

North Dakota Protection and Advocacy Project

BISMARCK, NORTH DAKOTA

Audit Report

Two-year Period Ended
June 30, 2014

ROBERT R. PETERSON
STATE AUDITOR



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

April 16, 2015

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Ms. Teresa Larsen, Executive Director

We are pleased to submit this audit of the North Dakota Protection and Advocacy Project for the two-year period ended June 30, 2014. 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 Krista Lambrecht, CPA. Michael Schmitcke, CPA, was the staff auditor. 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 Ms. Larsen and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Protection and Advocacy Project is an independent state agency established in 1977 to advance the human and legal rights of people with disabilities. People served include infants, children, and adults of all ages. The majority of funds for program operations are from federal grants. Additional support is provided by the state of North Dakota. There is no cost for services, however, the North Dakota Protection and Advocacy Project does implement general eligibility requirements, including that the individual must reside within the state of North Dakota.

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 Protection and Advocacy Project 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.

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 12 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 Protection and Advocacy Project'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 Protection and Advocacy.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Protection and Advocacy Project for the two-year period ended June 30, 2014 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of the North Dakota Protection and Advocacy Project is for the two-year period ended June 30, 2014. 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 Protection and Advocacy Project has operations in the following locations. Each location was included in the audit scope:

- The central office and main location of operation is located in Bismarck.
- Satellite offices are located in Williston, Minot, Turtle Mountain, Devils Lake, Grafton, Grand Forks, Fargo, Jamestown, and Dickinson.

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 Protection and Advocacy Project'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 Protection and Advocacy Project'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 ended June 30, 2014, operations of the North Dakota Protection and Advocacy Project were primarily supported by funding from the federal government. This was supplemented by appropriations from the state's general fund.

Financial Summary

Revenues for the North Dakota Protection and Advocacy Project consisted primarily of federal funds. Other sources during the audited period included pass-thru federal funds from other state agencies and transfers in from other state agencies. These all remained fairly constant for the North Dakota Protection and Advocacy Project, decreasing only slightly. Total revenues and other sources were \$1,360,810 for the year ended June 30, 2014 as compared to \$1,452,290 for the year ended June 30, 2013.

Total expenditures for the North Dakota Protection and Advocacy Project were \$2,565,306 for the year ended June 30, 2014 as compared to \$2,403,902 for the prior year. The majority of the increase is attributable to general salary increases and market equity and performance raises, as well as there being significantly more employee turnover in fiscal year 2013 than fiscal year 2014. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

A significant amount of the excess in the Protection and Advocacy Services appropriations over actual expenditures (\$508,475 unexpended appropriations) for the 2011-2013 biennium was the result of less operating funds expended from the federal grants. The remaining appropriation amount was built into the budget for the 2013-2015 biennium.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$1,215,879	\$1,287,713
Program Income		2,000
Transfers In	144,931	162,577
Total Revenues and Other Sources	<u>\$1,360,810</u>	<u>\$1,452,290</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$2,214,430	\$2,029,549
Building Rentals	115,460	99,092
IT Services	57,482	54,155
Travel	63,809	42,192
Operating Fees and Services	70,457	125,075
Miscellaneous Supplies	35,479	25,945
Equipment	8,189	27,894
Total Expenditures	<u>\$2,565,306</u>	<u>\$2,403,902</u>

Statement of Appropriations

For The Fiscal Year Ended June 30, 2014

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Accrued Leave Payments	\$ 93,590		\$ 93,590		\$ 93,590
P & A Services	5,671,584		5,671,584	\$ 2,565,306	3,106,278
Totals	<u>\$ 5,765,174</u>	<u>\$ 0</u>	<u>\$ 5,765,174</u>	<u>\$ 2,565,306</u>	<u>\$ 3,199,868</u>
Expenditures by Source:					
General Fund	\$ 2,531,562		\$ 2,531,562	\$ 1,068,637	\$ 1,462,925
Other Funds	3,233,612		3,233,612	1,496,669	1,736,943
Totals	<u>\$ 5,765,174</u>	<u>\$ 0</u>	<u>\$ 5,765,174</u>	<u>\$ 2,565,306</u>	<u>\$ 3,199,868</u>

Appropriation Adjustments:

No appropriation adjustments were made to the appropriation for the fiscal year ended June 30, 2014.

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
P & A Services	\$ 5,104,253		\$ 5,104,253	\$ 4,595,778	\$ 508,475
Totals	<u>\$ 5,104,253</u>	<u>\$ 0</u>	<u>\$ 5,104,253</u>	<u>\$ 4,595,778</u>	<u>\$ 508,475</u>
Expenditures by Source:					
General Fund	\$ 1,985,365		\$ 1,985,365	\$ 1,985,356	\$ 9
Other Funds	3,118,888		3,118,888	2,610,421	508,475
Totals	<u>\$ 5,104,253</u>	<u>\$ 0</u>	<u>\$ 5,104,253</u>	<u>\$ 4,595,778</u>	<u>\$ 2,982,700</u>

Appropriation Adjustments:

No appropriation adjustments were made to the appropriation for the biennium ended June 30, 2013.

Internal Control

In our audit for the two-year period ended June 30, 2014, we identified the following areas of the North Dakota Protection and Advocacy Project's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of expenditures.
- Controls surrounding the processing of payroll.
- 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.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2014, we identified and tested North Dakota Protection and Advocacy Project's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with OMB's Purchasing Procedures Manual.
- Compliance with appropriations and related transfers (2011 North Dakota Session Laws chapter 40 and 2013 North Dakota Session Laws chapter 14).
- 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 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 a certain inconsequential or insignificant instance of non-compliance that we have reported to management of the North Dakota Protection and Advocacy Project in a management letter dated April 16, 2015.

Operations

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

Management Letter (Informal Recommendations)

April 16, 2015

Ms. Teresa Larsen
Executive Director
North Dakota Protection and Advocacy Project
400 E. Broadway, Suite 409
Bismarck, ND 58501

Dear Ms. Larsen:

We have performed an audit of the North Dakota Protection and Advocacy Project for the two-year period ended June 30, 2014, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Protection and Advocacy Project'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 recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider its status.

The following presents our informal recommendation.

Informal Recommendation 14-1: We recommend the North Dakota Protection and Advocacy Project pay all meal reimbursements in accordance with OMB's Fiscal and Administrative Policy 505 and also take steps to ensure all expenditures are properly coded.

Management of North Dakota Protection and Advocacy Project agreed with this recommendation.

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

Sincerely,

A handwritten signature in cursive script that reads "Krista Lambrecht".

Krista Lambrecht, CPA
Auditor in-charge

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www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241