

NORTH DAKOTA
GAME AND FISH
DEPARTMENT
BISMARCK, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2012

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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Transmittal Letter

April 2, 2013

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, 2012. 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 Delan Hellman. Kristi Morlock and Amanda Pierce were the staff auditors. Cindi Pedersen, 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 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

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 responses 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?

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 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 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 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), the Licensing System, and the Cost Tracking System are high-risk information technology systems critical to the North Dakota Game and Fish Department.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Game and Fish Department for the two-year period ended June 30, 2012 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, 2012. 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 North Dakota Game and Fish Department has operations in the following locations. Each location was 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

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, 2012, operations of the North Dakota Game and Fish Department were supported by special revenue funds which are received mainly from the sale of hunting and fishing licenses and by federal fish and wildlife grant funding.

Financial Summary

The North Dakota Game and Fish Department had \$24 million in investments at June 30, 2012 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 .20% to 1.15% for the period under audit.

Capital Assets were \$41,295,042 at June 30, 2012. Capital assets increased by \$1,260,824 for fiscal year 2012 over the prior year mainly because of the purchase of land and an increase in land easements in fiscal year 2012.

Revenues consisted primarily of licenses and permits, federal funds, mineral lease payments, and sale of publications. License and permits revenue decreased by about \$1,957,000 from fiscal year 2011 to fiscal year 2012 due to less hunting licenses being issued in fiscal year 2012. Federal revenue for fiscal year 2012 increased by approximately \$1,108,000 due to more grants being received for the fish and wildlife restoration programs. Royalties revenue increased due to \$316,579 of mineral royalties received in fiscal year 2012 as part of a lease signed in fiscal year 2010 for the Killdeer Mountains Game Management Area.

Other revenue during the audit period included interest income, donations, various sales, fines, rents, and transfers in. Total revenues were \$28,736,053 for the year ended June 30, 2012 as compared to \$29,143,481 for the year ended June 30, 2011.

Major expenditures consist of salaries and benefits, grants, rents, travel, and operating expenses. Total expenditures for the North Dakota Game and Fish Department were \$31,426,320 for the year ended June 30, 2012 as compared to \$31,285,306 for the prior year.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The North Dakota Game and Fish Department had two significant variances between the final budgeted and actual amounts for the biennium ended June 30, 2011.

The unexpended appropriation authority in the Operating Expenses line item was mainly due to the state experiencing two hard winters during the 2009-2011 biennium which resulted in high deer depredation expenditures. Approximately \$1,000,000 of these expenditures were spent out of the Habitat and Deer Depredation appropriation line which reduced the amount of time agency staff would normally have spent doing divisional work within the Operating Expenses

line. In addition, \$500,000 of the unexpended appropriation was due to the 2011 flood which reduced the amount of time agency staff normally would have spent in the field.

The unexpended appropriation in the Grants - Game and Fish line was due to two large projects, the Clausen Springs dam repair and the Sweetbriar dam repair, that did not get finished during the biennium as anticipated.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Revenues and Other Sources:</u>		
License and Permits	\$ 13,520,079	\$ 15,159,269
Federal Revenue	13,800,317	12,691,903
Leases, Rents, and Royalties	328,618	14,689
Sale of Publications	227,493	251,599
Interest Income	125,181	218,740
Donations	66,441	46,800
Sale of Agriculture Products	31,349	65,346
Sale of Land and Buildings	0	434,600
Other Revenue	232,290	127,147
Transfers From Highway Tax Dist. Fund	104,285	133,388
Other Transfers In	300,000	
Total Revenues and Other Sources	<u>\$ 28,736,053</u>	<u>\$ 29,143,481</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 12,453,150	\$ 12,003,970
Grants	5,819,121	4,677,712
Rent of Land	3,932,805	4,683,136
Travel	1,723,786	1,520,818
Operating Fees	1,483,611	1,353,523
Other Capital Payments	1,153,425	965,357
Buildings, Grounds, Vehicle Supply	889,845	571,201
Professional Services	792,884	659,392
IT - Data Processing/Communications/Equipment	593,915	605,647
Supplies	524,240	1,084,985
Equipment	379,376	465,122
Printing	364,633	293,169
Postage	311,283	389,372
Motor Vehicles	217,828	438,170
Repairs	215,497	178,894
Land Purchases / Building Construction	28,690	774,417
Other Expenditures	542,231	620,421
Total Expenditures and Other Uses	<u>\$ 31,426,320</u>	<u>\$31,285,306</u>

