

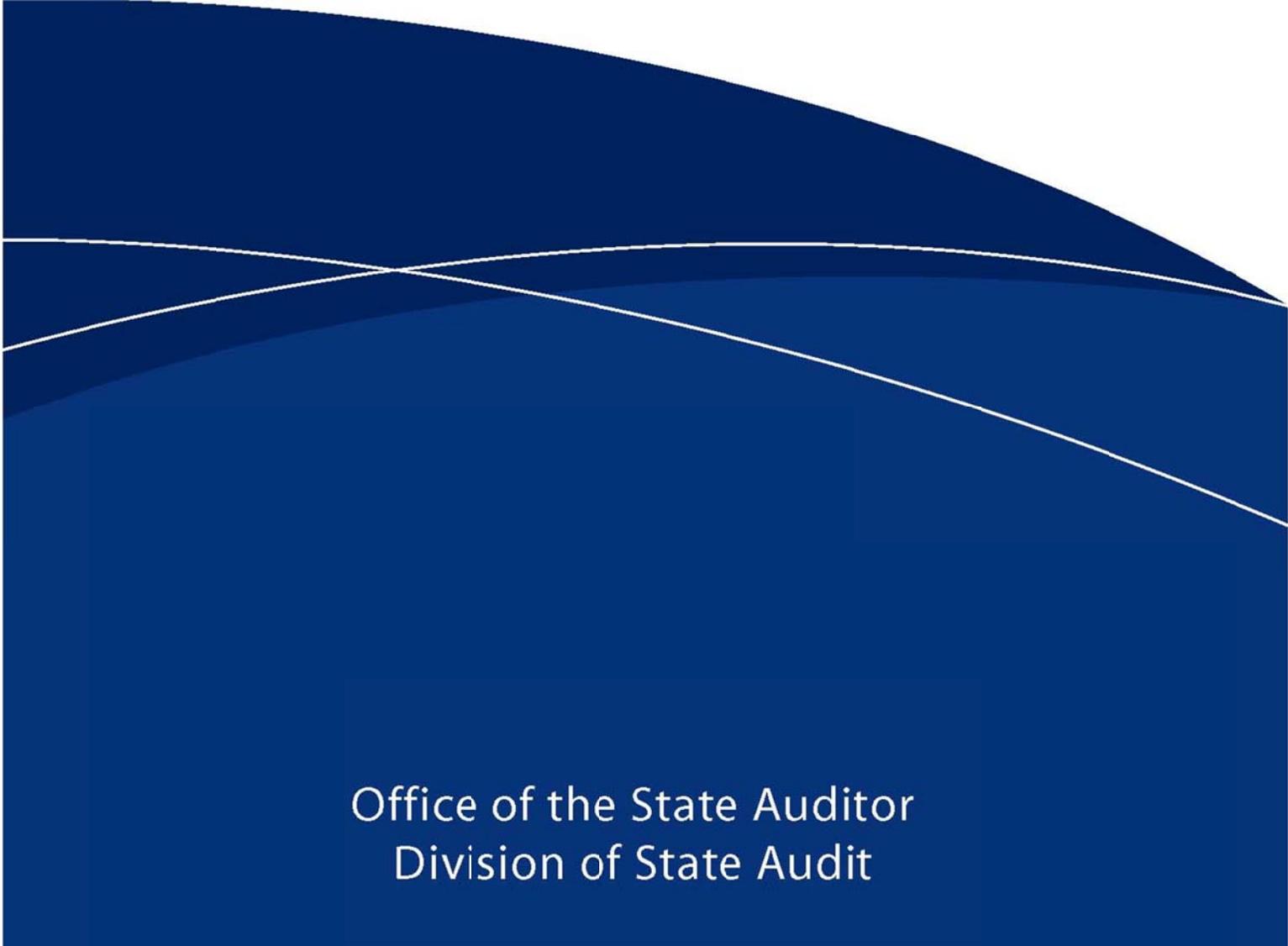


North Dakota Parks and
Recreation Department
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2009

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

April 22, 2010

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Mr. Douglass Prchal, Director, Parks and Recreation Department

We are pleased to submit this audit of the Parks and Recreation Department for the biennium ended June 30, 2009. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Richard Fuher, CPA. Kristi Morlock 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 Mr. Prchal 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 Parks and Recreation Department exists to serve as a focal point in the state for activities related to the state parks. The Department plans and coordinates government programs encouraging the full development and preservation of existing and future parks, outdoor recreation, and nature preserves.

