

North Dakota Parks and Recreation Department

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2017

Joshua C. Gallion
State Auditor



Office of the State Auditor
Division of State Audit

Report Highlights

Internal Control: We evaluated and tested high-risk areas including: revenues, expenditures (including correcting entries and purchase card transactions), safeguarding assets and inventory, and payroll.

- We did not note any deficiencies that are required to be brought to the attention of those charged with governance.

Legislative intent: We evaluated and tested high-risk areas including: procurement, payroll, blanket bond coverage, proper use of special funds, and appropriation laws.

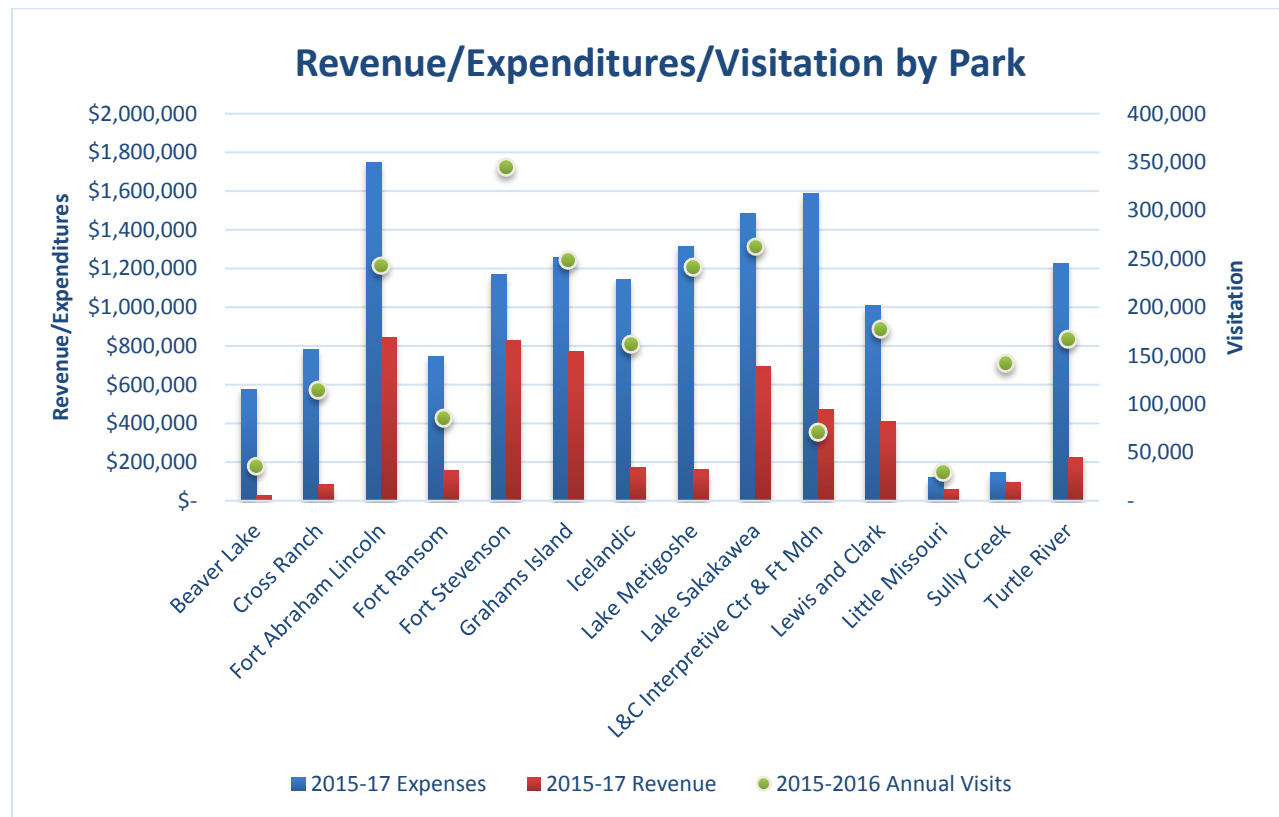
- We concluded there was compliance with the legislative intent.

