

Office of Management
and Budget

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 17, 2014

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, 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 Delan Hellman. Andrea Wike and Dina Cashman were the staff auditors. Cindi Pedersen, 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 cursive script 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 "Lack of Reconciliations Surrounding Sales and Deposits for Surplus Property" (page12), 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 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.*

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, 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 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, 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 that 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, 2013, 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 various funds.

Financial Summary

The Office of Management and Budget's capital assets include land, buildings, infrastructure, equipment, and intangibles, 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 30, 2013 were approximately \$83 million. The largest category of capital assets for the Office of Management and Budget are buildings which are valued at approximately \$64 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 \$36 million during fiscal year 2013, 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 sale of salvage and scrap, various leases, rents, indirect cost recoveries, postage, training services, sale of capital assets, and purchasing card rebates. These all remained fairly constant during the biennium. Total revenues and other sources were \$157,419,332 for the year ended June 30, 2013 as compared to \$120,628,179 for the year ended June 30, 2012.

Total expenditures and other uses for the Office of Management and Budget were \$120,972,482 for the year ended June 30, 2013 as compared to \$455,209,802 for the prior year. The decrease in total expenditures and other uses for the audited period reflects primarily a decrease in legislatively mandated transfers. House Bill 1012, Section 7 of the 2011 Legislative Assembly authorized \$370,600,000 to be transferred from the General Fund to the Highway Fund. The Office of Management and Budget completed this transfer in fiscal year 2012. Also, Senate Bill 2371, Section 17 of the 2011 Special Legislative Assembly authorized \$48,700,000 to be transferred from the General Fund to the State Disaster Fund, which the Office of Management and Budget transferred in fiscal year 2013. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The Office of Management and Budget had three significant variances between the final budgeted and actual amounts for the biennium ended June 30, 2013.

The unexpended appropriation authority in the Operating Expenses line item was mostly due to data processing costs being less than originally anticipated.

The unexpended appropriation authority in the Fiscal Carryover line item was due to there being no major enhancements needed or major problems encountered with the PeopleSoft system during the biennium. In addition, the costs to split the PeopleSoft databases between the State and Higher Education cost less than anticipated.

The unexpended appropriation authority in the Capital Assets line item was due to projects like the north parking lot, the café and hall remodel in the main capitol building, and the remodel of the south entrance of the main capitol building that were budgeted for but not completed during the biennium.

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

The Office of Management and Budget accounts for employer and employee 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 \$110,736,164 for the year ended June 30, 2013, as compared to \$98,631,405 for the prior year.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<u>Revenues and Other Sources:</u>		
Tobacco Settlement Funds	\$ 20,112,899	\$ 20,127,217
Interest and Investment Earnings	9,305,528	7,871,320
Risk Management Premiums	5,880,124	5,761,840
Central Duplicating Revenue	1,339,211	1,386,829
Sale of Salvage and Scrap	940,902	1,687,648
Lease and Rental of Rooms and Buildings	801,981	803,944
Indirect Cost Recoveries	610,191	630,705
Postage and Training Services	577,319	590,124
Sale of Capital Assets	521,891	514,585
P-Card Rebate (Net of Distributed Refunds)	403,711	356,312
Other Revenues	421,215	417,640
Transfers In	116,504,360	80,480,015
Total Revenues and Other Sources	<u>\$157,419,332</u>	<u>\$120,628,179</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 8,190,250	\$ 7,902,770
Operating Fees and Services	4,955,776	4,415,094
Extraordinary Repairs	2,929,856	3,407,830
IT Data Processing and Contractual Services	2,082,820	2,759,983
Utilities	1,289,461	1,149,809
Grants, Benefits, and Claims	1,054,454	1,037,154
Professional Services	603,651	552,698
Postage	568,387	535,236
Insurance	1,221,190	1,240,264
Supplies	1,231,523	1,225,415
Repairs	475,019	522,728
Bond Principle	424,897	331,229
Lease and Rental	263,162	264,289
Equipment Over \$5000	110,833	24,500
Equipment Under \$5000	111,591	63,296
Other Expenses	568,212	566,913
Transfers Out	94,891,400	429,210,594
Total Expenditures and Other Uses	<u>\$120,972,482</u>	<u>\$455,209,802</u>

