

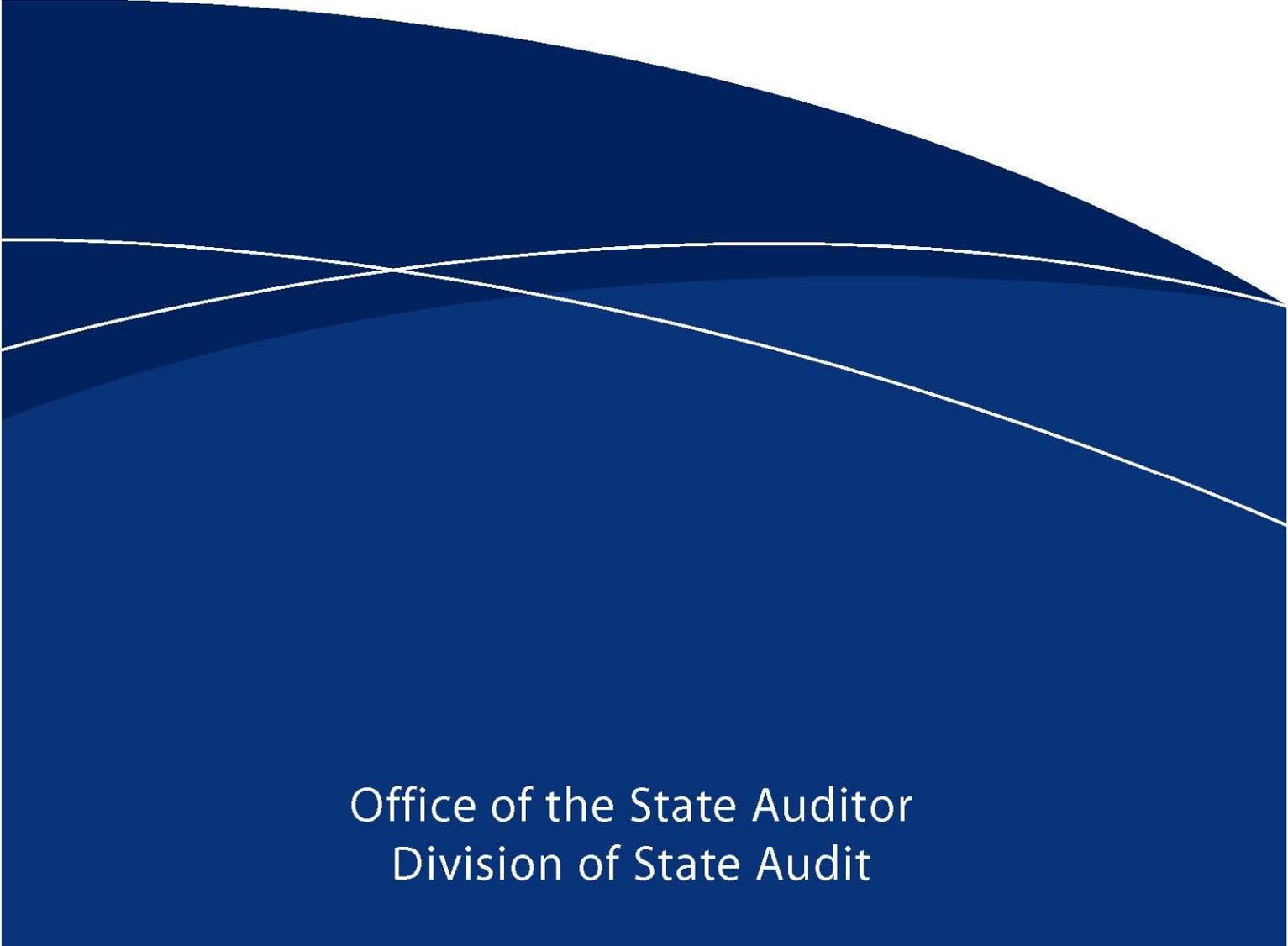


# Significant Audit Findings

## 2009-2010 Interim

Prepared at the Request of the Senate  
And House Appropriations Chairmen

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STATE AUDITOR



Office of the State Auditor  
Division of State Audit



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# Performance Audits

## Department of Commerce

### Performance Audit #3027 – Contact Gordy Smith 328-4990 [gsmith@nd.gov](mailto:gsmith@nd.gov)

The two objectives established for this performance audit were to answer the following questions:

1. *Does the application process and monitoring of the Centers of Excellence provide adequate accountability for the use of state funds?*

We determined the application process and monitoring of the Centers of Excellence has not provided adequate accountability for the use of state funds.

2. *Has an adequate system for monitoring operations of the Department of Commerce been established?*

We determined an adequate system for monitoring operations of the Department of Commerce has not been established.

There were 50 recommendations included in the performance audit report. Examples of recommendations include:

- We recommend the Centers of Excellence Commission ensure compliance with North Dakota Century Code Section 15-69-04, Subsection 5 and determine whether Centers of Excellence are having the desired economic impact. (Recommendation 1-1)
- We recommend the Centers of Excellence Commission establish criteria to be used for determining the approved funding amount in applications and analyze the effects of changing requested funding amounts of projects. (Recommendation 1-5)
- We recommend the Centers of Excellence Commission establish formal policies and procedures for monitoring the Centers of Excellence. At a minimum, the policies should address:
  - a) Establishing quarterly monitoring requirements;
  - b) Assessing job creation activities;
  - c) Assessing significant variations from the applications;
  - d) Establishing different reviews after the match has been met or after a specified period of time has expired; and
  - e) Establishing the frequency of updates to the Commission and/or holding meetings specifically for monitoring. (Recommendation 1-10)
- We recommend the Centers of Excellence Commission establish formal policies and procedures addressing actions to be taken when Centers of Excellence are in

noncompliance with requirements and when Centers of Excellence are not meeting stated expectations. (Recommendation 1-13)

- We recommend the Department of Commerce establish an effective department-wide monitoring function emphasizing compliance, consolidation of processes and procedures, and efficient operations. If reallocating resources is not possible to establish such a function, the Department should take appropriate action to obtain additional full-time equivalent positions and/or other necessary resources. (Recommendation 2-1)
- We recommend the Department of Commerce ensure administrative costs of local recipients paid with Community Development Block Grant funds are reasonable and adequately supported. (Recommendation 2-2)
- We recommend the North Dakota Development Fund, Inc. ensure compliance with policies for investments. In instances of exceptions or waivers of policies, reasons should be adequately documented. (Recommendation 3-1)

The full report may be viewed at [http://www.nd.gov/auditor/reports/3027\\_09.pdf](http://www.nd.gov/auditor/reports/3027_09.pdf)

## **University System Capital Projects**

### **Performance Audit #3028 – Contact Gordy Smith 328-4990 [gsmith@nd.gov](mailto:gsmith@nd.gov)**

The objective established for this performance audit was to answer the question:

*Are North Dakota University System capital projects adequately monitored?*

We determined capital projects are not adequately monitored within the University System.

There were 18 recommendations included in the performance audit report. Examples of recommendations include:

- We recommend the State Board of Higher Education take appropriate action to address differences relating to capital projects to ensure there is a unified system of higher education. (Recommendation 1-1)
- We recommend the State Board of Higher Education establish an effective, system-wide monitoring function to ensure institutions are complying with policies and state law. The monitoring function should report directly to the Budget, Audit, and Finance Committee of the Board. (Recommendation 1-2)
- We recommend the State Board of Higher Education establish policies for capital leases and other similar financing/purchasing agreements entered into by institutions. At a minimum, the policies should include requirements for Board approval. (Recommendation 1-5)
- We recommend North Dakota State University obtain proper approval to proceed with improvement projects. (Recommendation 2-1)
- We recommend North Dakota State University ensure appropriate authorization is received from the State Board of Higher Education and, if applicable, the legislature for projects which have been significantly changed or expanded or when authorized amounts are exceeded. (Recommendation 2-2)

- We recommend the University of North Dakota obtain proper approval to proceed with improvement projects. (Recommendation 3-1)
- We recommend the University of North Dakota ensure appropriate authorization is received from the State Board of Higher Education and, if applicable, the legislature for projects which have been significantly changed or expanded or when authorized amounts are exceeded. (Recommendation 3-2)

The full report may be viewed at <http://www.nd.gov/auditor/reports/3028.pdf>

## **Medicaid Provider and Recipient Fraud and Abuse**

### **Performance Audit #3029 – Contact Gordy Smith 328-4990 [gsmith@nd.gov](mailto:gsmith@nd.gov)**

The two objectives established for this performance audit were to answer the questions:

1. *Does the Department of Human Services adequately identify and pursue indications of potential Medicaid provider fraud and/or abuse?*

We determined the Department of Human Services does not adequately identify and pursue indications of potential Medicaid provider fraud and/or abuse.

2. *Does the Department of Human Services adequately identify and pursue indications of potential Medicaid recipient fraud and/or abuse?*

We determined the Department of Human Services does not adequately identify and pursue indications of potential Medicaid recipient fraud and/or abuse.

There were 21 recommendations included in the performance audit report. Examples of recommendations include:

- We recommend the Department of Human Services promote a culture of identifying potential Medicaid fraud and abuse. At a minimum, the Department should:
  - a) Establish adequate policies and procedures for identifying potential Medicaid fraud and abuse including definitions and steps to take when indications of potential Medicaid fraud and abuse are identified;
  - b) Clearly define employees' responsibilities of identifying potential Medicaid fraud and abuse;
  - c) Communicate such responsibilities to employees; and
  - d) Provide adequate training for identifying potential fraud and abuse to employees. (Recommendation 1-1)
- We recommend the Department of Human Services comply with federal requirements and ensure an effective surveillance and review process is established to protect the integrity of the Medicaid program. (Recommendation 1-2)
- We recommend the Department of Human Services submit a new request to the federal government for a Medicaid Fraud Control Unit waiver. Based on the determination from the federal government, the Department should:

- a) Take appropriate action to establish a Medicaid Fraud Control Unit in the state of North Dakota; or
  - b) Ensure adequate resources are made available to efficiently and effectively investigate and refer Medicaid provider fraud and abuse. (Recommendation 2-1)
- We recommend the Department of Human Services comply with federal requirements and take appropriate action when a provider is suspected of fraud or abuse following a preliminary investigation. When applicable, the Department should:
  - a) Conduct full investigations; or
  - b) Refer the case to an appropriate law enforcement agency. (Recommendation 2-2)
- We recommend the Department of Human Services comply with federal requirements following preliminary investigations of Medicaid recipients. When applicable, the Department should:
  - a) Refer the case to an appropriate law enforcement agency if there is reason to believe a recipient has defrauded the Medicaid program; and
  - b) Conduct a full investigation of abuse if there is reason to believe a recipient has abused the Medicaid program. (Recommendation 3-1)

The full report may be viewed at [http://www.nd.gov/auditor/reports/3029\\_10.pdf](http://www.nd.gov/auditor/reports/3029_10.pdf)

### **Performance Audit Follow-Up Reports**

During the 2009-2011 biennium, the Office of the State Auditor will be issuing three performance audit follow-up reports. These reports identify the status of recommendations made in previously issued performance audits. At the time this document was prepared, one follow-up report was issued, one follow-up report had a draft provided to the client, and one follow-up was anticipated to be finalized in January 2011. Information regarding the status of recommendations from the completed report follows:

Performance Audit Follow-Up Report	Status of Recommendations			
	Fully Implemented	Partially Implemented	Not Implemented	No Longer Applicable
Wildlife Services Program	6	4	1	0

The follow-up report for the performance audit of the School of Medicine and Health Sciences is anticipated to be issued prior to the end of December 2010. The follow-up report for the performance audit of the Department of Commerce is anticipated to be issued in January 2011. As a result of recommendations being implemented, changes have been made to improve operations, reduce costs, facilitate decision making, and increase accountability within state government.

## Information Systems Audits

### ND University System – ConnectND Finance – 6/30/2008

**Contact: Don LaFleur 328-4744 [dlafleur@nd.gov](mailto:dlafleur@nd.gov)**

#### **Excess Superuser Access**

Good internal controls require that you grant access rights based on a demonstrated need. A superuser account is an account that has access to all or nearly all functions, or can modify security. Unnecessary superuser access increases the risk that errors and irregularities could occur. We noted superuser accounts that we considered to be inappropriate.

#### Recommendation:

We recommend the North Dakota University System and the Office of Management and Budget limit superuser access to only those individuals with a demonstrated need for superuser access.

#### Response:

North Dakota University System

We concur. The University System will review which individuals have superuser access and evaluate the appropriateness of that access.

#### Office of Management and Budget

OMB has complied with this audit recommendation. We reviewed the list of individuals with superuser access and took it away from those who we determined did not need it. We also provided the State Auditor's Office a list of individuals who will have superuser access. Many of the superusers were the PeopleSoft IT developers and their security access is addressed in the recommendation below.

#### **Developer Access to PeopleSoft Production Environment**

Software developers have access to the production environment in ConnectND Finance. This increases the likelihood of unauthorized access to confidential or sensitive information and fraud. Proper segregation of duties requires software developers' access to the production environment be limited.

#### Recommendation:

We recommend the North Dakota University System and the Office of Management and Budget properly limit developers' access to the production environment.

#### Response:

North Dakota University System

We concur. The University System will work with OMB and the State Auditor's Office to define a level of access for developers that allows them to provide necessary assistance with production issues, while respecting an appropriate segregation of duties. The proper balance is critically important since programmers provide front-line support to help troubleshoot and resolve user problems and must be able to replicate user functionality.

