

Office of Management
and Budget

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

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>4</i>
<i>Discussion and Analysis</i>	<i>6</i>
<i>Financial Summary</i>	<i>6</i>
<i>Analysis of Significant Variances - Budgeted and Actual Expenditures</i>	<i>6</i>
<i>Funds Used to Account for Assets Held by the State in a Trustee Capacity</i>	<i>7</i>
<i>Financial Statements</i>	<i>8</i>
<i>Statement of Revenues and Expenditures</i>	<i>8</i>
<i>Statement of Appropriations</i>	<i>9</i>
<i>Internal Control</i>	<i>12</i>
<i>Lack of Reconciliations Surrounding Sales and Deposits for Surplus Property (Finding 15-1)</i>	<i>12</i>
<i>Compliance With Legislative Intent</i>	<i>14</i>
<i>Noncompliance With Procurement Laws (Finding 15-2)</i>	<i>15</i>
<i>Operations</i>	<i>17</i>
<i>Prior Recommendations Not Implemented</i>	<i>18</i>
<i>Management Letter (Informal Recommendations)</i>	<i>19</i>

STATE AUDITOR
ROBERT R. PETERSON



PHONE
(701) 328 - 2241
FAX
(701) 328 - 1406

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

Transmittal Letter

December 30, 2015

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, 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 Delan Hellman. Dina Cashman, CPA, and Alec Grande, CPA, 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 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 finding addressing "Noncompliance With Procurement Laws" (page 15), the Office of Management and Budget 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 Reconciliations Surrounding Sales and Deposits for Surplus Property" (page 12), 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 for the "Lack of Reconciliations Surrounding Sales and Deposits for Surplus Property" as shown on page 18, 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 19 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, 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 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, 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 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, 2015, 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, 2015 were approximately \$129 million. The largest category of capital assets for the Office of Management and Budget are buildings which are valued at approximately \$98 million.

Revenues and other sources consisted primarily of interest and investment earnings, tobacco settlement funds, risk management premiums, central duplicating revenue, and legislatively mandated transfers. Interest and investment earnings increased \$28 million during fiscal year 2015, due to the movement of interest and earnings from the Budget Stabilization Fund to the General Fund pursuant to NDCC section 54-27.2-01. Transfers In decreased \$45 million during fiscal year 2015, due to a reduction in the amount of transfers that were required by the 2013 Legislative Session for fiscal year 2015. Other revenues during the audited period included various leases, rents, indirect cost recoveries, sale of salvage and scrap, purchasing card rebates, postage, training services, and the sale of capital assets. These all remained fairly constant during the biennium. Total revenues and other sources were \$173,384,793 for the year ended June 30, 2015 as compared to \$193,837,373 for the year ended June 30, 2014.

Total expenditures and other uses for the Office of Management and Budget were \$57,675,900 for the year ended June 30, 2015 as compared to \$56,375,982 for the prior year. The increase in total expenditures and other uses for the audited period reflects primarily an increase in extraordinary repairs for projects being done through the Facility Management Division for the capitol complex. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The Office of Management and Budget had four significant variances between the final budgeted and actual amounts for the biennium ended June 30, 2015.

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

The unexpended appropriation authority in the Fiscal Carryover line item was due to funding not being needed as anticipated for certain PeopleSoft system projects during the biennium.

The unexpended appropriation authority in the Capital Assets line item was due to projects that were budgeted for but were unable to be completed by the end of the biennium.

