

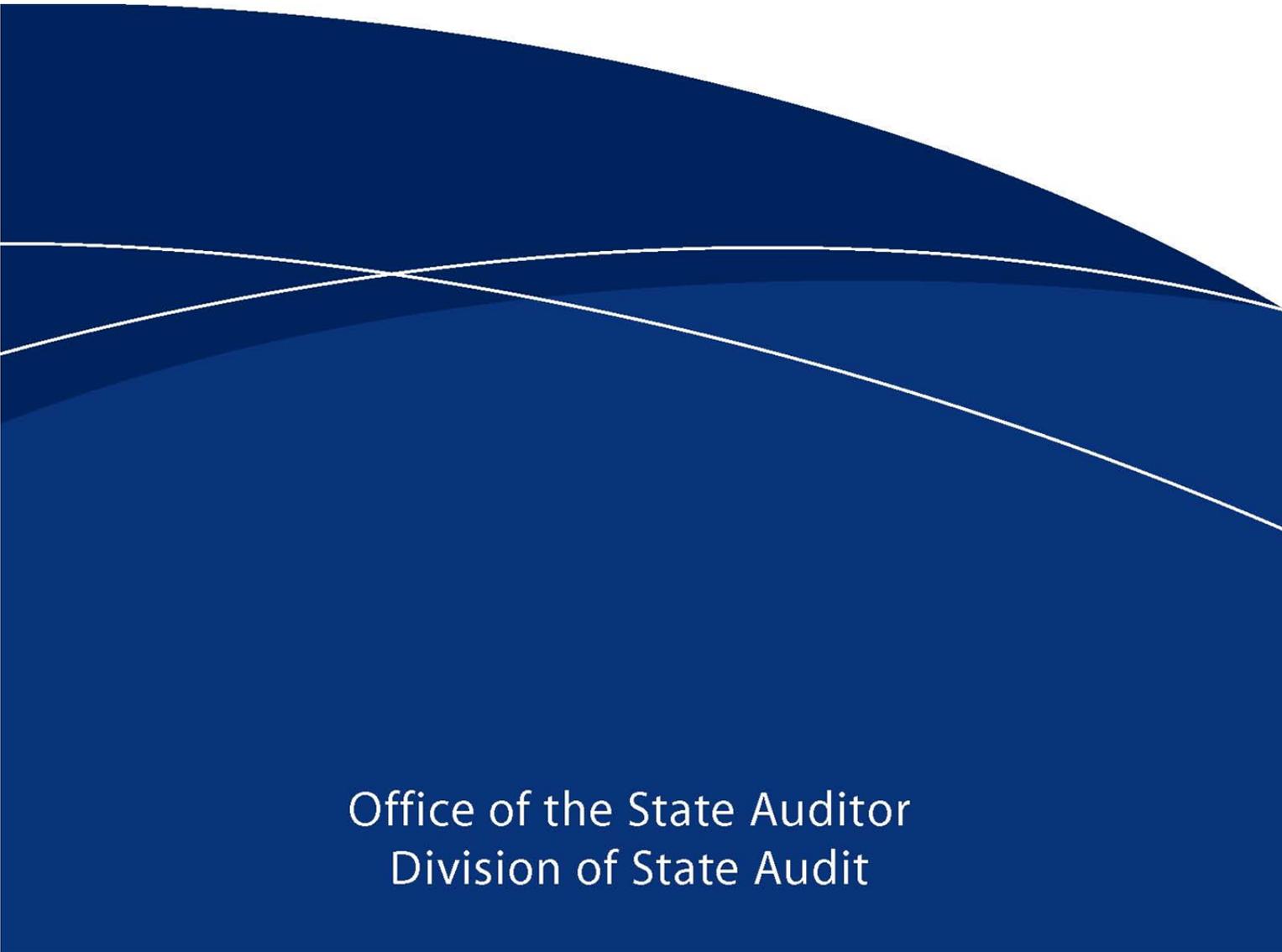
Office of the Adjutant General

BISMARCK, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2010

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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

Transmittal Letter

March 18, 2011

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Major General David Sprynczynatyk, Office of the Adjutant General