Office of Management and Budget:

OMB agrees with this audit recommendation and will limit the PeopleSoft IT developers' security access in the production environment. We will work closely with the State Auditor's Office and the PeopleSoft IT development team to create the roles and permission lists necessary for the developers to maintain and enhance the PeopleSoft production environments.

### **Financial Data in Other Modules Not In Agreement With the General Ledger**

In reconciling the sub-module records to general ledger journal entries we found that the data does not always agree. Differences are mostly in the account, fund, or project used not in amount. These differences are likely the result of the general ledger journal entry produced by the module being edited prior to posting it to the general ledger. Data in the other modules must agree to what is recorded in the general ledger to maintain the integrity of the data. If the modules do not agree to the general ledger it is difficult to rely on the detailed data from the modules.

Recommendation:

We recommend the North Dakota University System and the Office of Management and Budget ensure that financial data within the modules agrees with the general ledger.

Response:

North Dakota University System

We concur. Through continued analysis of specific audit findings, the University System will confirm whether the financial system is the cause or not for differences between the general ledger and other modules. If it is found that changes made at the institutional level are the cause of the differences, institutions will be reminded to only change system-generated transactions manually in rare circumstances, and then to clearly document the need for the manual changes.

Office of Management and Budget

OMB agrees with this recommendation and will comply in the future. OMB does monitor the financial data within the PeopleSoft modules to determine they are in sync. When problems are found, OMB analyzes what went wrong and determines how to correct them. OMB was aware of the instances cited by the State Auditor's Office and had made corrections to the general ledger to fix what were system problems. We did not in all cases correct the sub-module records.

## **Vehicle Registration and Titling System – 6/30/2009**

**Contact: Don LaFleur 328-4744 [dlafleur@nd.gov](mailto:dlafleur@nd.gov)**

### **Excess Superuser Access**

Good internal controls require that you grant access rights based on a demonstrated need. A superuser account is an account that has access to all or nearly all functions, or can modify security. Unnecessary superuser access increases the risk that errors and irregularities could occur. We noted superuser accounts that we considered to be inappropriate.

Recommendation:

We recommend the Department of Transportation limit superuser access to only those individuals with a demonstrated need for superuser access.

Response:

Limited access update for super-users has been completed.

### **Log Use of Temporary Account**

A temporary account has been setup for use by motor vehicle branch personnel to fix problems. Use of this account is granted by calling the Department of Transportation help desk; however no log is kept to document usage of this account. Without a log it is not possible to track who used the account to make changes.

Recommendation:

We recommend the Department of Transportation implement proper procedures to monitor usage of the temporary account.

Response:

Going forward a tracking system will be created to monitor this user account

### **No Reconciliation of Untransferred Revenue in Clearing Account**

The Department of Transportation is unable to reconcile untransferred revenue in the North Dakota Motor Vehicle Money Market Account to verify that the revenue should remain there and not be transferred. North Dakota century code requires agencies to monthly report to the state treasurer the amount of fees and profits received and to pay the amount of such fees and profits to the treasurer (NDCC § 54-06-08). Without a proper reconciliation of the amount remaining in the clearing account, it is difficult to identify and correct mistakes in the transfer process.

Recommendation:

We recommend the Department of Transportation ensure money remaining in their motor vehicle clearing account each month is properly accounted for.

Response:

We are currently reviewing the VRTS processing to determine options for balancing the monies in the work queue that have not been distributed. We are working on updating our current reconciliation process to include a process of reconciling pending items to the money remaining in the clearing account after the distribution of funds is complete.

### **Errors in Distribution Report**

There were errors in the Vehicle Registration and Titling System Distribution Report. There were fees that were not properly accounted for and therefore did not get distributed from the clearing account.

Recommendation:

We recommend the Department of Transportation ensure the accuracy and validity of the Distribution Report.

Response:

We will continue to research distribution process and validity. Items discovered during audit have already been corrected.

### **Distribution of Refunds**

In some cases refunds are distributed according to the new allocations and not the same way as the original revenue being refunded was allocated. This was caused by the Department of Transportation changing older allocation to match the new distributions; refunds that use the old

codes were then allocated based on the new distributions rather than being distributed in the same way the revenue was distributed.

Recommendation:

We recommend the Department of Transportation ensure that distributions for refunds are the same as the original revenue.

Response:

The NDDOT concurs with the finding and will develop a methodology to properly allocate refunds.

## Financial Statement Audits

### North Dakota State CAFR – 2008

**Contact:** Ron Tolstad 328-2243 [rtolstad@nd.gov](mailto:rtolstad@nd.gov)

#### **Lack of Adequate Resources Devoted to Financial Reporting 08-1**

Due to turnover and other factors, including other work duties of the CAFR staff and the late receipt of the University System audit report, the Office of Management and Budget (OMB) did not have a sufficient number of trained staff for financial statement preparation. While additional contractor resources may be necessary, that alone may not be enough if additional staff resources are not available. These problems resulted in delays in financial statement preparation and several material audit adjustments, many of which would have been found by OMB's professional staff, if they had adequate time. Errors included:

- We noted 64 errors in the 673 CAFR adjustments tested for an error rate of 9.5%. State agencies made 37 of the errors, while 27 were made by OMB. Corrected errors exceeded \$14.3 million and projected uncorrected errors were estimated to be \$5.4 million.
- Government wide adjustments included errors to internal receivables of \$58 million and four net asset errors of \$3.2, \$4.1, \$8.6 and \$16 million.
- Several errors were noted relating to incorporating University System financial statements into the state's financial statements. Errors were in excess of \$26 million.

*Internal Control—Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission indicates an adequate control environment includes assignment of authority and responsibility such that appropriate numbers of people are available for accounting functions.

#### **Recommendation:**

The Office of Management and Budget should dedicate adequate resources to financial statement preparation to ensure professional staff have the time to prepare the financial statements timely with fewer errors.

#### **Response:**

OMB agrees with the recommendation. The turnover of experienced staff did create problems, but as our new staff gain experience, delays and errors will diminish. We intend to maximize the use of consultants and other OMB staff for CAFR preparation, however, we also need to receive the University System audit report timely to allow adequate time to prepare and review the adjustments needed to incorporate their statements into the CAFR.

#### **Financial Reporting Error by the State Treasurer 08-7**

The Office of the State Treasurer reported an incorrect amount to the Office of Management and Budget on an interest payable closing package. This \$3.8 million error was the result of taking the wrong number off of a report.

*Internal Control—Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission indicates there should be adequate controls to

ensure all required financial information is properly reported. Further, supervisory reviews should ensure significant amounts are being properly reported

Recommendation:

We recommend the State Treasurer take more care completing closing packages and strengthen the supervisory review of closing packages to ensure amounts are properly reported.

Response:

The Treasurer's Office agrees with the recommendation and will dedicate more time to the review process of closing package preparation.

## **North Dakota State CAFR – 2009**

**Contact: Ron Tolstad 328-2243 [rtolstad@nd.gov](mailto:rtolstad@nd.gov)**

### **Lack of Adequate Resources Devoted to Financial Reporting 09-1 (Prior not Implemented)**

The number of material and significant errors indicates there are several related internal control significant deficiencies, including material weaknesses, which have a common cause. That is, the lack of adequate resources being dedicated to financial statement preparation. The most significant errors and weaknesses include:

- Of 747 records tested in CAFR adjustments 84 were in error. A record is each individual line within the adjustments. 40 of these 84 errors were made by the Office of Management and Budget (the other 44 were agency closing package errors). The records in error that were made by OMB totaled \$116,271,367 out of the total error of \$134,225,594.
- Inadequate procedures were put in place to implement a new accounting standard. Specifically GASB Statement 49 Accounting and Financial Reporting for Pollution Remediation Obligations.
- Due to consultants not being familiar with the State's operations, a receivable was not recognized in the Tobacco Prevention and Control Trust Fund in the amount of \$6,489,966.
- The Office of Management and Budget incorrectly interpreted the requirements for reporting restricted net assets (Centers of Excellence Fund restricted net assets overstated by \$6,620,541).
- Capital lease payable between the North Dakota University System and its component units was not segregated as required.
- Several significant adjustments had to be made to various note disclosures.

Recommendation:

The Office of Management and Budget should address the areas noted and take the steps necessary to ensure there are adequate resources dedicated to financial statement preparation so their professional staff has the time to prepare the financial statements with fewer errors.

Response:

OMB has adequate resources dedicated to financial statement preparation. However, we will continue to ask agencies to submit their financial information in a more timely manner to allow OMB to take more time in preparation of the CAFR. In addition, we want to comment on the 40 errors noted above. These are 40 transaction line errors. OMB processes over 7600 transaction line adjustments to produce the CAFR. Errors in transactions will usually create two or more

transaction lines to be in error. For example, CAFR adjustments for two non-routine transactions done by the State Treasurer's Office created 8 of these 40 transaction line errors, which accounted for nearly \$103 million of the \$116 million in errors.

### **Financial Reporting Errors by the State Treasurer 09-2 (Prior Recommendation Not Implemented)**

Numerous errors were noted in information prepared by the State Treasurer's Office for the Office of Management and Budget. Errors included:

- The %Accounts Payable Closing Package+for fund 435 did not include payables equaling \$12,260,018;
- The %Accounts Payable Closing Package+for fund 401 did not include payables equaling \$5,542,358;
- The %Accounts Payable Closing Package+for fund 427 did not include payables equaling \$2,070,252;
- \$1,469,354 was incorrectly reported on the %Payments to Other State Agencies Closing Package+for fund 427;
- The distribution list prepared for the Office of Management and budget contained an error for Fund 400 in the amount of \$1,230,000 million, and;
- The %Accounts Payable Closing Package+for fund 454 did not include payables equaling \$736,289. This amount was incorrectly reported on the %Payments to Other State Agencies Closing Package.+

#### **Recommendation:**

We recommend the Office of State Treasurer ensure that individuals responsible for preparing and approving the closing packages have adequate knowledge and training to ensure closing packages are properly completed.

#### **Response:**

The Office of State Treasurer acknowledges that errors were made in the completion of these closing packages. The errors were a result of the preparing employee not following established guidelines and a difference in understanding between the State Treasurer's Office and the Office of Management and Budget regarding what is needed in these particular packages. In the future, the Office of State Treasurer will ensure that employees preparing the closing packaged follow clearly established guidelines consistent with the direction of the Office of Management and Budget on all closing packages.

### **State Treasurer Inability to Perform Cash Reconciliation 09-3**

Beginning April 27, 2009, the Office of the State Treasurer was not able to perform the important daily reconciliation of cash at the Bank of North Dakota to the ConnectND ledger. This daily reconciliation was not performed for several months. On October 30, 2009 the Office of the State Treasurer had reconciled through June 30, 2009. As of December 9, 2009 the reconciliation was performed through July 8, 2009.

#### **Recommendation:**

We recommend the Office of State Treasurer:

- Ensure that individuals responsible for reconciling the ConnectND cash balance to the cash balance at the Bank of North Dakota have adequate knowledge and training relating to ConnectND to ensure reconciliations are properly completed;

- Timely reconcile the ConnectND cash balance to the cash balance at the Bank of North Dakota on a daily basis, and;
- Cross train personnel and document procedures so others have the ability to perform the reconciliation and other critical functions of the office.

Response:

The STO agrees that the office was delayed in reconciling cash. However, the STO did reconcile to BND daily. There are several reconciliations within the overall cash reconciliation process. The portion of cash which was not reconciled daily stemmed from the PeopleSoft portion of the reconciliation process. While some of the delay in reconciliation was caused by turnover, the major challenge with cash reconciliation stemmed from a series of PeopleSoft errors occurring April 29, 30, and May 1<sup>st</sup>. The STO communicated these errors to OMB and it was determined that the STO did not receive the proper queries available to OMB. That was corrected. Further, the STO and OMB worked collaboratively to identify the issues from PeopleSoft in order to work through the problem days. A series of items did not post, some posted days later, and the check register for May 1<sup>st</sup> included the checks which had been written on prior days. In the future, we will work with OMB to ensure that all information available to OMB regarding cash reconciliation is available to the STO. Further, the STO has cross-trained employees on cash reconciliation and is working to develop a more efficient cash reconciliation process.

#### **Vehicle Registration and Titling System (VRTS) 09-5**

The Department of Transportation is not properly reconciling the Motor Vehicle Money Market Account. Thus, the accuracy of distribution reports is not adequately ensured.

Recommendation:

We recommend that the Department of Transportation:

- Properly reconcile the motor vehicle clearing account to the report of amounts processed and pending each month, and;
- Ensure the accuracy and validity of the Distribution Report.

Response:

NDDOT agrees with the findings. Regarding reconciliation of the motor vehicle clearing account, we are currently reviewing the VRTS processing to determine options for balancing the monies in the work queue that have not been distributed. We are working on updating our current reconciliation process to include a process of reconciling pending items to the money remaining in the clearing account after the distribution of funds is complete.

With regards to the accuracy and validity of the Distribution Report, we will continue to research distribution process and validity. Items discovered during the audit have already been corrected.

