

North Dakota Indian Affairs Commission

BISMARCK, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2016



Office of the State Auditor
Division of State Audit

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

May 3, 2017

The Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly
Mr. Scott Davis, Executive Director, North Dakota 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, 2016. 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 Elizabeth Rogers. Cindi Pedersen, 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 "Joshua C. Gallion".

Joshua C. Gallion
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 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 our findings addressing "Lack of Blanket Bond Coverage" (page 11) and "Lack of Annual Inventory" (page 12), the North Dakota Indian Affairs Commission 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?

Other than our finding addressing "Lack of Fraud Risk Assessment" (page 9), we determined internal control was adequate.

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 14 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, 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 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, 2016 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, 2016. We conducted our 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 the 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, 2016, operations of the North Dakota Indian Affairs Commission were entirely supported by appropriations from the state's general fund.

Financial Summary

The North Dakota Indian Affairs Commission does not generate revenue. They receive an annual donation from the Bank of North Dakota of \$20,000 that is used for expenditures related to the North Dakota Indian Youth Leadership Academy.

Total expenditures for the North Dakota Indian Affairs Commission were \$552,001 for the year ended June 30, 2016 as compared to \$536,788 for the prior year. The increase in total expenditures for the audited period reflects primarily salaries and benefits due to salary increases. Other than salaries, the North Dakota Indian Youth Leadership Academy makes up a majority of the remaining expenditures with \$58,192 spent in 2015 and \$38,079 in 2016. The conference focuses on topics important to Native communities such as education, environment, water rights, land, and realty, tribal constitutions, public speaking, leadership, and cultural event participation. In 2015 and 2016 the conference served 23 and 18 youth, respectively.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Revenues:		
Donations	\$20,000	\$20,000
Total Revenues	<u>\$20,000</u>	<u>\$20,000</u>
Expenditures		
Salaries and Benefits	\$426,038	\$431,448
Operating Expenses:		
Professionals Not Classified	37,468	6,000
IT Equipment/Data Processing	29,695	13,547
Travel	11,691	11,548
Office/Miscellaneous Supplies	4,266	3,525
Professional Development	2,586	6,680
Insurance	1,106	1,005
Postage/Printing	689	486
Operating Fees and Services	268	58
Furniture/Miscellaneous Equipment	115	4,299
Total Operating Expenditures	<u>\$513,922</u>	<u>\$478,596</u>
Youth Leadership Conference Expenses:		
Speakers/Mentors	13,485	25,684
Booth/Room Rental	5,930	1,165
Advertising/Promotional Supply	4,057	2,650
Travel Expenses	3,985	2,310
Awards/Gifts/Prizes	2,794	6,641
Food/Groceries	2,198	1,626
Catering	1,470	9,236
Recreation	1,291	2,194
Miscellaneous Expenses	1,233	3,020
Clothing	1,036	2,666
Honorariums	600	1,000
Total Conference Expenses	<u>\$38,079</u>	<u>\$58,192</u>
Total Expenditures	<u>\$552,001</u>	<u>\$536,788</u>

Statement of Appropriations

For the Fiscal Year Ended June 30, 2016

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 933,039	\$ (28,000)	\$ 905,039	\$ 426,038	\$ 479,001
Operating Expenses	284,206	(21,298)	262,908	105,963	156,945
Totals	<u>\$ 1,217,245</u>	<u>\$ (49,298)</u>	<u>\$ 1,167,947</u>	<u>\$ 532,001</u>	<u>\$ 635,946</u>
Expenditures by Source:					
General Fund	\$ 1,217,245	\$ (49,298)	\$ 1,167,947	\$ 532,001	\$ 635,946
Totals	<u>\$ 1,217,245</u>	<u>\$ (49,298)</u>	<u>\$ 1,167,947</u>	<u>\$ 532,001</u>	<u>\$ 635,946</u>

Appropriation Adjustments:

The \$28,000 decrease in the Salaries and Wages line item and the \$21,298 decrease in the Operating Expenditures line item are due to the 4.05 percent budget allotment ordered by the governor in February 2016.

For the Biennium Ended June 30, 2015

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 852,869	\$ 4,200	\$ 857,069	\$ 832,872	\$ 24,197
Accrued Leave Payments	8,421		8,421	3,446	4,975
Operating Expenses	166,268		166,268	152,834	13,434
Totals	<u>\$ 1,027,558</u>	<u>\$ 4,200</u>	<u>\$ 1,031,758</u>	<u>\$ 989,152</u>	<u>\$ 42,606</u>
Expenditures by Source:					
General Fund	\$ 1,027,558	\$ 4,200	\$ 1,031,758	\$ 989,152	\$ 42,606
Totals	<u>\$ 1,027,558</u>	<u>\$ 4,200</u>	<u>\$ 1,031,758</u>	<u>\$ 989,152</u>	<u>\$ 42,606</u>

Appropriation Adjustments:

The \$4,200 increase in the Salaries and Wages line was due to the state government Internship Stipend Program per House Bill 1015 of the 2013 Legislative Session.

Internal Control

In our audit for the two-year period ended June 30, 2016, 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 revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- 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 *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).

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 that internal control was not adequate noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

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 identified the following significant deficiency in internal control. We also noted other matters involving internal control that we have reported to management of the North Dakota Indian Affairs Commission in a management letter dated May 3, 2017.

