

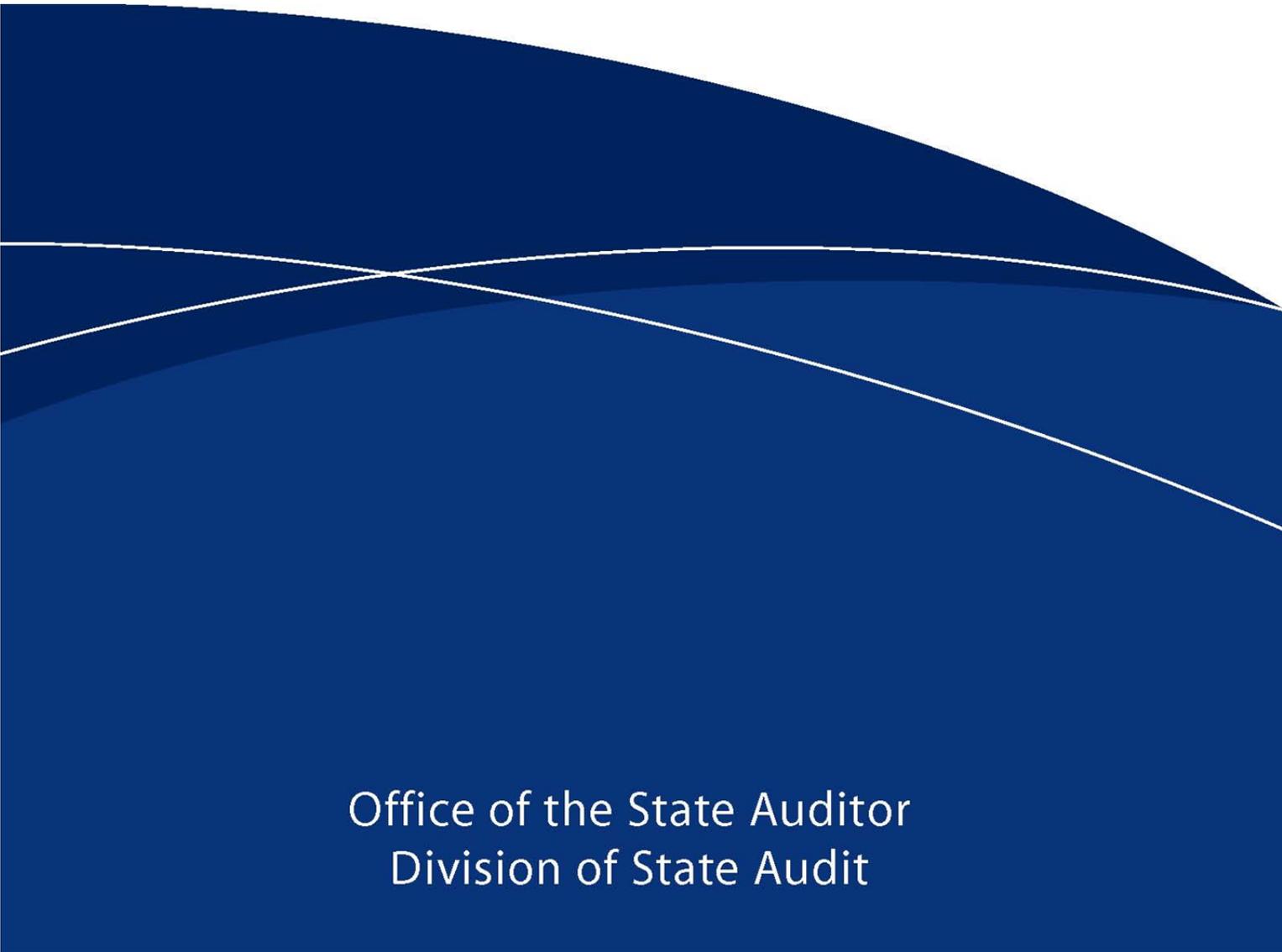
Office of Management and Budget

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2011

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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

Transmittal Letter

February 27, 2012

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Ms. Pam Sharp, Director, Office of Management and Budget

We are pleased to submit this audit of the Office of Management and Budget for the biennium ended June 30, 2011. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

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

The in-charge auditor for this audit was Allison Bader. Lindsey Ulrich, Sarah Kuntz, and Jacqueline Castleberry were the staff auditors. Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Ms. Pam Sharp and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Office of Management and Budget is established under North Dakota Century Code (NDCC) chapter 55-44. The Office, headed by a Director appointed by the Governor, is vested with the control and supervision of the fiscal administration of the executive branch of government. The Office of Management and Budget's divisions include Fiscal Management, Human Resources Management Services, Central Services, Facility Management, and Risk Management.