### **North Dakota University System Annual Financial Report - 2008**

**Contact: John Grettum 239-7289 [jgrettum@nd.gov](mailto:jgrettum@nd.gov)**

#### **Accrued Payroll Liability Reconciliations (Prior Recommendation Not Implemented)**

During the 2004, 2005, 2006, and 2007 audits we recommended that all institutions prepare timely accrued payroll liability reconciliations and improve year-end procedures to provide accurate financial information. Our testing during the current audit indicated payroll withholding payables per the general ledger were \$158,475 lower than the detailed supporting documentation for accounts 223026, 223051, and 223076. Reconciliations for these accounts

to a difference of less than one dollar were completed by BSC, DSU, NDSU, VCSU, and NDUSO, but not by LRSC, MaSU, MISU and MISU-BOTT, NDSCS, UND, and WSC. The institutions were able to reduce the difference to about \$22,837 by using certain deductions, taxes, and fringe benefits that are accrued each pay period, but are not remitted to the applicable third party each pay period, such as North Dakota state income tax and workers compensation. In addition, we noted that WSC did not reverse July 2008 health and life insurance premiums of \$27,431 out of fiscal year 2008 expenses.

Response:

Agree. LRSC, MASU, MISU, MISU-BC, NDSCS, and WSC will reconcile payroll withholdings as a part of their year-end procedures.

#### **Journal Entry Approval (Prior Recommendation Not Implemented)**

Our test of ONL at NDSU indicated that proper approval procedures for journal entries did not begin until January 2008, and even then not all ONL were being properly approved (NDSU listing did not include journal entries to full accrual or consolidated ledgers and did not include journal entries that are backdated into periods where the listing had been run). In the preliminary testing 1 of 28 were not properly approved and in the final testing 11 of 20 were not properly approved. Our test of ONL at UND indicated that 5 of 24 were not properly approved.

Response:

Agree. At the end of the prior audit NDSU came to an agreement with the auditors on a method of approving ONL entries. The new method was implemented January 2008. Seven of the nine exceptions noted in the final testing occurred prior to January 2008. The other two exceptions were fiscal year-end entries made by the Controller to the full accrual ledger. The entries to this ledger were not picked up by the monthly batch report. Going forward, NDSU will include all ledgers in the monthly batch report that is approved by the Controller and Accountant. UND requires approval of all journal entries and will review these documents with the auditors.

#### **ConnectND Access Rights (Prior Recommendation Not Implemented)**

During the 2007 audit we recommended that each campus assign one individual to monitor PeopleSoft access rights, so access privileges are restricted to necessary individuals and each campus perform a review of access privileges on at least an annual basis. During the current audit period this was not done. We noted instances where individuals had access to computer application rights for processes they did not need. It appeared that these individuals were given access to extra applications when PeopleSoft was first implemented, but access was not adequately monitored or updated, as needed. We also noted that terminated individuals or individuals that switched departments did not have their access rights removed or changed.

On August 11, 2008, a notice was sent to campus access control officers from ConnectND personnel to remind the campuses to review access rights. However, since this notice occurred in fiscal year 2009, the recommendation was not implemented timely nor was there documentation beside the email which showed that an actual review was performed.

Response:

Agree. NDUS has put procedures in place to remind campus control officers, on an annual basis, to review and document the review of access rights.

### **Cash & Investments and Related Disclosures (finding 08-5)**

During our tests of investments and deposit disclosures we noted the following:

- \$7,479,885 of money market mutual funds was reclassified to cash, when the amount should have been reported as investments.
- Investments Market Value note disclosure was in error by \$7,985,183.
- Investments Interest Rate Risk note disclosure was in error by \$16,710,311.
- Investments Concentration of Credit Risk note disclosure was in error by \$11,818,075.
- Investments Credit Rating note disclosure was in error by \$7,647,566.
- Deposits carrying amount was \$7,585,529 too high, which caused the total bank deposits . carrying amount to be too high by the same amount and also caused the Total Cash and Cash Equivalents to be too high by that amount.
- Deposits bank balance was \$7,134,104 too high, which caused the total bank deposits . bank balance to be too high by the same amount.
- Custodial Credit Risk Disclosure . Uninsured and uncollateralized was \$2,426,570 too high.
- Custodial Credit Risk Disclosure . Uninsured and collateral held by pledging bank not in systems name was \$2,544,336 too low.

According to GASB 40 if a money market is a deposit account then it should be reported as cash, but if the money market is in a mutual fund then it should be reported as an investment. In addition, GASB 40 sets forth the investment and deposit disclosure requirements and it is management's responsibility to understand the requirements and to implement controls that provide reasonable assurance that the required disclosures are materially correct.

Recommendation:

We recommend that:

- DSU use the newest template to avoid making errors that have been corrected by an updated template.
- The schools properly report Money Market Deposit Accounts (MMDA) as cash and Money Market Mutual Funds (MMMFF) as investments in the future.
- Management review GASB 40 requirements and/or receive training on GASB 40 requirements in order to gain the level of expertise necessary to provide reasonable assurance that deposit disclosures materially meet the GASB 40 requirements.

Response:

Agree. The schools will properly report Money Market Deposit Accounts (MMDA) as cash and Money Market Mutual Funds (MMMFF) as investments in the future.

### **NDSU Scholarship Allowance (FINDING 08-6)**

NDSU submitted its scholarship allowance without including a \$25,000,420 amount in part E for total refunds to students. It also included ACG and Smart Grants in the total for both Part A (financial aid not recognized as revenue) and Part B, when it should have only been included in part B (financial aid already recognized as revenue). The total for these two grants was \$663,403. This was included twice in the prior year also.

Adjusting entries, particularly year-end financial statement entries, require special control to avoid errors and possible misstatement. Management oversight is critical. The supporting documentation should provide clear evidence that these transactions have been properly reviewed and authorized *before* they are entered into the accounting system.

Recommendation:

We recommend that NDSU carefully assemble and review all categories of the scholarship allowance and at a minimum perform comparisons with prior year(s) amounts. Further, amounts in Part A should be broken out by line item to avoid inclusion of a total in more than one Part of the Data sheet.

Response:

Agree. NDSU will take more time and care in completion of this template in the future.

### **MASU, VCSU, WSC, AND NDUSO Bank Reconciliations (FINDING 08-7)**

During our test of bank reconciliations we noted the following:

- Cash was not reconciled, leaving a difference of \$2,281.24 (MASU).
- Outstanding checks were not properly supported, there was a difference of \$1,073.46 between the amount on the reconciliation and the total supported outstanding checks (WSC).
- Amounts that should have been recorded as receivables were recorded as cash (VCSU \$238,530+\$19,617=\$258,147 and NDUSO \$302,258+\$379,000=\$681,258).

Good internal controls require that cash be reconciled at least monthly and material reconciling items be properly supported. Additionally, amounts owed that have not been received and are not in transit at the end of the period should be reported as receivables, not as cash.

Recommendation:

We recommend that:

- MASU correctly reconcile cash in the future.
- WSC provide proper support for all material reconciling items on the bank reconciliation.
- VCSU and NDUSO record as cash only those amounts that have been received by the last day of the reporting period.

Response:

Agree. MASU is continuing to work on reconciling cash on a monthly basis, currently the unreconciled difference is less than \$2,000. WSC will provide proper support for outstanding items. VSCU and NDUSO will record as cash only those amounts that have been received or are in transit on the last day of the reporting period.

## **North Dakota University System Annual Financial Report – 2009**

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### **Accurate Financial Information (Prior Recommendation Not Implemented)**

During the 2002, 2005, 2006, 2007, and 2008 audits we recommended the NDUS properly use the account codes, funds, fund groups, and functions that are available on PeopleSoft to comply with General Accepted Accounting Principles (GAAP). This includes the proper initial recording of all assets, liabilities, equities, revenues, and expenses. Our testing during the current audit

indicated that although there was some improvement, this problem still exists. Details are noted below:

1. Due to~~o~~ and due from~~o~~ between NDSU and its component units were incorrectly classified. This included over \$22,000,000 that was reported as current due to~~o~~ and due from~~o~~, instead of noncurrent due to~~o~~ and due from~~o~~. Further, NDSU reported that it owed the Development Foundation, instead of a private business, \$5,600,000 more than it did, based in part on a complex business arrangement between the Development Foundation and the private business.

It is the responsibility of the university to report all assets and liabilities at proper amounts, and if there is a dispute between amounts shown it is the responsibility of the university to determine the basis of the difference, reconcile if necessary and share that information with the component unit.

Response:

Agree. In the future, NDSU will reconcile the amounts between the foundation audit reports and NDSU~~o~~ report. Prior to June 30, 2010, the System Office~~o~~ Director of Financial Reporting and NDSU~~o~~ Controller will meet to review the transactions between NDSU and the Foundations that require elimination in the North Dakota University System~~o~~ combining financial statements. In addition, NDSU will work with the System Office on GASB conversions and reconciliation of the long-term receivable and payable accounts between NDSU & its foundations.

2. During the prior audit we made a recommendation that auxiliary account codes not be used in non-auxiliary funds, and that non-auxiliary account codes not be used in auxiliary funds. We also recommended that new accounts be created within auxiliary to ensure descriptive coding of revenue. As far as we can tell, based on errors made at UND (\$1,908,102 misclassified) and review of the Controller~~o~~ Group/Finance Users Group minutes of March 12, 2009 (where this audit recommendation was discussed and it was agreed to look into using fund ranges rather than account codes to correct this condition), it appears nothing has changed.

Good internal controls should be set-up at the startup of funds to limit them as to account codes based on the nature of said fund being an auxiliary or other type of fund.

Response:

Agree. UND will be more careful when posting the journal entry. The first recommendation appeared in FY2007 when UND did not analyze these accounts. In FY2009, UND performed an analysis and an entry was made; however, due to human error, a correction was required.

Disagree. Based on current Connect ND set-up, the NDUS is not able to identify sales and services revenues by fund range, without major change to CND. Within the current CND set-up, the two groups of account codes should be viewed as one, and will continue to require year-end reclassification.

Auditor~~o~~ concluding remarks:

According to the University System~~o~~ Response, it both agrees and disagrees with this recommendation. UND agrees to be more careful when posting the adjustment, but the Board Office disagrees and says it is not able to segregate sales and services by fund

range. Based on our understanding of PeopleSoft chartfields, this recommendation can be implemented through the use of combination edits.

3. We noted the following problems in classifications of Restricted Cash and Restricted Investments on the Statement of Net Assets:
  - NDSU had an excess of restricted investments of \$2,105,002 that should have been classified as current investments.
  - UND should have classified an additional \$313 as restricted cash instead of current cash and should have classified an additional \$3,225,605 as restricted investments instead of current investments.

GASB 34, paragraph 99 states that "restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the assets." These assets cannot be used to pay other current liabilities.

Response:

Agree. NDSU will use more specific auditor calculations that have been made available to them to determine restricted investments held with the bond trustee. UND will be more careful when posting the journal entry. The first recommendation appeared in FY2007 when UND did not analyze these accounts. In FY2009 UND performed an analysis and an entry was made; however, due to human error, a correction was required.

4. We noted the following misclassification of net assets:
  - MASU misclassified \$292,771 as unrestricted net assets instead of invested in capital assets, net of related debt, and misclassified \$13,787 debt funds as expendable debt service instead of net assets unrestricted based on maximums allowed by bond indentures.
  - NDSCS misclassified \$894,968 as restricted net assets (instructional department uses) that should be unrestricted; misclassified \$94,571 as negative unrestricted that should be restricted; \$13,962 and \$900 are misclassified as negative restricted that should be reclassified as unrestricted; and \$2,704,352 is misclassified as unrestricted that should be classified as invested in capital assets, net of related debt.
  - UND misclassified \$2,228,649 as unrestricted that should be classified as invested in capital assets, net of related debt.
  - VCSU misclassified \$366,501 as invested in capital assets, net of related debt that should be classified as unrestricted.
  - WSC misclassified \$180,000 as restricted that should be classified as unrestricted.

GASB 34 paragraph 33 states, "If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should *not* be included in the calculation of *invested in capital assets, net of related debt*. Rather, that portion of the debt should be included in the same net assets component as the unspent proceeds—for example, *restricted for capital projects*."

GASB 34 also states that "restricted net assets is the portion of net assets subject to constraints placed on their use either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation."

Response:

Agree. An error in the financial reporting query resulted in reports that did not correctly capture the data at several of the campuses. This has been corrected. MaSU will periodically review postings and correct funds posted to incorrect net asset accounts.

NDSCS will develop a year end checklist prior to June 30, 2010 to eliminate these inaccuracies. UND will more closely review the financial statements. The first recommendation appeared in FY2006 when UND had not performed an analysis or posted this journal entry. In FY2008 UND performed an analysis and an entry was posted but the query report, noted above did not calculate correctly in FY09. VCSU and WSC will more closely review the financial statements after entries have posted.

### **Financial Statement Preparation (Prior Recommendation Not Implemented)**

During the 2007 and 2008 audits we recommended NDUS management establish appropriate internal controls and provide sufficient training to personnel so that the NDUS is able to prepare financial statements in conformity with GAAP. Our current audit indicated that the financial reporting system of the NDUS was not adequate to offer reasonable assurance that management was able to produce financial statements that comply with generally accepted accounting principles (GAAP). In fiscal year 2009, there were material auditor-identified audit adjustments of \$14,439,787, \$16,660,471, \$48,802,044, \$33,785,848, and \$10,678,496 to total assets, total liabilities, total equity, total revenue, and total expenses, respectively. For details, see Posted Audit Adjustments on page 18 of this report. By comparison, in fiscal year 2008, there were material auditor-identified audit adjustments of \$41,836,063, \$29,084,267, \$43,387,461, \$9,167,805, and \$2,835,970 to total assets, total liabilities, total equity, total revenue, and total expenses, respectively. In our opinion, all of the accounting issues that required audit adjustments should have been detected by appropriate internal controls or corrected by management responsible for the preparation of financial statements.