The unexpended appropriation authority in the Health Insurance Pool line item was due to the Affordable Care Act not being implemented as soon as expected so none of the funding was requested or needed 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 \$129,079,837 for the year ended June 30, 2015, as compared to \$120,266,902 for the prior year.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Revenues and Other Sources:</u>		
Interest and Investment Earnings	\$ 35,605,748	\$ 7,184,363
Tobacco Settlement Funds	19,474,101	22,756,379
Risk Management Premiums	4,491,985	5,108,510
Central Duplicating Revenue	1,318,584	1,206,148
Lease and Rental of Rooms and Buildings	998,602	1,093,491
Indirect Cost Recoveries	996,905	942,032
Sale of Salvage and Scrap	955,844	844,938
Purchase Card Rebate (Net of Distributed Refunds)	634,644	506,640
Postage and Training Services	564,446	563,358
Sale of Capital Assets	432,999	399,228
Other Revenues	464,926	501,786
Transfers In	107,446,009	152,730,500
Total Revenues and Other Sources	<u>\$173,384,793</u>	<u>\$193,837,373</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 9,448,254	\$ 8,770,211
Extraordinary Repairs	6,450,384	2,191,021
Operating Fees and Services	4,551,426	4,799,658
IT Data Processing and Contractual Services	2,051,387	2,383,919
Grants	1,755,893	2,152,848
Utilities	1,401,769	1,303,576
Supplies	1,150,320	1,169,591
Insurance	1,030,929	1,193,751
Postage	510,371	544,127
Professional Services	455,845	738,900
Repairs	423,859	408,808
Bond Principle and Interest	332,256	332,388
Equipment Over \$5000	206,427	13,363
Lease and Rental	178,966	237,162
Equipment Under \$5000	87,298	101,771
Other Expenses	530,141	539,667
Transfers Out	27,110,375	29,495,221
Total Expenditures and Other Uses	<u>\$57,675,900</u>	<u>\$56,375,982</u>

Statement of Appropriations

For The Biennium Ended June 30, 2015

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	\$ 19,953,315		\$ 19,953,315	\$ 19,171,251	\$ 782,064
Accrued Leave Payments	570,412		570,412	101,896	468,516
Operating Expenses	14,396,788	\$ 200,000	14,596,788	11,397,745	3,199,043
Fiscal Carryover		3,119,077	3,119,077	982,339	2,136,738
State Contingency	700,000	(533,825)	166,175		166,175
Capital Assets Construction	9,951,065	(200,000)	9,751,065	5,250,383	4,500,682
Carryover		4,300,051	4,300,051	4,202,013	98,038
Grants	430,000		430,000	429,500	500
Grants – Guardianships	828,600		828,600	828,600	
Prairie Public Broadcasting	1,937,138		1,937,138	1,937,138	
Energy Develop Impact Funding	8,500,000	(8,021,994)	478,006		478,006
Info Technology Relocation	200,000		200,000	182,970	17,030
Student Internship Program	200,000	(194,376)	5,624	3,255	2,369
Health Insurance Pool	2,000,000	(106,964)	1,893,036		1,893,036
State Transfers	315,210,000		315,210,000	315,210,000	
Totals	<u>\$374,877,318</u>	<u>\$(1,438,031)</u>	<u>\$373,439,287</u>	<u>\$359,697,090</u>	<u>\$ 13,742,197</u>
Expenditures by Source:					
General Fund	\$360,646,688	\$ 1,429,598	\$362,076,286	\$351,400,970	\$ 10,675,316
Other Funds	14,230,630	(2,867,629)	11,363,001	8,296,120	3,066,881
Totals	<u>\$374,877,318</u>	<u>\$(1,438,031)</u>	<u>\$373,439,287</u>	<u>\$359,697,090</u>	<u>\$13,742,197</u>

Appropriation Adjustments:

The \$200,000 increase to the Operating Expenses line and \$200,000 decrease to the Capital Assets line was properly approved by the Emergency Commission for increased and unanticipated utility expenses.

The \$3,119,077 increase to the Fiscal Carryover line was authorized by the 2013 Legislative Assembly pursuant to House Bill 2015, section 9 to the Fiscal Management Division for the continued development and operating costs of the accounting, management, and payroll systems.

A decrease of \$333,825 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 North Dakota Century Code (NDCC) section 54-16-09.

A decrease of \$200,000 to the State Contingency line was authorized by the 2015 Legislative Assembly pursuant to Senate Bill 2023, section 3 for the purpose of transferring spending authority to the Commission on Legal Counsel for Indigents.

The \$4,300,051 increase to the Construction Carryover line was approved by the Construction Carryover Committee for various construction and repair projects.