Additional information can be obtained from the Office of Management and Budget website, <http://www.nd.gov/omb>.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

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

Financial statements were not prepared by the Office of Management and Budget in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing the "surplus property lack of segregation of duties" (page 13), we determined internal control was adequate.

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

No.

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

The Office of Management and Budget has implemented the recommendation included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 18 of this report, along with management's response.

LAFRC Audit Communications

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

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

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

The Office of Management and Budget's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Office of Management and Budget.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Office of Management and Budget for the biennium ended June 30, 2011 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of the Office of Management and Budget is for the biennium ended June 30, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of Management and Budget has operations in the following locations. Each location was included in the audit scope:

- Fiscal Management, Human Resource Management Services, Facility Management, and Central Services Divisions in the State Capitol.
- Risk Management Division in north Bismarck.
- Surplus Property operations in south Bismarck.

Audit Methodology

To meet the objectives outlined above, we:

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

projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Office of Management and Budget's processes and procedures.

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

Discussion and Analysis

The accompanying financial statements have been prepared to present the Office of Management and Budget's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2011, operations of the Office of Management and Budget were primarily supported by appropriations from the state's general fund. This is supplemented by fees and other sources credited to the agency's operating funds and federal funds of the American Recovery and Reinvestment Act of 2009 and the State Energy Program.

Financial Summary

The Office of Management and Budget's capital assets include buildings, equipment, and infrastructure, all of which are valued at historical cost. All capital assets with an original cost of \$5,000 or more per unit (\$100,000 or more for infrastructure) and an estimated useful life in excess of one year are capitalized. The Office of Management and Budget's total capital assets before deducting accumulated depreciation at June 20, 2011 were approximately \$77 million. The largest category of capital assets for the Office of Management and Budget are buildings which are valued at approximately \$60 million.

Revenues and other sources consisted primarily of tobacco settlement funds, interest and investment earnings, risk management premiums, central duplicating revenue, and legislatively mandated transfers. Transfers In increased \$20 million during fiscal year 2011, mostly due to an increase in oil extraction tax revenues. A portion of oil extraction tax revenues are transferred to the foundation aid stabilization fund pursuant to NDCC section 57-51.1-07. Other revenues during the audited period included various leases, rents, sale of capital and non-capital assets, postage, training services, indirect cost recoveries, and purchasing card rebates. These all remained fairly constant during the biennium. Total revenues were \$89,734,305 for the year ended June 30, 2011 as compared to \$71,537,034 for the year ended June 30, 2010.

Total expenditures and other uses for the Office of Management and Budget were \$69,962,248 for the year ended June 30, 2011 as compared to \$100,827,295 for the prior year. The decrease in total expenditures and other uses for the audited period reflects primarily a decrease in legislatively mandated transfers. Senate Bill 2012, Section 5 of the 2007 legislative assembly authorized \$43 million to be transferred to the state disaster relief fund. The Office of Management and Budget transferred \$6 million in the 2007-2009 biennium and transferred the remaining \$37 million in fiscal year 2010. Senate Bill 2369, Section 3 of the 2009 legislative assembly only authorized \$22 million to be transferred to the state disaster relief fund which was transferred in fiscal year 2011. In addition, transfers to the centers of excellence fund were made pursuant to the 2009 legislative assembly Senate Bill 2018, section 22 for the purpose of providing additional centers of excellence funding and section 27 related to unexpended appropriations. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The Office of Management and Budget had remaining appropriations in the Salaries and Benefits, Operating Expenses, Fiscal Carryover, Capital Assets, and Federal Stimulus lines. Remaining appropriation in the Salaries and Benefits line is a result of unexpended amounts for claims of the statewide unemployment fund, allowable salaries charged to the Federal Stimulus line, and vacancies and turnover with the department. The unexpended appropriation in the Operating line reflects primarily information technology data processing and consultants appropriation for the Talent Management module of ConnectND which was not started during the biennium. Unexpended appropriation in the Fiscal Carryover line is a result of fewer upgrades and maintenance needs to the state's accounting, payroll and budget systems which vary from year to year. Remaining Federal Stimulus appropriation is due to less than estimated administrative and searchable data base costs. Capital Assets line remaining appropriation is primarily due to mechanical and electrical pairs and Capitol parking lot design projects that were not completed during the biennium. These projects were approved by carryover the Capitol Construction Carryover Committee for the 2011-13 biennium.

