

# Office of the State Auditor

*Division of State Audit*

## PROTECTION AND ADVOCACY PROJECT Bismarck, North Dakota

Audit Report for the  
Two-Year Period Ended June 30, 2008  
Client Code 360

*Robert R. Peterson*  
*State Auditor*



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STATE AUDITOR  
ROBERT R. PETERSON



TELEPHONE  
(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*

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March 17, 2009

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Ms. Teresa Larsen, Executive Director, Protection and Advocacy Project

We are pleased to submit this audit of the Protection and Advocacy Project for the two-year period ended June 30, 2008. 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 Angela Sabot. Angela Klubberud was the staff auditor. Cindi Pedersen, CPA, was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-2241. We wish to express our appreciation to Teresa Larsen, Executive Director, and her 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*

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## **INTRODUCTION**

The North Dakota Protection and Advocacy Project is an independent state agency that protects and advocates for the rights of people with disabilities within established priorities. The Protection and Advocacy Project serves eligible individuals of all ages, with all types of disabilities, at no cost. The Protection and Advocacy Project does implement general eligibility requirements, including that the individual must reside within the state of North Dakota. The majority of the funds for program operations are from federal grants. Additional support is provided by the state of North Dakota.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

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

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

Financial statements were not prepared by the Protection and Advocacy Project 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 14 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 Protection and Advocacy Project's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

A \$1,000,000 grant payment was miscoded as a reduction of federal revenue. The financial statements were adjusted accordingly.

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 and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Protection and Advocacy Project.

# *Audit Objectives, Scope, and Methodology*

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## Audit Objectives

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The objectives of this audit of the Protection and Advocacy Project for the two-year period ended June 30, 2008 were to provide reliable, audited financial statements and to answer the following questions:

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

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## Audit Scope

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This audit of the Protection and Advocacy Project is for the two-year period ended June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Protection and Advocacy Project has operations in the following locations. Each location will be included in the audit scope:

- The central office located in downtown Bismarck.
- Additional offices in Williston, Minot, Belcourt, Devils Lake, Grand Forks, Fargo, Jamestown, and Dickinson.

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## Audit Methodology

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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 reviewed management's 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. Nonstatistical sampling was used and the results were projected to the population. Further 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) ERP system.
- Observed the Protection and Advocacy Project'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.

## ***Management's Discussion And Analysis***

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The accompanying financial statements have been prepared to present the Protection and Advocacy Project'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).

The following management discussion and analysis was prepared by the Protection and Advocacy Project's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the two-year period ended June 30, 2008, operations of the Protection and Advocacy Project were primarily supported by revenue received from the federal government. This is supplemented by appropriations from the state's general fund.

### ***FINANCIAL SUMMARY***

The majority of revenue was from seven different federal grants through the Department of Health and Human Services (Developmental Disabilities, Mental Health, Traumatic Brain Injury, and the Help America Vote Act grants), the Department of Education (Protection and Advocacy of Individual Rights and Assistive Technology grants), and the Social Security Administration (Protection and Advocacy for Beneficiaries of Social Security grant). The dollar amount for these remained fairly constant with a slight increase in one and a minimal decrease in another.

For the year ending June 30, 2007, the Protection & Advocacy Project received a \$1,000,000 grant from the U.S. Department of Education for low-interest loans for assistive technology devices and services for individuals with disabilities. This entire amount was passed through to a private non-profit organization that put up \$333,334 in matching funds. Total federal revenues were \$1,269,952 for the year ending June 30, 2008 as compared to \$2,314,924 for the year ending June 30, 2007.

Total expenditures for the Protection and Advocacy Project were \$1,760,585 for the year ending June 30, 2008 as compared to \$2,639,346 for the year ending June 30, 2007. The decrease in total expenditures for the second audited year reflects the pass through grant in the amount of \$1,000,000 in the first audited year.

Other expenditures remained fairly consistent with the exception of increases in salaries and benefits, which were \$150,961 more in the second audited year. This is reflected through: 1) increased health insurance premiums (totaling approximately \$31,242 for the year); 2) the addition of two new FTE's (each paid at \$2,992/month plus benefits); and 3) salary increases effective July 1, 2007 as authorized by the Governor and the Legislature. There was also a decrease in contractual fees for the second audited year. The majority of the difference was the result of the Protection and Advocacy Project ending its contract with Central Legal Research at the University of North Dakota law school. At the same time, there was an increase in expenses for educational and reference materials.

### ***ANALYSIS OF SIGNIFICANT CHANGES IN OPERATIONS***

With the exception of two new FTE's, there were no significant changes in operations for the Protection and Advocacy Project for the two years audited. Both positions were filled during the year ending June 30, 2008. One is a Disabilities Advocate and the other a Program Coordinator.

