

# NORTH DAKOTA GAME AND FISH DEPARTMENT

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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BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

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March 7, 2011

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
Mr. Terry Steinwand, Director, North Dakota Game and Fish Department

We are pleased to submit this audit of the North Dakota Game and Fish Department 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 Kevin Scherbenske, CPA. Sarah Kuntz and Crystal Hoggarth were the staff auditors. Fred Ehrhardt, 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 Director Steinwand 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*

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## *Introduction*

The North Dakota Game and Fish Department is the principal governmental proponent of maintenance and perpetuation of fish and wildlife, and their habitats. It has the responsibility to recommend seasons, set and enforce regulations, and disseminate information about the state's fish and wildlife. The Department assists landowners with wildlife concerns, educates hunters and boaters about safety and sportsmen ethics, provides technical assistance to landowners to improve wildlife habitat, and works to ensure the availability of wildlife and fisheries for future generations.

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 North Dakota Game and Fish Department 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?*

Other than our finding addressing the "lack of controls over revenue" (page 11) and "inadequate tracking of fixed assets" (page 12), we determined internal control was adequate.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

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

The North Dakota Game and Fish Department 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 16 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 North Dakota Game and Fish Department'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 the Licensing System are high-risk information technology systems critical to the North Dakota Game and Fish Department.

# ***Audit Objectives, Scope, and Methodology***

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## **Audit Objectives**

The objectives of this audit of the North Dakota Game and Fish Department 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 North Dakota Game and Fish Department'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 North Dakota Game and Fish Department and are they in compliance with these laws?
3. Are there areas of the North Dakota Game and Fish Department's operations where we can help to improve efficiency or effectiveness?

## **Audit Scope**

This audit of the North Dakota Game and Fish Department 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 North Dakota Game and Fish Department has operations in the following locations. Each location will be included in the audit scope:

- Bismarck Office (Headquarters)
- Bismarck Game and Fish Lab
- Bismarck Game and Fish Shop
- Devils Lake Office
- Dickinson Office
- Jamestown Office
- Lonetree Office
- Riverdale Office
- Williston Office

## ***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 North Dakota Game and Fish Department'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*

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The accompanying financial statements have been prepared to present the North Dakota Game and Fish Department'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 June 30, 2010, operations of the North Dakota Game and Fish Department were primarily supported by special revenue funds which are received mainly from the sale of hunting and fishing licenses. This is supplemented by federal funding which is raised primarily from the excise tax on hunting and fishing equipment.

### *Financial Summary*

The North Dakota Game and Fish Department had \$24 million in investments at June 30, 2010 which is the same amount reported in the previous audit report. The investments consist of certificates of deposit that are held at the Bank of North Dakota with interest ranging from .65% to 1.15% for the period under audit.

Capital Assets were \$36,113,023 at June 30, 2010. Capital assets increased by \$4,831,238 for fiscal year 2010 over the prior year due to inclusion of intangible assets in fiscal year 2010 and the completion of the new wildlife lab building in fiscal year 2010.

Revenues consisted primarily of licenses and permits, federal funds, mineral lease payments, and interest income. Federal revenue for fiscal year 2010 increased by about \$2,800,000 due to more grants being received for the fish and wildlife restoration programs. Interest income decreased approximately \$220,000 from fiscal year 2009 to fiscal year 2010 due to falling interest rates. Interest earned on the operating fund is transferred to the habitat and depredation fund in accordance with North Dakota Century Code Chapter 20.1-02. Lease revenue increased due to a \$504,000 lease payment received for the Killdeer Mountain Wildlife.

Other revenue during the audit period included various fines, taxes, sales of publications, donations, rents, and transfers in. Total revenues were \$28,777,767 for the year ended June 30, 2010 as compared to \$25,710,686 for the year ended June 30, 2009.

Major expenditures consist of salaries and benefits, rents/leases, grants, operating expenses, and travel. Total expenditures for the North Dakota Game and Fish Department were \$26,772,467 for the year ended June 30, 2010 as compared to \$26,979,780 for the prior year.

# Financial Statements

## Statement of Revenues and Expenditures

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<b><u>Revenues and Other Sources:</u></b>		
License and Permits	\$ 14,974,899	\$ 15,075,014
Federal Revenue	12,323,276	9,527,216
Lease, Rents, and Royalties	518,309	23,852
Interest Income	290,146	509,729
Sale of Publications	215,755	201,065
Sale of Agriculture Products	91,900	76,304
Donations	28,456	91,260
Other Revenue	213,881	104,323
Transfers From Highway Tax Dist. Fund	121,145	101,923
<b>Total Revenues and Other Sources</b>	<b><u>\$ 28,777,767</u></b>	<b><u>\$ 25,710,686</u></b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$ 11,442,726	\$ 10,487,387
Grants	3,790,047	4,558,789
Rent of Land	2,977,128	3,066,803
Travel	1,343,216	1,428,502
Operating Fees	1,337,412	1,633,043
Building Construction / Land Purchases	1,206,375	791,060
IT – Data Processing/Communications/Equip	642,951	836,857
Fees – Professional Services	614,974	562,582
Supplies	566,245	961,918
Buildings, Grounds, Vehicle Supply	464,166	348,484
In Lieu of Property Taxes	439,602	529,850
Postage	352,386	253,366
Printing	338,043	331,426
Improvements of Non-State Property	220,997	131,258
Motor Vehicles	160,501	113,499
Other Expenditures	875,698	944,956
<b>Total Expenditures and Other Uses</b>	<b><u>\$ 26,772,467</u></b>	<b><u>\$ 26,979,780</u></b>

