

North Dakota Indian Affairs
Commission

BISMARCK, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2018

Joshua C. Gallion
State Auditor

Office of the State Auditor
Division of State Audit



Why We Conducted this Audit

The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

What We Found

The North Dakota Indian Affairs Commission misspent state funds on gift cards, did not perform an annual inventory of assets, and failed to complete a fraud risk assessment.



Improper Use of State Funds

\$7,790 was misspent on gift cards to a sporting goods store. The gift cards were given to students and mentors during the annual North Dakota Indian Youth Leadership Academy. 95% of the cards were valued at \$100 each. There were 40 students that attended in 2017 and 38 students that attended in 2018.

The North Dakota Indian Affairs Commission has not implemented two prior audit recommendations:



Lack of Annual Inventory of Assets

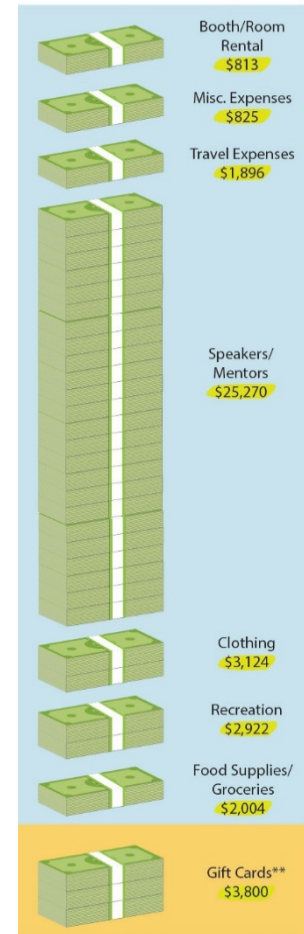
A complete listing of assets was not maintained and an annual physical inventory was not taken during the audit period. Assets vulnerable to loss include computers, cell phones, iPads, and cameras.



Lack of Fraud Risk Assessment

A fraud risk assessment, that is required to be performed every biennium, has not been completed. A fraud risk assessment identifies internal and external incentives, pressures, and opportunities for fraud, likelihood and significance of fraud to occur, and reasonable responses to implement controls or detection procedures.

2018 Youth Leadership Academy Expenses



\$40,654*

*Total expenditures for the 2017 Youth Academy were \$39,501.

**Gift cards were also given out in 2017, totalling \$3,990.

Source: ConnectND Financials

**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

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Representative Chet Pollert – Vice Chairman**

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Mike Nathe
Marvin E. Nelson
Wayne A. Trottier**

Senators

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Judy Lee
Richard Marcellais**

AUDITOR AND AGENCY PERSONNEL

State Auditor Personnel

**Allison Bader, MBA, Audit Manager
Kristi Morlock, MBA, Audit Supervisor
Delan Hellman, Audit Senior**

Primary State Agency Contacts

**Scott Davis, Executive Director
Marietta Kemmet, Executive Assistant**

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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 28, 2019

The Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly
Mr. Scott Davis, Executive Director, North Dakota Indian Affairs Commission.

We are pleased to submit this audit of the North Dakota Indian Affairs Commission for the two-year period ended June 30, 2018. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Additionally, whenever possible additional audit objectives are included to increase responsiveness and effectiveness of state government.

Allison Bader was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Mr. Davis and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

Audit Results

Statutory Audit Requirements

The objective related to our statutory audit requirements is:

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage. Defaults are defined as failures to do something required by duty or law. Bonding coverage provides insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

Conclusions

Exceptions were identified relating to our statutorily required audit testing. The audit identified improper use of state funds, lack of annual inventory of assets, and lack of a fraud risk assessment. See Findings 18-01, 18-02, and 18-03.

Background Information and Results

Audit procedures included testing compliance with appropriation laws, evaluating the adequacy of blanket bond coverage, and performing tests of expenditures. The audit also included procedures to follow up on compliance of prior audit findings. Three exceptions were noted in Findings 18-01, 18-02, and 18-03.

