

State Water Commission

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

Office of the State Auditor

State Water Commission Report Highlights

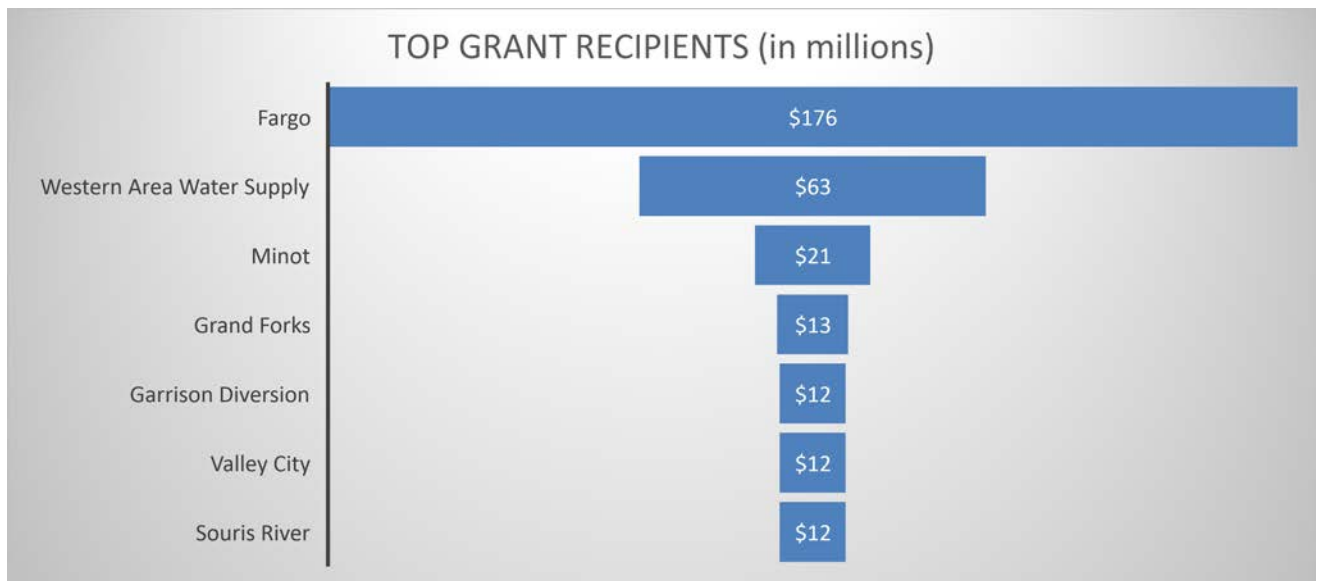
Internal Control: We evaluated and tested high-risk areas including: revenue, expenditures (including correcting entries and purchase card transactions) and safeguarding assets.

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

Legislative intent: We evaluated and tested high-risk areas including: required transfers, statutory revenue rates (fees), proper use of special funds and appropriation laws.

- We concluded there was compliance with the legislative intent.

Financial: Revenues and expenditures during the audit period remained constant. A majority of the State Water Commission's expenditures are grant payments to entities for various water projects. See a listing of the top grant recipients during the audit period below:



Source: ConnectND Amounts

**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

**Senator Jerry Klein – Chairman
Representative Chet Pollert – Vice Chairman**

Representatives

**Bert Anderson
Patrick Hatlestad
Mary Johnson
Keith Kempenich
Gary Kreidt
Andrew G. Maragos
Mike Nathe
Marvin E. Nelson
Wayne A. Trottier**

Senators

**Dwight Cook
Judy Lee
Richard Marcellais**

AUDITOR AND AGENCY PERSONNEL

State Auditor Personnel

**Cindi Pedersen, CPA, Audit Manager
Michael Schmitcke, CPA, In-Charge
Megan Reis, Auditor
Holly Robak, Auditor**

State Water Commission Contacts

**Garland Erbele, P.E., State Engineer
Dave Laschkewitsch, Director of Admin.**

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>Financial Statements</i>	<i>6</i>
<i>Statement of Revenues and Expenditures</i>	<i>6</i>
<i>Statement of Appropriations</i>	<i>7</i>
<i>Internal Control</i>	<i>8</i>
<i>Compliance with Legislative Intent</i>	<i>9</i>
<i>Operations</i>	<i>11</i>



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

Transmittal Letter

January 12, 2018

The Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly
Garland Erbele, State Engineer, State Water Commission

We are pleased to submit this audit of the State Water Commission 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.

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 Garland Erbele, State Engineer and his 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 State Water Commission consists of the Governor as chairman; the Commissioner of Agriculture as an ex-officio member; and seven members who are appointed by the Governor to serve six-year terms. The Commission appoints a State Engineer as its executive officer, who employs staff as needed to carry out the aims of the Commission. The State Water Commission is regulated by Title 61 of the North Dakota Century Code. In general, the purpose of the State Water Commission is to regulate the use of water resources and to keep abreast of the water needs of the state of North Dakota while trying to balance the public interest and public trust.

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

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

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

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

No.

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

There were no recommendations included in the prior audit report.

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

No, a management letter was not issued.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, 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 State Water Commission'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 Capital Management (HCM) are high-risk information technology systems critical to the State Water Commission.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the State Water Commission 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 State Water Commission'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 State Water Commission and are they in compliance with these laws?
3. Are there areas of the State Water Commission's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the State Water Commission 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 State Water Commission has operations in the following locations. Each location was included in the audit scope:

- The Bismarck office located in the southeast corner of the Capitol grounds.
- The warehouse located on east Main Street in Bismarck.
- Field offices located in West Fargo, Devils Lake, and Minot.

