

INVENTORY

Informal Recommendation 09-6: We recommend the Office of Management and Budget perform an annual physical inventory of state surplus property of reasonable value and adjust the perpetual records accordingly.

BUDGET DETAIL

Informal Recommendation 09-7: We recommend the Office of Management and Budget ensure the amounts reported as "approved budget" and "appropriation adjustments" in the Biennium Budget and Actual Detail report agree to the amounts reported as original appropriation and adjustments on ConnectND.

INFORMATION SYSTEM ACCESS

Informal Recommendation 09-8: We recommend the Office of Management and Budget:

- Establish policies and procedures to restrict ConnectND access privileges to only necessary individuals;
- Assign ongoing responsibility for reviewing access to ConnectND Financials production environment; and,
- Perform continuing review of access privileges to ConnectND Financials.

OPERATIONS

Informal Recommendation 09-9: We recommend the Office of Management and Budget:

- Review insurance coverage policies held statewide and assess if any policy types could be consolidated to reduce insurance premiums or obtain improved terms of the policy.
- Provide information of potential risk exposures and existing insurance coverage available through statewide consolidated policies to facilitate the identification of additional insurance coverage needed by agencies and cooperatively with institutions of higher education.

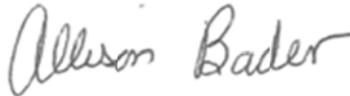
Informal Recommendation 09-10: We recommend the Office of Management and Budget expand the purchasing card program by:

- Establishing requirements to promote expanded use of the purchasing card;
- Monitoring agency use of the purchasing card to identify agencies with low usage levels; and,
- Expanding training programs to improve agency purchasing card operational and accounting procedures.

Management of 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,

A handwritten signature in cursive script that reads "Allison Bader".

Allison Bader
Auditor in-charge

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241