Funds Used to Account for Assets Held by the State in a Trustee Capacity

The Office of Management and Budget accounts for employers and employees payroll taxes and other deductions including insurance, garnishments, and financial institution deductions in accordance with NDCC chapter 54-44. These collections are remitted to federal and state tax institutions, financial institutions, state child support, and other court authorized entities. Remitted payroll withholdings were \$98,952,342 for the year ended June 30, 2011, as compared to \$90,937,530 for the prior year.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Revenues and Other Sources:</u>		
Tobacco Settlement Fund	\$19,736,098	\$20,816,865
Interest and Investment Earnings	11,483,707	11,399,733
Risk Management Premiums	5,525,964	6,406,765
Central Duplicating Revenue	1,387,951	1,272,845
Lease and Rental of Rooms and Buildings	1,094,241	745,893
Sale of Non-Capital Assets	1,017,055	805,546
Postage and Training Services	615,903	641,396
Sale of Capital Assets	575,132	561,848
Indirect Cost Recoveries	502,721	483,173
P-Card Rebate (Net of Distributed Refunds)	205,005	193,830
Other Revenues	146,737	583,558
Transfers In	47,443,791	27,624,038
Total Revenues and Other Sources	<u>\$89,734,305</u>	<u>\$71,537,034</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$7,635,369	\$7,206,551
Operating Fees and Services	4,878,269	4,517,726
IT Data Processing and Contractual Services	1,889,113	2,492,260
Utilities	1,251,281	1,068,230
Supplies	1,238,716	1,152,235
Grants, Benefits, and Claims	1,232,357	3,195,793
Insurance	1,171,945	1,242,710
Extraordinary Repairs	793,579	2,243,811
Professional Services	746,056	1,315,160
Postage	575,506	561,848
Repairs	435,808	497,212
Bond Principle	330,064	317,555
Lease and Rental	287,157	324,972
Equipment Over \$5,000	107,119	25,309
Equipment Under \$5,000	69,442	49,714
Other Expenses	585,507	677,589
Transfers Out	46,734,960	73,938,620
Total Expenditures and Other Uses	<u>\$69,962,248</u>	<u>\$100,827,295</u>

Statement of Appropriations

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 17,203,386	\$ 131,034	\$ 17,334,420	\$ 16,153,471	\$ 1,180,949
Operating Expenses	14,489,094	(70,421)	14,418,673	11,459,730	2,958,943
Fiscal Carryover		1,577,375	1,577,375	600,976	976,399
Capital Assets Construction	5,270,298		5,270,298	2,464,246	2,806,052
Carryover		1,809,671	1,809,671	1,809,671	
Grants	430,000		430,000	430,000	
Prairie Public Broadcasting	3,353,338		3,353,338	3,353,338	
Student Internship Program	200,000	(200,000)			
Statewide Equity Plan	15,984,000	(15,984,000)			
State Transfers		59,000,000	59,000,000	59,000,000	
Federal Stimulus Funds - 2009	689,494	(5,813)	683,681	328,171	355,509
Totals	<u>\$ 57,619,610</u>	<u>\$46,257,846</u>	<u>\$103,877,456</u>	<u>\$ 95,599,603</u>	<u>\$ 8,277,852</u>
Expenditures by Source:					
General Fund	\$ 41,107,496	\$30,457,305	\$ 71,564,501	\$ 64,815,083	\$ 6,749,418
Other Funds	16,512,414	15,800,541	32,312,955	30,784,520	1,528,434
Totals	<u>\$ 57,619,610</u>	<u>\$46,257,846</u>	<u>\$103,877,456</u>	<u>\$ 95,599,603</u>	<u>\$ 8,277,852</u>

Appropriation Adjustments:

The \$131,034 increase to the Salaries and Benefits line was appropriated for market equity increases for classified state employees and approved by the 2009 Legislative Assembly pursuant to Senate Bill 1015, section 18.

The \$70,421 decrease to the Operating Expenses line includes an increase of \$120,000 to accept federal pass-thru funds from the Department of Commerce received from the American Recovery and Investment Act (ARRA), U.S. Department of Energy, Energy Efficiency Grant program, to replace lamps and ballasts in fixtures located in the capitol's judicial wing. The appropriation increase was approved by the Emergency Commission. The decrease to the Operating Expenses line also includes general fund decreases totaling \$190,421 as a result of transfers of contingency funds to other state agencies as approved by the Emergency Commission.