The \$8,021,994 decrease in the Energy Development Impact Funding line was authorized by the 2013 Legislative Assembly pursuant to House Bill 1015, section 6 and approved by the Emergency Commission for the purpose of transferring to other eligible agencies employee housing rental assistance and temporary salary increases for employees affected by energy development.

The \$194,376 decrease in the Student Internship Program line was authorized by the 2013 Legislative Assembly pursuant to House Bill 1015, section 11 for the purpose of transferring appropriation authority to other eligible agencies.

The \$106,964 decrease in the Health Insurance Pool line was authorized by the 2013 Legislative Assembly pursuant to House Bill 1015, section 8 for the purpose of transferring appropriation authority to other eligible agencies for providing temporary employee health insurance adjustments for state employees determined to be full time.

Expenditures Without Appropriations Of Specific Amounts:

The transfers between the General Fund and the Budget Stabilization Fund are in accordance with NDCC chapter 54-27.2 (\$181,060,584 of transfers from the General Fund to the Budget Stabilization Fund and \$23,332,755 of transfers from the Budget Stabilization Fund to the General Fund for this biennium).

Indigent Civil Legal Services Fund has a continuing appropriation authorized by NDCC section 54-06-20 (\$632,827 of expenditures for this biennium).

Risk Management Workers Compensations Fund has a continuing appropriation authorized by NDCC section 65-04-03.1 (\$8,600,983 of expenditures for this biennium).

Risk Management Claims Fund has a continuing appropriation authorized by NDCC section 32-12.2-07 (\$1,668,846 of expenditures for this biennium).

Community Service Supervision Fund had transfers during the biennium in accordance with House Bill 1015, section 7 of the 2013 Legislative Assembly (\$80,676 of transfers for this biennium).

Tobacco Settlement Trust Fund had transfers in accordance with NDCC section 54-27-25 (\$42,230,480 of transfers for this biennium).

State Tuition Fund had transfers during the biennium in accordance with NDCC section 15.1-28-03 (\$14,282,905 of transfers for this biennium).

Property Tax Relief Fund had transfers during the biennium in accordance with House Bill 1013, section 5 of the 2013 Legislative Assembly (\$341,790,000 of transfers for this biennium).

Postage Revolving Fund has a continuing appropriation authorized by NDCC section 48-06-06 (\$1,027,684 of expenditures for this biennium).

Central Personnel Training Fund and Central Services Fund have a continuing appropriation authorized by NDCC section 54-44-11 (\$855,994 of expenditures for this biennium).

Preliminary Planning Revolving Fund has a continuing appropriation authorized by NDCC section 54-27-22 (\$110,955 of expenditures for this biennium).

Capitol Renovation Fund has a continuing appropriation authorized by NDCC section 48-10-02 (\$73,442 of expenditures for this biennium).

Internal Control

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

Lack of Reconciliations Surrounding Sales and Deposits for Surplus Property (Finding 15-1)

Condition:

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

Criteria:

Proper reconciliation procedures are identified as critically important controls by COSO (Internal Control - Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission).

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:

In August 2015, OMB Central Services changed procedures to ensure proper segregation of duties regarding the receipt and deposit of funds to the Treasurer's Office and monthly reconciliation of accounts. Personnel from the State Procurement Office who do not process Surplus Property transactions are now making the daily deposits.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, 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 from the General Fund to the following funds:
 - Public Transportation Fund (House Bill 1015, section 3 of the 2013 Legislative Session)
 - Workforce Enhancement Fund (Senate Bill 2018, section 28 of the 2013 Legislative Session)
 - Internship Fund (Senate Bill 2018, section 29 of the 2013 Legislative Session)
 - Research North Dakota Fund (Senate Bill 2018, section 30 of the 2013 Legislative Session)
 - Veterans' Postwar Trust Fund (House Bill 1439, section 1 of the 2013 Legislative Session)
- The transfer from the Property Tax Relief Sustainability Fund to the General Fund was completed properly (House Bill 1013, section 5 of the 2013 Legislative Session).
- The transfer from the Strategic Investment and Improvements Fund to the General Fund was completed properly (House Bill 1015, section 4 of the 2013 Legislative Session).
- Community service supervision grants were distributed as intended (House Bill 1015, section 7 of the 2013 Legislative Session).
- The proper amount of grants were provided to counties for public or private guardianship services (House Bill 1041, section 1 of the 2013 Legislative Session).
- A private consultant was contracted to conduct an IT relocation and consolidation study of IT equipment used by agencies (Senate Bill 2021, section 8 of the 2013 Legislative Session).
- Compliance with retention bonus laws (NDCC section 54-06-31).
- 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)).
- 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).
 - Community Service Supervision Fund (NDCC 29-26-22(3)).
 - Tobacco Prevention and Control Fund (NDCC 23-38-03).
 - 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(3)).
- Central Services Fund (NDCC 54-44-11(1) & (2)).
- 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 (2013 North Dakota Session Laws chapter 15).
- Proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Proper use of the Bank of North Dakota as depository for credit card collections (NDCC section 54-06-08.2).
- 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of the Office of Management and Budget in a management letter dated December 30, 2015.

