

# Office of the Adjutant General

BISMARCK, NORTH DAKOTA

## **Audit Report**

Two-Year Period Ended

June 30, 2018

**Joshua C. Gallion**  
State Auditor



Office of the State Auditor  
Division of State Audit

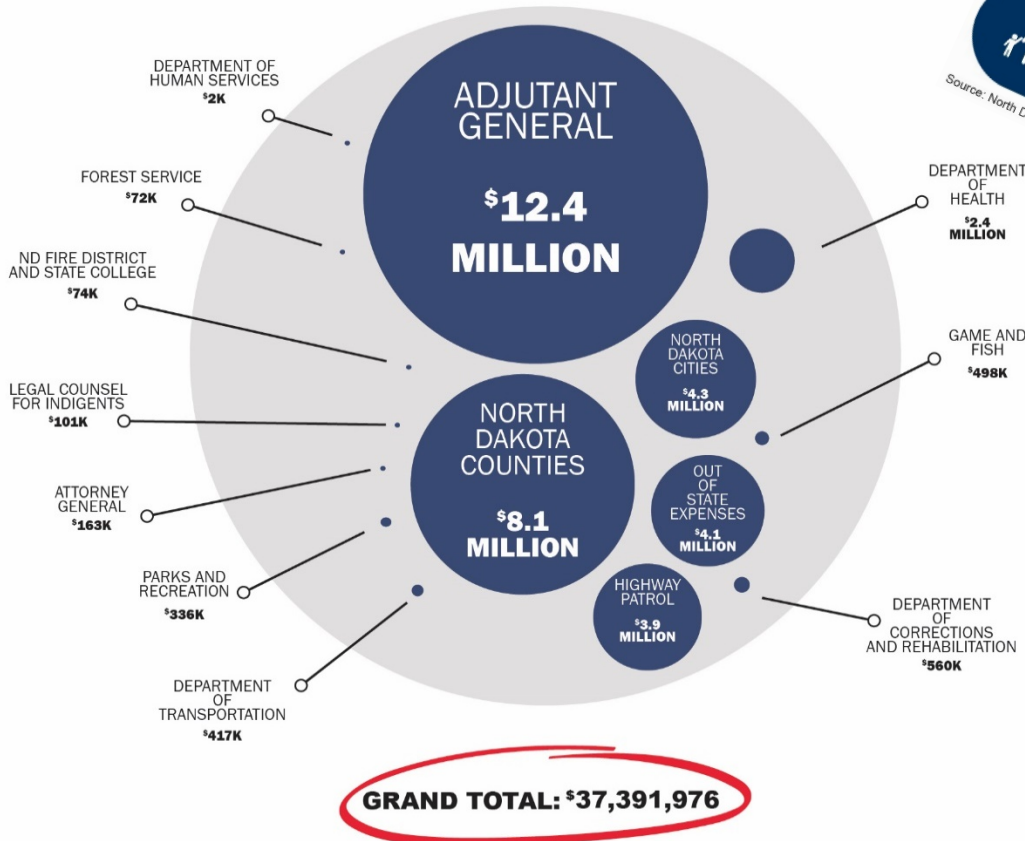


### What Did We Discover

The Office of the Adjutant General has developed and tested a continuity of operations plan for the State Radio Communications site in the event the primary site is unavailable.

The Office of the Adjutant General received \$43 million in loans from the Bank of North Dakota to cover costs incurred during the DAPL protests. The agency incurred costs for National Guard and administration salaries, travel, supplies, etc. In addition, they reimbursed ND counties, cities, state agencies, and out of state counties and cities for the costs they incurred for the protests.

## WHERE DID THE MONEY GO?



**\$49**

DAPL cost the State of North Dakota \$49.19 per citizen.