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 Parks and Recreation 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 "state park revenue controls weakness" (page 9), 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 Parks and Recreation Department has implemented all recommendations included in the prior audit report with the exception of the "state parks revenue controls weakness" (page 14).

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 Parks and Recreation 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 Online Management System are high-risk information technology systems critical to the Parks and Recreation Department.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Parks and Recreation Department for the biennium ended June 30, 2009 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of the Parks and Recreation Department is for the biennium ended June 30, 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Parks and Recreation Department has its central office in Bismarck and 17 state park sites throughout North Dakota, of which 13 collect fees.

Locations were selected based on the level of activities (Central Office has the bulk of activities) and audit rotation of regional offices.

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 Parks and Recreation 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 Parks and Recreation 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 biennium ended June 30, 2009, operations of the Parks and Recreation Department were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Capital assets net of depreciation for the Parks and Recreation Department were \$21.8 million and \$23.7 million for the years ended June 30, 2009 and 2008, respectively. Capital assets consist of land, buildings, infrastructure, and equipment.

Revenues and other sources consisted primarily of federal funds, park permits, fees, and concessions. Other revenues during the audited period included sales and services, leases and rents of equipment and buildings, donations, other miscellaneous revenues, and transfers in of pass-through funds from other state agencies. Transfers in increased approximately \$811,000 due to the timing of when the pass-through funds were requested from the other state agencies. All other revenues remained fairly constant for the Parks and Recreation Department. Total revenues and other sources were \$4,046,965 for the year ended June 30, 2009 as compared to \$3,325,435 for the year ended June 30, 2008.

Total expenditures and other uses for the Parks and Recreation Department were \$10,054,172 for the year ended June 30, 2009 as compared to \$12,118,974 for the prior year. The decrease in total expenditures reflects primarily the timing of when projects were completed related to the International Peace Garden, as well as land and buildings, and grants, benefits, and claims. All other expenditures remained fairly constant.

The increase in expenditures for motor vehicles was due to the purchase of several tractors in fiscal year 2009.

Analysis of Significant Variances Between Final Budgeted and Actual Expenditures

The excess of recreation appropriations over actual expenditures were due to decreased revenue granted by the federal government primarily for the Land and Water Conservation and Recreational Trails programs.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<u>Revenues and Other Sources:</u>		
Park Service Permit / User Fees	\$1,567,312	\$1,451,463
Federal Revenue	1,070,975	1,096,598
Concessions	214,344	205,182
Intergovernmental Reimbursements	119,301	280,337
Sales and Services	70,823	46,049
Contributions and Private Grants	41,356	69,003
Leases, Rents, and Royalties	8,213	8,407
Miscellaneous Revenue	23,803	48,628
Transfers In	930,838	119,768
Total Revenues and Other Sources	\$4,046,965	\$3,325,435
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$3,621,320	\$3,443,983
International Peace Garden	368,427	2,801,427
Other Capital Payments	1,034,074	891,355
Repairs	885,053	651,030
Professional Services	599,559	637,785
Grants, Benefits, and Claims	381,952	852,914
Supplies	656,375	553,904
Motor Vehicles	791,205	172,133
Land and Buildings	280,259	638,443
Utilities	260,789	252,720
Travel	265,671	247,674
IT Costs	152,291	336,343
Equipment Over \$5,000	196,753	124,897
Rent	104,193	115,336
Other Equipment and Furniture Under \$5,000	84,427	117,634
Operating Fees and Services	107,978	88,255
Printing	84,653	48,511
Insurance	65,422	52,468
Food and Clothing	61,363	37,840
Postage	28,555	29,687
Professional Development	23,853	24,635
Total Expenditures and Other Uses	\$10,054,172	\$12,118,974