## Statement of Appropriations

For The Year Ended June 30, 2010

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 21,580,287	\$ 61,000	\$ 21,641,287	\$ 10,420,659	\$ 11,220,628
Operating Expenses	12,800,000		12,800,000	4,925,903	7,874,097
Capital Assets	3,965,000	20,000	3,985,000	1,108,058	2,876,942
Construction Carryover		1,032,622	1,032,622	1,029,335	3,287
Grants – Game and Fish	6,544,000	1,062,500	7,606,500	2,763,767	4,842,733
Habitat and Deer Depredation	11,080,162		11,080,162	4,834,855	6,245,307
Noxious Weed Control	550,000		550,000	225,973	324,027
Grant-Gift-Donation	400,000		400,000	137,953	262,047
Nongame Wildlife	120,000		120,000	31,413	88,587
Lonetree Reservoir	1,655,689		1,655,689	710,890	944,799
Wildlife Services	768,800		768,800	583,660	185,140
<b>Totals</b>	<u>\$ 59,463,938</u>	<u>\$ 2,176,122</u>	<u>\$ 61,640,060</u>	<u>\$ 26,772,466</u>	<u>\$ 34,867,594</u>
<b>Expenditures by Source:</b>					
Other Funds	\$ 59,463,938	\$ 2,176,122	\$ 61,640,060	\$ 26,772,466	\$ 34,867,594
<b>Totals</b>	<u>\$ 59,463,938</u>	<u>\$ 2,176,122</u>	<u>\$ 61,640,060</u>	<u>\$ 26,772,466</u>	<u>\$ 34,867,594</u>

### Appropriation Adjustments:

The \$61,000 adjustment to the Salaries and Benefits line, the \$20,000 adjustment to the Capital Assets line, and the \$1,062,500 adjustment to the Grants line were all properly approved by the Emergency Commission. Additional federal funds were received from the United States Department of Agriculture and Plant Inspection Service (\$61,000) and from the United States Department of Interior (\$1,082,500). The Fisheries Division will use these funds for projects along the Little Heart River and for support and monitoring for avian influenza and chronic wasting disease.

The \$1,032,622 adjustment to the Construction Carryover line was properly approved by the Capital Construction Carryover Committee for construction of the Wildlife Lab in Bismarck.

## Statement of Appropriations

For The Biennium Ended June 30, 2009

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 19,013,463	\$ 192,006	\$ 19,205,469	\$ 18,567,044	\$ 638,425
Operating Expenses	11,690,087		11,690,087	10,309,839	1,380,248
Capital Assets Construction	3,284,241	630,000	3,914,241	2,819,152	1,095,089
Carryover		259,700	259,700	220,676	39,024
Grants – Game and Fish	6,652,184		6,652,184	5,660,136	992,048
Habitat and Deer Depredation	12,786,351		12,786,351	10,406,283	2,380,068
Noxious Weed Control	450,000		450,000	437,732	12,268
Recruitment and Retention Study	30,000		30,000	28,500	1,500
Grant-Gift-Donation	500,000		500,000	178,905	321,095
Nongame Wildlife	120,000		120,000	10,499	109,501
Lonetree Reservoir	1,594,713		1,594,713	1,304,902	289,811
Wildlife Services	680,000		680,000	680,000	
Ramp and Marina Improvements	1,040,000		1,040,000	728,375	311,625
<b>Totals</b>	<u>\$ 57,841,039</u>	<u>\$ 1,081,706</u>	<u>\$ 58,922,745</u>	<u>\$ 51,352,043</u>	<u>\$ 7,570,702</u>
<b>Expenditures by Source:</b>					
Other Funds	\$ 57,841,039	\$ 1,081,706	\$ 58,922,745	\$ 51,352,043	\$ 7,570,702
<b>Totals</b>	<u>\$ 57,841,039</u>	<u>\$ 1,081,706</u>	<u>\$ 58,922,745</u>	<u>\$ 51,352,043</u>	<u>\$ 7,570,702</u>

### Appropriation Adjustments:

The salaries and wages increase of \$192,006 was from a Market Equity bill that was passed by the 2007 Legislative Assembly.

The capital assets increase of \$630,000 was due to the construction of the Wildlife Lab in Bismarck and the increase was approved by the Emergency Commission.

The construction carryover increase of \$259,700 was unexpended last biennium and was approved for carryover by the Capital Construction Carryover Committee to be used for the Garrison Dam National Fish Hatchery, Red River land acquisition, and shooting range construction at McLean Bottoms and Lake Oahe.

### Expenditures Without Appropriations Of Specific Amounts:

Insurance recoveries has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$9,354 of expenditures for this biennium).

