



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Department of Water Resources

Audit Report for the Biennium Ended June 30, 2021

Client Code 770





WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This includes a review of financial transactions and determining that expenditures are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified in significant or high-risk functions of the agency.

WHAT WE FOUND



Improper Credits to Appropriation

The Department of Water Resources didn't properly account for the sale of land, making their expenditures and other financing sources understated by \$461,500.

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HAVE QUESTIONS? ASK US.

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Introduction

Department of Water Resources

May 9, 2022

We are pleased to submit this audit of the Department of Water Resources for the biennium ended June 30, 2021. 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 responsiveness and effectiveness of state government.

Lindsey Slappy 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 the Department of Water Resources 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: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

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

ConnectND: The accounting system for North Dakota.

Emergency Commission: Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusions 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.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Audit Results

PRIMARY OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency?

Instead, the proceeds from the land sale should have been recorded as other financing sources for sale of capital assets (Government Accounting Standards Board, statement 34, para. 88).

This caused expenditures and other financing sources to be understated by \$461,500. The error was caused because the proper accounting treatment of transactions was not researched.

FINDING
2021-01

Improper Credits to Appropriation



The Department of Water Resources didn't properly account for the sale of land, making their expenditures and other financing sources **understated by \$461,500.**

CONCLUSION

The Department of Water Resources did not properly account for the sale of land. The sale was recorded as a decrease to expenditures rather than an increase to other financing sources.

BACKGROUND

The Department of Water Resources (DWR) was created in 2021 by Legislative action. DWR was previously called the State Water Commission. The purpose of the DWR is to promote water resources across North Dakota.

The DWR sold a portion of land with easements that retained their rights to use the land. The land was appraised before the sale, which showed the value of the land had decreased because of the easements.

Because the land was appraised below book value, the DWR recorded proceeds from the sale (\$461,500) as a reduction to the expenditure account for land purchases, which is a credit to appropriations. A credit to an appropriation restores spending authority for the reduction of expenditures. Office of Management and Budget Policy 214 states that appropriations may not be credited except for refunds that are a result of an accounting or bookkeeping error.

RECOMMENDATION

We recommend that the Department of Water Resources record land sales in accordance with the Government Accounting Standards Board requirements and Office of Management and Budget policy.

DEPARTMENT OF WATER RESOURCES RESPONSE

The Department of Water Resources agrees that the land sale was not accounted for properly. The Department of Water Resources will work with the Office of Management and Budget on future land transactions to ensure that we are recording these transactions in accordance with the Government Accounting Standards Board.



Audit Procedures

Primary Objective

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentation and electronic data records. We planned our audit work to assess the design, implementation and operating effectiveness of those internal controls that were significant to our audit objectives.

The specific internal control testing completed for this audit objective is identified below:

- Segregated preparation and approval of expenditures is tested statewide in the State of North Dakota Annual Financial Report.
- Project expenditures are approved by the Engineer Manager.
- Individuals involved with procurement have appropriate procurement training.
- Grants under \$75,000 received appropriate approval from the Commission.
- Grants over \$75,000 received appropriate approval from the State Engineer.
- Reimbursement requests for grants were approved by the Planning Division Director.
- Purchase card expenditures and related receipts are reviewed and approved.
- A tracking spreadsheet is used to track receipt and review of dam operating plans.

SCOPE

The Department of Water Resources 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 Fargo, Devils Lake, and Minot.

METHODOLOGY

To meet this objective, we:

- Analyzed financial data in ConnectND to determine areas of risk.
- Interviewed appropriate agency personnel about controls and processes.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines (N.D.C.C. 26.1-21-08 & 26.1-21-10(1)).
- Analyzed non-appropriated funds to ensure legislative approval (N.D.C.C. 54-44.1-09).
- Analyzed funds added to the appropriation from emergency commission action to identify appropriate authority.
- Selected and tested a judgmental sample of credits to appropriation to ensure they were in accordance with OMB policy 214 and did not circumvent appropriation authority (N.D.C.C. 54-16-03).
- Selected and tested a random sample of expenditures from fund 381 for coding, compliance with legislative restrictions, and approvals by the Engineer Manager (N.D.C.C. 61-24.6-07).
- Selected and tested a random sample of procurement transactions to ensure procurement guidelines were followed, individuals had required procurement training, and coding was proper (N.D.C.C. 54-44.4, 54-44.7, 48-01.2 and NDAC Article 4-12).

- Selected and tested a random sample of accounts payable expenditures for proper coding, support, and business purpose (N.D.C.C. 44-08-5.1(1a), 44-08-04 (1-7), 54-06-09 (1-6)).
- Selected and tested a random sample of grant expenditures for proper coding, support, and approval (N.D.C.C. 44-08-5.1(1a)).
- Selected and tested a judgmental sample of purchase card expenditures for proper coding, support, and approvals (N.D.C.C. 44-08-5.1).
- Performed analytics to conclude on compliance with SB 2020 Sections 5, 7, 9, 11, 12, and 13.
- Selected a random sample of high and medium hazard dams and verified that emergency action plans were in place (N.D.C.C. 61-03-21 and NDAC 89-08-04-01).
- Verified use of tracking spreadsheet for receipt of dam operating plans (N.D.C.C. 61-03-25).
- Non-statistical sampling was used, and the results were projected to the population when appropriate.

The standards used to evaluate internal control are 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).

