



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Office of Management and Budget

Audit Report for the Biennium Ended June 30, 2021

Client Code 110





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 expenses 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

This audit did not identify any areas of concern.

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HAVE QUESTIONS? ASK US.

NORTH DAKOTA STATE AUDITOR'S OFFICE

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Introduction

Office of Management and Budget

June 20, 2022

We are pleased to submit this audit of the Office of Management and Budget 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, 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 the Office of Management and Budget 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

Alternate Procurement Request (APR): State agencies and institutions must prepare an Alternate Procurement when they plan to obtain less competition than required by purchasing thresholds.

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?

CONCLUSION

No areas of concern were identified.



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.
- Procurement process was completed by an individual with the proper level of training.
- Purchase card receipts are reconciled to the individual purchase card statements, individual purchase card records were approved by an appropriate individual, and purchase card expenditures were approved by an appropriate individual.
- ConnectND has a control to cutoff annual leave at 240 hours per employee (N.D.A.C. 4-07-12-08).
- ConnectND has a control to not allow human resource personnel to change their own pay.
- ConnectND has a control to not allow an agency to overspend an appropriation line.
- Alternate procurement requests are being properly approved.

- Litigation expenses are being properly approved by the Attorney General's Office related to 2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Section 9).
- Unique ConnectND coding was established for tracking expenditures related to 2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Sections 11 and 13).

There were no deficiencies identified.

SCOPE

This audit of the Office of Management and Budget is for the biennium ended June 30, 2021.

The Office of Management and Budget's sole location is its Bismarck office which was included in the audit scope.

METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population.
- Interviewed appropriate agency personnel.
- Observed the Office of Management and Budget's processes and procedures.
- Inspected documentary evidence.
- Analyzed financial data in ConnectND to determine areas of risk.
- Analyzed accounts charged to each appropriation line to determine that expenditures were not charged to an inappropriate line to circumvent appropriation spending authority. (N.D.C.C. 54-16-03).
- Reviewed non-appropriated fund activity to ensure the Office of Management and Budget had legislative approval for non-appropriated expenditures. (N.D.C.C. 54-44.1-09).

- Reviewed expenditures related to all appropriation adjustments approved by the Emergency Commission to ensure the Department of Public Instruction complied with the documented intent of the adjustment (N.D.C.C. 54-10-01.1, N.D.C.C. 54-16-03).
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10).
- Selected a random sample of operating expenditures to ensure the expenditures were for lawful and official purposes and properly coded and supported (N.D.C.C. 44-08-05.1 (1a)).
- Selected a random sample of expenditures paid out of the Risk Management Worker's Comp Fund to ensure expenditures were within legal restrictions and were properly supported (N.D.C.C. 65-04-03.1(2)).
- Selected a random sample of expenditures paid out of the Central Services fund to ensure expenditures were within legal restrictions (N.D.C.C. 54-44-11(1&2)).
- Selected a judgmental sample of expenditures to ensure goods and services were properly procured in accordance with N.D.C.C. 54-44.4-05, N.D.A.C. Article 4-12, and OMB Policies and Guidelines.
- Selected a sample of purchase card expenditures to ensure receipts support individual purchase card charges, the purchase was reasonable and related to the function of the agency, and that the coding was adequate for financial reporting purposes. The sample consisted of some judgmentally selected items and some randomly selected items.
- Selected a judgmental sample of transfers in and transfers out to ensure the transfers were made within legal restrictions and with proper legislative approval (in accordance with various N.D.C.C. sections, Legislative Session Laws, Emergency Commission approvals, and a North Dakota State Constitution Article).
- Determined if the Office of Management and Budget reported the use of one-time funding and that the funds were used in accordance with legislative intent (2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Section 2)).
- Determined if transfers were made from the litigation funding pool line item for salaries and wages of an assistant attorney position at the Attorney General's office in accordance with legislative intent (2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Section 3)).
- Determined if the Office of Management and Budget transferred \$8,600,000 from the Tax Relief Fund to the General Fund in accordance with legislative intent (2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Section 5)).
- Determined if the Office of Management and Budget transferred \$100,000 from the Strategic Investment and Improvements Fund to the Preliminary Planning Revolving Fund in accordance with legislative intent (2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Section 7)).
- Determined if the Office of Management and Budget transferred funds from the litigation funding pool line item to eligible state agencies for litigation expenses in accordance with legislative intent (2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Section 9)).
- Determined if the Office of Management and Budget had grants and special items in accordance with legislative intent (2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Section 10)).
- Selected random and judgmental samples of expenditures to determine if they were spent in accordance with

legislative intent for one-time funding (2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Section 11)).

- Determined if one-time funding for an information technology project was spent in accordance with legislative intent (2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Section 12)).
- Determined if \$4,000,000 in one-time funding for an assessment of state lands and facilities and for a litigation funding pool was spent in accordance with legislative intent (2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Section 13)).
- Determined if Prairie Public Broadcasting provided matching funds for a grant of up to \$200,000 for essential equipment needs in accordance with legislative intent (2019 North Dakota Session Laws Chapter 40 (S.B. 2015 Section 14)).
- Determine if the Office of Management and Budget made payments for court-ordered judgments in accordance with legislative intent (2021 North Dakota Session Laws Chapter 25 (H.B. 1025 Section 2)).