# *Financial Statements*

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## **STATEMENT OF REVENUES AND EXPENDITURES**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$1,269,952	\$2,314,924
<b>Total Revenues and Other Sources</b>	<u>\$1,269,952</u>	<u>\$2,314,924</u>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$1,479,702	\$1,328,741
Grant Expenditures		1,010,000
Rent - Building	83,026	84,970
Travel	55,303	69,008
Data Processing	26,458	25,312
Communications	22,632	20,649
Research and Contractual Fees	6,183	34,905
Educational and Reference Materials	32,895	2,978
Professional Development	11,869	18,259
Other Operating Expenditures	42,517	44,524
<b>Total Expenditures and Other Uses</b>	<u>\$1,760,585</u>	<u>\$2,639,346</u>

**STATEMENT OF APPROPRIATIONS**

**For The Fiscal Year Ended June 30, 2008**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Protection and Advocacy Serv.	\$ 4,053,516	\$ 76,959	\$ 4,130,475	\$ 1,760,585	\$ 2,369,890
<b>Totals</b>	<u>\$ 4,053,516</u>	<u>\$ 76,959</u>	<u>\$ 4,130,475</u>	<u>\$ 1,760,585</u>	<u>\$ 2,369,890</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 913,287	\$ 15,854	\$ 929,141	\$ 441,934	\$ 487,207
Federal Funds	3,140,229	61,105	3,201,334	1,318,651	1,882,683
<b>Totals</b>	<u>\$ 4,053,516</u>	<u>\$ 76,959</u>	<u>\$ 4,130,475</u>	<u>\$ 1,760,585</u>	<u>\$ 2,369,890</u>

**Appropriation Adjustments:**

The increase to the Protection and Advocacy Services line is due to additional appropriation authority granted by Senate Bill 2189 of the 2007 Session for market equity compensation adjustments for classified state employees.

**For The Biennium Ended June 30, 2007**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Protection and Advocacy Serv.	\$ 3,720,979	\$ 1,000,000	\$ 4,720,979	\$ 4,285,230	\$ 435,749
<b>Totals</b>	<u>\$ 3,720,979</u>	<u>\$ 1,000,000</u>	<u>\$ 4,720,979</u>	<u>\$ 4,285,230</u>	<u>\$ 435,749</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 812,093		\$ 812,093	\$ 812,087	\$ 6
Federal Funds	2,908,886	\$ 1,000,000	3,908,886	3,473,143	435,743
<b>Totals</b>	<u>\$ 3,720,979</u>	<u>\$ 1,000,000</u>	<u>\$ 4,720,979</u>	<u>\$ 4,285,230</u>	<u>\$ 435,749</u>

**Appropriation Adjustments:**

The increase of \$1,000,000 was approved by the Emergency Commission on September 20, 2006 to accept federal funds from the U.S. Department of Education Title III Program for an Alternative Financial Loan Program to expand personal financing options for North Dakotans with disabilities in purchasing assistive technology devices and services.

## *Internal Control*

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In our audit for the two-year period ended June 30, 2008, we identified the following areas of the Protection and Advocacy Project's internal control as being the highest risk:

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### Internal Controls Subjected To Testing

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- 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 the Protection and Advocacy Project in a management letter dated March 17, 2009.

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2008, we identified and tested the Protection and Advocacy Project's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### Legislative Intent Included In Our Audit Scope

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- Submission of a bi-monthly report to the Committee on Protection and Advocacy (NDCC section 25-01.3-03).
- Compliance with appropriations and related transfers (2005 North Dakota Session Laws, chapter 14 and 2007 North Dakota Session Laws, chapter 41).
- 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 statutory salaries for applicable elected and appointed positions, and certification of payroll.

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

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are 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*

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

## ***Management Letter (Informal Recommendations)***

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March 17, 2009

Ms. Teresa Larsen, Executive Director  
Protection and Advocacy Project  
400 East Broadway, Suite 409  
Bismarck, ND 58501-4071

Dear Ms. Larsen:

We have performed an audit of the Protection and Advocacy Project for the two-year period ended June 30, 2008, and have issued a report thereon. As part of our audit, we gained an understanding of the Protection and Advocacy Project's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

### **ACCOUNTS PAYABLE / EXPENDITURES**

Informal Recommendation 08-1: We recommend the Protection and Advocacy Project ensure that all purchase card expenditures are properly approved.

### **GENERAL**

Informal Recommendation 08-2: We recommend the Protection and Advocacy Project establish and perform a fraud risk assessment on a comprehensive and recurring basis. We also recommend the Protection and Advocacy Project design and document the necessary control

activities to ensure that each significant fraud exposure identified during the risk assessment process has been adequately mitigated.

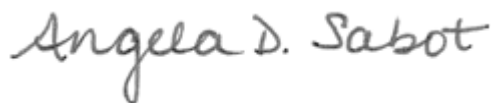
Informal Recommendation 08-3: We recommend the Protection and Advocacy Project evaluate and update their Code of Professional Conduct to ensure it is in accordance with “Internal Control – Integrated Framework” by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. We also recommend the Protection and Advocacy Project ensure that employees acknowledge their receipt and reading of the Code on an annual basis.

Informal Recommendation 08-4: We recommend the Protection and Advocacy Project ensure that individuals responsible for performing the year-end inventory of fixed assets do not have access to update or change the fixed asset records in the PeopleSoft system.

Management of the Protection and Advocacy Project 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 "Angela D. Sabot".

Angela Sabot  
Auditor in-charge