The \$1,577,375 increase to the Fiscal Carryover line was authorized by the 2009 Legislative Assembly pursuant to House Bill 1015, section 8 to the fiscal management division for the continued development and operating costs of the accounting, management, and payroll systems.

The \$1,809,671 increase to the Construction Carryover line was approved by the Construction Carryover Committee for various construction and repair projects.

The \$200,000 decrease in the Student Internship Program line was authorized by the 2009 Legislative Assembly pursuant to Senate Bill 1015, section 10 for the purpose of transferring to other eligible agencies.

The \$15,984,000 decrease in the Statewide Equity Pay line was authorized by the 2009 Legislative Assembly pursuant to Senate Bill 1015, section 18 for the purpose of providing statewide salary equity adjustments for state employees of the executive branch in accordance with provision of Senate Bill 1015, section 19.

The \$59,000,000 increase in the State Transfers line was authorized by the 2009 Legislative Assembly pursuant to Senate Bill 2012, section 6 (\$37,000,000) for the purpose of providing emergency relief funding and by the 2011 Legislative Assembly pursuant to emergency measure of Senate Bill 2369, section 3 (\$22,000,000) for the purpose of transferring to the state disaster relief fund.

The \$5,813 decrease in the Federal Stimulus Funds - 2009 line reduces the appropriation for amounts expended prior to June 30, 2009 due to the appropriation authorized by the 2009 Legislative Assembly pursuant to emergency measure of House Bill 1015, section 2.

Expenditures Without Appropriations Of Specific Amounts:

The General Fund transfers to the Budget Stabilization Fund are in accordance with NDCC chapter 54-27.2 (\$124,936,548 of transfers for this biennium).

The General Fund transfers to the Centers of Excellence Fund are in accordance with Senate Bill 2018, section 22 of the 2009 Legislative Assembly (\$5,000,000 of transfers for this biennium).

Indigent Civil Legal Services Fund has a continuing appropriation authorized by NDCC section 54-06-20 (\$644,812 of expenditures for this biennium).

Risk Management Workers Compensations Fund has a continuing appropriation authorized by NDCC section 65-04-03.1 (\$8,590,234 of expenditures for this biennium).

Risk Management Claims Fund has a continuing appropriation authorized by NDCC section 32-12.2-07 (\$1,777,223 of expenditures for this biennium).

Oasis Fund transfers to the General Fund are in accordance with an emergency measure of Senate Bill 2022, section 7 of the 2011 Legislative Assembly (\$2,408 of expenditures for this biennium).

Insurance recoveries has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$64,310 of expenditures for this biennium).

Tobacco Settlement Trust Fund had transfers in accordance with NDCC 54-27-25 (\$40,552,964 of transfers for this biennium).

Permanent Oil Trust Fund had transfers during the biennium in accordance with Senate Bill 2023, section 2 of the 2011 Legislative Assembly and Senate Bill 2199, sections 10 and 11, House Bill 1015, section 5, and Senate Bill 2018, section 27 of the 2009 Legislative Assembly (\$740,853,541 of transfers for this biennium).

State Tuition Fund had transfers during the biennium in accordance with NDCC section 15.1-28-03 (\$9,444,359 of transfers for this biennium).

Postage Revolving Fund has a continuing appropriation authorized by NDCC section 48-06-06 (\$1,110,052 of expenditures for this biennium).

Central Personnel Training Fund and Central Services Fund have a continuing appropriation authorized by NDCC section 54-44-11 (\$1,221,459 of expenditures for this biennium).

Preliminary Planning Revolving Fund has a continuing appropriation authorized by NDCC 54-27-22 (\$61,580 of expenditures for this biennium).

Capitol Renovation Fund has a continuing appropriation authorized by NDCC section 48-10-02 (\$100,000 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2011, we identified the following areas of the Office of Management and Budget's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding vendor tax identification in the State Vendor Registry

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiency in internal control. We also noted other matters involving internal control that we have reported to management of Office of Management and Budget in a letter dated February 27, 2012.

Surplus Property Lack of Segregation of Duties (Finding 11-1)

Condition:

All Surplus Property Division employees have access to cash and inventory. All Division employees also have access to inventory records. In addition, the same individuals with access to cash and inventory are responsible for investigating discrepancies in cash and the physical inventories.

Criteria:

The Internal Control Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) states that proper segregation of duties is an integral requirement of internal control.

Cause:

The Office of Management and Budget has not properly segregated employee responsibilities at Surplus Property.

Effect or Potential Effect:

Increased risk for misappropriation of cash and/or inventory could occur and be undetected.