Response:

Agree. While improving in many areas, the NDUS continues to strive for improvement. We are identifying potential training opportunities and exploring options to improve the process that would allow time for a closer review of transactions and financial statements. Specific recommendations for change will be identified by April 1, 2010 for implementation in the preparation of FY10 statements, to the extent feasible.

### **Risk Assessment (Prior Recommendation Not Implemented)**

During the 2008 audit we recommended the SBHE require a comprehensive fraud and control risk assessment by each institution and the establishment of appropriate internal controls to detect, deter, and avoid potential fraudulent activity and risks relevant to the preparation of financial statements; require formal continuing training on proper internal control techniques and systems to ensure all personnel are aware of institutional and Board policies and procedures and where available, internal audit staff be directed to aide in the establishment of policies and procedures and to test the effectiveness of such policies and procedures once established.

Our current audit indicated that:

- An entity risk assessment was not performed by the institutions or the system office;
- the institutions do not have formal fraud training for employees, instead, they have limited, informal fraud training for new employees;
- some institutional employees at MaSU, MiSU, NDSCS, and NDSU were not aware the institution had a fraud policy, and two individuals did not respond to our fraud questionnaire.

In our opinion, the only way for an institution to create an atmosphere of awareness of risk is to have substantial buy-in from top management and regularly communicate management's expectation to employees. Management must be cognizant of where potential risks lie, evaluate the significance of the potential, and where necessary and practical, devise internal controls to

mitigate the risk. Further, in our opinion, a code of conduct should be developed and implemented at the University System level and at the institution level.

Response:

Agree. The NDUS began a multi-phase implementation in FY2009 that includes all campuses and the NDUS System office. It will continue for several years due to the NDUS size and complexity. In the first phase, to be completed by December 31, 2010, we will document entity level risks and controls (e.g.: integrity, ethical values organizational structure, and HR and Operating policies). In the next phase, we will document account level risks and controls, (e.g.: cash).

The NDUS is also considering requiring fraud awareness training across the System and systemwide usage of a fraud hotline. A specific plan for implementation will be developed by April 1, 2010.

To increase fraud awareness, MaSU and MiSU implemented an anonymous fraud awareness hotline, a way for employees to report suspected fraud. NDSU already uses the fraud hotline and will increase fraud awareness communication through reminders, notifications and website. NDSCS has posted their fraud policy on their website. Each of these campuses is exploring methods of improving communication to increase awareness and will have a plan in place by June 30, 2010.

#### **Unrecorded Receivables and Omitted Disclosures – NDSU Development Foundation 09-1**

Based on an audit report prepared by other auditors, the NDSU Development Foundation departed from GAAP (Generally Accepted Accounting Principles) basis reporting of its financial statements, The other auditors reported that pledges receivable, net of an allowance for uncollectible amounts, contributions receivable for split-interest agreements and financial statement disclosures of the endowment, as required by FAS (Financial Accounting Standards Board) Staff Position 117-1 are not recorded in the financial statements, which, in their opinion, should be recorded in order to conform with accounting principles generally accepted in the United States of America. They further stated that it was not practicable to determine the effects of the unrecorded receivables. These were material departures from GAAP and resulted in a qualified opinion. Since the NDSU Development Foundation is a material discretely presented component unit, the NDUS financial statements would have received a qualified opinion. A qualified opinion was not acceptable to the NDUS and the other auditors returned to do additional audit work and were able to issue a ~~clean~~ audit opinion. As a result, the NDSU Development Foundation recorded unconditional promises to give receivables, net, of \$7,617,757, and made the required disclosures in their financial statements for the year ended June 30, 2009.

SBHE policy 340.2 states that each institution's president shall enter into a written operating agreement that outlines the relationship between the institution and its foundation(s) and defines the role and activities of the foundation(s). The agreement must include, in part, an annual GAAP audit and how gifts, grants, and endowments are accepted and accounted for. Since the operations of component units are critical to the reporting environment of the university system, it is imperative that component units report in compliance with applicable accounting standards, laws and regulations.

Recommendation:

We recommend NDSU immediately update its current operating agreement with the NDSU Development Foundation and all other institutions also update their agreements, applicable to include requiring an unqualified clean audit opinion in conformance with GAAP.

Response:

Agree. NDSU will propose this clean audit opinion requirement to all of its affiliated foundations. In addition, the NDUS Office will ask each campus to communicate this requirement with their appropriate foundations.

**Construction Project Approval and Capitalization 09-2**

Legislative approval of additional construction costs for the NDSU and UND Presidents' houses was not obtained. Initially, NDSU and UND obtained legislative approval for construction costs not to exceed \$900,000 for each house. As of June 30, 2009, the NDSU and UND Presidents' houses were recorded as capital assets of \$900,000 and \$904,000, respectively, even though total capitalizable costs were higher by \$368,672 and \$439,651, respectively. Also, as of June 30, 2009 the legislature was not notified that construction costs exceeded the approved amounts.

NDCC (North Dakota Century Code) 15-10-12.1 states the consent of the legislative assembly or the budget section when the legislative assembly is not in session is required for construction of any building financed by donations, gifts, grants, and bequests if the cost of the improvement or maintenance is more than three hundred eighty-five thousand dollars. The budget section approval must include a specific dollar limit for each building, campus improvement project, or maintenance project.

GASB (Governmental Accounting Standards Board) Statement 34, paragraph 18, states that capital assets should be reported at historical cost. The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

Recommendation:

We recommend:

1. Legislative approval be obtained immediately for additional construction costs, and
2. New construction be capitalized in accordance with GAAP (General Accepted Accounting Principles).

Response:

Agree. NDSU: In December 2009, NDSU sought Budget Section approval for the additional expenditures, which was not ultimately approved.

UND: Legislative approval was received December 2009. A correcting entry was made in fiscal year 2009 to properly record capitalized costs.

**Internal Auditor 09-3**

Other than NDSU and UND none of campuses have an internal auditor. These other schools collectively hold approximately 24% of total assets (\$1,067,430,264), collect approximately 20%

of the total operating revenues (\$552,954,228), and expend approximately 24% of total operating expenses (\$822,212,039). These are significant operations to this reporting entity.

NDSU and UND do have internal auditors. These positions report directly to the presidents of these institutions and have no reporting to the Board of Higher Education. In addition, NDSU has funded one internal auditor when their operation provides approximately 36% of the operating revenues and expense of the University System. UND has funded 1.8 FTE for internal auditors while providing approximately 40% of the operating revenues and expense of the University System.

Internal control deficiencies, errors, omissions, theft, and noncompliance with federal, state, board and institutional laws, regulations, contracts, and grant agreements could all be deterred if a knowledgeable party was involved with reviewing the internal control and compliance structure of the entity. Furthermore, their objectivity and independence is eroded and the potential scope of their audit work is diminished by not reporting to the SBHE.

Recommendation:

We recommend the NDUS:

1. Review internal audit staffing levels at UND and NDSU.
2. Provide for an internal auditor at each of the schools lacking an internal auditor or provide an internal audit position at the Board level that would perform the function of an internal auditor at these schools, and
3. Require that internal audit staff at all schools report to the Budget, Audit and Finance Committee.

Response:

Agree. The NDUS is considering options, and a possible related state funded budget initiative, that would provide for an expanded internal audit function across the NDUS. As part of this plan, reporting relationships of the internal audit staff will be examined. A final proposal will be considered by the SBHE by April 1, 2010.

## Federal Single Audit – 2008

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### NORTH DAKOTA UNIVERSITY SYSTEM

Finding 08-22

CFDA # Various

VARIOUS FEDERAL AGENCIES

All federal programs at the colleges and universities

Questioned Cost: \$0

The North Dakota University System (NDUS) cannot produce a complete and accurate listing of all federal awards that have a matching/cost share requirement. There is currently no functionality within the computer system that shows which awards contain a matching/cost share requirement. Instead, each grants officer is given responsibility over specific grants/projects and they monitor any matching requirement on their assigned grants/projects. However, due to the time involved in having each grants officer locate and document which grants/projects have matching, the schools did not provide us with an accurate listing of grants/projects requiring cost share.

Using a school-prepared list of projects that required matching, we tested 10 projects and noted that 3 (1 from NDSU and 2 from UND) did not actually require matching, and 1 (UND) had a project end date prior to our audit period. These two issues are a direct result of the lack of an adequate system for tracking all grants/projects that require matching.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its work on effective internal controls found on-going monitoring by management to be an essential part of an effective internal control system.

Recommendation:

We recommend that a system, preferably automated, for tracking awards with a matching/cost share requirement be designed and implemented as soon as possible.

Corrective Action Plan:

Agree. NDSU and UND have already implemented a process where they are recording matching requirements on the award profile page of Peoplesoft. This information is available by query. MiSU is also noting cost share on the award profile page, however they were noting both mandatory and voluntary cost share. MiSU will change its practice and mark only those grants requiring cost share. Other campuses will implement an alternative manual system if they are not currently tracking matching/cost share requirements.

## **LAKE REGION STATE COLLEGE**

Finding 08-25

CFDA # 84.042

U.S. DEPARTMENT OF EDUCATION

TRIO . Student Support Services

Questioned Cost: \$350,792

Lake Region State College was not using any system (timesheets or after-the-fact confirmation) to document payroll distribution for TRIO employees. Lake Region State College personnel were unaware of the requirement. As a result, we consider TRIO payroll related expenses of \$167,107 and \$183,685 for fiscal years 2007 and 2008, respectively, as questioned costs. In regards to acceptable methods for payroll distribution, 2 CFR 220 Appendix A J.10. (b)(2)(b) states, "The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached." No mutually satisfactory alternative agreement was reached, so after the fact confirmation is required.

Recommendation:

We recommend that:

- Management design and implement a system to meet the requirement for after-the-fact confirmation of payroll distributions.
- LRSC either come to a mutually satisfactory solution with the Department of Education to resolve the noncompliance noted or reimburse the Department of Education \$350,792 for all TRIO payroll related expenses during fiscal years 2007 & 2008.

Corrective Action Plan:

Agree. All payroll expenditures for the TRIO Program have been proper but LRSC was not aware of the requirement for after-the-fact confirmations. Since this oversight was brought to our attention, a Personnel Activity Confirmation (PAC) Effort Reporting Form has been implemented by the TRIO Program Director for all TRIO positions. PACs have been completed for payroll expenditures retroactive to July 1, 2008 and are being completed on a quarterly basis as we move forward. Since the TRIO Program only involves four positions (including the Director) and all individuals are still employed by LRSC, we will obtain the properly completed PACs for each position retroactive to July 1, 2006 and maintain the forms on file. We will complete the PACs for FY07 and FY08 and have them in our files by March 31, 2009.

## **NORTH DAKOTA STATE COLLEGE OF SCIENCE**

Finding 08-31

CFDA # 84.007, 84.033, 84.038

U.S. DEPARTMENT OF EDUCATION

Federal Supplemental Education Opportunity grants

Federal Workstudy

Federal Perkins Loan Program

Questioned Cost: \$9,732

North Dakota State College of Science (NDSCS) Fiscal Operations Report and Application to Participate (FISAP) was not supported by the institution's general ledger. There were numerous differences in fiscal years 2007 and 2008. Some of those differences were corrected in the

following year and there were additional differences in fiscal year 2008. The cumulative differences at June 30, 2008 are as follows:

Part III Perkins, Section A:

- Line 1.1, *Cash on hand and in depository as of 6/30/08 and 6/30/07* was understated by \$44,962 and \$52,072, respectively. The general ledger at 6/30/08 and 6/30/07 was understated, \$17,784 and \$16,814 respectively. [Both years also contain errors from fiscal years 2005 and 2006 that were reported as a prior federal finding. Loan cancellation reimbursements of \$5,778 and \$3,954, respectively, were not deposited into the fund].
- Line 1.2 *Cash on hand at 10/31/08 and 10/31/07* was understated \$5,685 and \$18,030, respectively.
- Line 4 *Funds advance to students* was understated \$1,900.
- Line 24 *Interest income on loans* was understated \$24,962.
- Line 25 *Other income* was understated \$6,918.
- Line 26 *Cancellation reimbursements* have increased a total of \$15,314 since 2005; however, the cash has not been deposited into the fund (included in item #1 above).
- Line 27.2 *Collection costs* are overstated \$14,982.

Part III Perkins, Section B:

- Line 5, *Loans advanced to students* understated \$1,900.
- Line 6, Administrative cost allowance was reported at \$12,269; however the general ledger has \$12,669, a difference of \$400.

Part III Perkins, Section C:

- General ledger total notes receivable is overstated \$1,500.

Part IV SEOG:

- Line 10, *Total federal funds available* was reported at \$147,200. The general ledger showed \$143,267, less an understatement in the prior year of \$2,089, for a total of \$141,178, a total understatement of \$6,022.
- Line 11, *Total funds to FSEOG recipients* was reported at \$142,279, the general ledger showed \$143,267 less an understatement in the prior year of \$2,089, for a total understatement of \$1,101.
- General ledger total cash and receivables was understated \$4,921.

Part V FWS:

- Line 10, *Total federal funds available* was reported at \$148,668 and the general ledger showed \$142,990. The general ledger was understated \$5,678.
- Line 13, *Total federal share of FWS earned compensation* was reported at \$141,589 and the general ledger showed \$135,911. The general ledger was understated \$5,678.

Part VI Program Summary, Section B:

- Line 23(a) shows Perkins administrative cost as \$12,269; however \$12,669 was recorded on the general ledger, a difference of \$400.