The North Dakota Indian Affairs Commission was established by the 1949 State Legislature to facilitate working relationships between the state and tribal governments. The function of the Commission is to be the liaison between the executive branch and the tribes of North Dakota. Duties include mediation services with the tribes and state, and working with other state agencies regarding proper protocol in working with Indian people and tribal governments.

The North Dakota Indian Affairs Commission held a Strengthening Government to Government Partnerships & Relationships Conference in January of 2018 that was attended by 298 individuals. This conference brought together Federal, State, and Tribal individuals to discuss treaties, policies, and other issues the Tribal communities are currently dealing with. The conference cost \$66,184 and was funded through a private grant, registration fees, and donations.

Every year the North Dakota Indian Affairs Commission holds the North Dakota Indian Youth Leadership Academy in Bismarck. The academy is a five-day leadership camp for high school age youth from across the state. It focuses on developing future leaders among Indian youth in North Dakota. Topics important to Native communities such as education, environment, water rights, land and realty, tribal constitutions, public speaking, leadership, and cultural event participation are covered. Forty students attended the academy in 2017 for a cost of \$39,501 and thirty-eight attended in 2018 for a cost of \$40,654. The academy was paid for through General Fund appropriations and an annual \$20,000 donation from another state agency.

Improper Use of State Funds (Finding 18-01)

Condition:

The North Dakota Indian Affairs Commission misspent \$7,790 of state funds by improperly providing gift cards to attendees of the annual North Dakota Indian Youth Leadership Academy.

During June of 2017, \$3,990 was spent on gift cards to a sporting goods store. There were 40 gift cards worth \$100 each and 4 gift cards worth \$50 each. These gift cards were distributed to the 40 students and 4 mentors that attended the North Dakota Indian Youth Leadership Academy.

During June of 2018, \$3,800 was spent on gift cards to a sporting goods store. There were 40 gift cards worth \$100 each. These gift cards were distributed to the 38 students and 2 mentors that attended the North Dakota Indian Youth Leadership Academy.

Criteria:

Article X Section 18 of the North Dakota State Constitution states that neither the state nor any political subdivision thereof shall otherwise loan or give its credit or make donations to or in aid of any individual, association or corporation except for reasonable support of the poor.

Cause:

The North Dakota Indian Affairs Commission was unaware that giving out gift cards was against state law.

Effect or Potential Effect:

Improper use of state funds.

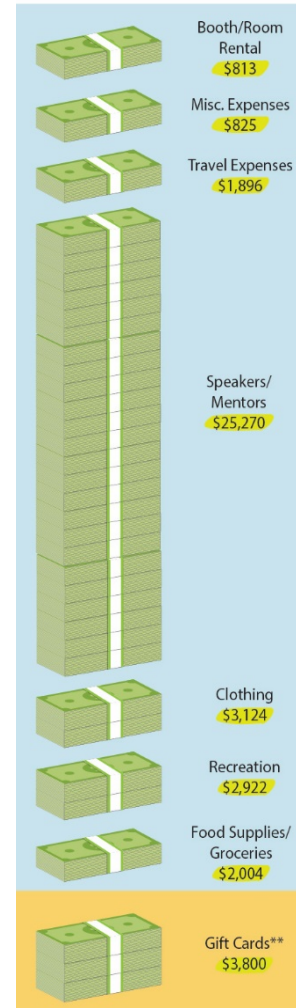
Recommendation:

We recommend the North Dakota Indian Affairs Commission ensure all expenditures are in compliance with the Constitution of the State of North Dakota.

North Dakota Indian Affairs Commission Response:

We will follow the recommendation made by the Office of the State Auditor and will ensure expenditures are allowed by the State Constitution.

2018 Youth Leadership Academy Expenses



\$40,654*

*Total expenditures for the 2017 Youth Academy were \$39,501.