Noncompliance With Procurement Laws (Finding 15-2)

Condition:

The Office of Management and Budget's Surplus Property Division and Facility Management Division did not follow the Office of Management and Budget's procurement policies. Four out of twenty one transactions tested were not procured properly. The errors involving the Surplus Property Division included two instances where large purchases were split to avoid getting procurement bids for purchases over \$2,500. Surplus Property also had one instance where over \$30,000 was spent and the guidelines for procurements greater than \$25,000 were not followed. The error involving the Facility Management Division included one instance where no bids were obtained on a purchase over \$2,500.

Criteria:

Chapter 6, section 6.1 of the Office of Management and Budget's State Procurement Manual states when needed commodities or services cannot be obtained from existing sources or a government entity, state procurement procedures must be followed.

Chapter 6, section 6.4 of the Office of Management and Budget's State Procurement Manual states procurement requirements may not be artificially divided as to constitute a small purchase, including splitting an invoice to stay below a certain dollar level to avoid competition.

Cause:

The Surplus Property Division did not have the necessary training to ensure procurement policies were followed.

The Facility Management Division overlooked the need to obtain a bid for the purchase of natural gas.

Effect or Potential Effect:

If procurement is not followed, a vendor may not receive a competitive opportunity for the service or the state may not receive the best pricing option available.

Recommendation:

We recommend the Office of Management and Budget's Surplus Property Division and Facility Management Division follow Office of Management and Budget's State Procurement Manual for all purchases.

Office of Management and Budget Response:

The State Procurement Office had identified these State Surplus Property procurement violations, and the CSD Director met with State Surplus personnel to discuss the violations and proper procurement procedures. State Surplus Property and accounting personnel were required to repeat the Level 1 Procurement training in July 2014, and all new State Surplus employees have attended Level 1. All purchases for State Surplus Property over \$2,500 are being procured through the State Procurement Office.

The Facility Management division of OMB has made the necessary changes to ensure the procurement of natural gas complies with state procurement guidelines. The state procurement office has procured natural gas services for the next three years for the Capitol complex.

Operations

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

Prior Recommendations Not Implemented

Prior recommendations have been implemented with the exception of the following:

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

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.

Status:

Not Implemented. See recommendation 15-1 (page 12).

Management Letter (Informal Recommendations)

December 30, 2015

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, 2015, 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 15-1: We recommend the Office of Management and Budget ensure that all distributions of community service supervision grants are performed timely as required by legislation.

Informal Recommendation 15-2: We recommend the Office of Management and Budget's retention bonus policy identify eligible positions or occupations and provisions for providing and receiving retention bonuses as required by North Dakota Century Code section 54-06-31.

CASH/REVENUE

Informal Recommendation 15-3: 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.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 15-4: We recommend the Office of Management and Budget's Facility Management Division ensure the individual purchase card statements are reconciled to the cardholder/company statement or its equivalent, by a non-card holder.

ACCOUNTS RECEIVABLE

Informal Recommendation 15-5: We recommend the Office of Management and Budget's Surplus Property Division ensure there is proper support for all accounts receivable credits.

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

I encourage you to call me 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

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