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 the State Water Commission'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>
Revenues and Other Sources:		
Intergovernmental Capital Repayment	\$ 8,567,430	\$ 7,709,498
Interest Income on Loans	1,095,122	3,838,846
Loan Principal Repayments	485,034	593,165
Intergovernmental Revenue	751,100	2,885,921
Miscellaneous Revenue	456,274	404,789
Transfers In	283,757,956	292,967,157
Total Revenues and Other Sources	<u>\$ 295,112,916</u>	<u>\$ 308,399,376</u>
Expenditures and Other Uses:		
Grants	\$ 200,659,562	\$ 219,098,140
Bond and Other Capital Payments	26,771,869	32,883,661
Salaries and Benefits	9,640,878	9,125,156
Professional Fees and Services	6,576,908	8,071,638
Operating Fees and Services	4,218,759	4,063,046
Utilities	3,815,989	4,324,652
Repairs	559,183	843,821
Travel	460,419	516,351
Equipment	359,223	190,317
Buildings and Right of Way Land Purchases	205,313	419,247
Rentals and Leases	201,241	197,354
Information Technology Services	197,176	242,158
Miscellaneous Operating Expenditures	757,454	611,771
Transfers Out	9,903,913	21,150,316
Total Expenditures and Other Uses	<u>\$ 264,327,887</u>	<u>\$ 301,737,628</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>
Admin & Support Services	\$ 5,535,618		\$ 5,535,618	\$ 4,708,045	\$ 827,573
Water & Atmospheric Resources	1,153,400,218		1,153,400,218	541,665,919	611,734,299
Totals	<u>\$1,158,935,836</u>		<u>\$1,158,935,836</u>	<u>\$546,373,964</u>	<u>\$612,561,872</u>
Expenditures by Source:					
Other Funds	\$1,158,935,836		\$1,158,935,836	\$546,373,964	\$612,561,872
Totals	<u>\$1,158,935,836</u>		<u>\$1,158,935,836</u>	<u>\$546,373,964</u>	<u>\$612,561,872</u>

Expenditures without Appropriations of Specific Amounts:

Infrastructure Revolving Loan Fund has a continuing appropriation authorized by NDCC section 61-02-78 (\$19,670,199 of expenditures for this biennium).

Insurance recoveries has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$21,352 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2017, we identified the following areas of the State Water Commission'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.

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).

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.

Compliance with Legislative Intent

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

- Proper use of the contract fund (NDCC section 61-02-64.1).
- Deposit of loan proceeds and repayments into the oil tax resources trust fund (NDCC section 61-02-64.2).
- Water use application fees deposited into the water use fund (NDCC section 61-04-04.1).
- Weather modification license fees deposited into the general fund (NDCC section 61-04.1-14).
- Weather modification permit fees deposited into the general fund (NDCC section 61-04.1-16).
- Compliance with appropriation laws (2015 North Dakota Session Laws, chapter 54):
 - \$135,000 appropriated from the oil tax resources trust fund for a grant to the Game and Fish Department for enforcement activities on sovereign lands in the state (section 3).
 - \$1,000,000 appropriated from the oil tax resources trust fund for a grant to the Parks and Recreation Department for developing recreation opportunities on sovereign lands in the state (section 4).
 - Authorization to obtain loan from Bank of North Dakota in an amount not to exceed \$56,000,000 to pay off outstanding bond issues (section 7).
 - \$69,000,000 appropriated from the atmospheric resources line for the Fargo flood control project (section 8).
 - Up to \$570,000,000 available from the State to provide one-half of the local cost-share of the Fargo flood control projects (section 9).
 - Specific funding requirements of the Fargo flood control project (section 10).
 - \$30,000,000 appropriated from the state disaster relief fund for flood protection projects within city limits of Fargo (section 11).
 - \$30,000,000 appropriated from the atmospheric resources line for Fargo interior flood control projects (section 12).
 - Requirements that the state provide one-half cost share to construct the Grand Forks water treatment plant and provide a \$30,000,000 grant for the project during the 2015-17 biennium (section 13).
 - \$12,359,000 appropriated from the atmospheric resources line for the Red River water supply project (section 14).
 - \$4,000,000 appropriated from the state disaster relief fund to provide funding for levee projects during the 2015-17 biennium (section 15).
 - \$11,000,000 appropriated from the atmospheric resources line to extend a line of credit for reimbursing rural and municipal water systems affected by local cost-share changes during the 2013-15 biennium (section 16).
 - \$414,000,000 appropriated from the atmospheric resources line and the line of credit available from the Bank of North Dakota for the following:
 - \$113,000,000 for flood control projects
 - \$61,000,000 for general water projects
 - \$130,000,000 for rural water projects

- \$85,000,000 for municipal water projects
 - \$25,000,000 for providing loans from the infrastructure revolving loan fund for rural and municipal water projects (section 17).
- Requirements of entering a cost-share agreement (section 33).
- Proper use of the following legally restricted funds:
 - Water Development Trust Fund
 - NAWS Operation and Maintenance Fund
 - NAWS Project Reserve Fund
 - Infrastructure Revolving Loan Fund
 - Oil Tax Resources Trust Fund
- Authorization of the agency's funds.
- Compliance with investment regulations, including statutory authority of investments and proper deposit of interest (NDCC section 54-27-16).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including annual inventory.
- Compliance with payroll-related laws including statutory salaries for applicable appointed positions and certification of payroll.

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

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

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

Operations

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

You may obtain audit reports on the internet at:

www.nd.gov/auditor

or by contacting the Office of the State Auditor at:

Email: ndsao@nd.gov

Phone: (701) 328-2241

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