Lack of Fraud Risk Assessment (Finding 16-1)

Condition:

The North Dakota Indian Affairs Commission has not completed a fraud risk assessment.

Criteria:

The Office of Management and Budget (OMB) Policy 216 requires all state agencies to perform a fraud risk assessment for each of their functions and/or divisions on a biennial basis.

Cause:

The North Dakota Indian Affairs Commission was not aware that this was a requirement.

Effect or Potential Effect:

The North Dakota Indian Affairs Commission may have high risk areas without adequate controls and be unaware of these weaknesses.

Recommendation:

We recommend the North Dakota Indian Affairs Commission establish and perform a fraud risk assessment on at least a biennial basis in accordance with OMB Policy 216.

North Dakota Indian Affairs Commission Response:

This has always been a recommendation on our audit reports. I agree that we did not know it was an actual policy. Work is in progress to complete a risk assessment for our office. I believe the risk areas in our office are highly minimal due to our workforce of four FTE's. We use checks and balances for doing the financial tasks in our office.

Compliance with Legislative Intent

In our audit for the two-year period ended June 30, 2016, we identified and tested the 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:

- Compliance with appropriation laws (2013 North Dakota Session Laws chapter 36 and 2015 North Dakota Session Laws chapter 5).
- Proper authorization of funds.
- 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, annual inventory, and surplus property.
- 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 requires 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 two instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are described below. Other than those findings, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of the North Dakota Indian Affairs Commission in a management letter dated May 3, 2017.

Lack of Blanket Bond Coverage (Finding 16-2)

Condition:

The North Dakota Indian Affairs Commission did not have blanket bond coverage as of January 1, 2016.

Criteria:

Section 26.1-21-10 of the North Dakota Century Code states that each agency shall apply to be bonded into the fund no less often than on a biennial basis or when a change in coverage is requested, whichever occurs first.

Cause:

The North Dakota Indian Affairs Commission failed to renew their blanket bond coverage.

Effect or Potential Effect:

The agency is at risk for losing money, should a loss occur.

Recommendation:

We recommend that the North Dakota Indian Affairs Commission maintain adequate blanket bond coverage.

North Dakota Indian Affairs Commission Response:

Our office has always complied with getting the bond coverage completed every year except for 2016 due to an oversight. However, the bond insurance form was completed on May 17, 2017 and submitted to the Insurance Department. We will be submitting the form in a timely manner by January 2018. Our office does not handle any money during the year and has only received about two checks this biennium and they are entered into PeopleSoft, then taken up to the State Treasury Office.

Lack of Annual Inventory (Finding 16-3)**Condition:**

The North Dakota Indian Affairs Commission did not maintain a complete listing of inventory and did not take an annual inventory during the audit period.

Criteria:

North Dakota Century Code (NDCC) 44-04-07 requires state agencies to complete an annual inventory of fixed assets.

Cause:

The North Dakota Indian Affairs Commission failed to implement a prior recommendation.

Effect or Potential Effect:

The agency is not in compliance with NDCC.

Recommendation:

We recommend the North Dakota Indian Affairs Commission maintain a complete listing of assets, including the dates the items were purchased and their dollar value, and perform an inventory on an annual basis in accordance with NDCC 44-04-07.

North Dakota Indian Affairs Commission Response:

Inventory has always been updated each year, however, with a complete new staff on board starting in 2012, the inventory list was not found in our files; therefore we had to start a complete new inventory list and have been maintaining that to date.

Operations

This audit did not identify areas of the 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)

May 3, 2017

The Honorable Doug Burgum, Governor
Mr. Scott Davis, Executive Director, North Dakota Indian Affairs Commission
State Capitol
600 E Boulevard Avenue
Bismarck, ND 58505

The Honorable Doug Burgum:

We have performed an audit of the North Dakota Indian Affairs Commission for the two-year period ended June 30, 2016, 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.

EXPENDITURES

Informal Recommendation 16-1: We recommend the Indian Affairs Commission ensure travel expenditures are made in accordance with the Office of Management and Budget (OMB) Policy 505.

Informal Recommendation 16-2: We recommend the Indian Affairs Commission maintain proper support for payments.

Informal Recommendation 16-3: We recommend the Indian Affairs Commission properly code transactions in the state's accounting system.

Informal Recommendation 16-4: We recommend the Indian Affairs Commission comply with OMB Policy 300 surrounding purchase card reconciliations.

LEGISLATIVE INTENT

Informal Recommendation 16-5: We recommend the Indian Affairs Commission develop controls to ensure that the monthly payroll certification is performed to validate employee's classification and rate of pay in accordance with North Dakota Century Code section 54-44.3-16.

Informal Recommendation 16-6: We recommend the Indian Affairs Commission comply with state procurement requirements.

GENERAL

Informal Recommendation 16-7: We recommend the Indian Affairs Commission comply with OMB Policy 205 by developing a policy that specifies the dollar level that will be used in maintaining a fixed asset listing. This policy should also include the inventory of assets that are particularly at risk or vulnerable to loss.

Informal Recommendation 16-8: We recommend the Indian Affairs Commission utilize the conference fund to account for the Youth Leadership conference.

Informal Recommendation 16-9: We recommend the Indian Affairs Commission handle all contracts consistently and include a liability statement.

Management of Indian Affairs Commission agreed with these recommendations.

I encourage you to call me 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,



Elizabeth Rogers
Auditor in-charge

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or by contacting the
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