Statement of Appropriations

For The Biennium Ended June 30, 2009

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Capital Assets	\$ 707,500		\$ 707,500	\$ 707,500	
Construction					
Carryover		\$ 431,046	431,046	431,046	
Administration	2,109,169	17,836	2,127,005	1,896,497	\$ 230,508
Natural Resources	12,986,361	110,318	13,096,679	12,333,230	763,449
Recreation	8,636,524	2,240	8,638,764	2,987,368	5,651,396
Peace Garden	3,169,854		3,169,854	3,169,854	
Music Camp					
Contingency	400,000		400,000	200,000	200,000
	<u>\$ 28,009,408</u>	<u>\$ 561,440</u>	<u>\$ 28,570,848</u>	<u>\$ 21,725,495</u>	<u>\$ 6,845,353</u>
Expenditures by Source:					
General Fund	\$ 14,461,291	\$ 354,164	\$ 14,815,455	\$ 14,230,399	\$ 585,056
Other Funds	13,548,117	207,276	13,755,393	7,495,096	6,260,297
Totals	<u>\$ 28,009,408</u>	<u>\$ 561,440</u>	<u>\$ 28,570,848</u>	<u>\$ 21,725,495</u>	<u>\$ 6,845,353</u>

Appropriation Adjustments:

The \$431,046 increase in construction carryover was authorized by NDCC section 54-44.1-11 that allows for unexpended capital construction budgets to be carried forward into the next biennium. The adjustment was properly approved by the Carryover Committee.

The increases in administration, natural resources, and recreation were authorized by Senate Bill 2189 of the 2007 Session Laws for market equity increases for classified employees.

Expenditures Without Appropriations Of Specific Amounts:

State Parks Concession Fund has a continuing appropriation authorized by NDCC section 55-08-07.1 (\$440,453 of expenditures for this biennium).

Insurance recoveries has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$7,349 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2009, we identified the following areas of the Parks and Recreation 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 Online Management 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 a certain matter involving internal control and its operation that we consider to be a significant deficiency.

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 deficiency in internal control. We also noted other matters involving internal control that we have reported to management of the Parks and Recreation Department in a management letter dated April 22, 2010.

State Park Revenue Controls Weakness (Finding 09-1)

Controls surrounding revenue collections to ensure all fees are collected and properly deposited are not adequate. Our audit procedures identified the following weaknesses:

- The Parks and Recreation Department's current procedures for issuing individual permits with multiple fee amounts does not allow for an adequate reconciliation of issued permits to revenue collections.
- Permits assigned a single fee are not being reconciled to revenue collections by an independent individual.
- An independent individual is not reconciling the hand-written reservation numbers written on camping permits to ensure the reservation numbers are valid and that the proper fees were paid by credit card on the Online Management System.

According to the Committee of Sponsoring Organizations (COSO) *Internal Control – Integrated Framework Executive Summary*, monitoring, verifications, reconciliations, and segregation of duties are control activities used to ensure necessary actions are taken to address an entity's operating risks. Therefore, there is an increased risk of permits being issued without the proper fees being collected and deposited.

Recommendation:

We recommend the Parks and Recreation Department strengthen controls surrounding revenue collections to ensure all fees are collected and properly deposited.

Parks and Recreation Department Response:

The department will continue to monitor revenue collection and reconciliation methods at state parks. We will discuss alternative methods of permit types with other state park systems. Reconciliation will be made annually at the central office to analyze revenue generated with permits sold upon receipt of permit inventory information.