We are pleased to submit this audit of the Office of the Adjutant General for the two-year period ended June 30, 2010. 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. Sarah Kuntz and Crystal Hoggarth 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 Major General Sprynczynatyk and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Office of the Adjutant General is charged with the control of the Military Department of the state of North Dakota. The Adjutant General is to perform the duties pertaining to the Adjutant General and other Chiefs of Staff Departments under the regulations and customs of the United States Army. The Adjutant General acts upon the desire and the instruction of the Governor, who is commander in chief of the military forces of the state. The mission of the North Dakota Army and Air National Guard is to provide ready units, individuals, and equipment to support our communities, state and nation. The National Guard is a reserve component of the United States military forces and, as such, is subject to call into the military services of the United States.

The Department of Emergency Services consists of the Division of Homeland Security and the Division of State Radio. The Adjutant General serves as Director and is Chairman of the Department of Emergency Services Advisory Committee charged to provide direction and guidance in policy formation. The Division of Homeland Security consists of the state operations center section, the disaster recovery section, and the homeland security grant section. The Division of State Radio is dedicated to providing professional voice and data communications to federal, state, local, and tribal public safety agencies, as well as service to the general public.

Responses to LAFRC Audit Questions

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

Financial statements were not prepared by the Office of the Adjutant General 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?

Other than our work addressing "increased usage of the purchase card" (page 17), there were no indications of lack of efficiency in financial operations and management of the Office of the Adjutant General.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

The Office of the Adjutant General 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 pages 19-20 of this report, along with management's response.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Office of the Adjutant General'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, Human Resource Management System (HRMS), and ND National Guard Active Duty Tracking system are high-risk information technology systems critical to the Office of the Adjutant General.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Office of the Adjutant General for the two-year period ended June 30, 2010 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Office of the Adjutant General's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Office of the Adjutant General and are they in compliance with these laws?
3. Are there areas of the Office of the Adjutant General's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Office of the Adjutant General is for the two-year period ended June 30, 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the Adjutant General's central office is at Fraine Barracks in Bismarck, North Dakota with several military unit locations located throughout the state of North Dakota. The financial data for these military unit locations is included in the scope of this audit.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately

- represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
 - Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
 - Observed Office of the Adjutant General's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence

Discussion and Analysis

The accompanying financial statements have been prepared to present the Office of the Adjutant General'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 two-year period ended June 30, 2010, operations of the Office of the Adjutant General were primarily supported by appropriations from the federal government. This is supplemented by general funds and fees credited to the agency's operating funds and other funds under its control.

Financial Summary

The Office of the Adjutant General had \$179 million in capital assets as of June 30, 2010. These capital assets consist of buildings, infrastructure, equipment, and land throughout the state of North Dakota.

Total revenue and other sources was \$177,829,047 for the year ended June 30, 2010 as compared to \$88,394,928 for the year ended June 30, 2009. Revenues consisted primarily of federal funds. Federal revenues increased 108% due to an increase in federal disaster assistance grants received to respond to spring flooding and winter storm natural disasters. Other revenues include refunds, loan proceeds, program income, hazardous chemical fees, rental of facilities, and transfers. Refunds increased \$5,019,847 primarily due to the refund of prior biennium expenditures through the 1997 flood project close out procedures and an increase in the federal reimbursement percentage for the 2009 flood disaster. Transfers increased \$15,050,573 due to mandatory legislative transfers pursuant to section 5 of Senate Bill 2012 and section 2 of Senate Bill 2444 of the 2009 Legislative Session. Loan proceeds increased \$540,581 during fiscal year 2010. Loan proceeds are used for community disaster loans in accordance with NDCC chapter 37-17.1. Other revenues remained fairly consistent increasing slightly.