Statement of Appropriations

For The Biennium Ended June 30, 2013

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	\$ 18,517,763	\$ (400,000)	\$ 18,117,763	\$ 17,445,760	\$ 672,003
Operating Expenses	13,765,254	652	13,765,906	11,455,380	2,310,526
Fiscal Carryover		2,765,835	2,765,835	1,431,361	1,334,474
State Contingency	700,000	(642,166)	57,834		57,834
Capital Assets Construction	8,790,143	400,000	9,190,143	4,889,588	4,300,555
Carryover		2,675,000	2,675,000	2,324,576	350,424
Grants	434,000		434,000	433,500	500
Prairie Public Broadcasting	1,000,000		1,000,000	1,000,000	
Student Internship Program	200,000	(199,999)	1		1
State Transfers	371,000,000	103,700,000	474,700,000	469,700,000	5,000,000
Totals	<u>\$414,407,160</u>	<u>\$108,299,322</u>	<u>\$522,706,482</u>	<u>\$508,680,165</u>	<u>\$14,026,317</u>
Expenditures by Source:					
General Fund	\$403,892,699	\$108,299,322	\$512,192,021	\$500,559,740	\$11,632,281
Other Funds	10,514,461		10,514,461	8,120,425	2,394,036
Totals	<u>\$414,407,160</u>	<u>\$108,299,322</u>	<u>\$522,706,482</u>	<u>\$508,680,165</u>	<u>\$14,026,317</u>

Appropriation Adjustments:

The \$400,000 decrease to the Salaries and Benefits line and \$400,000 increase to the Capital Assets line was properly approved by the Emergency Commission for the capital cafeteria remodeling project.

The \$652 increase to the Operating Expenses line and \$652 decrease to the State Contingency line was properly approved by the Emergency Commission for reimbursing five counties for their expenses incurred to conduct automatic recounts of votes cast in Legislative District 28 related to the June 12, 2012 election.

The \$2,765,835 increase to the Fiscal Carryover line was authorized by the 2011 Legislative Assembly pursuant to Senate Bill 2015, section 5 to the fiscal management division for the continued development and operating costs of the accounting, management, and payroll systems.

The remaining \$641,514 decrease to the State Contingency line includes general fund decreases as a result of transfers of contingency funds to other state agencies as approved by the Emergency Commission. Transfers of spending authority from the Office of Management and Budget's State Contingency line are authorized by NDCC section 54-16-09.

The \$2,675,000 increase to the Construction Carryover line was approved by the Construction Carryover Committee for various construction and repair projects.

The \$199,999 decrease in the Student Internship Program line was authorized by the 2011 Legislative Assembly pursuant to Senate Bill 2015, section 7 for the purpose of transferring to other eligible agencies.

The \$103,700,000 increase in the State Transfers line consisted of the following adjustments:

- \$20,000,000 - authorized by Senate Bill 2371 of the 2011 Special Session Laws, section 8, for the Office of Management and Budget to transfer the amount to the Rebuilders Loan Program Fund.
- \$48,700,000 - authorized by Senate Bill 2371 of the 2011 Special Session Laws, section 17, for the Office of Management and Budget to transfer the amount to the State Disaster Relief Fund.
- \$30,000,000 - authorized by Senate Bill 2371 of the 2011 Special Session Laws, section 23, for the Office of Management and Budget to transfer the amount to the Oil and Gas Impact Grant Fund if a certain revenue collection level is met as described in section 23 of this Senate Bill.
- \$5,000,000 - authorized by Senate Bill 2371 of the 2011 Special Session Laws, section 25, for the Office of Management and Budget to transfer the amount to the Oil and Gas Impact Grant Fund to provide funding for grants distributed under section 26 of this Senate Bill.