AUTHORITY AND STANDARDS

This biennial audit of the Department of Water Resources has been conducted by the Office of the State Auditor pursuant to 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.



Responses to LAFRC Audit Questions

1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?

Revenues, expenditures, and appropriation information was not prepared by the Department of Water Resources 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 the findings of this report, the Department of Water Resources 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?

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?

There were no indications of lack of efficiency in financial operations and management of the Department of Water Resources.

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

The Department of Water Resources 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.

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 Department of Water Resource's revenues, expenditures, and appropriation information 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 Department of Water Resources. None of the exceptions identified in the six audit report questions are directly related to these systems.

Financials

Revenues and Expenditures

| REVENUES AND OTHER SOURCES | | JUNE 30, 2021 | JUNE 30, 2020 |
|--|--|-----------------------|-----------------------|
| Intergovernmental Capital Repayment | | \$ 14,032,673 | \$ 15,847,144 |
| Federal Revenue | | 8,964,672 | 18,443,412 |
| Interest Income on Loans | | 1,474,454 | 2,467,557 |
| Miscellaneous Revenue* | | 652,728 | 248,358 |
| Water Rights Filing Fee | | 124,975 | 135,700 |
| Transfers In | | 204,965,436 | 152,957,429 |
| Total Revenue and Other Sources | | \$ 230,214,938 | \$ 190,099,600 |

Source: ConnectND Financials

Continued on following page

*Note that \$461,500 of revenue was added to the June 30, 2021 Miscellaneous Revenue to correct accounting errors as mentioned in Finding 21-01 detailed in this report.

Financials

Revenues and Expenditures

| EXPENDITURES AND OTHER USES | JUNE 30, 2021 | JUNE 30, 2020 |
|--|-----------------------|-----------------------|
| Grants | \$ 172,936,004 | \$ 115,625,767 |
| Land, Buildings, and Other Capital* | 20,631,309 | 24,204,562 |
| Salaries and Benefits | 9,313,313 | 9,244,074 |
| Engineering Consultants | 5,849,485 | 8,293,488 |
| Utilities | 2,655,082 | 2,434,320 |
| Professional Fees and Services | 1,832,441 | 3,071,399 |
| Repairs | 528,193 | 453,783 |
| IT Software and Equipment | 327,092 | 135,808 |
| Travel | 316,504 | 373,152 |
| Supplies | 305,508 | 440,422 |
| Information Technology Services | 300,302 | 280,975 |
| Rentals and Leases | 291,022 | 289,560 |
| Operating Fees and Services | 268,253 | 236,616 |
| Equipment and Furniture | 105,440 | 35,325 |
| Professional Development | 83,556 | 80,731 |
| Transfers Out | 5,996,354 | 280,000 |
| Total Expenditures and Other Uses | \$ 221,739,858 | \$ 165,479,982 |

Source: ConnectND Financials

*Note that \$461,500 of expenditures were added to the June 30, 2021 Land, Buildings, and Other Capital to correct accounting errors as mentioned in Finding 21-01 detailed in this report.

Appropriations

For the Biennium Ended June 30, 2021

| EXPENDITURES BY LINE ITEM | FINAL APPROPRIATION | EXPENDITURES | UNEXPENDED APPROPRIATION |
|------------------------------|------------------------|-----------------------|-----------------------------|
| Salaries and Wages | \$ 19,831,986 | \$ 18,557,387 | \$ 1,274,599 |
| Operating Expenses | 36,619,003 | 28,979,732 | 7,639,271 |
| Capital Improvements* | 180,938,758 | 45,088,354 | 135,850,404 |
| Fargo Area Flood Control | 66,500,000 | | 66,500,000 |
| Mouse River Flood Control | 82,500,000 | 15,762,914 | 66,737,086 |
| Other Flood Control | 48,000,000 | 3,489,096 | 44,510,904 |
| Project Carryover | 308,333,818 | 210,901,956 | 97,431,862 |
| Water Supply - Grants | 128,000,000 | 34,978,344 | 93,021,656 |
| Rural Water Supply - Grants | 37,200,000 | 19,984,003 | 17,215,997 |
| General Water - Grants | 27,093,776 | 3,599,168 | 23,494,608 |
| Totals | \$ 935,017,341 | \$ 381,340,954 | \$ 553,676,387 |

| EXPENDITURES BY SOURCE | FINAL APPROPRIATION | EXPENDITURES | UNEXPENDED APPROPRIATION |
|---------------------------|------------------------|-----------------------|-----------------------------|
| Other Funds | \$ 935,017,341 | \$ 381,340,954 | \$ 553,676,387 |
| Totals | \$ 935,017,341 | \$ 381,340,954 | \$ 553,676,387 |

Source: ConnectND Financials

*Note that \$461,500 of expenditures were added to the Capital Improvements line item to correct accounting errors as mentioned in Finding 21-01 detailed in this report.



Status of Prior Recommendations

Improper Emergency Action Plan Process for Dams (Finding 19-01)

Implemented

Recommendation: We recommend the State Engineer at the Department of Water Resources receive and approve Emergency Action Plans required by N.D.C.C.

Status: Implemented.

Dam Operating Plans Not Tracked or Reviewed (Finding 19-02)

Implemented

Recommendation: We recommend the Department of Water Resources track the receipt and review of required dam operating plans.

Status: Implemented.



NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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