Total expenditures for the Office of the Adjutant General were \$157,713,516 for the year ended June 30, 2010 as compared to \$120,570,637 for the prior year. The increase in total expenditures reflects primarily increases in grants which account for 47% of total expenditures. Salaries and Benefits and Travel expenditures decreased during fiscal year 2010 due to snow and flooding disasters during fiscal year 2009 which required mobilization of temporary National Guard services. Professional Services increased due to inspection and assessment procedures of the 2009 and 2010 flood disasters. Repair expenditures decreased due to completion of projects at the Fargo Armed Forces Reserve Center, Grand Forks Armory, Bismarck Bohn Armory, and Camp Grafton. Transfers out decreased due to 2009 flood disaster federal assistance received by the Department of Emergency Services and allocated to various other state agencies during fiscal year 2009. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The excess Grants and 2009 Flood Disaster line items appropriations over actual expenditures for the biennium ended June 30, 2009 were related to appropriation amounts increased during fiscal year 2009 through emergency clauses of the 2009 Legislative Session due to the severity of the flood disaster and increased amount of grant disbursements. Remaining appropriation from the Grants line item for snow removal (\$14,623,216) and Veterans bonus payments (\$1,300,956) were carried forward to the 2009-2011 biennium in accordance with section 1 of Senate Bill 2444 and section 2 of House Bill 1482, respectively. Remaining appropriation from the 2009 Flood Disaster line item totaling \$31,164,317 was carried forward to the 2009-2011 biennium in accordance with section 6 of Senate Bill 2012 (\$23,000,000) and section 1 of Senate Bill 2444 (\$4,207,902).

The excess Radio Communications line item appropriations over actual expenditures were due to remaining procurement of the Computer Aided Dispatch system. The Carryover Committee approved \$910,308 carried forward to the 2009-2011 biennium.

The excess Army Guard Contracts line item appropriations over actual expenditures were due to construction in progress of the Regional Training Institute at Camp Grafton. The Carryover Committee approved \$9,463,163 carried forward to the 2009-2011 biennium.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$131,760,084	\$63,110,031
Refunds	5,497,633	477,786
Loan Proceeds	933,386	392,805
Program Income	870,333	692,744
Hazardous Chemical Fees	161,225	128,250
Interest and Investment Earnings	127,955	4,630
Donations	57,231	875
Leases/Rents of Buildings/Land	45,182	143,255
Other Revenues	7,151	2,838
Transfers In	38,492,287	23,441,714
Total Revenues and Other Sources	<u>\$177,829,047</u>	<u>\$88,394,928</u>
<u>Expenditures and Other Uses:</u>		
Grants, Benefits, and Claims	\$98,762,485	\$31,285,019
Salaries and Benefits	16,879,041	22,550,981
Land and Buildings	11,775,856	17,020,579
Professional Services	6,007,729	3,112,001
Operating Fees and Services	5,310,261	6,260,247
Repairs	5,040,748	8,842,063
Utilities	2,287,260	2,711,875
Equipment Over \$5000	2,727,573	1,180,623
Supplies	990,817	1,942,368
IT Data Processing	990,720	924,945
Travel	972,255	3,185,819
Professional Development	795,683	598,079
Rentals/Leases of Building/Land Equipment	599,394	1,637,686
IT Communications	356,479	358,186
Equipment Under \$5000	271,025	383,277
IT Contractual Services and Repairs	208,994	229,378
Other Operating Expenses	543,544	392,856
Transfers Out	3,193,651	17,954,655
Total Expenditures and Other Uses	<u>\$157,713,516</u>	<u>\$120,570,637</u>

