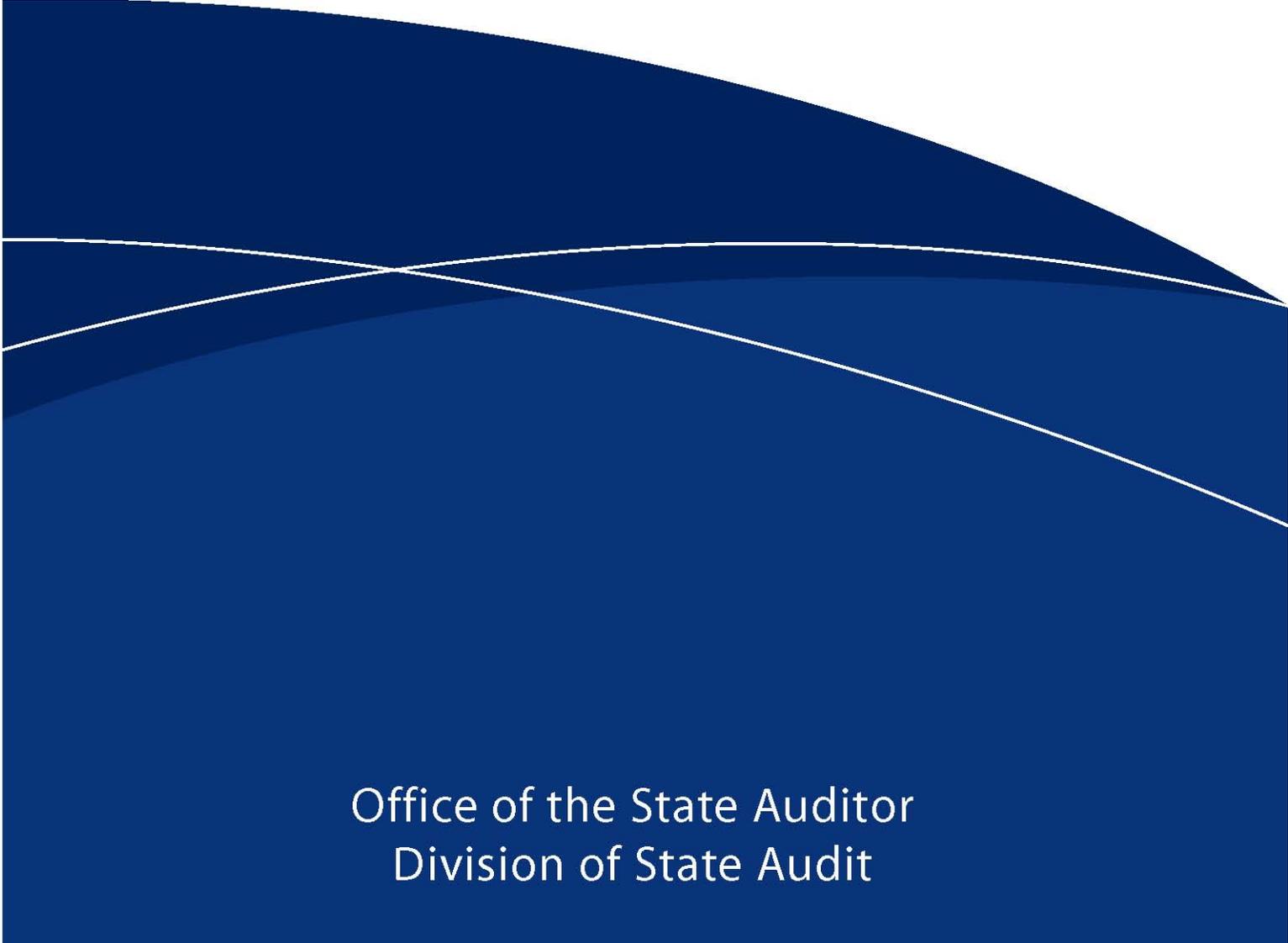


North Dakota Protection
and Advocacy Project
BISMARCK, NORTH DAKOTA

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

April 3, 2017

Members of the North Dakota Legislative Assembly
Members of the Committee on Protection and Advocacy
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, 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 Holly Robak. 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 "Joshua C. Gallion".

Joshua C. Gallion
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 are no costs 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 Project.

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, 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 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, 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 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 downtown Bismarck.
- Satellite offices are located in Williston, Minot, Devils Lake, Grand Forks, Fargo, Jamestown, Dickinson, Belcourt, and Grafton.