34 CFR 674.19 (d), 34 CFR 675.19 (b)(2)(iv), and 34 CFR 676.19 (b)(2) state an institution shall establish and maintain program and fiscal records that are reconciled at least monthly. Each year an institution shall submit a Fiscal Operations Report plus other information the Secretary requires. The institution shall insure that the information reported is accurate and shall submit it on the form and at the time specified by the Secretary. Per the FISAP instructions, the

Department uses the information provided in the report to determine the amount of funds received for each campus-based program. Accurate data must be provided and accurate and verifiable records must be retained for program review and audit purposes.

Recommendation:

We recommend that NDSCS

- Immediately deposit the understated cash into the Perkins fund;
- Reconcile program and fiscal records on a monthly basis; and
- Properly report balances on the FISAP.

Corrective Action Plan:

The amount reported as cancellation reimbursements on the FISAP was in error and no reimbursements have been received. We are investigating this and will deposit the cash into the Perkins fund when/if received. NDSCS's Controller's office will collaborate with the Financial Aid office to ensure proper balances are reported on the FISAP in relation to the general ledger records, beginning Fiscal Year 2009.

## **NORTH DAKOTA STATE UNIVERSITY**

Finding 08-33

CFDA # 84.042

U.S. DEPARTMENT OF EDUCATION

TRIO . Student Support Services

Questioned Cost: \$383,777

North Dakota State University (NDSU) did not meet the requirement that two-thirds of the funded participants in the TRIO . Student Support Services program be low income and first generation or disabled. NDSU believes this may have been caused by a problem with the download of participant information for the annual performance report, but they have not been able to confirm this. As a result, the entire cost, \$383,777, for fiscal year 2008 is being questioned.

34 CFR 646.11 requires that, ~~at~~ at least two-thirds of the project participants must be disabled or must be low-income individuals who are first generation college students.†

Recommendation:

We recommend that:

1. Management ensures earmarking requirements are properly monitored and met going forward.
2. NDSU come to a mutually satisfactory solution with the Department of Education to resolve the noncompliance noted or reimburse the Department of Education \$383,777.

Corrective Action Plan:

NDSU Agrees. Corrective action is being taken to ensure 2/3 of the population served represents disabled or low-income individuals who are first generation college students. The primary issue being corrected is lack of staff training with database management (Blumen) during an unexpected leadership transition. Two staff members are receiving training for database management. Furthermore, multiple checks and balances are being designed to identify potential errors for immediate correction.

## **UNIVERSITY OF NORTH DAKOTA**

Finding 08-35  
CFDA # 84.038  
U.S. DEPARTMENT OF EDUCATION  
Federal Perkins Loan Program  
Questioned Cost: \$707,805

UND's Fiscal Operations Report and Application to Participate (FISAP) for report year ending June 30, 2008 was not supported by the institution's general ledger. The institution reported depositing \$707,805 in institutional capital contributions into the Perkins fund at June 30, 2008 to cover the negative cash balance, however this was not done.

34 CFR 674.19 (3)(ii) states that if the cash balances of the Perkins fund at any time fall below zero, the institution is deemed to make subsequent deposits into the fund. Per the FISAP instructions, you may never enter a negative amount in field 1.1. Expenditures that exceed the amount of cash on hand in the loan fund must be charged to an institutional capital contribution and deposited into the fund as of June 30, 2008.

### Recommendation:

We recommend that UND deposit institutional funds into the Perkins fund when the cash balance is below zero.

### Corrective Action Plan:

Agree. UND will make a temporary transfer to the Perkins loan fund, the transfer will be repaid to the original fund once the shortfall has been covered by collections and reduced awards.

## **DEPARTMENT OF TRANSPORTATION**

Finding 08-12  
Various  
U.S. DEPARTMENT OF TRANSPORTATION  
All grants with journal vouchers processed  
Questioned Cost: Unknown

No documentation exists to verify that journal vouchers processed by the North Dakota Department of Transportation (DOT) for federal grants were properly approved.

Journal vouchers are prepared to allocate revenues and expenditures to the proper federal grant and to correct errors made by the department when the original transactions were recorded. Separate approval processes were required for journal vouchers processed in the accounts payable and general ledger modules of the accounting system.

Prior to the implementation of the electronic approval process within the general ledger module of the accounting system (June 2008), the DOT did not maintain a manual general ledger journal voucher approval process with an audit trail. DOT had an internal policy that someone other than the preparer had to release the journal voucher into the accounting system (this would be the approval), but there is no record of who actually released the journal vouchers and the accounting system had no controls to ensure the segregation of these duties. Subsequent to the implementation of the general ledger electronic approval process, the DOT did not properly

monitor the accounting system access privileges to ensure segregation of duties. Two individuals were allowed the ability to record and approve general ledger journal vouchers.

Journal vouchers processed within the accounts payable module of the accounting system were approved electronically by the DOT. The DOT did not properly monitor the accounting system access privileges to ensure segregation of duties. Two individuals had the ability to record and approve accounts payable journal vouchers. DOT had an internal policy that journal vouchers be approved by an individual independent of data entry. However, the accounting system does not record who approves journal vouchers that are entered by individuals with the ability to both electronically record and approve within the accounting system and has no controls to ensure the segregation of these duties.

DOT prepared journal vouchers in the general ledger and accounts payable modules of the accounting system totaling more than \$96 million over a two year period.

*Internal Control—Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) indicates independent approval of transactions is a critical part of adequate segregation of duties and internal control.

Recommendation:

We recommend the Department of Transportation monitor the accounting system access privileges to ensure segregation of data entry and approval roles for proper approval of journal vouchers by an appropriate level of management.

Corrective Action Plan:

The NDDOT has taken the steps necessary to segregate the data entry and approval roles to insure proper approval of journal vouchers pursuant to this finding. Access privilege requests will be reviewed prior to setup to insure appropriate segregation of roles. Additionally, access privileges will be periodically reviewed to insure that accounting system access remains appropriate for each individual's role and their level of authority and responsibility within the organization.

## **125.1 - ND Lottery**

**Financial Audit - Contact: Ron Tolstad 328-2243 [rtolstad@nd.gov](mailto:rtolstad@nd.gov)**

### **Confidential Information of Prize Winners 09-1**

The social security numbers for individuals who have won \$600 or more from a lottery prize have been included in emails that may not be 100% secure. During the North Dakota Lottery's debt setoff procedures for determining if a lottery winner owes any money to another state agency, the winner's name, address, and social security number are emailed to 105 different individuals at other state agencies. Eighty three of these emails (79%) are routed through a server that is located outside of the state system which could make the information included in the emails more susceptible to a breach in confidentiality due to computer hackers, employee theft, or court ordered subpoena.

Section 44-04-28 of the North Dakota Century Code (NDCC) states that social security numbers that are in the possession of a public entity are confidential. As a result, the North Dakota Lottery is not in compliance with NDCC.

Recommendation:

We recommend the North Dakota Lottery determine a method to notify agencies of lottery winners for debt setoff procedures in a manner that keeps all confidential information secure.

Response:

The North Dakota Lottery agrees with this recommendation. The Lottery was not previously aware that some of the debt setoff e-mails were unsecured and routed through a server that was located outside the state system. Immediately after the Finding was brought to our attention, however, the Lottery implemented a new procedure to notify other state agencies of lottery winners. The Lottery now utilizes the state secure e-mail system when sending debt setoff e-mails to other state agencies. The state secure e-mail system secures all e-mails that leave the state system. Each state agency outside the state system receives an e-mail with an attachment. When the agency opens the attachment, it is required to enter a password. Only after creating an account and logging into the state's secured system can the agency view the Lottery's e-mail message.

## **Operational Audits – State Agencies**

### **112 – Information Technology Department**

#### **Noncompliance With Appropriation Laws 08-2**

The Information Technology Department did not properly monitor one of their special appropriation laws, and as a result, they overspent the special amount appropriated for the 2005-2007 biennium related to the distribution of a North Dakota studies textbook and workbook.

Per House Bill 1013, section 4 of the 2005 Session Laws, the sum of \$148,800 was appropriated to the Center for Distance Education (a division of the Information Technology Department) for the purpose of developing, publishing, and distributing a North Dakota studies textbook and workbook including civic education for both grades four and eight, for the biennium beginning July 1, 2005 and ending June 30, 2007. The Center for Distance Education had expenditures totaling \$151,393 related to this special appropriation. Therefore, the Information Technology Department overspent this special appropriation by \$2,593.

Section 54-16-03 of the North Dakota Century Code (NDCC) states that it is unlawful to expend more than appropriated. As a result, the Information Technology Department is not in compliance with NDCC.

#### **Recommendation:**

We recommend the Information Technology Department develop control procedures for monitoring special appropriations; and comply with Section 54-16-03 of the North Dakota Century Code by not overspending its special appropriation laws.

#### **Response:**

We agree with the recommendation. We plan to continue to monitor special appropriations in addition to the line item and funding source appropriations using the PeopleSoft system. The overspend occurred due to a payroll coding error that was not able to be corrected prior to the close of the biennium. This error did not result in overspending our total appropriation, our line item appropriations or our funding source appropriations.

### **120- Office of the State Treasurer**

**Operational Audit - Contact: Paul Welk 328-2320 [pwelk@nd.gov](mailto:pwelk@nd.gov)**

#### **Bank Reconciliations (Finding 09-1)**

Beginning April 29, 2009, the Office of State Treasurer did not perform the daily cash reconciliation of cash at the Bank of North Dakota to the ConnectND ledger. The daily cash reconciliation for the end of the biennium (June 30, 2009) was not completed until October 30, 2009.

Without a daily reconciliation of cash, there is a high risk of material errors and fraud. The Office of State Treasurer experienced turn-over in the positions that had the ConnectND knowledge necessary to perform the reconciliation. A contributing factor was that the process was not adequately documented.

Internal Control- Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission, indicates an adequate control environment is only effective when control activities, such as reconciliations, are performed correctly and in a timely manner.

Recommendation:

We recommend the Office of State Treasurer:

- Ensure that the individuals responsible for reconciling the ConnectND cash balance to the cash balance at the Bank of North Dakota have adequate knowledge and training relating to ConnectND to ensure reconciliations are properly completed;
- Reconcile the ConnectND cash balances to the cash balance at the Bank of North Dakota on a daily basis; and
- Cross train personnel and document procedures so others have the ability to perform the reconciliation and other critical functions of the office.

Office of State Treasurer Response:

The Office of the State Treasurer agrees that a portion of our cash reconciliation was delayed. The Office of the State Treasurer reconciled to the Bank of North Dakota daily. However, there are several reconciliations within the overall cash reconciliation process, and the PeopleSoft portion of the reconciliation process was delayed. While some of the delay in reconciliation was caused by turnover, the major challenge stemmed from a series of PeopleSoft system errors occurring April 29, 30, and May 1st. In working through the system errors, it was discovered that the Office of the State Treasurer did not have access to the proper PeopleSoft queries necessary for reconciliation when PeopleSoft system errors occur. Additional queries have been made available by the Office of Management and Budget to ensure that the Office of the State Treasurer will have the necessary data needed to reconcile cash when PeopleSoft experiences problems. Further, the Office of the State Treasurer has cross-trained employees on cash reconciliation and is working to develop a more efficient cash reconciliation process.

#### **Closing Package Errors (Finding 09-2)**

At the end of each fiscal year, all state agencies are required to report financial information to the Office of Management and Budget in closing packages. Errors were noted in information prepared by the Office of State Treasurer for the Office of Management and Budget. Errors included:

- The distribution list prepared for the Office of Management and Budget contained an error for the Highway Tax Distribution Fund in the amount of \$1,230,000;
- The accounts payable closing package for the State Aid Distribution Fund did not include payables equaling \$5,542,358;
- The accounts payable closing package for the Oil and Gas Production Distribution Fund did not include payables equaling \$2,070,252;
- \$1,469,354 was incorrectly reported on the payments to other state agencies closing package for the Oil and Gas Production Distribution Fund;
- The accounts payable closing package for the City Sales Tax Fund did not include payables equaling \$12,260,018; and
- The accounts payable closing package for the Coal Conversion Tax Trust Fund did not include payables equaling \$736,289. This amount was incorrectly reported on the payments to other state agencies closing package.

Fixing these errors caused unnecessary complications for the Office of Management and Budget and introduced the risk of additional errors occurring during a period of peak work. Turn-over in the key positions responsible for preparing and approving these closing packages required employees who did not understand the closing package process and the requirements of generally accepted accounting principles (GAAP) to prepare and approve them.

Recommendation:

We recommend the Office of State Treasurer ensure that individuals responsible for preparing and approving the closing packages have adequate knowledge and training to ensure closing packages are properly completed.

Office of State Treasurer Response:

The Office of the State Treasurer acknowledges that errors were made in the completion of these closing packages. We have strengthened our procedures and guidelines and the preparing and approving employees have received additional instruction. In the future, the Office of State Treasurer will ensure that employees preparing and approving the closing packages follow clearly established guidelines consistent with the direction of the Office of Management and Budget.

## **127- Office of the Tax Commissioner**

**Operational Audit – Contact: Paul Welk 328-2320**

### **Noncompliance With Tax Revenue Deposit Requirements (Finding 09-1)**

In fiscal year 2008, the Office of the State Tax Commissioner exceeded the amount authorized to be deposited to the telecommunications carriers fund by approximately \$1.1 million. Pursuant to North Dakota Century Code (NDCC) 57-34-05, up to \$8.4 million of telecommunications tax revenue is to be deposited to the telecommunications carriers fund. Telecommunications tax revenue exceeding \$8.4 million is to be deposited to the general fund. During fiscal year 2009, the Office of the State Tax Commissioner corrected the error by properly transferring the excess balance in the telecommunications carriers fund to the general fund and properly complied with NDCC for the deposit of telecommunications tax revenue. Since the Office of the State Tax Commissioner corrected the error and properly complied with NDCC during fiscal year 2009, no recommendation will be made.

