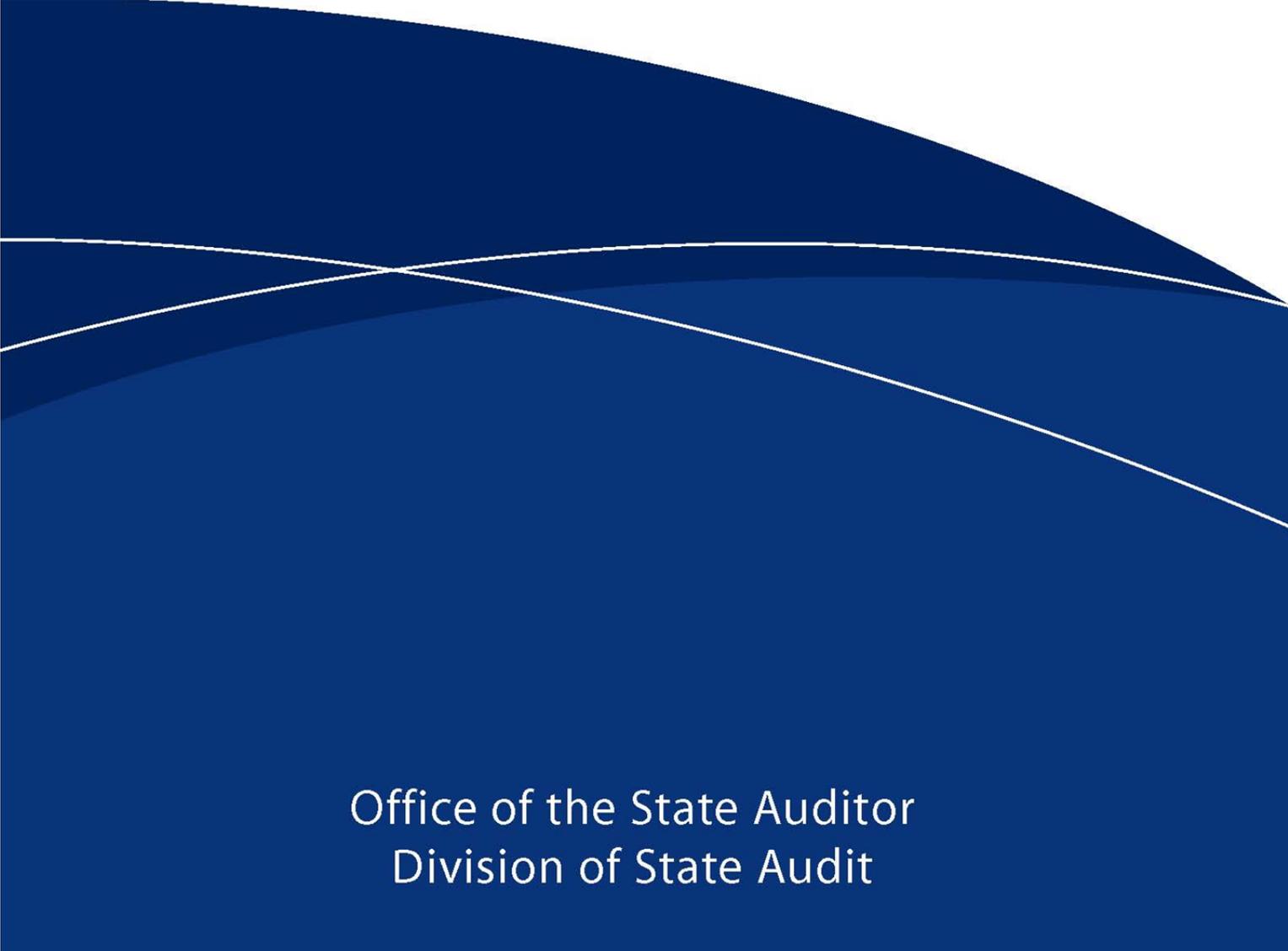


INDIAN AFFAIRS
COMMISSION
BISMARCK, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2012

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

March 29, 2013

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Mr. Scott Davis, Executive Director, Indian Affairs Commission

We are pleased to submit this audit of the North Dakota Indian Affairs Commission for the two-year period ended June 30, 2012. 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.