Source: North Dakota 2010 Census and ConnectND Financials

### Loan Payments

The Bank of North Dakota has received \$25 million in loan payoffs, which consisted of the Department of Justice paying \$10 million and Energy Transfer Partners paying \$15 million

Source: Governor's Office Press Release

Source: ConnectND Financials

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
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**AUDITOR AND AGENCY PERSONNEL**

**State Auditor Personnel**

**Allison Bader, MBA, Audit Manager  
Kevin Scherbenske, CPA, Audit Supervisor  
Krista Lambrecht, CPA  
Elizabeth Rogers  
Amanda Westlake  
Nathan Wangler, CPA**

**Primary State Agency Contacts**

**Major General Alan Dohrmann, Adjutant General  
Holly Gaugler, Accounting Manager**

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
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BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

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March 4, 2019

The Honorable Doug Burgum, Governor  
Members of the North Dakota Legislative Assembly  
Major General Alan Dohrmann, Adjutant General

We are pleased to submit this audit of the Office of the Adjutant General for the two-year period ended June 30, 2018. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Additionally, whenever possible additional audit objectives are included to increase responsiveness and effectiveness of state government.

Allison Bader 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 Major General Dohrmann and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion  
State Auditor

# ***Audit Results***

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## ***State Radio Continuity of Operations***

The objective related to State Radio is:

Has the Office of the Adjutant General developed and tested a continuity of operations plan for the State Radio Communications site?

### ***Conclusion***

The Office of the Adjutant General has developed and tested a continuity of operations plan for the State Radio Communications site in the event the primary site is unavailable.

### ***Background Information and Results***

State Radio is a division of the Department of Emergency Services, which is under the Office of the Adjutant General. The state radio communications system has over 4,000 users representing 287 agencies of the local, state, and federal government. The Division of State Radio coordinates 9-1-1 services as well as emergency, medical, fire, and law enforcement response for 25 North Dakota counties, and is the designated back-up for 8 of the other public service answering points throughout the state, serving as secondary back-up for an additional 8. State Radio is the primary dispatch center for the North Dakota Highway Patrol, Game and Fish, various other state and federal agencies, and also responds to calls for emergency assistance across the state. Statewide communication services ensure necessary resources are dispatched for emergency response.

The Department of Emergency Services has developed an alternate state emergency operations center (EOC) plan in the event that the primary state emergency operations center is unavailable. This plan includes the relocation of the State Radio Center as well. We reviewed the plan and compared it to Federal Emergency Management Agency (FEMA) EOC best practices and noted no significant deficiencies in the plan.

### ***Internal Control***

The audit did not identify any significant internal controls related to the audit objective.

### ***Scope***

The Department of Emergency Services' plan and procedures for an alternate site in the event the primary site is unavailable.

### ***Methodology***

To meet this objective, we reviewed the agency's alternate emergency operations center plan compared to the Federal Emergency Management Agency (FEMA) best practices for emergency operations center issued April 2015.

In aggregate, there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## **Statutory Audit Requirements**

The objective related to our statutory audit requirements is:

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage. Defaults are defined as failures to do something required by duty or law. Bonding coverage provides insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

### **Conclusion**

No exceptions to our statutorily required audit testing were identified.

Audit procedures included testing compliance with appropriation laws, evaluating the adequacy of blanket bond coverage, 9-1-1 fees, and performing tests of expenditures and fixed assets. The audit also reviewed expenditures relating to the Dakota Access Pipeline (DAPL) protests.