Statement of Appropriations

For The Fiscal Year Ended June 30, 2010

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	\$ 14,225,041	\$ 3,341,713	\$ 17,566,754	\$ 7,364,027	\$ 10,202,727
Operating Expenses	7,793,948	5,257,584	13,051,532	5,748,273	7,303,259
Capital Assets	2,241,017		2,241,017	1,063,721	1,177,296
Construction Carryover		10,373,471	10,373,471	10,373,471	
Grants	46,001,781	83,195,784	129,197,565	19,074,269	110,123,295
2009 Flood Disaster	125,500,000	18,664,317	144,164,317	90,282,337	53,881,981
Civil Air Patrol	222,836		222,836	90,908	131,928
Radio Communications	3,745,000		3,745,000	213,718	3,531,282
Tuition Fees	2,407,500		2,407,500	1,301,332	1,106,168
Air Guard Contract	9,551,543	8,939	9,560,482	3,963,077	5,597,405
Army Guard Contract	60,058,099	19,546	60,077,645	14,946,771	45,130,874
Reintegration Program	1,377,409		1,377,409	583,154	794,255
ND Veterans Cemetery	489,141		489,141	216,688	272,453
Federal Stimulus Funds-2009	3,783,770	(33,181)	3,750,589	1,474,744	2,275,845
Totals	<u>\$ 277,397,085</u>	<u>\$ 120,828,173</u>	<u>\$ 398,225,258</u>	<u>\$156,696,490</u>	<u>\$241,528,768</u>
Expenditures by Source:					
General Fund	\$ 40,725,214	\$ (4,508,125)	\$ 36,217,089	\$ 18,166,810	\$ 18,050,279
Other Funds	236,671,871	125,336,298	362,008,169	138,529,680	223,478,489
Totals	<u>\$277,397,085</u>	<u>\$ 120,828,173</u>	<u>\$ 398,225,258</u>	<u>\$156,696,490</u>	<u>\$241,528,768</u>

Appropriation Adjustments:

The \$3,341,713 increase in the Salaries and Benefits line item includes \$410,598 authorized for Public Assistance and Hazard Mitigation Grant programs related to natural disasters occurring within the state from 1997 through 2007. The increase also includes amounts authorized to accept federal funds from the Federal Emergency Management Agency and to borrow and accept loan proceeds from the Bank of North Dakota under the provisions of NDCC 54-16-13 for expenditures related to the April 2010 storm (\$207,000), spring 2010 flooding (\$2,607,600), and 2010 severe winter storm (\$45,000). These adjustments were properly approved by the Emergency Commission. In addition, appropriation was allocated by the Office of Management and Budget from the statewide salary equity pool appropriated pursuant to House Bill 1015 of the 61st Legislative Assembly for salary and market equity compensation adjustments for executive branch state employees to the Salaries and Benefits

line item (\$71,515), Air Guard Contract line item (\$8,939), and the Army Guard Contract line item (\$19,546).

The \$5,257,584 increase in the Operating Expenses line item includes amounts authorized to accept federal funds from the Federal Emergency Management Agency and to borrow and accept loan proceeds from the Bank of North Dakota under the provisions of NDCC 54-16-13 for expenditures related to the April 2010 storm (\$319,000), spring 2010 flooding (\$3,110,875), and 2010 severe winter storm (\$25,000). These adjustments were properly approved by the Emergency Commission. In addition, \$1,802,709 appropriation was carried forward pursuant to emergency measures in sections 1 and 2 of House Bill 1023 of the 2009 Session Laws for the purpose of providing state matching funds for public assistance and disaster hazard mitigation programs and expenses incurred for the snow emergency in January 2009.

The \$10,373,471 increase in the Construction Carryover line item was authorized by section 54-44.1-11 of the NDCC which allows for unexpended capital construction budgets to be carried forward to the next biennium. The adjustment was properly approved by the Carryover Committee.

The \$83,195,784 increase in the Grants line item includes \$2,304,837 authorized for Public Assistance and Hazard Mitigation Grant programs related to natural disasters occurring within the state from 1997 through 2007. The increase also includes amounts authorized to accept federal funds from the Federal Emergency Management Agency and to borrow and accept loan proceeds from the Bank of North Dakota under the provisions of NDCC 54-16-13 for expenditures related to the April 2010 storm (\$29,842,750), spring 2010 flooding (\$17,922,150), and 2010 severe winter storm (\$17,451,875). These adjustments were properly approved by the Emergency Commission. Pursuant to sections 2 and 6 of House Bill 1482 of the 2009 Session Laws, appropriation in the Grants line was increased \$1,300,956 related to unexpended appropriation authority from the previous biennium carried forward for the purpose of providing adjusted compensation to eligible veterans. In addition, the original appropriation was decreased for amounts spent during the previous biennium (\$250,000) appropriated pursuant to the emergency measure of section 34 of House Bill 1015 of the 2009 Session Laws for the purpose of providing grants to eligible political subdivisions that experience damage or destruction due to the tornado during the summer of 2007. The original appropriation was also decreased for amounts spent during the previous biennium (\$5,376,784) appropriated pursuant to the emergency measure of section 6 of Senate Bill 2012 of the 2009 Session Laws for the purpose of providing emergency snow removal grants to counties, cities and townships. Also, \$20,000,000 was transferred from the 2009 Flood Disaster line item to the Grants line item to properly reflect appropriation authority of section 6 of Senate Bill 2010 of the 2009 Session Laws for emergency snow removal grants.