## *Internal Control*

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In our audit for the two-year period ended June 30, 2010, we identified the following areas of the North Dakota Game and Fish Department'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 licensing information 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 that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be significant deficiencies.

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 identified the following significant deficiencies in internal control. We also noted other matters involving internal control that we have reported to management of North Dakota Game and Fish Department in a management letter dated March 7, 2011.

### ***Lack of Controls over Revenue (Finding 10-1)***

#### **Condition:**

The North Dakota Game and Fish Department does not have sufficient controls in place to ensure all revenue received is deposited for certain types of revenue such as subscriptions, restitution, and Becoming an Outdoor Woman (BOW) registrations.

#### **Criteria:**

Pursuant to the Committee of Sponsoring Organizations (COSO) Control Activities -- Duties are divided, or separated, among different people to reduce the risk of error or inappropriate actions.

**Cause:**

The client was unaware of this weakness in controls.

**Effect or Potential Effect:**

Certain types of revenue could be misplaced or misappropriated between receipt of revenue and deposit.

**Recommendation:**

We recommend the Game and Fish Department establish procedures to ensure that all revenue received is correctly deposited.

***North Dakota Game and Fish Department's Response:***

*The Department agrees there are some weaknesses in the current procedures and will implement controls to mitigate these weaknesses.*

***Inadequate Tracking of Fixed Assets (Finding 10-2)*****Condition:**

The North Dakota Game and Fish Department is not properly tracking its fixed assets. We noted:

- Annual inventory listings were not signed by someone independent of physical possession.
- Discrepancies between physical inventory verifications and fixed asset records were not properly investigated, adjusted when necessary, and approved.

**Criteria:**

North Dakota Century Code (NDCC) section 44-04-07 states that a complete and current inventory record of all property of sufficient value and permanence is maintained to render an inventory practical.

**Cause:**

Inadequate review of the physical inventory results and not following proper procedures.

**Effect or Potential Effect:**

Fixed Assets could be misappropriated or lost and the North Dakota Game and Fish Department would be unaware.

**Recommendation:**

We recommend the North Dakota Game and Fish Department implement the following controls:

- All annual equipment inventory verifications be signed by someone independent of physical possession.
- Discrepancies between physical inventory verifications and fixed asset records be properly investigated and any necessary adjustments be properly approved.

***North Dakota Game and Fish Department's Response:***

*The Department agrees with the audit recommendation and will implement it.*

## *Compliance With Legislative Intent*

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

- Correct amount of revenue received and properly spent on the Motorboat Program and Safety Account (NDCC section 20.1-02-16.5 and 20.1-02-16.6).
- Use of appraisal to set the maximum purchase price of land purchases exceeding ten acres (NDCC section 20.1-02-05.1)
- Proper use of the legally restricted Habitat and Depredation fund. (NDCC section 20.1-02-05(16))
- Application of proper statutory rates relating to revenue.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2007 North Dakota Session Laws chapter 43).
- 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.
- Compliance with hunter's safety course requirements (NDCC section 20.1-03-01.2).
- Compliance with license fee schedules (NDCC section 20.1-03-12).
- Compliance with social security number requirement for applicant of any license or permit (NDCC section 20.1-03-35).

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 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 significant areas of North Dakota Game and Fish Department's operations to help to improve efficiency or effectiveness that were required to be reported in accordance with Government Auditing Standards, however, we did note a less significant matter involving operations that we have reported to management of the North Dakota Game and Fish Department in a management letter dated March 7, 2011.

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

---

March 7, 2011

Mr. Terry Steinwand  
Director, North Dakota Game and Fish Department  
100 North Bismarck Expressway  
Bismarck, ND 58505

Dear Mr. Steinwand:

We have performed an audit of the North Dakota Game and Fish Department 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 North Dakota Game and Fish Department'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.

### **OPERATIONAL**

Informal Recommendation 10-1: We recommend the North Dakota Game and Fish Department use their p-card as a form of payment to all vendors accepting p-cards.

Informal Recommendation 10-2: We recommend the North Dakota Game and Fish Department revise their uniform policy with OMB guidance.

### **ACCOUNTS PAYABLE/EXPENDITURES**

Informal Recommendation 10-3: We recommend the Game and Fish Department develop procedures to approve all ConnectND entries done by other agencies for the Game and Fish Department.

Informal Recommendation 10-4: We recommend the North Dakota Game and Fish Department comply with OMB Policy 505 which lists the maximum in-state lodging rates and maintain adequate support for all lodging expenditures.

### **PAYROLL**

Informal Recommendation 10-5: We recommend an employee of the North Dakota Game and Fish Department, independent of payroll, properly run, review, and approve the electronic PAF form on a monthly basis.

### **INVENTORY**

Informal Recommendation 10-6: We recommend the North Dakota Game and Fish Department develop procedures to:

- Control order and receipt of inventory
- Periodically physically count inventory
- Track inventory movement
- Ensure inventory is physically secured and access is restricted

Management of North Dakota Game and Fish Department 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,



Kevin Scherbenske  
Auditor in-charge

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