Operations:

- This audit did not identify areas of North Dakota Parks and Recreation Department's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Financial:

- The increase in Land and Buildings for fiscal year 2017 relates to a new visitor's center and bait shop at Graham Island State Park, a new visitor's center at Fort Ransom State Park, and a comfort station at Turtle River State Park.
- The increase in Mineral Lease Royalties revenue is for bonus payments on new wells received in fiscal year 2017.



Source: North Dakota Parks and Recreation Department Facts and Figures report.

**LEGISLATIVE AUDIT AND FISCAL REVIEW
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

February 7, 2018

The Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly
Ms. Melissa Baker, Director

We are pleased to submit this audit of the North Dakota Parks and Recreation Department for the biennium ended June 30, 2017. 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 Kevin Scherbenske, CPA. 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 Director Baker and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

Executive Summary

Introduction

The North Dakota Parks and Recreation Department exists to serve as a focal point in the state for activities related to parks and recreation. The Department plans and coordinates government programs encouraging the full development and preservation of existing and future parks, outdoor recreation areas, and nature preserves. In addition, the Department is responsible for the following functions: off-highway vehicle planning and safety programs, snowmobile safety programs and trails, Nature Preserves Act, outdoor recreation grants and statewide recreation planning, and the state Scenic Byways Program.

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 North Dakota Parks and Recreation Department 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.

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

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

The North Dakota Parks and Recreation Department's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the North Dakota Parks and Recreation Department.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Parks and Recreation Department for the biennium ended June 30, 2017, were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Parks and Recreation Department'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 North Dakota Parks and Recreation Department and are they in compliance with these laws?
3. Are there areas of the North Dakota Parks and Recreation Department's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota Parks and Recreation Department is for the biennium ended June 30, 2017. We conducted our 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 North Dakota Parks and Recreation Department has its Bismarck office, located on Century Ave. and 14 state parks, 8 recreational areas, and 7 nature preserves located throughout North Dakota. Each location 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.
- 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 North Dakota Parks and Recreation Department'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.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Revenues and Other Sources:</u>		
Park Permits/User Fees	\$ 3,665,267	\$ 3,697,377
Mineral Lease Royalties	1,171,938	143,863
Revenue from Federal Government	1,025,738	1,573,991
Concession Sales	857,037	893,541
Intergovernmental Revenue	507,677	313,624
Donations	69,114	51,922
Sale of Land		139,000
Miscellaneous Revenue	127,358	145,399
Transfers In	1,197,327	116,343
Total Revenues and Other Sources	<u>\$ 8,621,456</u>	<u>\$ 7,075,060</u>
<u>Expenditures:</u>		
Salaries and Benefits	\$ 7,956,126	\$ 7,578,692
Land and Buildings	4,367,910	1,334,500
Repairs/Improvements	1,953,111	2,761,689
Professional Services	1,342,238	1,368,411
Equipment	1,318,179	893,312
Grants	929,842	1,067,401
Buildings, Grounds, Vehicle Supply	681,974	642,233
Utilities	644,485	568,374
Supplies	555,869	592,937
IT – Data Processing/Equipment/Supplies	426,592	378,602
Travel	385,448	458,536
Rentals/Leases – Buildings/Land/Equipment	307,362	171,710
Operating Fees	243,966	257,064
Food and Clothing	240,466	295,649
Insurance	137,342	130,126
Miscellaneous Expenditures	214,198	259,635
Total Expenditures	<u>\$ 21,705,108</u>	<u>\$ 18,758,871</u>

Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Construction					
Carryover		\$ 1,152,355	\$ 1,152,355	\$ 1,054,987	\$ 97,368
Administration	\$ 3,110,722		3,110,722	2,763,007	347,715
Natural Resources	33,079,542	(1,125,825)	31,953,717	26,062,236	5,891,481
Recreation	7,297,120	84,300	7,381,420	6,067,352	1,314,068
Peace Garden	1,495,614	1,184,273	2,679,887	1,540,944	1,138,943
Lewis and Clark Interpretive Center	993,279	173,457	1,166,736	1,144,833	21,903
Totals	<u>\$ 45,976,277</u>	<u>\$ 1,468,560</u>	<u>\$ 47,444,837</u>	<u>\$ 38,633,359</u>	<u>\$ 8,811,478</u>
Expenditures by Source:					
General Fund	\$ 31,113,442	\$ 519,156	\$ 31,632,598	\$ 26,252,816	\$ 5,379,782
Other Funds	14,862,835	949,404	15,812,239	12,380,543	3,431,696
Totals	<u>\$ 45,976,277</u>	<u>\$ 1,468,560</u>	<u>\$ 47,444,837</u>	<u>\$ 38,633,359</u>	<u>\$ 8,811,478</u>

Expenditures without Appropriations of Specific Amounts:

Insurance recoveries has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$199,545 of expenditures for this biennium).