## **201 – Department of Public Instruction**

**Operational Audit – Contact: Paul Welk 328-2320 [pwelk@nd.gov](mailto:pwelk@nd.gov)**

### **Noncompliance With Procurement Laws 09-1**

The Department of Public Instruction, School for the Deaf, and State Library do not have controls in place to properly ensure procurement procedures are performed in accordance with North Dakota Administrative Code (NDAC) Chapter 4-12, and North Dakota State Procurement Office Guidelines.

Several instances were noted where the Department of Public Instruction, School for the Deaf, and State Library did not follow proper state procurement procedures or did not provide the necessary documentation for purchases made during the audit period.

- Chapter 6.1 of the North Dakota State Procurement Manual states that the agency must solicit no fewer than three vendors, insofar as practical, to submit oral or written informal bids or proposals for purchases from \$2,500.01 to \$25,000. If three bids or proposals are not received, written justification must be provided. Two instances were noted at the Department of Public Instruction, one instance was noted at School for the Deaf, and one instance was noted at State Library where items over \$2,500 were purchased and less than three bids were received without written justification.
- Chapter 9.9 of the North Dakota State Procurement Manual states that each procurement transaction must be adequately documented for audit and public record purposes. One instance was noted at the Department of Public Instruction where items, valued at \$5,032, were purchased and there was no support documentation on file to show that procurement guidelines were followed for the transaction.
- Chapter 4 of the Office of Management and Budget's (OMB) Guidelines for State Procurement of Printing Manual states that agencies must submit a Purchase Request to the OMB State Procurement Office for any printing over \$2,500. One instance was noted at the Department of Public Instruction where \$2,758 of printing costs were paid and the purchase was not submitted to the OMB State Procurement Office.
- NDAC Section 4-12-08-04, subsection 9 states that offerors must be accorded fair and equal treatment with respect to any opportunity for discussion and revision of proposals, and revisions may be permitted after submissions and prior to award for the purpose of obtaining best and final offers. One instance was noted where the Department of Public Instruction did not provide to all vendors the Request for Best and Final offer when it was issued.
- NDAC Section 4-12-08-04, subsection 10 states that after proposals have been evaluated and the successful vendor selected, notice of intent to award must be promptly issued to all offerors that submitted proposals. One instance was noted where the Department of Public Instruction did not issue a notice of intent to award letter to all vendors.
- NDAC Section 4-12-08-08, subsection 3 states that during the competitive bidding process, if a potential bidder has a question or request for clarification that contains information that is material to the solicitation process that cannot be answered by directing the potential bidder to a specific section within the solicitation document, the procurement officer will prepare a written response that must be distributed to all potential bidders. One instance was noted at the Department of Public Instruction where a response to a bidder's question was given verbally instead of in writing and was not provided to all of the remaining bidders.

**Recommendation:**

We recommend the Department of Public Instruction, School for the Deaf, and State Library ensure procurement procedures are performed in accordance with North Dakota Administrative Code Chapter 4-12, and North Dakota State Procurement Office Guidelines.

Response:

The Department of Public Instruction, School for the Deaf, and State Library agree with the recommendation and will make every effort to ensure procurement procedures are performed in accordance with Administrative Code and State Procurement Office guidelines.

### **School Employee Background Checks 09-2**

Objective:

Is the Department of Public Instruction ensuring that North Dakota school districts are doing all they can in the area of school employee background checks to adequately protect our students?

Criteria:

The criteria used for this operational improvement was North Dakota Century Code (NDCC) 15.1-13-14 - which requires the Education Standards and Practices Board to perform a background check for each initial teacher license request; NDCC 12-60-24 subsection 2(x)(y) . which authorizes the Bureau of Criminal Investigation to provide background checks of other school employees as requested by the governing board (or the superintendent of public instruction for a nonpublic school); and North Dakota Administrative Code 67.1-02-02-02 section 8 . which lists the criteria for existing background check requirements for school personnel in the state of North Dakota.

Challenge:

During our review of school employee background checks, the following information was determined:

- School teachers in the state receive a background check during their initial license application by the Education Standards and Practices Board. No further background checks are required once the teachers are initially licensed. Since background checks are not periodically required after the initial check, it is possible that a school would be unaware of a current teacher committing a crime which would normally be cause for school disciplinary action or dismissal against the teacher.
- There is no state law requiring background checks for other school employees (including bus drivers, cooks, coaches, etc.). School districts, however, do have the authority to request background checks through the Bureau of Criminal Investigation for other school employees in their district. As these requests are based on various school district policies, we were unable to determine if there is any consistency in how this law is being implemented. This could result in school districts having different policies to cover background checks for non-teacher employees. Also, some school districts may have chosen to not perform background checks on other school employees which could result in hiring individuals with criminal backgrounds to work in close proximity to children.

Operational Improvement:

We recommend the Department of Public Instruction perform a study of North Dakota school districts to determine the extent they are performing background checks on non-teaching employees and volunteers; and review other states policies regarding background check policies for teachers and non-teaching employees/volunteers and determine if additional guidance is necessary for North Dakota school districts.

Response:

The Department of Public Instruction agrees with the recommendation. North Dakota school districts will be surveyed to determine the extent to which they are performing background checks on non-teaching employees and volunteers. Other states policies regarding such

background checks will be reviewed to determine if additional guidance is necessary for North Dakota school districts.

### **School Emergency and Disaster Drills 09-3**

Objective:

Is the Department of Public Instruction following current laws/regulations in regards to emergency and disaster drills in schools?

Criteria:

The criteria used for this operational improvement was North Dakota Century Code (NDCC) section 15.1-06-12 . Emergency and Disaster Drills and the National Fire Protection Association Life Safety Code 11-7-1 - Drills.

Challenge:

State law does not specify how many of each type of school emergency or disaster drill that needs to be completed by schools in the state. In addition, the law does not list any penalties for not completing the necessary school drills. As a result, it appears no one is tracking or reviewing the results of any non-fire emergency drills performed by schools.

NDCC 15.1-06-12 states that each school district superintendent shall implement fire, tornado, and other emergency or disaster drills. To determine if the Department of Public Instruction is following NDCC the following information was gathered:

- Fire drills: The Bismarck Regional Fire Marshal stated that the Fire Marshal's office is required to review school fire safety issues every 3 years, but currently have them on a two-year rotation. Large cities that have their own fire inspection programs cover these reviews in their city and then send a report to the State Fire Marshal. The six Regional Fire Marshals in the state do the reviews in the remaining cities without a local fire inspection program. Schools must provide documentation regarding the day the drills were held, the number of students/staff involved in the drill, the weather conditions, and the time to evacuate. For their inspections, the State Fire Marshal's office uses criteria from the National Fire Protection Association . Life Safety Code (11-7-1, Drills) which suggests at least one fire drill per month shall be conducted. Any deviation from this criteria is considered a deficiency which is reported to the superintendent of the school, the ND Insurance Department, and the Department of Public Instruction.
- Tornado and other emergency or disaster drills: No monitoring is done for the tornado and other emergency/disaster drill requirements. The Bismarck Regional Fire Marshal noted some schools record this information with their fire drill information and others do not. The State Fire Marshal is only interested in fire drills. If they see no documentation of tornado drills or other emergency drills, they would not make any comment on this lack of documentation. Therefore, nothing is reported to the superintendent of the school, the ND Insurance Department, or the Department of Public Instruction for these other drills.

The Fire Marshal's guidance is based on best practices, not current law, so as long as the schools have implemented fire drills they would be in compliance with the NDCC. Also, as it appears no one is monitoring tornado or other disaster drills, there is no way to determine if schools are in compliance with the requirements.

Operational Improvement:

We recommend that the Department of Public Instruction:

- Clarify NDCC 15.1-06-12 to specify exactly how many of the various types of drills are considered sufficient. This could be done in Administrative Rules if necessary. This clarification should consider input from the State Fire Marshal's office on the required number of fire drills.
- Require annual reporting by schools of the drill information to ensure compliance with the law.
- Consider including consequences for schools not following the law. If possible, the required report could be included in the necessary reporting requirements needed by the Department of Public Instruction before foundation aid payments are made.

Response:

The Department of Public Instruction agrees with the recommendation. North Dakota school districts will be surveyed to determine how many of the various types of drills are currently being conducted. The State Fire Marshal's office has agreed to assist in the review of the survey results. The components of the recommendation will be addressed once the survey results have been reviewed.

#### **Grant Monitoring Procedures 09-4**

Objective:

Is the Department of Public Instruction following best practices as it relates to the administration and monitoring of grants?

Criteria:

The criteria used for this operational improvement were best practices selected from five publications. The first is entitled Guide to Opportunities for Improving Grant Accountability (October, 2005) published through the Grant Accountability Project of the Domestic Working Group. This group, chaired by the Comptroller General of the United States, consists of 19 federal, state, and local audit organizations. The second is entitled Best Practice Guide for the Administration of Grants (February, 2005), 3rd edition, published by the Department of Treasury and Finance. The third is entitled Best Practices in Carrying out State Economic Development Efforts (2004) published by the National State Auditors Association. The fourth is a written report from the State Administrative Standards review of the North Dakota Commission on National and Community Service (March, 2004) published by the State Administrative Standards, a Corporation for National and Community Service. The fifth is entitled Guide on Grants, Contributions, and Other Transfer Payments (October, 2000) published by the Treasury Board of Canada Secretariat. The purpose of these best practice studies is to focus attention on the importance of grant accountability and provide sufficient best practice for establishing guidelines that will result in efficient, effective, and accountable grant administration and performance monitoring.

Overview:

We completed a risk analysis of all of the grant programs at the Department of Public Instruction and selected two grant programs that were in the highest risk category. These two grant programs were reviewed and evaluated in the following areas:

- Internal control systems including the application review process, pre-award process, work plans, program guidance, and performance measures.
- Management of grant performance including the financial status, outputs/outcomes, site visits, communication, and follow-up.

Of the two programs selected, we found that the Deferred Maintenance and Physical Plant Improvement state grant program appears to be properly managed and monitored and the disbursement of moneys is effective.

For the remaining program, Title IID federal grant, we noted areas that could be improved. The Title IID grant has the primary goal of improving student academic achievement through the use of technology in elementary and secondary schools. It is designed to assist every student in becoming technologically literate by the end of the eighth grade. It is made up of two types of grants with the following types of monitoring procedures:

1. Formula Grants . monitored through desk reviews that are done on a five year rotational basis. The staff of the Department of Public Instruction (DPI) financial office does the fiscal portion of the review where invoices are selected and support is reviewed. There is also a checklist which has questions for each of the Title programs being reviewed which is to be completed by the applicable program manager. The program manager then signs off on the review. During testing, one instance was noted where the Department of Public Instruction could not locate the review file for a school selected for testing. Additionally, one instance was noted where the financial portion of the review was completed for the school but the checklist was incomplete and the review was not signed off on by the applicable program manager.
2. Competitive Grants . monitored by EduTech, a division of the Information Technology Department which does an initial first year assessment of the program and then programmatic monitoring throughout the life of the grant. There is no financial review that is done by any DPI employees. The program manager stated that she was going to start this in the upcoming year. No site visits to monitor the program are being done.

Based on our review of the Title IID grant, we recommend the following:

#### Operational Improvement:

We recommend the Department of Public Instruction strengthen monitoring procedures surrounding the Title IID grant program including: ensure support for the desk reviews is maintained; ensure all desk reviews are reviewed by the applicable program managers; and establish procedures to include site visits and financial reviews of the competitive grants.

#### Response:

The Department of Public Instruction agrees with the recommendation and has strengthened Title II D grant program monitoring procedures. The fiscal portion of the formula grant desk reviews was completed for all schools selected for testing. Due to staffing vacancies, the desk reviews for the program portion of the formula grants and the financial portion of the competitive grants were not completed.

## 215 – ND University System Office

**Operational Audit – Contact: John Grettum 239-7289 [jgrettum@nd.gov](mailto:jgrettum@nd.gov)**

### **Accountability Measures Report 08-1**

Measure ED4 of the 2008 Accountability Measures Report was not in compliance with NDCC 15-10-14.2. The 2008 report was changed to report only research expenditures instead of research expenditures as a percent of total NDUS expenditures, with some economic impact data. Also changed was the source of the amounts, the 2008 amounts were those reported by NDSU and UND to the National Science Foundation (NSF), rather than amounts from the NDUS annual audited financial statements. This was done because the amounts reported to the NSF were larger and made North Dakota look better in comparison to the other states. For example, the fiscal year 2008 research expenditures per the NSF and per the NDUS audited financial statements were \$180.5 million and \$123.6 million, respectively, for a difference of \$56.9 million.

NDCC 15-10-14.2, note 5d states to include information regarding research expenditures in proportion to the amount of revenue generated by research activity and funding received for research activity.

#### Recommendation:

We recommend that the North Dakota University System Office comply with NDCC 15-10-14.2 and use the audited financial statements as their source for research expenses.