AUTHORITY AND STANDARDS

This biennial audit of the Office of Management and Budget 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.

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).



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 Office of Management and Budget 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 Office of Management and Budget has partially implemented the recommendation 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 Management and Budget's revenues, expenditures, and appropriation information 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 Management and Budget.

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2021	JUNE 30, 2020
Revenue from Federal Government	\$ 1,038,855,718	\$ 1,250,000,000
Bank of North Dakota Profits	70,000,000	70,000,000
Tobacco Settlement Funds	22,657,455	21,280,388
Workers Compensation Premiums	2,347,536	2,690,417
Central Duplicating Revenue	1,406,349	1,180,920
Rents	1,348,274	1,278,391
Risk Management Contributions	1,254,128	1,256,106
Sale of Salvage and Scrap	1,026,685	804,630
Indirect Cost Recoveries	998,837	1,042,797
Interest on Investment	920,634	1,562,686
Postage	837,556	464,796
Purchase Card Rebates	833,710	788,068
Resale of Supplies	389,775	435,673
Facility Expense Reimbursement	388,265	390,708
Training	218,260	18,445
Other Revenues	37,847	271,799
Transfers In	648,769,962	660,569,923
Total Revenue and Other Sources	\$ 1,792,290,991	\$ 2,014,035,747

Source: ConnectND Financial

Continued on following page

Financials

Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2021	JUNE 30, 2020
Grants	\$ 10,629,535	\$ 2,092,989
Salaries and Benefits	9,734,227	9,237,507
Repairs	4,202,383	1,800,255
Worker's Compensation Payment	2,576,135	3,044,192
IT Services	2,546,742	2,506,764
Utilities	1,881,658	1,809,841
Professional Services	1,331,660	1,442,203
Postage and Printing	1,125,022	756,357
Insurance	855,705	631,504
Supplies	733,980	634,720
Professional Development	490,516	334,230
Building and Grounds Maintenance	367,508	342,467
Freight	344,268	291,772
Bond Principal and Interest	285,416	282,053
Operating Fees and Services	221,277	218,954
Equipment and Software	207,388	55,814
Rents and Leases	202,548	220,884
Other Expenditures	35,976	1,072
Travel	27,458	68,665
Transfers Out	1,476,970,615	549,722,764
Total Expenditures and Other Uses	\$ 1,514,770,017	\$ 575,495,007

Source: ConnectND Financial

Appropriations

For the Biennium Ended June 30, 2021

EXPENSES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Salaries and Wages	\$ 22,003,816	\$ 19,321,846	\$ 2,681,970
Operating Expenses	16,809,966	15,290,671	1,519,295
Fiscal Carryover	3,551,340	1,240,272	2,311,068
State Contingency	500,000	-	500,000
Capital Assets	5,587,125	4,389,193	1,197,932
Construction Carryover	337,470	219,007	118,463
Grants	5,972,830	5,433,506	539,324
Grants — Guardianships	1,950,000	1,950,000	-
Community Services Grants	350,000	350,000	-
Prairie Public Broadcasting	1,200,000	1,200,000	-
Student Internship Program	153,334	3,255	150,079
Litigation Funding Pool	1,171,547	872,680	298,867
GEER Funds	8,665,046	4,765,715	3,899,331
State Transfers	100,000,000	100,000,000	-
Totals	\$ 168,252,474	\$ 155,036,145	\$ 13,216,329

EXPENSES BY SOURCE	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
General	\$ 136,670,526	\$ 132,089,187	\$ 4,581,340
Other	31,581,948	22,946,958	8,634,989
Totals	\$ 168,252,474	\$ 155,036,145	\$ 13,216,329

Source: ConnectND Financial



Status of Prior Recommendations

Inadequate Procedures Surrounding Revenue Collections (Finding 2019-01)

Partially Implemented

Recommendation: We recommend the Office of Management and Budget’s procurement division strengthen control activities surrounding alternate procurement by:

- Ensuring all vendor responses are received by the Office of Management and Budget.
- Establishing expiration dates on all recurring purchases.

Status: Partially Implemented. The Office of Management and Budget has updated the Alternate Procurement Form by adding fields to the contract period, renewals, extensions, and renegotiation options to show expiration dates on recurring purchases. To implement the part of the recommendation for ensuring all vendor responses are received by the Office of Management and Budget, the agency is planning on modifying the “Notice of Intent” form to instruct vendors to upload their responses to the “State Procurement Online” online procurement system, which would then give the Office of Management and Budget access to review the responses at their discretion. The “Notice of Intent” form was not updated during our audit period; therefore, this part of the recommendation could not be reviewed to determine if it was implemented.



NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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