



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Office of the Governor

Audit Report for the Biennium Ended June 30, 2019

Client Code 101



Photo credit: North Dakota Department of Transportation





WHAT WE LOOKED AT

Our team audited the Office of the Governor which included reviewing financial transactions, expenditures and blanket bond coverage.

WHAT WE FOUND

This audit did not identify any areas of concern.

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KEY PERSONNEL

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HAVE QUESTIONS? ASK US.

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Introduction

Office of the Governor

January 16, 2020

We are pleased to submit this audit of the Office of the Governor for the biennium ended June 30, 2019. 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. Whenever possible, additional audit objectives are included to increase the 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) 328-1073.

We wish to express our appreciation to Ms. JoDee Hanson, Chief Administrative Officer, and her staff for the courtesy, cooperation and assistance they provided to us during this audit.

Respectfully submitted,

/S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: Sum of money or total of assets devoted to a special purpose.

Blanket Bond Coverage: Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

Conflict of Interest: Situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity.

ConnectND: The accounting system for North Dakota.

Default: Failures to do something required by duty or law.

Emergency Commission: Certain elected officials in ND comprise this Commission. The Commission has the authority to transfer funds in agency budgets, take action in public safety or financial incidents, and authorize funds not otherwise appropriated or rejected by the Legislative Assembly.

Internal Control: Set of activities that are layered in normal operating procedures of an organization with the intent of safeguarding assets, minimizing errors, and making sure operations are being followed.

Performance Audit: Engagements that provide objective analysis, findings, and conclusion to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Audit Results

OBJECTIVE RELATED TO OUR STATUTORY AUDIT REQUIREMENTS

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 the 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.

No exceptions to our statutorily required audit testing were identified.

INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented.

We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. We identified key controls significant to this audit objective related to the control activities component of internal control, specifically the principles related to the design of

control activities and the implementation and effectiveness of the same.

Based on the audit work performed, auditors are required to report deficiencies in internal control that are significant within the context of the audit objectives. A deficiency in internal control exists when the design, implementation, or operation of a control does not allow management or personnel to achieve control objectives and address related risks.

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.

SCOPE

This audit of the Office of the Governor is for the biennium ended June 30, 2019. The Office of the Governor's sole location is its Bismarck office which was included in the audit scope.

METHODOLOGY

To meet this objective, we:

- Inquired with appropriate agency personnel.
- Inspected documentary evidence.
- 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.
- Queried the ConnectND (PeopleSoft) system for data analysis.
- 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, including testing segregated and appropriate payment approvals.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed analysis and selected a sample of high-risk payment transactions, including travel and purchases, for further testing of compliance with state laws. Additional random non-statistical sampling was used allowing results to be projected to populations.

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

STATUTORY CRITERIA

Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

The criteria used to evaluate legislative intent are the laws as published in the North Dakota Century Code and the North Dakota Session Laws. The following areas were identified to be of higher risk of noncompliance:

- Compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose. (2017 North Dakota Session Laws Chapter 1 (H.B. 1001), N.D.C.C. 54-16-03, N.D.C.C. 54-44.1-11)
- Blanket bond coverage maintained in accordance with state law and state guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10)
- Proper use of funds (State Constitution article 10 section 12, N.D.C.C. 44-08-05.1, N.D.C.C. 54-44.1-09, N.D.C.C. 54-44.1-10)
- Travel reimbursement in accordance with limits of state law and OMB policies. (N.D.C.C. 54-06-09, N.D.C.C. 44-08-04)

AUTHORITY AND STANDARDS

This biennial audit of the Office of the Governor has been conducted by the Office of the State Auditor under authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The standards 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).



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 the Governor 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. We did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

4. WERE THERE ANY INDICATIONS OF LACK OF EFFICIENCY IN FINANCIAL OPERATIONS AND MANAGEMENT OF THE AGENCY?

No.

5. HAS ACTION BEEN TAKEN ON FINDINGS AND RECOMMENDATIONS INCLUDED IN PRIOR AUDIT REPORTS?

The prior recommendation related to maintaining adequate blanket bond coverage was implemented.

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 Governor's financial statements does 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 Office of the Governor.

Financial Statements

Statement of Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2019	JUNE 30, 2018
Donations and Private Grants	\$ 84,229	\$ 181,148
Other Revenue	259	1,040
Transfers In	15,000,000	-
Total Revenues and Other Sources	\$ 15,084,488	\$ 182,188

EXPENDITURES AND OTHER USES	JUNE 30, 2019	JUNE 30, 2018
Salaries and Benefits	\$ 1,847,352	\$ 1,628,659
Information Technology Services	79,017	76,288
Travel	20,790	40,437
Operating Fees and Services	18,835	2
Office Equipment and Furniture	15,847	12,979
Supplies	7,050	7,470
Postage and Printing	6,253	8,261
Professional Fees and Services	6,147	5,840
Professional Development	3,413	34,836
Miscellaneous Expenditures	1,531	1,029
Transfers Out	15,000,000	-
Total Expenditures and Other Uses	\$ 17,006,235	\$ 1,815,801

Source: ConnectND Financials

Statement of Appropriations

For the Biennium Ended June 30, 2019

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Salaries and Wages	\$ 3,577,268	\$ 3,476,010	\$ 101,258
Governor's Salary	265,928	-	265,928
Operating Expenses	404,680	337,288	67,392
Contingency	10,000	-	10,000
Roughrider Awards	15,800	8,738	7,062
Theodore Roosevelt General Fund Transfer	15,000,000	15,000,000	-
Totals	\$ 19,273,676	\$ 18,822,036	\$ 451,640

EXPENDITURES BY SOURCE	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
General	\$ 19,007,758	\$ 18,618,908	\$ 388,850
Other	265,918	203,128	62,790
Totals	\$ 19,273,676	\$ 18,822,036	\$ 451,640

Source: ConnectND Financials



Status of Prior Recommendations

Lack of Blanket Bond Coverage (Finding 17-1)

RECOMMENDATION

We recommend the Office of the Governor maintain adequate blanket bond coverage in accordance with North Dakota Century Code section 26.1-21-10.

STATUS

Implemented. It was determined the Office of the Governor was compliant with blanket bond coverage in accordance with N.D.C.C. 26.1-21-10 and state bonding guidelines.



NORTH DAKOTA STATE AUDITOR
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