Statement of Appropriations

For The Fiscal Year Ended June 30, 2012

Expenditures by Line Item:	Original <u>Appropriation</u>	<u>Adjustments</u>	Final <u>Appropriation</u>	<u>Expenditures</u>	Unexpended <u>Appropriation</u>
Salaries and Wages	\$ 24,019,028	\$	\$ 24,019,028	\$ 11,288,031	\$ 12,730,997
Operating Expenses	12,524,493		12,524,493	5,326,621	7,197,872
Capital Assets	4,183,170		4,183,170	1,481,466	2,701,704
Construction Carryover		198,880	198,880	23,880	175,000
Grants- Game and Fish	7,718,500	2,500,000	10,218,500	4,911,390	5,307,110
Habitat and Deer Depredation	12,904,686	(842,462)	12,062,224	6,299,990	5,762,234
Noxious Weed Control	600,000		600,000	392,376	207,624
Missouri River Enforcement	200,000		200,000	118,213	81,787
Grant – Gift – Donation	800,000		800,000	204,581	595,419
Nongame Wildlife	120,000		120,000		120,000
Lonetree Reservoir	1,749,065		1,749,065	851,776	897,289
Wildlife Services	868,800		868,800	527,993	340,807
Totals	<u>\$ 65,687,742</u>	<u>\$ 1,856,418</u>	<u>\$ 67,544,160</u>	<u>\$ 31,426,317</u>	<u>\$ 36,117,843</u>
Expenditures by Source:					
Other Funds	65,687,742	1,856,418	67,544,160	31,426,317	36,117,843
Totals	<u>\$ 65,687,742</u>	<u>\$ 1,856,418</u>	<u>\$ 67,544,160</u>	<u>\$ 31,426,317</u>	<u>\$ 36,117,843</u>

Appropriation Adjustments:

The \$198,880 increase to the Construction Carryover line was approved by the Capital Construction Carryover Committee for land acquisition, upgrade to the Riverdale office, addition to State Fair facilities building, and an addition to the Devils Lake office.

The \$2,500,000 increase to the Grants - Game and Fish line was approved by the Emergency Commission to be used for boating access along the Missouri River that was damaged in the 2011 flood.

The \$842,462 decrease to the Habitat and Deer Depredation line is the total amount spent for expenses related to hunting access and deer depredation during the 2009-2011 biennium of the \$850,000 – authorized by Senate Bill 2017 of the 2011 Session Laws, section 6, which was considered an emergency measure.

Statement of Appropriations

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<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	\$ 21,299,732	\$ 341,555
Operating Expenses	12,800,000		12,800,000	10,222,921	2,577,079
Capital Assets	3,965,000	20,000	3,985,000	3,623,554	361,446
Construction Carryover		1,032,622	1,032,622	1,032,622	
Grants- Game and Fish	6,544,000	2,149,500	8,693,500	6,810,319	1,883,181
Habitat and Deer Depredation	11,080,162	850,000	11,930,162	11,922,624	7,538
Noxious Weed Control	550,000		550,000	490,819	59,181
Grant – Gift - Donation	400,000		400,000	203,366	196,634
Nongame Wildlife	120,000		120,000	113,211	6,789
Lonetree Reservoir	1,655,689		1,655,689	1,360,889	294,800
Wildlife Services	768,800	200,000	968,800	968,800	
Totals	<u>\$ 59,463,938</u>	<u>\$ 4,313,122</u>	<u>\$ 63,777,060</u>	<u>\$ 58,048,857</u>	<u>\$ 5,728,203</u>
Expenditures by Source:					
Other Funds	59,463,938	4,313,122	63,777,060	58,048,857	5,728,203
Totals	<u>\$ 59,463,938</u>	<u>\$ 4,313,122</u>	<u>\$ 63,777,060</u>	<u>\$ 58,048,857</u>	<u>\$ 5,728,203</u>

Appropriation Adjustments:

The \$61,000 increase to the Salaries and Wages line was approved by the Emergency Commission to pay for temporary staff for avian influenza and chronic wasting disease monitoring.