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 June 30, 2016, operations of the North Dakota Protection and Advocacy Project were primarily supported by funding from the federal government. This is 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 of revenue during the audited period included Medicaid federal funds from the North Dakota Department of Human Services for the Client Assistance Program (CAP) and a deposit of rent refunded from a prior biennium expense. Revenues and Other Sources remained fairly constant for the North Dakota Protection and Advocacy Project, increasing slightly. Total revenues and other sources were \$1,621,312 for the year ended June 30, 2016 as compared to \$1,468,179 for the year ended June 30, 2015.

Total expenditures for the North Dakota Project and Advocacy Project were \$3,007,538 for the year ended June 30, 2016 as compared to \$2,793,084 for the prior year. The increase in total expenditures for the audited period is attributable to general salary increases, market equity raises, and merit raises based on legislation. All other expenditures remained fairly constant.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$1,461,905	\$1,310,113
Miscellaneous Revenue	1,491	
Transfers In	157,916	158,066
Total Revenues and Other Sources	<u>\$1,621,312</u>	<u>\$1,468,179</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$2,536,065	\$2,347,402
Building Rentals	127,171	115,738
IT Services	134,506	64,937
Travel	53,616	71,262
Operating Fees and Services	135,111	132,624
Miscellaneous Supplies	18,381	38,622
Equipment	2,688	22,499
Total Expenditures and Other Uses	<u>\$3,007,538</u>	<u>\$2,793,084</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>
P & A Services	\$ 6,466,964	\$ (30,107)	\$ 6,436,857	\$ 3,007,538	\$ 3,429,319
Totals	<u>\$ 6,466,964</u>	<u>\$ (30,107)</u>	<u>\$ 6,436,857</u>	<u>\$ 3,007,538</u>	<u>\$ 3,429,319</u>
Expenditures by Source:					
General Fund	\$ 3,034,111	\$ (30,107)	\$ 3,004,004	\$ 1,369,015	\$ 1,634,989
Other Funds	3,432,853		3,432,853	1,638,523	1,794,330
Totals	<u>\$ 6,466,964</u>	<u>\$ (30,107)</u>	<u>\$ 6,436,857</u>	<u>\$ 3,007,538</u>	<u>\$ 3,429,319</u>

Appropriation Adjustments:

The appropriation adjustment decrease of \$30,107 is comprised of the following adjustments:

- An increase of \$92,774 was an equity salary increase for Protection and Advocacy Project employees authorized by Senate Bill 2015, section 4 in the 64th Legislative Assembly.
- A decrease of \$122,881 was a 4.05% budget allotment reduction ordered by the Governor of North Dakota 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>
Accrued Leave Payments	\$ 93,590		\$ 93,590	\$ 5,448	\$ 88,142
P & A Services	5,671,584		5,671,584	5,352,942	318,642
Totals	<u>\$ 5,765,174</u>	<u>\$ 0</u>	<u>\$ 5,765,174</u>	<u>\$ 5,358,390</u>	<u>\$ 406,784</u>
Expenditures by Source:					
General Fund	\$ 2,531,562		\$ 2,531,562	\$ 2,531,406	\$ 156
Other Funds	3,233,612		3,233,612	2,826,984	406,628
Totals	<u>\$ 5,765,174</u>	<u>\$ 0</u>	<u>\$ 5,765,174</u>	<u>\$ 5,358,390</u>	<u>\$ 406,784</u>

Appropriation Adjustments:

No appropriation adjustments were made to the appropriation for the biennium ended June 30, 2015.

Internal Control

In our audit for the two-year period ended June 30, 2016, 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 *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) and, for programs receiving federal funds, the Code of Federal Regulation as set forth by the federal government (2 CFR 200.303).

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, 2016, 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:

- Compliance with OMB's Purchasing Procedures Manual.
- Compliance with appropriations and related transfers (2013 North Dakota Session Laws chapter 14, and 2015 North Dakota Session Laws chapter 48).
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- 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,

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 Protection and Advocacy Project in a management letter dated April 3, 2017.

Operations

This audit did not identify areas of the 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 3, 2017

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, 2016, 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.

LEGISLATIVE INTENT

Informal Recommendation 16-1: We recommend the North Dakota Protection and Advocacy Project comply with OMB procurement guidelines for purchases over \$2,500.

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

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 this letter.

Sincerely,

A handwritten signature in black ink that reads "Holly Robak". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Holly Robak
Auditor in-charge

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or by contacting the
Division of State Audit

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