Client Code 101

Office of the Governor

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2013

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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Transmittal Letter

January 27, 2014

The Honorable Jack Dalrymple, Governor

Members of the North Dakota Legislative Assembly

We are pleased to submit this audit of the Office of the Governor for the biennium ended June 30, 2013. 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 Jacqueline Castleberry. 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 Governor Dalrymple and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The Office of the Governor was established within Article V of the Constitution of North Dakota. The Governor is the chief executive of the state and shall have the responsibility to see that the state's business is well administered and the laws of the state are faithfully executed.

The Honorable Jack Dalrymple currently holds the Office of the Governor. The Lieutenant Governor is Drew Wrigley. The goals and objectives of the Dalrymple administration are to grow and diversify North Dakota's economy and create good jobs and economic opportunities for its citizens.

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

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

   Yes.

3. *Was internal control adequate and functioning effectively?*

   Yes.

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

   No.

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

   There were no recommendations included in the prior audit report.

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

   Yes, a management letter was issued and is included on page 12 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 the Governor'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 the Governor.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Office of the Governor for the biennium ended June 30, 2013 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Office of the Governor'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 the Governor and are they in compliance with these laws?

3. Are there areas of the Office of the Governor's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Office of the Governor is for the biennium ended June 30, 2013. 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 the Governor's sole location is in the State Capitol building, which was included in the audit scope.

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 the Governor'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 the Governor'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, 2013, operations of the Office of the Governor were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Federal revenue makes up over 99% of total revenue. During the biennium, the Office of the Governor received federal stimulus funds through the American Recovery and Reinvestment Act of 2009 (ARRA), along with some funding through the Federal Education Jobs Fund Program. The Office of the Governor was designated as the prime recipient of these funds by the federal government, who then passed the funding to state agencies and state colleges for their use. Total revenues were $1,201,390 for the year ended June 30, 2013 as compared to $11,040,515 for the year ended June 30, 2012.

Total expenditures and other uses for the Office of the Governor were $3,026,416 for the year ended June 30, 2013 as compared to $12,685,830 for the prior year. The increase in total expenditures and other uses for the audited period reflects primarily transfers out of federal revenue that the Office of the Governor had received. The federal government required this funding to pass through the Office of the Governor rather than have it go directly to the state agencies or state colleges that would utilize it. These transfers account for 78% of total expenditures and other uses in the biennium. All other expenditures remained fairly constant.

Financial Statements

Statement of Revenues and Expenditures

	June 30, 2013	June 30, 2012
Revenues:		
Federal Revenue	$1,200,984	$11,039,740
Miscellaneous Revenue	406	775
Total Revenues	$1,201,390	$11,040,515
Expenditures and Other Uses:		
Salaries and Benefits	$1,601,641	$ 1,472,884
Professional Services	84,549	72,134
Travel	29,246	22,052
Information Technology	67,538	42,018
Other Operating Expenses	42,458	37,002
Transfers Out	1,200,984	11,039,740
Total Expenditures and Other Uses	$3,026,416	$12,685,830

Statement of Appropriations

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	Original Appropriation	Adjustments	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Benefits	$ 3,278,486		$ 3,278,486	$ 3,074,525	$ 203,961
Operating Expenses	409,656		409,656	378,397	31,259
Contingency	10,000		10,000		10,000
Governor's Transition In	15,000		15,000		15,000
Governor's Transition Out	50,000		50,000		50,000
Roughrider Award	10,800		10,800	7,901	2,899
Federal Stimulus Fund		$ 3,017,478	3,017,478	3,017,478	
Education Jobs Fund Program	21,517,716	(12,233,468)	9,284,248	9,223,246	61,002
Totals	$ 25,291,658	$ (9,215,990)	$ 16,075,668	$ 15,701,547	$ 374,121
Expenditures by Source:					
General Fund	$ 3,773,942		$ 3,773,942	$ 3,460,823	$ 313,119
Other Funds	21,517,716	$(9,215,990)	12,301,726	12,240,724	61,002
Totals	$ 25,291,658	$(9,215,990)	$ 16,075,668	$ 15,701,547	$ 374,121

Appropriation Adjustments:

The $3,017,478.48 adjustment to the Federal Stimulus Fund line was made based on Senate Bill 2001, Section 4 from the 2011 Legislative Session. Additional ARRA funds were received by the state and Section 4 states that any additional income from federal or other funds which may become available to the agency for the biennium are appropriated.

The decrease to the Education Jobs Fund Program line is the result of two adjustments: 1) Senate Bill 2001 from the 2011 Session appropriated $21,517,716 for the Education Jobs Fund for the 2011-2013 biennium, however it had an emergency clause on the bill. Expenditures of $12,550,343 occurred prior to the start of the 2011-2013 biennium and therefore adjusted to reduce the appropriation authority; and 2) a $316.875 increase was the result of additional Education Jobs Funds that other states had not utilized which were redistributed by the federal government resulting in North Dakota receiving additional funds.

Expenditures Without Appropriations Of Specific Amounts:

The Office of the Governor charged $10,698 of expenditures to the 2011-2013 biennium that were incurred during 2009-2011 biennium. They were coded as non-appropriated expenditures so they did not affect their appropriation authority for the 2011-2013 biennium.

Internal Control

In our audit for the biennium ended June 30, 2013, we identified the following areas of the Office of the Governor'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 relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

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

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted a certain matter involving internal control that we have reported to management of the Office of the Governor in a management letter dated January 27, 2014.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested the Office of the Governor's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations (2011 North Dakota Session Laws, chapter 1).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

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

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

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

Operations

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

Management Letter (Informal Recommendations)

January 27, 2014

The Honorable Jack Dalrymple
Governor of North Dakota
600 E Boulevard Avenue
Bismarck, ND 58505

Dear Governor Dalrymple:

We have performed an audit of the Office of the Governor for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of the Office of the Governor'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 a certain condition we did not consider reportable within the context of your audit report. This condition relates 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 recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider its status.

The following presents our informal recommendation.

Informal Recommendation 13-1: We recommend the Office of the Governor comply with Office of Management and Budget Fiscal and Administrative Policy 216, requiring each agency to:

- Establish and perform control risk assessments, including a fraud risk assessment, on a biennial basis; and
- Design and document the necessary control activities to ensure that each significant risk and fraud exposure identified during the risk assessment process has been adequately addressed.

Management of the Office of the Governor agreed with this recommendation.

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

Sincerely,

Jacqueline Castleberry
Auditor in-charge

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