The \$20,000 increase to the Capital Assets line was approved by the Emergency Commission for shoreline access along the Little Heart River.

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

The \$2,149,500 increase to the Grants- Game and Fish line consisted of the following adjustments:

- \$1,062,500 - approved by the Emergency Commission to accept federal funds for dam repairs, boat ramps, fishing piers and docks, fish passage structures, road work, and sediment removal.
- \$687,000 - approved by the Emergency Commission to accept federal funds for the reconstruction costs of the Clausen Springs Dam.
- \$400,000 - authorized by Senate Bill 2017 of the 2011 Session Laws, section 6, for a grant to the North Dakota Parks and Recreation Department to raise the elevation of the Grahams Island State Park access road.

The \$850,000 increase to the Habitat and Deer Depredation line was authorized by Senate Bill 2017 of the 2011 Session Laws, section 6, for defraying expenses related to hunting access and deer depredation.

The \$200,000 increase to the Wildlife Services line was authorized by Senate Bill 2017 of the 2011 Session Laws, section 2, for providing funds to the Agriculture Commissioner for payment of wildlife services.

Expenditures Without Appropriations Of Specific Amounts:

Statewide Conference Fund had expenditures that were nonappropriated in accordance with OMB policy 211 (\$4,214 of expenditures for this biennium).

Insurance recoveries has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$4,700 of expenditures for this biennium).

Internal Control

In our audit for the two-year period ended June 30, 2012, 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 cost tracking information 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 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 North Dakota Game and Fish Department in a management letter dated April 2, 2013.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2012, we identified and tested the 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:

- The revenue deposited into the Motorboat Program and Safety Account was properly spent in accordance with North Dakota Century Code. (NDCC section 20.1-02-16.5)
- The amount transferred from the Highway Tax Distribution Fund to the Motorboat Program and Safety Account is properly supported. (NDCC section 20.1-02-16.6)
- No more than \$200,000 was given to the Agriculture Commissioner for wildlife services. (Senate Bill 2017, section 2 of the 2011 Legislative Session)
- Proper use of \$200,000 to be used for Missouri River law enforcement activities. (Senate Bill 2017, section 5 of the 2011 Legislative Session)
- 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 authorization of the North Dakota Game and Fish Department's funds.
- Proper use of the State Treasurer. (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers. (2009 North Dakota Session Laws chapter 17).
- 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 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 North Dakota Game and Fish Department in a management letter dated April 2, 2013.

Operations

This audit did not identify areas of North Dakota Game and Fish Department's operations where we determined it was practical at this time to help to improve efficiency or effectiveness. However, we did note a certain matter involving operations that we have reported to management of the North Dakota Game and Fish Department in a management letter dated April 2, 2013.

Management Letter (Informal Recommendations)

April 2, 2013

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, 2012, 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 12-1: We recommend the North Dakota Game and Fish Department use their P-card as a form of payment to all vendors accepting P-cards.

REVENUE

Informal Recommendation 12-2: We recommend the North Dakota Game and Fish Department establish procedures to ensure all *North Dakota Outdoors* subscription revenue is correctly deposited.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 12-3: We recommend the North Dakota Game and Fish Department properly code expenditures to ensure the PeopleSoft coding is consistent with the nature of the expenditure.

LEGISLATIVE INTENT

Informal Recommendation 12-4: We recommend the North Dakota Game and Fish Department deposit all interest income earned in the Game and Fish Fund into the Habitat and Depredation Fund in accordance with North Dakota Century Code section 20.1-02-05(16).

Informal Recommendation 12-5: We recommend the North Dakota Game and Fish Department only credit appropriations in accordance with Office of Management and Budget Policy 214.

Informal Recommendation 12-6: We recommend the North Dakota Game and Fish Department follow the State's Procurement Manual for all purchases, including sole source purchases.

GENERAL

Informal Recommendation 12-7: We recommend the North Dakota Game and Fish Department complete annual evaluations on all personnel in accordance with North Dakota Administrative Code 4-07-10-04.

Management of the 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,



Delan Hellman
Auditor in-charge

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Division of State Audit

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