The \$18,664,317 increase in the 2009 Flood Disaster line item includes \$63,000,000 appropriation authority to accept federal funds from the Federal Emergency Management Agency for the 2009 flood disaster. This adjustment was properly approved by the Emergency Commission. In addition, the original appropriation was decreased \$24,335,683 for amounts spent during the previous biennium appropriated pursuant to the emergency measure of section 1 of Senate Bill 2444 of the 2009 Session Laws for the purpose of defraying the expenses related to the 2009 flood disaster.

The Federal Stimulus Funds-2009 line item was decreased \$33,181 for the amount spent during the previous biennium authorized by section 2 of House Bill 1016 of the 2009 Session Laws for military energy-related maintenance and repairs. This section was declared an emergency measure.

Expenditures Without Appropriations Of Specific Amounts:

Veterans' Cemetery Fund has a continuing appropriation authorized by NDCC section 37-03-14 (\$56,993 of expenditures for this fiscal year).

National Guard Military Grounds Fund has a continuing appropriation authorized by NDCC section 37-03-13 (\$42,550 of expenditures for this fiscal year).

National Guard Emergency Fund has a continuing appropriation authorized by NDCC section 37-01-04.1 (\$705,895 of expenditures for this fiscal year).

Insurance Recoveries Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$211,589 of expenditures for this fiscal year).

Statement of Appropriations

For The Biennium Ended June 30, 2009

Expenditures by Line Item:	Original <u>Appropriation</u>	<u>Adjustments</u>	Final <u>Appropriation</u>	<u>Expenditures</u>	Unexpended <u>Appropriation</u>
Salaries and Benefits	\$ 12,232,916	\$ 62,541	\$ 12,295,457	\$ 12,014,666	\$ 280,791
Operating Expenses	7,728,228	5,227,553	12,955,781	9,604,173	3,351,608
Capital Assets	2,456,014	45,000	2,501,014	2,487,022	13,992
Construction Carryover		12,080,581	12,080,581	11,272,099	808,482
Grants	41,244,149	23,333,753	64,577,902	40,836,018	23,741,884
2009 Flood Disaster		55,500,000	55,500,000	24,332,019	31,167,981
Civil Air Patrol	160,163		160,163	158,264	1,899
Radio Communications	980,000		980,000	69,692	910,308
Tuition Fees	2,407,500	(450,000)	1,957,500	1,940,258	17,242
Air Guard Contract	9,480,731	40,757	9,521,488	7,010,078	2,511,410
Army Guard Contract	66,433,863	13,586	66,447,449	44,571,195	21,876,254
ND Veterans Cemetery	354,922		354,922	330,782	24,140
Federal Stimulus Funds-2009		200,000	200,000	33,181	166,819
Totals	<u>\$ 143,478,486</u>	<u>\$ 96,053,771</u>	<u>\$ 239,532,257</u>	<u>\$154,659,447</u>	<u>\$ 84,872,810</u>
Expenditures by Source:					
General Fund	\$ 21,802,813	\$ 20,697,800	\$ 42,500,613	\$ 34,485,355	\$ 8,015,258
Other Funds	121,675,673	75,355,971	197,031,644	120,174,092	76,857,552
Totals	<u>\$143,478,486</u>	<u>\$ 96,053,771</u>	<u>\$ 239,532,257</u>	<u>\$154,659,447</u>	<u>\$ 84,872,810</u>

Appropriation Adjustments:

The \$62,541 increase in the Salaries and Benefits line item, the \$40,757 increase in the Air Guard Contract line item, and the \$13,586 increase in the Army Guard Contract line item were authorized by Senate Bill 2189 of the 2007 Session Laws for market equity increases for classified employees.