**Gift cards were also given out in 2017, totalling \$3,990.

Source: ConnectND Financials

Lack of Annual Inventory of Assets (Finding 18-02)

Condition:

The North Dakota Indian Affairs Commission did not maintain a complete listing of assets and did not have documentation showing that an annual physical inventory was taken during the audit period. The Commission has items that are more vulnerable to loss such as laptop computers, cell phones, iPads, and cameras.

Criteria:

North Dakota Century Code (NDCC) 44-04-07 requires state agencies to maintain a complete and current inventory record of all property of sufficient value and permanence as to render such inventory record practical. Annually each agency must make a complete inventory of all such property.

The Office of Management and Budget's Fiscal and Administrative Policy 205 states each agency is to establish a policy that specifies the dollar level that will be used to implement the accountability threshold. The policy should also include the inventory of assets that are particularly at risk or vulnerable to loss.

Cause:

The North Dakota Indian Affairs Commission failed to implement a prior recommendation and did not have proper controls in place surrounding the annual physical inventory.

Effect or Potential Effect:

The agency is not in compliance with North Dakota Century Code. Additionally, potential loss of assets.

Recommendation:

We recommend the North Dakota Indian Affairs Commission maintain a complete listing of assets, including the dates the items were purchased and their dollar value, and perform an inventory on an annual basis in accordance with NDCC 44-04-07.

North Dakota Indian Affairs Commission Response:

Two separate individuals will keep track of the inventory sheets and perform an annual inventory. A minimum amount for inclusion on the inventory list will also be determined.

Internal Control

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.

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 deficiency in internal control that was significant within the context of our audit objectives and based upon the audit work performed.

Lack of Fraud Risk Assessment (Finding 18-03)

Condition:

The North Dakota Indian Affairs Commission has not completed a fraud risk assessment. A fraud risk assessment identifies internal and external incentives, pressures, and opportunities for fraud, likelihood and significance of fraud to occur, and reasonable responses to implement controls or detection procedures.

Criteria:

The Office of Management and Budget (OMB) Policy 216 requires all state agencies to perform a fraud risk assessment for each of their functions and/or divisions on a biennial basis.

Cause:

The North Dakota Indian Affairs Commission failed to implement a prior recommendation.

Effect or Potential Effect:

The North Dakota Indian Affairs Commission may have high risk areas without adequate controls and be unaware of these weaknesses.

Recommendation:

We recommend the North Dakota Indian Affairs Commission establish and perform a fraud risk assessment on at least a biennial basis in accordance with OMB Policy 216.

North Dakota Indian Affairs Commission Response:

We are currently working with OMB to establish and perform a risk assessment.

Scope

This audit of the North Dakota Indian Affairs Commission is for the two-year period ended June 30, 2018.

The North Dakota Indian Affairs Commission's sole location is its Bismarck office which was included in the audit scope.

Methodology

To meet this objective, we:

- 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.

- Non-statistical sampling was used and the results were projected to the population.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed the North Dakota Indian Affairs Commission's processes and procedures.
- Inspected documentary evidence.
- Tested compliance with appropriation laws and regulations.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed an analysis and selected a sample of high-risk transactions, including transactions involving the Strengthening Government to Government Partnerships & Relationships Conference and the Annual North Dakota Indian Youth Leadership Academy, for further testing.
- Reviewed activity of the Conference Fund.
- Determined if annual inventory requirements for assets were being met.
- Determined if a fraud risk assessment was completed during the audit period.