#### Response:

Partially Agree. Since first reported in 2002, the NDUS has consistently reported research expenditures as a percent of total NDUS expenditures. As the measure narrative points out we have not reported research expenditures in proportion to the amount of revenue generated by research activity and funding received for research activity, as required by NDCC 15-10-14.2 since that would always result in a 1:1 ratio.

In issuing the 2008 annual report, the NDUS made a conscious decision to change data sources for measure reporting purposes. First, during 2008 a consultant hired by the Interim Legislative Higher Education Committee recommended changes to several accountability measures, including the one above related to research activity. The new measure, as ultimately recommended by the Interim Committee and approved by the 2009 Legislative Assembly, would be %annual dollar amount of research expenditures by ND institutions of funds received from federal, foundation, and business sponsors benchmarked against historical trends.+ The consultant suggested using NSF data which contains all competitive external grants, and would permit, if necessary peer comparisons. The NDUS anticipated this and other measures would be changed (and were in fact adopted) during the 2009 session. The change in data sources also better aligned reporting of research activity between amounts reported in the annual NDUS accountability report and in other system and campus publications, to help reduce confusion between reported figures. Furthermore, it should be noted that the NSF data includes research expenditures from all sources, and will allow the NDUS to better comply with the new legislative reporting requirement.

Although the NSF figures are larger than the annual financial statement figures, both are correct, they are just different reporting measures.

## 413 – Department of Financial Institutions

**Operational Audit – Contact: Paul Welk 328-2320 [pwelk@nd.gov](mailto:pwelk@nd.gov)**

### **Noncompliance With Biennial Cash Balance Limit 08-1 (Prior Recommendation Not Implemented)**

The cash balance in the financial institutions regulatory fund at the end of the 2005-2007 biennium exceeded the amount allowed per North Dakota Century Code (NDCC) section 6-01-01.1(3). The fund's cash balance at the end of the biennium was \$1,406,281, which exceeded the amount allowed by \$369,909.

NDCC section 6-01-01.1 (3) states that any cash balance in the financial institutions regulatory fund after all current biennium expenditures are met must be carried forward in the financial institutions regulatory fund for the next succeeding biennium. The balance in this fund at the end of the current biennium may not exceed twenty percent of the department's biennial budget. The department's budget for the 2007-2009 biennium was \$5,181,860 which allowed a cash carryover of \$1,036,372 at the end of the 2005-2007 biennium.

No recommendation will be made as Senate Bill 2160 of the 2009 Legislative Session amended NDCC section 6-01-01.1. If these amendments are implemented correctly, the above finding will be addressed.

## 414 – Securities Commission

**Operational Audit – Contact: Paul Welk 328-2320 [pwelk@nd.gov](mailto:pwelk@nd.gov)**

### **Revenue Segregation of Duties 08-3**

The North Dakota Securities Department does not have proper controls surrounding the collection of revenue. The individual responsible for opening the mail and restrictively endorsing checks has access on the Securities Program to enter deposits and create letters of effectiveness (certifications) for all types of licensing managed by the system. In addition, the backup to this individual also has access to the money and has access on the Securities Program to create letters of effectiveness. It was noted that there was approximately \$3.1 million in revenues in fiscal year 2008 and approximately \$3.3 million in revenues in fiscal year 2007 that are processed through the deposit system.

The most important guidance relating to internal control is contained in Internal Control . Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This guidance dictates proper segregation of duties is an integral requirement of internal control. Proper segregation of duties requires access to approval registrations and licenses be restricted to individuals with duties independent of custody of revenue collections.

#### **Recommendation:**

We recommend the North Dakota Securities Department segregate duties to ensure revenue collections are posted to company records by an individual with duties independent of custody of revenue.

Response:

We agree with the recommendation. The Department has implemented changes to segregate the revenue related functions identified in Finding 8-3. The Securities Department employee responsible for revenue collection no longer has access to functionality in the Securities Program that provides for the ability to create Letters of Effectiveness.

## **504 – Highway Patrol**

**Operational Audit – Contact: Paul Welk 328-2320 [pwelk@nd.gov](mailto:pwelk@nd.gov)**

### **Peoplesoft General Ledger Controls Weakness 08-1 (Prior Recommendation Not Implemented)**

Controls surrounding PeopleSoft general ledger journal vouchers (JVs) are not adequate.

The North Dakota Highway Patrol did not maintain adequate support for JVs processed in the PeopleSoft general ledger, JVs were approved without support attached, JVs were not done in a timely manner, and prior to the implementation of workflow in PeopleSoft, JVs were not being reviewed and approved after the entries posted to the general ledger.

Even though the approver signed off on the JVs, we did not consider this proper approval as no support was reviewed prior to approval. Without proper support the approver is unable to determine if the correct amounts and funds were used.

Prior to the implementation of workflow, JVs approved prior to posting to the general ledger could lead to potential processing errors going undetected.

JVs not done in a timely manner resulted in current year correcting entries adjusting prior fiscal year expenditures.

Recommendation:

We recommend that the North Dakota Highway Patrol:

- Ensure all PeopleSoft general ledger journal vouchers have support attached when approved;
- Ensure journal vouchers are properly approved; and
- Prepare all necessary journal vouchers in a timely manner.

North Dakota Highway Patrol Response:

Journal vouchers are now being prepared in a timely manner and properly approved with all support attached at the time of approval.

### **Noncompliance With Fee Collections 08-3 (Prior Recommendation Not Implemented)**

The North Dakota Highway Patrol collects size and weight permits for the Motor Vehicle Division of the Department of Transportation (DOT), fuel taxes for the North Dakota Tax Department, and escort fees which are deposited into the general fund. North Dakota Century Code (NDCC) and North Dakota Administrative Code (NDAC) determine the fee amounts and where the funds are to be deposited.

The North Dakota Highway Patrol does not have procedures to properly monitor compliance with fee collections, and as a result, of the 30 fees reviewed, 10 fees were collected for the

wrong amount and 6 fees were coded incorrectly in the North Dakota Highway Patrol Receipt System.

As part of the review above we also noted 3 of the 6 coding errors were due to the category codes being transposed when another fee was collected on the same receipt. Another factor contributing to the errors is that not all the fees charged by the North Dakota Highway Patrol are listed on the receipt. By listing the fees to be charged on the receipt, the North Dakota Highway Patrol officer would be able to use the receipt as a guide to determine the correct fee amount and the individual paying the fee would be able to easily determine if they were not charged the correct amount.

Recommendation:

We recommend that the North Dakota Highway Patrol ensure:

- Proper fee amounts are collected in accordance with NDCC and NDAC;
- Fees are properly coded into the Receipts System; and
- Fees for the various fee categories are printed on the receipt.

North Dakota Highway Patrol Response:

Measures have been taken to ensure that fee amounts have been correctly collected and properly recorded in the cash receipts system. Fees which are a fixed amount for each category have been printed on receipt booklet covers. We will also research whether or not the fees can be printed on the cash receipt form itself (there are current space limitations). In addition, patrol vehicles are now being equipped to access the electronic receipt system which will minimize the chance of errors.

#### **Noncompliance With Fixed Asset Records 08-4 (Prior Recommendation Not Implemented)**

The procedures, used by the North Dakota Highway Patrol to ensure the proper fixed assets and balances are recorded on PeopleSoft, are inadequate.

A review of the fixed assets which have a value greater than \$5,000 recorded on PeopleSoft's Asset Management Module and a comparison of those fixed assets to the assets recorded on the North Dakota Highway Patrol's Fixed Asset Tracking System (FATS) identified the following weaknesses exist:

- Fixed assets which have a value greater than \$5,000 were not properly capitalized in PeopleSoft's Asset Management module;
- Capitalized fixed assets were still incorrectly classified in PeopleSoft's Asset Management Module;
- A capitalized fixed asset, identified as being surplus in the prior audit, was still recorded as a capitalized fixed asset in PeopleSoft's Asset Management Module; and
- Fixed assets values are not properly supported due to the fact that values differ between systems.

North Dakota Century Code (NDCC) 54-27-21 requires all agencies to capitalize all fixed assets having a value greater than \$5,000. Appendix A of the Office and Management and Budget's (OMB) Fiscal and Administrative Policy details how capitalized fixed assets should be classified.

Recommendation:

We recommend the North Dakota Highway Patrol maintain fixed asset records on PeopleSoft for fixed assets having a value greater than \$5,000 in accordance with NDCC 54-27-21 and

Appendix A of OMB's Fiscal and Administrative Policy, and ensure these records are properly supported.

North Dakota Highway Patrol Response:

Procedures have been set up to make certain that all fixed assets over \$5,000 are being properly capitalized, classified, and recorded in the PeopleSoft Accounting System and also that fixed assets under \$5,000 are properly capitalized in the FATS inventory system. Steps have been taken to ensure that all deleted items are properly removed from the fixed asset records and that all capitalized values agree between the PeopleSoft and FATS inventory systems.

## **540 – Adjutant General**

**Operational Audit – Contact: Paul Welk 328-2320 [pwelk@nd.gov](mailto:pwelk@nd.gov)**

### **Noncompliance With North Dakota Century Code For Fees Charged by State Radio Communications 08-2 (Prior Recommendation Not Implemented)**

The Office of the Adjutant General is not charging fees sufficient to cover the costs of providing 911 services, Law Enforcement Telecommunications Systems (LETS), and Mobile Data Terminal (MDT) services. The Office of the Adjutant General has developed an analysis of actual costs associated with 911, LETS and MDT services; however, fee adjustments were not implemented within the audited two-year period ended June 30, 2008.

North Dakota Century Code (NDCC) section 54-23.2-08 states the State Radio Communications Division must base its fees for LETS on actual costs. NDCC section 54-23.2-09 states State Radio must base its fees for MDTs on actual costs and 911 fees of at least \$.20 are to be charged per telephone access line and wireless access line for 911 services.

Recommendation:

We recommend the Office of the Adjutant General comply with North Dakota Century Code Sections 54-23.2-08 and 54-23.2-09 to ensure fees charged for 911 services, Law Enforcement Telecommunications System (LETS), and Mobile Data Terminal (MDT) services cover applicable costs of these services.

Response:

The Office of Adjutant General concurs with this finding. As stated in the Audit Report, the Department did adjust fees. Because of the impacts to local government budgets and overlapping fiscal years, the fees were not effective until July 1, 2009. As of this date the Department is in compliance with NDCC and has a defined process to ensure compliancy.

Status:

Partially implemented. The Office of the Adjutant General has developed an analysis of actual costs associated with 911, MDT and LETS services. The Adjutant General is performing quarterly reviews to ensure political subdivisions are charged for the correct number of 911 access lines. In addition, the Adjutant General has established the intent to analyze costs and adjust fees as appropriate on a biennial basis. However, the implementation of these processes occurred outside of our audit period and was not subsequently reviewed by the Office of the State Auditor.

## 670 - Horse Racing Commission

**Operational Audit – Contact: Paul Welk 328-2220 [pwelk@nd.gov](mailto:pwelk@nd.gov)**

### **Continuance of Declining Fund Balance (Finding 09-2)**

We noted certain areas of concern in regards to the continued declining fund balance in the three funds run by the North Dakota Racing Commission.

#### *Background:*

Based on review of the year-end fund balance amounts for the three North Dakota Racing Commission funds (breedersq purse, and promotion), the continued decline in the fund balance presents future concerns regarding the ability of the North Dakota Racing Commission to continue functional operations . including payments to tracks and breeders.

If the fund balance decline continues, it appears the North Dakota Racing Commission will not be able to continue its current funding pattern. For the 2010 racing season, the North Dakota Racing Commission has not approved or funded any races at the Fargo Horse Park. This reduction in the North Dakota racing season was due to issues at the horse park, not availability of funding.

The Fund Balance Table on the following page shows the balances for the North Dakota Racing Commission's funds as of calendar year-end from 2003- 2009.

#### *Operational Improvement:*

We recommend the North Dakota Racing Commission implement a plan that allows for sustained future operations.

#### *North Dakota Racing Commission Response:*

The Racing Commission has taken several steps to insure financial management of the agency. There has been decreasing financial support of the race meets which will assist in stabilizing the Racing Commission Funds.

The Racing Commission also spearheaded an effort to reduce the taxes charged to Account Deposit Wagering during the 2009 Legislative Session. Senate Bill 1551 reduced the taxes charged for account deposit wagering which made conducting business in North Dakota more attractive to start up and existing account deposit wagering companies. Presently there are five licensed companies with three license applications pending. The addition of the new account deposit wagering companies increases the handle significantly which generates increased income to conduct racing business within the State and stabilize the Commission.