### **DAPL**

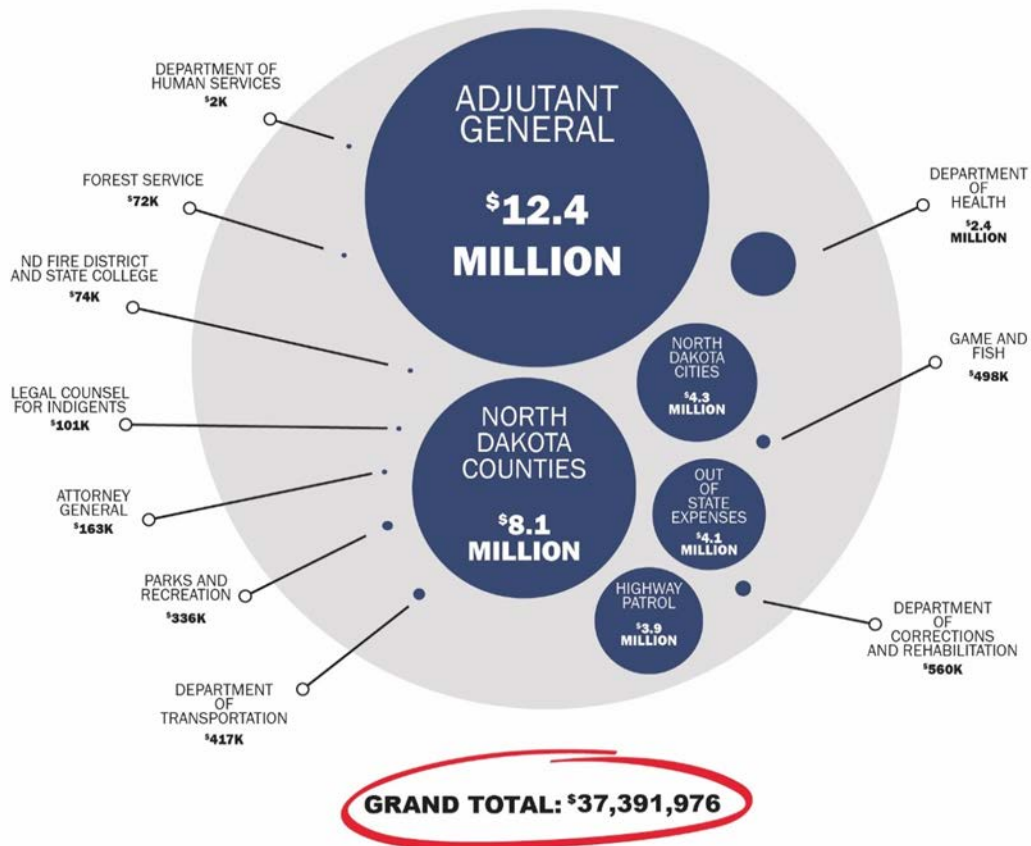
The North Dakota Office of the Adjutant General is charged with the control of the Military Department of the state of North Dakota. The Adjutant General is to perform the duties pertaining to the Adjutant General and other Chiefs of Staff Departments under the regulations and customs of the United States Army. The Adjutant General acts upon the desire and the instruction of the Governor, who is commander in chief of the military forces of the state. The mission of the North Dakota Army and Air National Guard is to provide ready units, individuals, and equipment to support our communities, state, and nation. The National Guard is a reserve component of the United States military forces and, as such, is subject to be called into the military services of the United States.

In September of 2016, the National Guard was called upon to assist local law enforcement that had been monitoring activity at the Dakota Access Pipeline (DAPL) protest camps. The Dakota Access Pipeline's route travels over four states and nearly 1,200 miles from the Bakken oil fields in northwestern North Dakota through South Dakota, Iowa and down to a terminal in Illinois. The \$3.78 billion project was announced to the public in June 2014, and informational hearings for landowners took place between August 2014 and January 2015. In January 2016, the North Dakota Public Service Commission approved its permit for 358 miles of the pipeline to be built in the state. Dakota Access, LLC, controlled by Energy Transfer Partners, started constructing the pipeline in June 2016.

Protests against the pipeline, however, began as early as April 2016 and camps were formed at the confluence of the Cannonball and Missouri rivers. The pipeline was completed by April 2017 and its first oil was delivered on May 14, 2017. The pipeline became commercially operational on June 1, 2017.

In this audit, DAPL expenditures were tested and found to be reasonable and properly approved. As of the end of our audit period, total expenditures related to the DAPL protests were \$37 million. As can be seen in the graphic below these expenditures were incurred not only by the Adjutant General, but also by other state agencies, political subdivisions, and out of state entities that assisted.

## WHERE DID THE MONEY GO?



Source: ConnectND Financials



The breakdown of the \$12.4 million incurred directly by the Adjutant General can be seen below.

### Breakdown of Adjutant General DAPL Costs



Source: ConnectND Financials

The Adjutant General received \$43 million in loans from the Bank of North Dakota to cover all costs associated with the DAPL protest. As of the end of our audit period, \$25 million of that has been paid back. The Department of Justice paid \$10 million and the Energy Transfer Partners paid \$15 million. The remaining loan amount is outstanding, waiting on resolution from other lawsuits that have been filed to attempt to recoup more of the money.

