Client Code 101

Office of the Governor

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2015

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE MEMBERS

Senator Jerry Klein – Chairman
Representative Chet Pollert – Vice Chairman

Representatives

Patrick Hatlestad
Jerry Kelsh
Keith Kempenich
Lawrence R. Klemin
Gary Kreidt
Andrew G. Maragos
Bob Martinson
Corey Mock
Mike Nathe
Marvin E. Nelson
Robert J. Skarphol

Senators

Judy Lee
David O'Connell

Contents

Transmittal Letter

March 2, 2016

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, 2015. 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 Ressler. Krista Lambrecht, CPA was the staff auditor. 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 unmodified 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.*

   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, 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, 2015 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, 2015. 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 the 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, 2015, operations of the Office of the Governor were primarily supported by appropriations from the state's general fund.

Financial Summary

Total expenditures for the Office of the Governor were $2,081,295 for the year ended June 30, 2015 as compared to $1,852,399 for the prior year. The increase in total expenditures for the audited period reflects primarily salaries and benefits due to general salary increases and retention bonuses awarded. All other expenditures remained fairly constant.

Financial Statements

Statement of Revenues and Expenditures

	June 30, 2015	June 30, 2014
Revenues and Other Sources:		
Miscellaneous Revenue		$ 509
Total Revenues and Other Sources		$ 509
Expenditures and Other Uses:		
Salaries and Benefits	$1,859,700	$1,659,457
Professional Services	74,714	76,478
Information Technology	72,352	49,726
Travel	25,906	32,284
Office Supplies	7,776	5,514
Printing	7,616	5,613
Office Furniture	6,740	654
Periodicals and Subscriptions	5,823	5,334
Operating Fees and Services	5,138	5,788
Rentals/Leases – Equipment	4,845	3,708
Insurance	2,408	893
Professional Development	3,422	2,845
Postage	1,373	1,483
Other Operating Expenses	2,370	2,621
Total Expenditures and Other Uses	$2,080,183	$1,852,398

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenditures by Line Item:	Original Appropriation	Adjustments	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Benefits	$ 3,540,985		$ 3,540,985	$ 3,476,692	$ 64,293
Accrued Leave Payments	67,722		67,722	42,465	25,257
Operating Expenses	404,366		404,366	403,386	980
Contingency	10,000		10,000		10,000
Roughrider Awards	10,800		10,800	10,038	762
Totals	$ 4,033,873		$ 4,033,873	$ 3,932,581	$ 101,292
Expenditures by Source:					
General Fund	$ 4,033,873		$ 4,033,873	$ 3,932,581	$ 101,292
Totals	$ 4,033,873		$ 4,033,873	$ 3,932,581	$ 101,292

Internal Control

In our audit for the biennium ended June 30, 2015, 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 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.

Compliance with Legislative Intent

In our audit for the biennium ended June 30, 2015, 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 retention bonus laws (North Dakota Century Code 54-06-31).
- Compliance with appropriations (2013 North Dakota Sessions Laws, Chapter 1).
- Compliance with OMB's Purchasing Procurement Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (North Dakota Century Code 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 Sessions Laws*.

Government Auditing Standards required 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.

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
Bismarck, ND 58505-0060

(701) 328-2241