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

Authority and Standards

This biennial performance audit of the North Dakota Indian Affairs Commission has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Revenues and Other Sources:</u>		
Grants	\$45,000	
Youth Leadership Academy Donations	20,000	\$20,000
Registration Fees	11,781	
Other Donations	11,000	
Total Revenues and Other Sources	<u>\$87,781</u>	<u>\$20,000</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$380,590	\$372,684
Operating Expenses:		
Professional Fees and Services	\$68,184	\$60,256
Professional Development	42,651	3,975
Travel	27,671	15,054
Data Processing/Communications	21,262	21,775
Office/Miscellaneous Supplies	6,809	7,518
Equipment	1,678	941
Copier Lease	1,583	914
Postage/Printing	1,505	708
Miscellaneous Expenses	833	60
Insurance	373	550
Total Operating Expenditures	<u>\$172,549</u>	<u>\$111,751</u>
Youth Leadership Academy Expenses:		
Speakers/Mentors	\$25,270	\$21,709
Gift Cards	3,800	3,990
Clothing	3,124	5,026
Recreation	2,922	1,821
Food Supplies/Groceries	2,004	1,538
Travel Expenses	1,896	2,776
Miscellaneous Expenses	825	2,176
Booth/Room Rental	813	465
Total Conference Expenses	<u>\$40,654</u>	<u>\$39,501</u>
Total Expenditures and Other Uses	<u>\$593,793</u>	<u>\$523,936</u>

Source: ConnectND Financials

Statement of Appropriations

For the Year Ended June 30, 2018

Expenditures by Line Item:	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Wages	\$848,407	(\$380,590)	\$467,817
Operating Expenses	<u>\$263,704</u>	<u>(\$147,018)</u>	<u>\$116,686</u>
Total	<u>\$1,112,111</u>	<u>(\$527,608)</u>	<u>\$584,503</u>
Expenditures by Source:			
General	<u>\$1,112,111</u>	<u>(\$527,608)</u>	<u>\$584,503</u>
Total	<u>\$1,112,111</u>	<u>(\$527,608)</u>	<u>\$584,503</u>

Source: ConnectND Financials

For the Biennium Ended June 30, 2017

Expenditures by Line Item:	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Wages	\$874,608	(\$798,722)	\$75,886
Operating Expenses	<u>\$262,908</u>	<u>(\$237,216)</u>	<u>\$25,692</u>
Total	<u>\$1,137,516</u>	<u>(\$1,035,938)</u>	<u>\$101,578</u>
Expenditures by Source:			
General	<u>\$1,137,516</u>	<u>(\$1,035,938)</u>	<u>\$101,578</u>
Total	<u>\$1,137,516</u>	<u>(\$1,035,938)</u>	<u>\$101,578</u>

Source: ConnectND Financials

Status of Prior Recommendations

Lack of Fraud Risk Assessment (Finding 16-1)

Recommendation:

We recommend the North Dakota Indian Affairs Commission establish and perform a fraud risk assessment on at least a biennial basis in accordance with OMB Policy 216.

Status:

Not Implemented. See Finding 18-03 on page 5

Lack of Blanket Bond Coverage (Finding 16-2)

Recommendation:

We recommend that the North Dakota Indian Affairs Commission maintain adequate blanket bond coverage.

Status:

Implemented.

Lack of Annual Inventory (Finding 16-3)

Recommendation:

We recommend the North Dakota Indian Affairs Commission maintain a complete listing of assets, including the dates the items were purchased and their dollar value, and perform an inventory on an annual basis in accordance with NDCC 44-04-07.

Status:

Not Implemented. See Finding 18-02 on page 4

LAFRC Responses

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?

This question is not applicable for performance audits. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

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

Other than our findings addressing "Improper Use of State Funds" (page 3) and "Lack of Annual Inventory of Assets" (page 4), the North Dakota Indian Affairs Commission was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing the "Lack of Fraud Risk Assessment" (page 5), 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?

Except "Lack of Annual Inventory of Assets" as shown on page 4 and "Lack of Fraud Risk Assessment" as shown on page 5, the North Dakota Indian Affairs Commission has implemented all recommendations included in the prior audit report.

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

No, a management letter was not issued.

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, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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

The North Dakota Indian Affairs Commission'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 North Dakota Indian Affairs Commission.

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

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