The in-charge auditor for this audit was Kevin Scherbenske, CPA. Paul Welk, 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 Mr. Davis and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Indian Affairs Commission was established by the 1949 State Legislature to facilitate working relationships between the state and tribal governments. The function of the Commission is to be the liaison between the executive branch and the tribes of North Dakota. Duties include mediation services with the tribes and state and working with other state agencies regarding proper protocol in working with Indian people and tribal governments.

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 North Dakota Indian Affairs 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 unqualified 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.

Yes, a management letter was issued and is included on page 13 of this report, along with management's response.

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, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

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 North Dakota Indian Affairs 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 Resource Management System (HRMS) are high-risk information technology systems critical to the North Dakota Indian Affairs Commission.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Indian Affairs Commission for the two-year period ended June 30, 2012 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Indian Affairs 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 North Dakota Indian Affairs Commission and are they in compliance with these laws?
3. Are there areas of the North Dakota Indian Affairs Commission's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota Indian Affairs Commission is for the two-year period ended June 30, 2012. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota Indian Affairs Commission's sole location is its Bismarck office which was included in the audit scope.

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 and developed a discussion and analysis of the financial statements.
- 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 North Dakota Indian Affairs 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.

Discussion and Analysis

The accompanying financial statements have been prepared to present the North Dakota Indian Affairs Commission's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the two-year period June 30, 2012, operations of the North Dakota Indian Affairs Commission were primarily supported by appropriations from the state's general fund.

Financial Summary

Revenues consisted primarily of donations and federal stimulus funds. Total revenues were \$21,630 for the year ended June 30, 2012 as compared to \$18,143 for the year ended June 30, 2011.

Total expenditures for the North Dakota Indian Affairs Commission were \$423,520 for the year ended June 30, 2012 as compared to \$364,077 for the prior year. The increase in total expenditures for the audited period reflects primarily salaries and benefits due to staff turnover in fiscal year 2011. Additional conference expenses for the North Dakota Indian Youth Leadership Academy were also noted in fiscal year 2012.

A federal stimulus grant was made to the Standing Rock Sioux Tribe for a Berenstain Bears project in fiscal year 2011.

Analysis of Significant Changes in Operations

The North Dakota Indian Affairs Commission received additional funding in the 2009 Legislative Session to 'restart' the Indian Youth Leadership Academy program. The first academy was held in July 2010. In the 2011-2013 biennium, the Legislative Assembly provided \$60,000 in general funds for the North Dakota Indian Youth Leadership Academy.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Revenues and Other Sources:</u>		
Donations	\$ 20,000	
Federal Stimulus Funds Transfer In		\$ 18,000
Miscellaneous Revenue	1,630	143
Total Revenues and Other Sources	<u>\$ 21,630</u>	<u>\$ 18,143</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 297,765	\$ 258,745
Conference Expenses	38,847	13,168
Travel	26,246	16,207
Supplies	17,034	11,214
IT-Communication/Data Processing/Equipment	10,922	12,575
Office Equipment	7,610	11,580
Operating Fees	8,150	5,603
Food and Clothing	5,895	1,044
Room Rental	5,720	1,001
Professional Services	2,678	9,123
Printing	771	4,335
Grants	600	18,000
Miscellaneous Expenses	1,282	1,482
Total Expenditures and Other Uses	<u>\$ 423,520</u>	<u>\$ 364,077</u>

Statement of Appropriations

For The Fiscal Year Ended June 30, 2012

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 601,373	\$ 2,328	\$ 603,701	\$ 297,229	\$ 306,472
Operating Expenses	221,505		221,505	126,291	95,214
Totals	<u>\$ 822,878</u>	<u>\$ 2,328</u>	<u>\$ 825,206</u>	<u>\$ 423,520</u>	<u>\$ 401,686</u>
Expenditures by Source:					
General Fund	\$ 822,878	\$ 2,328	\$ 825,206	\$ 423,520	\$ 401,686
Totals	<u>\$ 822,878</u>	<u>\$ 2,328</u>	<u>\$ 825,206</u>	<u>\$ 423,520</u>	<u>\$ 401,686</u>

Appropriation Adjustments:

The \$2,328 increase in the Salaries and Benefits line was due to the State Government Internship Stipend Program per Senate Bill 2015 of the 2011 Legislative Session.