### 9-1-1 Fees

The Adjutant General is the Director of the Department of Emergency Services, which consists of the Division of Homeland Security and the Division of State Radio. The Adjutant General serves as the Chairman of the Department of Emergency Services Advisory Committee and is charged to provide direction and guidance in policy formation. The Division of Homeland Security consists of three sections: the state operations center, disaster recovery, and the homeland security grant. The Division of State Radio provides professional voice and data communications to federal, state, local, and tribal public safety agencies, as well as service to the general public. They receive 9-1-1 calls from citizens as well as cellular telephone calls from travelers reporting emergency and non-emergency situations throughout the state. Citizens and visitors can also call State Radio's toll free 800 telephone number to obtain assistance or information that is generally provided by a variety of state agencies. State Radio staff will provide guidance to identify the correct agency and supply callers with contact information for that agency.

State Radio provides 9-1-1 telephone services to 25 counties. The counties include Adams, Billings, Bowman, Burke, Dickey, Divide, Dunn, Emmons, Foster, Golden Valley, Grant, Griggs, Hettinger, Kidder, Lamoure, Logan, McHenry, McIntosh, McKenzie, Morton, Ransom, Sargent, Sheridan, Slope and Wells counties. State Radio must charge these counties a fee consistent with the actual cost of providing the primary service per telephone access line and wireless access line, prior to any adjustments made to account for economic conditions. The North Dakota Office of the State Auditor has requested a formal opinion from the North Dakota Office of the Attorney General on the allowability of these adjustments.

## ***Internal Control***

We gained an understanding of internal control 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.

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 deficiencies in internal control that were significant within the context of our audit objectives and based upon the audit work performed.

## ***Scope***

This audit of the Office of the Adjutant General is for the two-year period ended June 30, 2018.

The Office of the Adjutant General's central office is at Fraine Barracks in Bismarck, North Dakota with several military unit locations throughout the state. The financial data for these military unit locations is included in the scope of this audit.

## ***Methodology***

To meet this objective, we:

- 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.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed the Office of the Adjutant General's processes and procedures.
- Inspected documentary evidence.
- Tested compliance with appropriation laws and regulations including related transfers and emergency commission action. Where necessary, internal control was tested which included selecting representative samples to determine if controls were operating effectively and if laws were being followed consistently.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed an analysis and selected a sample of high-risk transactions, including expenditures, specific expenditures related to DAPL, fixed asset deletions, and one-time payments, for further testing.
- Tested compliance with North Dakota Century Code (NDCC) 37-17.3-09 surrounding the structure for 9-1-1 fees.

In aggregate, there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## ***Authority and Standards***

This biennial performance audit of the Office of the Adjutant General has been conducted by the Office of the State Auditor pursuant to authority within NDCC Chapter 54-10.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. 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 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).

# Financial Statements

## Statement of Revenues and Expenditures

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$ 48,510,625	\$ 58,757,701
Loan Proceeds	7,236,300	32,115,757
Refunds	2,075,003	1,189,643
Sales, Services and Fees	2,016,349	953,893
Intergovernmental Revenue	775,705	792,681
Donations	250,000	
Other Revenue	202,147	181,785
Rental of Land and Buildings	152,101	135,763
Transfers In	10,025,410	5,957,633
<b>Total Revenues and Other Sources</b>	<b>\$ 71,243,640</b>	<b>\$ 100,084,856</b>
<b><u>Expenditures and Other Uses:</u></b>		
Grants	\$ 29,565,460	\$ 56,970,172
Salaries and Benefits	18,900,629	25,348,492
Loan Repayment	10,000,000	80,513
Repairs	3,788,572	5,646,534
Professional Fees and Services	3,731,190	3,976,864
Utilities	2,922,403	2,822,100
IT Services and Supplies	2,749,050	3,974,712
Buildings and Other Capital Projects	1,847,305	7,075,207
Professional Development	1,726,765	1,588,477
Rentals of Land, Buildings, Equipment	688,669	775,086
Travel	473,932	3,234,863
Operating Expenses	419,547	2,022,056
Supplies	270,655	1,385,068
Equipment and Vehicles	66,283	943,582
Transfers Out	3,191,840	592,897
<b>Total Expenditures and Other Uses</b>	<b>\$ 80,342,300</b>	<b>\$ 116,436,623</b>