	Calendar Year Ended						
	2003	2004	2005	2006	2007	2008	2009
<b><u>Breeders Fund 278</u></b>							
Beginning Fund Balance	\$ 2,179,879	\$ 2,369,555	\$ 1,939,451	\$ 1,676,001	\$ 1,327,612	\$ 742,784	\$ 676,677
Income	593,129	30,136	135,352	77,612	82,016	101,578	62,695
Expenses	(403,453)	(460,240)	(398,802)	(426,001)	(666,844)	(167,685)	(119,740)
Ending Fund Balance	\$ 2,369,555	\$ 1,939,451	\$ 1,676,001	\$ 1,327,612	\$ 742,784	\$ 676,677	\$ 619,632
<b><u>Purse Fund 290</u></b>							
Beginning Fund Balance	\$ 2,247,388	\$ 2,415,584	\$ 2,010,078	\$ 1,746,488	\$ 1,355,275	\$ 917,610	\$ 535,308
Income	591,593	30,705	137,030	80,288	84,389	70,200	66,141
Expenses	(423,397)	(436,211)	(400,620)	(471,501)	(522,054)	(452,502)	(454,554)
Ending Fund Balance	\$ 2,415,584	\$ 2,010,078	\$ 1,746,488	\$ 1,355,275	\$ 917,610	\$ 535,308	\$ 146,895
<b><u>Promotion Fund 339</u></b>							
Beginning Fund Balance	\$ 2,778,429	\$ 1,943,744	\$ 1,420,890	\$ 1,144,174	\$ 873,268	\$ 556,931	\$ 337,515
Income	1,003,420	80,170	243,165	188,788	164,566	207,794	225,999
Expenses	(1,838,105)	(603,024)	(519,881)	(459,694)	(480,903)	(427,210)	(432,487)
Ending Fund Balance	\$ 1,943,744	\$ 1,420,890	\$ 1,144,174	\$ 873,268	\$ 556,931	\$ 337,515	\$ 131,027
<b>TOTAL FUNDS</b>	\$ 6,728,883	\$ 5,370,419	\$ 4,566,663	\$ 3,556,155	\$ 2,217,325	\$ 1,549,500	\$ 897,554

## 750 – Parks and Recreation

**Operational Audit – Contact: Paul Welk 328-2320 [pwelk@nd.gov](mailto:pwelk@nd.gov)**

### **State Park Revenue Controls Weakness 09-1 (2007 Audit Prior Recommendation Not Implemented)**

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.

## 801 – Department of Transportation

**Operational Audit – Contact: Paul Welk 328-2320 [pwelk@nd.gov](mailto:pwelk@nd.gov)**

### **System Access Controls Weakness 09-1 (Prior Recommendation Not Implemented)**

The Department of Transportation has a lack of controls over system access. We noted that access was not properly restricted on some of their systems. Proper internal controls, as documented in the Committee of Sponsoring Organizations (COSO) of the Treadway Commission's *Internal Control - Integrated Framework*, include limiting access to computer systems to only individuals that need access for their job duties. Without proper access controls, personnel have the opportunity to bypass many important controls, especially segregation of duties. Therefore, there is an increased risk of unauthorized transactions and also a greater chance of corruption of data.

Recommendation:

We recommend the Department of Transportation:

- Establish policies and procedures to restrict access privileges to only necessary individuals.
- Assign ongoing responsibility for security for each information technology application.
- Perform continuing reviews of access privileges.

Response:

We concur with the finding. The recommendations as set forth by the State Auditor's Office will be implemented.

This finding is related to a prior recommendation (07-1) which was not fully implemented. Our efforts regarding that recommendation were focused on correcting existing improper access roles and insuring that future access roles were properly assigned. While we believe these efforts did strengthen controls, we did not fully achieve the desired result. Consequently, some inappropriate access roles developed after we implemented the additional controls.

To further strengthen system access controls, the NDDOT will develop a monitoring mechanism that will actively identify and report any access changes to the NDDOT Information Technology Director, the Financial Management Director, and Human Resources Director as appropriate. All identified access changes will be evaluated to insure they were indeed approved and implemented as intended. Any discrepancies will be immediately investigated and resolved appropriately.

**Motor Vehicle Division Bank Reconciliation 09-2**

The Department of Transportation (DOT) is not properly reconciling the motor vehicle clearing account to the report of amounts processed and pending each month. Our review of the reconciliation process indicated that DOT did not account for the unallocated funds still pending within the North Dakota Motor Vehicle Money Market Account after the processed funds were transferred to the State Treasurer at the beginning of each month.

North Dakota Century Code section 54-06-08 requires agencies to monthly report to the State Treasurer the amount of fees and profits received and to pay the amount of such fees and profits to the State Treasurer. Without a proper reconciliation of the amount remaining in the clearing account, it is difficult to identify and correct mistakes in the transfer process.

Recommendation:

We recommend the Department of Transportation properly reconcile the motor vehicle clearing account to the report of amounts processed and pending each month.

Response:

We concur with the finding. The State Auditor's recommendations have already been substantially implemented and the Motor Vehicle Division will continue working towards full implementation.

## Operational Audits – University System

Operational Audit NDUS – Contact: John Grettum [jgrettum@nd.gov](mailto:jgrettum@nd.gov) 239-7289

### NDSCS- Problems Noted in Consultant Contracts – Formal 09-1

In our review of consultant contracts we noted the following:

1. 2 of the 7 contracts reviewed were for \$74,244 and \$77,288 in consultant fees to be paid to the Title III Coordinator and Activity Director for a total of \$151,532 over the 2 contracts. This amount exceeds the SBHE Policy 803.1 threshold of \$100,000 for requiring a formal request for proposal, but no request for proposal was done. According to the Title III approved grant proposal the grant was expected to last 5 years with the same Coordinator and Activity Director each of the 5 years and the compensation was budgeted to exceed \$350,000 over the grant period. Therefore, we believe a formal request for proposal should have been completed, or if the services were to be from a sole source then SBHE Policy 803.1 regarding sole source services should have been followed.
2. None of the contracts required the consultant to have insurance. Since 6 of the 7 contracts involved on campus work by the consultant an insurance clause should have been included according to Risk Management guidelines.
3. 2 of the 7 contracts included significant addendums which were not reviewed by legal counsel, and one of the addendums appears to blur the line between the independent contractor/employee relationship which would have been avoided with proper legal review.

Recommendation:

We recommend NDSCS management take appropriate action to ensure that:

1. All purchases of services comply with SBHE Policy 803.1
2. All contracts for services requiring on-site visits have an appropriate insurance clause as stated in Risk Management's Guidelines to Managing Contractual Risk.
3. All contracts are reviewed by a qualified individual prior to execution in compliance with SBHE Policy 840.

North Dakota State College of Science's Response:

1. NDSCS agrees with the finding that Policy 803.1 on sole source services should have been followed. All future contracts will be examined by the Vice President of Administrative Affairs to make sure they are in compliance with SHBE policy 803.1 and to make sure they have been reviewed by SBHE legal counsel. A memo regarding this procedural change will be sent to the management and leadership teams of NDSCS.
2. We agree with this recommendation and all contracts for services requiring on-site visits will have the appropriate insurance clause(s) as stated in Risk Management's guidelines as of July 1, 2010.
3. We agree with this recommendation and all new contracts will be reviewed by a qualified individual prior to execution as required by SBHE Policy 840.

### NDSU- Inadequate Purchase Card Oversight and Monitoring Controls – Formal 09-1

During our test of 46 purchase card items we noted the following:

- 22 of 46 test items exceeded the individual purchase card maximum of \$2,500.
- 22 of 46 test items had no approval by an authorized individual, and of these 22 items 18 had no purchase card record or cardholder signature.
- 16 of 46 test items had no credit card statement for supporting documentation.
- 11 of 46 items were travel expenses with no accompanying explanation of the purpose for the travel expense.

- 2 of 46 items included payment for sales tax.

One aspect of internal control is the establishment of a control structure to provide reasonable assurance regarding prevention of or prompt detection of deviations from established policies. All or substantially all of the deficiencies noted above violated institutional policy in one form or another. The system failed to prevent or detect the deficiencies.

Recommendation:

We recommend that NDSU management ensure that:

1. Appropriate policies and procedures are in place for the purchase card program.
2. Purchase card policies and procedures are communicated to all purchase card users.
3. Purchase card use complies with policies and procedures

*North Dakota State University Response:*

Agree. NDSU implemented tighter controls in January 2009, which was late in the audit testing period. A NDSU Procurement Card Manual was also released at that time. Additionally, each purchase card record is reviewed monthly. Management will review procurement card controls and make any necessary changes. All procurement card policies and procedures will be communicated to users on a periodic basis.

### **NDSU- Limiting Competition through Bid Specifications – Formal 09-3**

During a review of bid specifications for two construction projects we noted that the specification for one of the projects required mechanical equipment and mechanical controls of one manufacturer at the exclusion of all other manufacturers thereby limiting competition. On the other project, the bid specification named one specific manufacturer or ~~approved equal~~ but no other manufacturers were approved, again effectively limiting competition to one manufacturer. The specification of one manufacturer over another was not properly supported.

Recommendation:

We recommend that NDSU management take appropriate action to ensure that proper competition is followed when specifying materials to be used for a public improvement as required by NDCC 48-01.2-03

*North Dakota State University Response:*

Agree. NDSU agrees on the importance of competition in vendor selection and will strive toward this as much as possible. In instances like noted in this finding, where one manufacturer is preferred, better documentation will be provided as justification or the manufacturer will not be given preference.

There may be some confusion regarding application of Policy 803.1 or lack of understanding regarding chapter 48-01.2 requirements. To address this concern, the NDUS will be looking at adding clarifying language or definitions to Policy 803.1 and adding a new policy in the 900 section of the SBHE Policy Manual referencing chapter 48-01.2 requirements.

### **NDSU- Improvements Needed in Stewardship of Public Resources – Operational Improvement 09-1**

Generally *Accepted Government Auditing Standards* (GAGAS) issued by the Comptroller General of the United States provide direction for management's role in accountability by stating that, "Government officials entrusted with public resources are responsible for carrying out public functions legally, effectively, efficiently, economically, ethically, and equitably." Supplemental guidance expands upon this guidance by explaining that, "Management is responsible for using government resources legally, effectively, efficiently, economically, ethically, and equitably to achieve the purposes for which the resources were furnished or the program was established."

Throughout testing for this audit we noted the following instances that do not appear to conform to one or more of the principles of proper stewardship of public resources noted above:

- **Leasing the Equine Center to Horse Race North Dakota (HRND) at a loss, thereby indirectly contributing to the operations of the Horse Park.**
  - Since 2003, NDSU has subleased the Equine Center to HRND each summer during the horse racing season. In FY08 NDSU charged HRND a rental price of \$4,000/month while the cost to NDSU was \$30,137/month (a \$25,833 lease payment and \$4,304 in operating costs). In FY09 NDSU charged HRND a rental price of \$5,400/month while the cost to NDSU was \$32,962/month (a \$25,833 lease payment and \$7,129 in operating costs). According to NDSU personnel, costs to NDSU were not considered when the lease price was originally determined. At the time of this writing NDSU had not received payment from HRND for the FY09 rent. Even if NDSU receives the payment, it is clear that NDSU is subsidizing HRND.
- **First or business class airfare for employee travel.**
  - We noted three separate trips where first or business class airfare was purchased for university employee travel, each trip was for one employee and the total cost of the airfare for the three trips was \$19,845. NDSU Policy 515 (5) and federal rules and regulations indicate that reimbursement will be allowed for the actual cost of tourist or coach fare, purchased at the lowest available rate. Normally, first or business class airfare is up to 3 or more times greater than tourist or coach fares.
- **Excessive fees for employee training.**
  - Two employees attended the Anthony Robbins motivational seminar *Unleash the Power Within* in Los Angeles. There were multiple price levels from basic (\$995/person) to premiere (\$2,595/person), and both employees who attended registered under the premiere price level. The benefits for paying the extra \$1,600/person included expedited registration, early entry into the event auditorium, and better seating close to the front. Therefore, the total registration cost for two employees was \$5,190. The registration cost appears to have included some meals, but does not include any other travel related costs which would have been incurred and reimbursed separately.
  - One of the employees who attended *Unleash the Power Within* referred to above also attended the Anthony Robbins *Leadership Masters University* event with a registration cost of \$9,995. The registration cost appears to have included some meals, but does not include any other travel related costs which would have been incurred and reimbursed separately.
- **Payment for empty hotel rooms.**
  - NDSU funded a conference which was held in Washington D.C. in January 2009. In preparation for the conference, NDSU had a large block of rooms set aside for guests of the conference. As part of the agreement with the hotel, NDSU would pay for 90% of any hotel rooms that did not get used by guests of the conference. The majority of the rooms were not used, so NDSU paid \$24,385 for the unused hotel rooms.
- **Alcohol purchased with public funds.**
  - For a conference held in Denver in July 2007 NDSU paid \$746 for alcohol and bartender fees.

Recommendation:

We recommend that NDSU management take appropriate action to:

1. Create and maintain an organizational culture of accountability and stewardship of public resources.
2. Avoid unnecessary and/or unreasonable use of public funds to ensure funds are available for essential purposes

North Dakota State University Response:

Agree. NDSU's new President and administration recognize that setting an ethical tone at the top is of paramount importance in creating an ethical culture and a strong control environment throughout the university. Therefore, a new emphasis on good governance, accountability and service to our students, the people of North Dakota, and other stakeholders has been set in motion.

As a result of this new emphasis, NDSU has redefined the mission and role of the Audit and Advisory Services Office. Audit and Advisory Services Office is now known as the Office of Ethics, Compliance and Audit. In addition to the previous value added activities performed by the office, the Office of Ethics, Compliance and Audit now has an additional mandate to monitor for and promote proper stewardship and ethical business practices. The goal of the Office of Ethics, Compliance and Audit is to provide direction, guidance, and assessments to ensure NDSU, its people, and entities are compliant with applicable laws, rules, and regulations in an ethics-based environment. The Office of Ethics, Compliance and Audit will continue to report to the Budget, Audit and Finance Committee with administrative reporting to NDSU's President.

Specific activities taken to date include Presidential signing of an executive order adopting a Code of Conduct applicable to all employees; President's discussion of ethics and stewardship with the Cabinet; President's issuance of public statements to the campus and local media emphasizing the expectations for stewardship and ethical behavior; Office of Ethics, Compliance and Audit presentation on Stewardship and Ethics at new employee orientation. Other actions will be implemented as part of a comprehensive ethics program.