Recommendation:

We recommend the Office of Management and Budget properly segregate duties within the Surplus Property Division so that individuals with access to cash or inventory do not have access to inventory records.

We recommend the Office of Management and Budget properly segregate duties so that individuals responsible for investigating discrepancies in physical inventories and cash collections do not have access to inventory and cash, respectively.

Office of Management and Budget Response:

The Office of Management and Budget agrees with the recommendation. Surplus Property is in the process of purchasing a new inventory software system to help automate inventories and point of sale processes. With the implementation of this software, we will be strengthening security controls and evaluating our internal controls to segregate duties.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2011, we identified and tested the Office of Management and Budget's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper use by the Office of Management and Budget of the following legally restricted funds:
 - Indigent Civil Legal Services Fund (NDCC 54-06-20).
 - Capital Grounds Planning Fund (NDCC 48-10-02).
 - Risk Management Workers Compensation Fund (NDCC 65-04-03.1).
 - Risk Management Fund (NDCC 32-12.2-07).
 - Oasis Benefits (2011 Session Laws, Senate Bill 2022, section 7).
 - Tobacco Prevention and Control Fund (NDCC 23-38-03).
 - Tobacco Settlement Trust Fund (NDCC 54-27-25).
 - Permanent Oil Tax Trust Fund (NDCC 57-51.1-07.2).
 - State Tuition Fund (NDCC 15.1-28-03).
 - Preliminary Planning Revolving Fund (NDCC 54-27-22).
 - Property Tax Relief Fund (NDCC 57-64-05).
 - Foundation Aid Stabilization Fund (State Constitution, Article X, section 24).
 - Postage Revolving Fund (NDCC 48-06-06).
 - Central Personnel Training Fund (NDCC 54-44-11).
 - Central Services Fund (NDCC 54-44-11).
 - Capitol Renovation Fund (NDCC 48-10-02).
- Proper distribution of community service supervision grants (2009 North Dakota Session Laws, chapter 58, section 1).
- Proper use of the State Treasurer (State Constitution, Article X, section 12).
- Compliance with appropriations and related transfers (2009 North Dakota Session Laws, chapter 15, sections 2, 3, 4, 5, 6, 7, 8, 9, and 18; chapter 46, sections 5 and 27).
- Proper transfer activity within the Budget Stabilization Fund (NDCC chapter 54-27.2 and 2009 North Dakota Session Laws, chapter 46, section 22).
- Compliance with OMB's Purchasing Procedures Manual.
- Proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, capitalization requirements, lease and financing arrangements in budget requests, and lease analysis requirements.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

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

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

Operations

This audit did not identify areas of the Office of Management and Budget's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Management Letter (Informal Recommendations)

February 27, 2012

Ms. Pam Sharp, Director
Office of Management and Budget
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Ms. Sharp:

We have performed an audit of the Office of Management and Budget for the biennium ended June 30, 2011, and have issued a report thereon. As part of our audit, we gained an understanding of the Office of Management and Budget's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

RISK MANAGEMENT

Informal Recommendation 11-1: We recommend the Office of Management and Budget's Risk Management Division properly segregate duties so individuals with access to cash do not have access to accounts receivable records.

SURPLUS PROPERTY

Informal Recommendation 11-2: We recommend the Office of Management and Budget properly track and investigate surplus property discrepancies related to missing inventory and unbalanced cash deposits.

Informal Recommendation 11-3: We recommend the Office of Management and Budget assign access and review responsibilities of the surplus property paypal account to a second individual to ensure proper oversight of withdrawal activity in the account by two individuals.

FACILITY MANAGEMENT

Informal Recommendation 11-4: We recommend the Office of Management and Budget strengthen controls surrounding construction/remodeling projects to:

- Develop documented policies and procedures including:
 - Identification of all potential construction costs for estimating overall project costs.
 - Agency and Facility Management responsibilities related to project cost share, monitoring, and recordkeeping.
- Document basis of selection of contractors for procurement of public improvement projects including informal cost comparisons.

EXPENDITURES

Informal Recommendation 11-5: We recommend the Office of Management and Budget Central Services Division increase their use of the purchasing card as a form of payment.

CONNECTND USER ACCESS

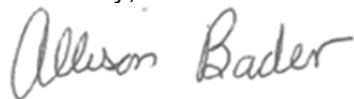
Informal Recommendation 11-6: We recommend the Office of Management and Budget:

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

Management of the Office of Management and Budget agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Allison Bader
Auditor in-charge

You may obtain audit reports on the internet at:

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Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241