Source: ConnectND Financials

## Statement of Appropriations

For the Year Ended June 30, 2018

<b>Expenditures by Line Item:</b>	<b>Final Appropriation</b>	<b>Expenditures</b>	<b>Unexpended Appropriation</b>
Salaries and Wages	\$ 19,217,644	\$ 8,624,040	\$ 10,593,604
Operating Expenses	20,514,385	14,386,392	6,127,993
Capital Assets	33,793,046	1,021,790	32,771,256
Grants	17,792,018	5,147,962	12,644,056
Disaster Costs	72,330,196	29,388,110	42,942,086
Civil Air Patrol Radio	299,580	146,459	153,121
Communications	1,263,341	26,654	1,236,687
Tuition Fees	3,057,866	1,669,252	1,388,614
Air Guard Contract	8,098,582	2,596,680	5,501,902
Army Guard Contract Reintegration Program	57,717,944	14,752,723	42,965,221
ND Veterans Cemetery	1,261,384	407,190	854,194
	881,284	370,709	510,575
<b>Totals</b>	<b><u>\$ 236,227,270</u></b>	<b><u>\$ 78,537,961</u></b>	<b><u>\$ 157,689,309</u></b>
<b>Expenditures by Source:</b>			
General	\$ 27,874,435	\$ 12,989,363	\$ 14,885,072
Other	208,352,835	65,548,598	142,804,237
<b>Totals</b>	<b><u>\$ 236,227,270</u></b>	<b><u>\$ 78,537,961</u></b>	<b><u>\$ 157,689,309</u></b>

Source: ConnectND Financials

**For the Biennium Ended June 30, 2017**

<b>Expenditures by Line Item:</b>	<b>Final Appropriation</b>	<b>Expenditures</b>	<b>Unexpended Appropriation</b>
Salaries and Wages	\$ 19,114,116	\$ 17,852,868	\$ 1,261,248
Operating Expenses	15,236,963	10,556,320	4,680,643
Capital Assets Construction	1,128,046	684,675	443,371
Carryover	14,919,136	13,691,819	1,227,317
Grants	20,229,239	10,690,302	9,538,937
Disaster Costs	145,108,782	94,781,494	50,327,288
Civil Air Patrol Radio	311,773	306,455	5,318
Communications	3,522,034	2,247,081	1,274,953
Tuition Fees	3,560,315	3,119,949	440,366
Air Guard Contract	8,054,554	5,532,235	2,522,319
Army Guard Contract Reintegration Program	59,900,504	30,722,108	29,178,396
ND Veterans Cemetery	1,753,743	1,478,196	275,547
	811,486	769,067	42,419
<b>Totals</b>	<b><u>\$ 293,650,691</u></b>	<b><u>\$ 192,432,569</u></b>	<b><u>\$ 101,218,122</u></b>
 <b>Expenditures by Source:</b>			
General	\$ 34,775,646	\$ 31,789,408	\$ 2,986,238
Other	<u>258,875,045</u>	<u>160,643,161</u>	<u>98,231,884</u>
<b>Totals</b>	<b><u>\$ 293,650,691</u></b>	<b><u>\$ 192,432,569</u></b>	<b><u>\$ 101,218,122</u></b>

Source: ConnectND Financials

# ***LAFRC Responses***

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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?*

This question is not applicable for performance audits. 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 Office of the Adjutant General's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

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

None.

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

None.

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

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

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

None.

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

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Office of the Adjutant General.



You may obtain audit reports on the internet at:

[www.nd.gov/auditor](http://www.nd.gov/auditor)

or by contacting the Office of the State Auditor at:

**Email:** [ndsao@nd.gov](mailto:ndsao@nd.gov)

**Phone:** (701) 328-2241

**Office of the State Auditor**

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