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 556,080	\$ 6,000	\$ 562,080	\$ 524,460	\$ 37,620
Operating Expenses	126,505		126,505	124,079	2,426
Federal Stimulus Funds	18,000		18,000	18,000	
Totals	<u>\$ 700,585</u>	<u>\$ 6,000</u>	<u>\$ 706,585</u>	<u>\$ 666,539</u>	<u>\$ 40,046</u>
Expenditures by Source:					
General Fund	\$ 682,585	\$ 6,000	\$ 688,585	\$ 648,539	\$ 40,046
Other Funds	18,000		18,000	18,000	
Totals	<u>\$ 700,585</u>	<u>\$ 6,000</u>	<u>\$ 706,585</u>	<u>\$ 666,539</u>	<u>\$ 40,046</u>

Appropriation Adjustments:

\$2,000 of the increase in the Salaries and Benefits line was due to additional appropriation authority granted by Chapter 15, section 18, of the 2009 Legislative Session for market equity increases for classified state employees.

\$4,000 of the increase in the Salaries and Benefits line was due to the State Government Internship Stipend Program per House Bill 1015 of the 2009 Legislative Session.

Expenditures Without Appropriations Of Specific Amounts:

Indian Affairs Commission Printing Fund has a continuing appropriation authorized by NDCC section 54-36-08 (\$1,014 of expenditures for this biennium).

Internal Control

In our audit for the two-year period ended June 30, 2012, we identified the following areas of the North Dakota Indian Affairs Commission's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of expenditures.
- 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 *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

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: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) 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. However, we noted other matters involving internal control that we have reported to management of the North Dakota Indian Affairs Commission in a management letter dated March 29, 2013.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2012, we identified and tested North Dakota Indian Affairs 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 legally restricted Indian Affairs Commission Printing Fund.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2009 North Dakota Session Laws Senate Bill 2005 and 2011 North Dakota Session Laws House Bill 1005).
- 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 record-keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll-related laws including statutory salaries for applicable elected and 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.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the North Dakota Indian Affairs Commission in a management letter dated March 29, 2012.

Operations

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

Management Letter (Informal Recommendations)

March 29, 2013

Mr. Scott Davis, Executive Director
Indian Affairs Commission
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Mr. Davis:

We have performed an audit of the North Dakota Indian Affairs Commission for the two-year period ended June 30, 2012, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Indian Affairs Commission's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 12-1: We recommend the Indian Affairs Commission ensure all expenditures are for allowable costs as prescribed by OMB policy, state law, and the North Dakota Constitution.

Informal Recommendation 12-2: We recommend the Indian Affairs Commission comply with state procurement requirements.

LEGISLATIVE INTENT

Informal Recommendation 12-3: We recommend the Indian Affairs Commission ensure an inventory is taken on an annual basis in accordance with NDCC 44-04-07.

GENERAL

Informal Recommendation 12-4: We recommend the Indian Affairs Commission establish and perform a fraud risk assessment on a recurring basis. We also recommend the Indian Affairs Commission design and document the necessary control activities to ensure that significant fraud exposure identified during the risk assessment process has been adequately mitigated and each of the identified mitigating controls has been adequately tested by management.

Informal Recommendation 12-5: We recommend the Indian Affairs Commission conduct performance reviews at least annually in accordance with NDAC 4-07-10-04.

Informal Recommendation 12-6: We recommend the Indian Affairs Commission comply with the records retention schedule and keep payroll records for five years.

Management of Indian Affairs Commission agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Kevin Scherbenske
Auditor in-charge

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