Reservation reconciliation can be handled through several processes. Either the admin assistants can verify at time of deposit or park rangers can verify valid reservation numbers on their campsite rounds. We will have some discussions to determine which process would provide us the best business practice with written policy to follow.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2009, we identified and tested Parks and Recreation Department's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper use of funding provided from the Game and Fish Operating Fund for maintenance, operating, and extraordinary repairs related to boat ramps (2007 North Dakota Session Laws chapter 45, section 4).
- Proper distribution of funding provided for the International Music Camp to the extent other funds became available on a dollar-for-dollar matching basis (2007 North Dakota Session Laws chapter 45, section 5).
- Proper use of funding provided to replace the maintenance building and other capital assets destroyed by fire (2007 North Dakota Session Laws chapter 45, section 6).
- Proper use of one-time funding provided for online reservation system and other equipment replacement, parks capital projects and deferred maintenance, and International Peace Garden capital projects and deferred maintenance (2007 North Dakota Session Laws chapter 45, section 8).
- Application of proper statutory rates relating to revenue (North Dakota Century Code section 55-08-06).
- Compliance with deposit requirements for State Park Fund (North Dakota Century Code section 55-08-07).
- Proper use of funding and transfers provided for the Concession Fund (North Dakota Century Code section 55-08-07.1).
- Compliance with requirements for leadership and facilities grants (North Dakota Century Code section 55-08-14.1).
- Proper use of the following legally restricted funds:
 - Snowmobile Fund
 - State Parks Gift Fund
 - Trail Tax Transfer Fund
 - State Parks Concession Fund
- Compliance with appropriations and related transfers (2007 North Dakota Session Laws chapter 45).
- Compliance with OMB's Purchasing Procedures Manual.
- Proper use of outside bank accounts and proper authority for investments outside the Bank of North Dakota.
- 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 Parks and Recreation Department in a management letter dated April 22, 2010.

Operations

This audit did not identify areas of Parks and Recreation Department's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Prior Recommendations Not Implemented

Prior recommendations have been implemented with the exception of the following:

State Park Revenue Controls Weakness (Finding 07-2)

Recommendation:

We recommend the Parks and Recreation Department strengthen controls surrounding revenue collected at the state parks by:

- Developing consistent methods for state parks to report permits, receipts, and revenue;
- Developing appropriate individual permits assigned a single fee;
- Performing reconciling procedures on permits sold and reservation registrations to revenue collected;
- Verifying original permits sold when issuing duplicates;
- Developing documented monitoring policies and implementing monitoring procedures over permits and receipt books; and
- Ensuring segregation of duties assigned to park rangers.

Status:

Partially implemented. This finding is readdressed on page 9.

Management Letter (Informal Recommendations)

April 22, 2010

Mr. Douglass Prchal, Director
Parks and Recreation Department
1600 East Century Avenue, Suite 3
Bismarck, ND 58503-0649

Dear Mr. Prchal:

We have performed an audit of the Parks and Recreation Department for the biennium ended June 30, 2009, and have issued a report thereon. As part of our audit, we gained an understanding of the Parks and Recreation 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.

CASH

Informal Recommendation 09-1: We recommend the Parks and Recreation Department obtain remittance documentation from federal sources stating the amount of federal funds that have been given to the Parks and Recreation Department and reconcile it to the deposit receipts by someone independent of federal draws.

Informal Recommendation 09-2: We recommend the Parks and Recreation Department comply with the CAFR Closing Manual and complete a Miscellaneous Accounts Receivable Summary Form for funds with \$10,000 or more in miscellaneous receivables at year-end.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 09-3: We recommend the Parks and Recreation Department review transactions processed by outside agencies to ensure all transactions processed agree to the Parks and Recreation Department's accounting records and are proper.

Informal Recommendation 09-4: We recommend the Parks and Recreation Department ensure receipts are retained for all purchase card transactions and individual purchase card statements are reconciled to the agency-wide statement.

LEGISLATIVE INTENT

Informal Recommendation 09-5: We recommend the Parks and Recreation Department fill out a new application for bond coverage and include all sources of revenue and investments in the calculation to determine the amount of coverage needed.

Informal Recommendation 09-6: We recommend the Parks and Recreation Department comply with OMB State Procurement Guidelines.

GENERAL

Informal Recommendation 09-7: We recommend the Parks and Recreation Department:

- A. Ensure the following key elements are addressed in its code of ethics or code of business conduct policy:
 - Full, fair, accurate, timely, and understandable disclosure in reports and documents;
 - Compliance with applicable governmental laws, rules, and regulations;
 - The prompt internal reporting of violations of the code to appropriate person or persons identified in the code; and
- B. Ensure employees have acknowledged their receipt and reading of the code (All persons in an accounting or financial reporting oversight roles should annually confirm their receipt and reading of the code).

Management of Parks and Recreation Department agrees 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,



Richard Fuher, CPA
Auditor in-charge

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www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
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