The \$5,227,553 increase in the Operating Expenses line item includes \$450,000 line item transfer from the Tuition Fees line authorized by section 5 of Senate Bill 2016 of the 2007 Session Laws for the maintenance and repair of state-owned armories. The increase in the Operating Expenses line item also includes \$4,822,553 authorized by sections 1 and 2 of House Bill 1023 of the 2009 Session Laws for the purpose of providing state matching funds for public assistance and disaster hazard mitigation (\$3,422,553) which is not subject to NDCC 54-44.1-11 and (\$1,400,000) for expenses incurred for the snow emergency in January 2009. This section was declared an emergency measure. In addition, \$45,000 was transferred from

the Operating Expenses line item to the Capital Assets line item was made to fund a software add-on called WebEOC, the Division of Emergency Management's web-based incident management system. This transfer was approved by the Emergency Commission.

The \$12,080,581 increase in the Construction Carryover line item was authorized by section 54-44.1-11 of the NDCC which allows for unexpended capital construction budgets to be carried forward to the next biennium. The adjustment was properly approved by the Carryover Committee.

The \$23,333,753 increase in the Grants line item includes \$2,333,753 authorized by section 6 of House Bill 1017 of the 2005 Session Laws which allows for unexpended payments of adjusted compensation to veterans to be carried forward to the next biennium. The adjustment was properly approved by the Carryover Committee. The increase also includes \$21,000,000 authorized by section 6 of Senate Bill 2012 and section 1 of Senate Bill 2393 of the 2009 Session Laws for the purpose of providing emergency snow removal grants to counties, cities, and townships. This section was declared an emergency measure.

The \$55,500,000 increase in the 2009 Flood Disaster line item was authorized by section 1 of Senate Bill 2444 of the 2009 Session Laws (\$32,500,000) for the purpose of defraying expenses related to the 2009 flood disaster and section 6 of Senate Bill 2012 of the 2009 Session Laws (\$23,000,000) for providing emergency relief funding to political subdivisions. These sections were declared emergency measures.

The \$200,000 increase in the Federal Stimulus Funds-2009 line item was authorized by section 2 of House Bill 1016 of the 2009 Session Laws for military energy-related maintenance and repairs. This section was declared an emergency measure.

Expenditures Without Appropriations Of Specific Amounts:

Veterans' Cemetery Fund has a continuing appropriation authorized by NDCC section 37-03-14 (\$113,630 of expenditures for this biennium).

National Guard Military Grounds Fund has a continuing appropriation authorized by NDCC section 37-03-13 (\$500 of expenditures for this biennium).

National Guard Emergency Fund has a continuing appropriation authorized by NDCC section 37-01-04.1 (\$17,635,817 of expenditures for this biennium).

Insurance Recoveries Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$19,267 of expenditures for this biennium).

Internal Control

In our audit for the two-year period ended June 30, 2010, we identified the following areas of the Office of the Adjutant General'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.
- Controls surrounding the ND National Guard Active Duty Tracking 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 Office of the Adjutant General in a management letter dated March 18, 2011.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2010, we identified and tested Office of the Adjutant General's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper payment of adjusted compensation for domestic and foreign service (NDCC 37-28-03).
- Proper payment of tuition grants to National Guard members (NDCC 37-07.2-01).
- Proper collection of fees from users of the mobile data terminal, law enforcement telecommunications systems (NDCC 37-17.3-08).
- Proper collection of fees consistent with actual costs for 911 services (NDCC 37-17.3-09).
- Proper deposit of revenue from Gold Star license plates (NDCC 39-04-10.14).
- Proper use of the following legally restricted funds:
 - National Guard Emergency Fund (NDCC 37-01-04.1)
 - State Hazardous Chemicals Fund (NDCC 37-17.1-07.1)
 - Veterans' Cemetery Maintenance Fund (NDCC 37-03-14)
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2007 North Dakota Session Laws Chapter 42 and 2009 North Dakota Session Laws Chapters 16, 23 and 62).
- 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 criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

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

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the Office of the Adjutant General in a management letter dated March 18, 2011.

Operations

Our audit of the Office of the Adjutant General identified the following area of potential improvement to operations, as expressed by our operational objective:

- Did the Office of the Adjutant General utilize the P-card program so as to maximize the amount of applicable purchases made on the P-card versus making payment through the Accounts Payable (AP) module?