Expenditures Without Appropriations Of Specific Amounts:

The General Fund transfers to the Budget Stabilization Fund are in accordance with NDCC chapter 54-27.2 (\$61,414,562 of transfers for this biennium).

The General Fund had additional transfers during the biennium in accordance with Senate Bill 2057, section 17, Senate Bill 2013, section 16, and House Bill 1003, section 3 of the 2011 Legislative Assembly and Senate Bill 2004, section 4 of the 2009 Legislative Assembly (\$1,743,374 of transfers for this biennium).

Indigent Civil Legal Services Fund has a continuing appropriation authorized by NDCC section 54-06-20 (\$658,109 of expenditures for this biennium).

Risk Management Workers Compensations Fund has a continuing appropriation authorized by NDCC section 65-04-03.1 (\$8,613,016 of expenditures for this biennium).

Risk Management Claims Fund has a continuing appropriation authorized by NDCC section 32-12.2-07 (\$1,579,249 of expenditures for this biennium).

Tobacco Settlement Trust Fund had transfers in accordance with NDCC 54-27-25 (\$40,240,115 of transfers for this biennium).

Permanent Oil Trust Fund had transfers during the biennium in accordance with House Bill 1003, section 3, and Senate Bill 2020, section 16 of the 2011 Legislative Assembly (\$972,433 of transfers for this biennium).

State Tuition Fund had transfers during the biennium in accordance with NDCC section 15.1-28-03 (\$11,338,423 of transfers for this biennium).

Property Tax Relief Fund had transfers during the biennium in accordance with House Bill 1047, section 14 of the 2011 Legislative Assembly (\$295,000,000 of transfers for this biennium).

Postage Revolving Fund has a continuing appropriation authorized by NDCC section 48-06-06 (\$1,078,191 of expenditures for this biennium).

Central Personnel Training Fund and Central Services Fund have a continuing appropriation authorized by NDCC section 54-44-11 (\$1,081,712 of expenditures for this biennium).

Preliminary Planning Revolving Fund has a continuing appropriation authorized by NDCC 54-27-22 (\$103,454 of expenditures for this biennium).

Capitol Renovation Fund has a continuing appropriation authorized by NDCC section 48-10-02 (\$94,863 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2013, 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 the AssetWorks inventory information 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 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 the Office of Management and Budget in a management letter dated January 17, 2014.

Lack of Reconciliations Surrounding Sales and Deposits for Surplus Property (Finding 13-1)

Condition:

There is no independent reconciliation of cash register (AssetWorks) receipts to PeopleSoft deposits being completed by the Surplus Property Division.

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 Surplus Property Division has not properly assigned employee duties in regards to reconciliations.

Effect or Potential Effect:

Misappropriation of cash could occur and not be detected.

Recommendation:

We recommend the Office of Management and Budget's Surplus Property Division complete an independent reconciliation of cash register (AssetWorks) receipts to PeopleSoft deposits.

Office of Management and Budget Response:

The Office of Management and Budget agrees with the recommendation. Surplus Property has recently implemented AssetWorks, which has helped provide better record of sales and cash received for them. Surplus Property is in the process of making sure that a reconciliation of the cash received to the deposits made in PeopleSoft is done by someone who does not have access to the cash.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, 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 transfers were completed to the following funds:
 - Community Health Trust Fund (Senate Bill 2004, section 4 of the 2009 Legislative Session)
 - Highway Fund (House Bill 1012, section 7 of the 2011 Legislative Session)
 - Public Transportation Fund (Senate Bill 2015, section 3 of the 2011 Legislative Session)
 - Game and Fish Fund (Senate Bill 2017, section 3 of the 2011 Legislative Session)
 - Internship Fund (Senate Bill 2057, section 17 of the 2011 Legislative Session)
 - North Dakota Development Fund and Workforce Enhancement Fund (Senate Bill 2057, section 18 of the 2011 Legislative Session)
 - Rebuilders Loan Program Fund (Senate Bill 2371, section 8 of the 2011 Legislative Session)
 - State Disaster Relief Fund (Senate Bill 2371, section 17 of the 2011 Legislative Session)
 - Oil and Gas Impact Grant Fund (Senate Bill 2371, section 23 of the 2011 Legislative Session)
- The transfer from the Property Tax Relief Sustainability Fund to the General Fund was completed properly (House Bill 1047, section 14 of the 2011 Legislative Session).
- The transfer from the Strategic Investment and Improvements Fund to the General Fund was completed properly (Senate Bill 2015, section 4 of the 2011 Legislative Session).
- The transfers from the Tobacco Settlement Trust Fund were completed properly (NDCC section 54-27-25).
- Proper transfer, if determined necessary, from the surplus property operating fund to the general fund at the end of the biennium (NDCC section 54-44-04.6(5)).
- Unexpended funds in the Permanent Oil Tax Trust Fund were transferred properly (House Bill 1003, section 3 of the 2011 Legislative Session).
- The proper amount for the remodel of the trades building was transferred to the School for the Deaf Fund (Senate Bill 2012, section 16 of the 2011 Legislative Session).
- The remaining balance in the National Board Certification Fund was properly transferred at the end of the biennium (Senate Bill 2013, section 20 of the 2011 Legislative Session).
- The appropriations for grants and special items were within the appropriated amounts (Senate Bill 2015, section 6 of the 2011 Legislative Session).

- The remaining unexpended funds in the Permanent Oil Tax Trust Fund were properly transferred to the Water Commission Fund at the end of the biennium (Senate Bill 2020, section 16 of the 2011 Legislative Session).
- The proper grant was provided to the State Board of Integrative Health for establishing the board (Senate Bill 2271, section 6 of the 2011 Legislative Session).
- Community service supervision grants were provided as intended (Senate Bill 2275, section 1 of the 2011 Legislative Session).
- Proper use of the Budget Stabilization Fund including any necessary transfers (NDCC section 54-27.2 and Senate Bill 2012, section 5 of the 2011 Legislative Session).
- Semiannual project variance reports received from institutions of higher education for construction projects (NDCC section 15-10-47).
- Proper maintaining of the School Fund (NDCC section 54-44-06).
- Proper compensation of the State Personnel Board members (NDCC section 54-44.3-04).
- Proper use by the Office of Management and Budget of the following legally restricted funds:
 - Indigent Civil Legal Services Fund (NDCC 54-06-20).
 - 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).
 - 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 authorization of the Office of Management and Budget's funds.
- Compliance with the Office of Management and Budget's Purchasing Procedures Manual.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2011 North Dakota Session Laws chapter 41).
- Proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping and surplus property.
- 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 requires 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.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of noncompliance that we have reported to management of the Office of Management and Budget in a management letter dated January 17, 2014.

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)

January 17, 2014

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, 2013, 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.

LAWS AND REGULATIONS

Informal Recommendation 13-1: We recommend the Office of Management and Budget's State Procurement Division conduct periodic reviews of procurements made by state agencies and institutions with delegated authority in accordance with North Dakota Administrative Code section 4-12-02-02.

CASH/REVENUE

Informal Recommendation 13-2: We recommend the Office of Management and Budget properly segregate duties within the Central Duplicating and Central Supply Divisions so there is an independent reconciliation of receipts to deposits.

Informal Recommendation 13-3: We recommend the Office of Management and Budget's Surplus Property Division assign review responsibilities of the surplus property Paypal account to a second individual to ensure proper withdrawals.

INVENTORY

Informal Recommendation 13-4: We recommend the Office of Management and Budget's Surplus Property Division ensure individuals who take the annual inventory sign and date the count sheets.

Informal Recommendation 13-5: We recommend the Office of Management and Budget's Surplus Property Division put a policy in place to ensure employees are logging off of the AssetWorks Inventory system when they are finished using it.

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,



Delan Hellman
Auditor in-charge

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