State Parks Concession Fund has a continuing appropriation authorized by NDCC section 55-08-07.1 (\$1,842,669 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2017, we identified the following areas of the North Dakota Parks and Recreation Department'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 surrounding the processing of payroll.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the concession inventory.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216) and, for programs receiving Federal funds, the Code of Federal Regulation as set forth by the Federal Government (2 CFR 200.303).

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: misstatements in financial or performance information, violations of laws and regulations or 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 other matters involving internal control that we have reported to management of the North Dakota Parks and Recreation Department in a management letter dated February 7, 2018.

Compliance with Legislative Intent

In our audit for the biennium ended June 30, 2017, we identified and tested North Dakota Parks and Recreation Department's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Provide funding up to \$535,297 for deferred maintenance projects, one-time equipment purchases, and one-time costs of the peace tower demolition project at the International Peace Gardens (2015 North Dakota Session Laws, Senate Bill 2019, section 4).
- Provide funding up to \$455,000 for building and maintenance costs and exterior building painting and staining costs at the Lewis and Clark Interpretative Center (2015 North Dakota Session Laws, Senate Bill 2019, section 5).
- Provide funding up to \$3,000,000 for purchase and operation of the Lewis and Clark Interpretative Center (2015 North Dakota Session Laws, Senate Bill 2019, section 7).
- Proper use of the following legally restricted funds:
 - Snowmobile fund.
 - State Parks Gift fund.
 - Trail Tax Transfer fund.
 - State Parks Concession fund.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2015 North Dakota Session Laws Senate Bill 2019).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts, petty cash funds and 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 Bank of North Dakota as the credit card administrator (NDCC 54-06-08.2).
- Proper authorization for the department's funds.
- Compliance with fixed asset record-keeping requirements.
- 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.

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 non-compliance that we have reported to management of the North Dakota Parks and Recreation Department in a management letter dated February 7, 2018.

Operations

This audit did not identify areas of North Dakota Parks and Recreation Department's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Management Letter (Informal Recommendations)

February 7, 2018

Ms. Melissa Baker, Director
North Dakota Parks and Recreation Department
Century Center
1600 E. Century Ave. Suite 3
Bismarck, ND 58506-5594

Dear Ms. Baker:

We have performed an audit of the North Dakota Parks and Recreation Department for the biennium ended June 30, 2017, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Parks and Recreation Department'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.

EXPENDITURES

Informal Recommendation 17-1: We recommend the North Dakota Parks and Recreation Department comply with state procurement policies.

FIXED ASSETS

Informal Recommendation 17-2: We recommend the North Dakota Parks and Recreation Department comply with North Dakota Century Code section 44-04-07, with regards to maintaining a complete and current inventory record along with the completion of an annual fixed asset inventory.

LEGISLATIVE INTENT

Informal Recommendation 17-3: We recommend the North Dakota Parks and Recreation Department comply with OMB policy 214 and record a previous biennium expenditure refund as revenue in the current biennium.

PAYROLL

Informal Recommendation 17-4: We recommend the North Dakota Parks and Recreation Department comply with North Dakota Administrative Policy 4-07-10-04 and complete performance reviews at least annually.

REVENUE

Informal Recommendation 17-5: We recommend North Dakota Parks and Recreation Department determine a methodology to ensure mineral royalty payments received are accurate.

Management of North Dakota Parks and Recreation Department 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,

A handwritten signature in cursive script that reads "Paul Welk".

Paul Welk, CPA
Audit Manager

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www.nd.gov/auditor/

or by contacting the
Division of State Audit

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