Increase Usage of the Purchase Card (Finding 10-1)

Condition:

The Office of the Adjutant General is not utilizing the purchase card (P-card) to the extent possible. Based on an analysis of expenditures for fiscal year 2010 that could have been paid with a P-card, it was determined that the Office of the Adjutant General only made 1% of those payments with the P-card.

Criteria:

- *OMB Purchasing Card manual* – denotes some of the benefits of using the P-card to include: 1) reducing administrative costs for the state; 2) reducing the amount of paperwork; and 3) reducing the number of checks issued... among others.
- *Government Finance Officers Association (GFOA) Recommended Best Practices* – use of purchasing cards improves the efficiency of purchasing procedures and reduces overall purchase processing costs.
- *National Association of Purchasing Professionals* – estimates that P-cards can save anywhere from 55% to 90% off the cost of a payment transactions.
- *RPMG Research Corp.* – 2003 Purchasing Card Benchmarking Study demonstrated that P-cards reduce the procurement cycle by 74%.
- *RPMG Research Corp.* – 2005 Purchasing Card Benchmarking Study Highlighted the cost savings of using a P-card ranges from \$23.70 (normal purchase process) up to \$67.38 (making a purchase via a purchase order) per transaction.

Cause:

The Office of the Adjutant General has not fully examined the cost savings of the P-card program to the State of North Dakota or the Office of the Adjutant General.

Effect or Potential Effect:

At least \$160,000 of revenue would have been available to the state general fund through the rebate program with JP Morgan had the Office of the Adjutant General paid eligible expenditures during fiscal year 2010 with the P-card.

Recommendation:

We recommend the Office of the Adjutant General look for ways to increase their usage of the P-card as a form of payment. We further recommend, if necessary, the Office of the Adjutant General meet with officials from the Office of Management and Budget to facilitate this process by raising P-card limits, identifying vendors for which P-card payments could be made, or changing the accounting on their P-cards so as to limit or eliminate the need to re-allocate P-card expenditures.

Office of the Adjutant General Response:

We agree that usage of the P-card could be increased. We have implemented changes that have significantly increased our use of the state P-card.

Management Letter (Informal Recommendations)

March 18, 2011

Major General David Sprynczynatyk
Adjutant General
Office of the Adjutant General
30 Fraine Barracks Lane
Bismarck, ND 58506

Dear Major General Sprynczynatyk:

We have performed an audit of the Office of the Adjutant General for the two-year period ended June 30, 2010, and have issued a report thereon. As part of our audit, we gained an understanding of the Office of the Adjutant General'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 09-1: We recommend the Office of the Adjutant General maintain proper support and ensure per-diem meal rates are not exceeded in accordance with Office of Management and Budget Policy 505.

PERVASIVE CONTROLS

Informal Recommendation 09-2: We recommend the Office of the Adjutant General include statements for the following key components in the revised Code of Ethical Conduct policy:

- Full, fair, accurate, timely, and understandable disclosure in reports and documents.
- Accountability for adherence to the code and the sanctions to be imposed on those who breach it.
- Compliance with applicable governmental laws, rules, and regulations.
- Prompt internal reporting of violations of the code to an appropriate person or persons identified in the code.

PAYROLL

Informal Recommendation 09-3: We recommend the Office of the Adjutant General ensure an individual independent of data entry properly reconcile payroll entered from the ND National Guard State Active Duty Tracking System to the Human Resource Management System and maintain proper support.

LEGISLATIVE INTENT

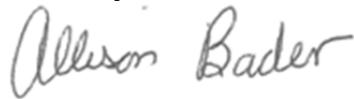
Informal Recommendation 09-4: We recommend the Office of the Adjutant General collect actual detail of 911 services to increase the accuracy of amounts billed to counties.

Informal Recommendation 09-5: We recommend the Office of the Adjutant General introduce legislation to eliminate inconsistency within NDCC 37-17.3-08 (2) for the application of fees assessed to city and county law enforcement entities accessing the Law Enforcement Telecommunications System.

Management of Office of the Adjutant General 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,



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

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