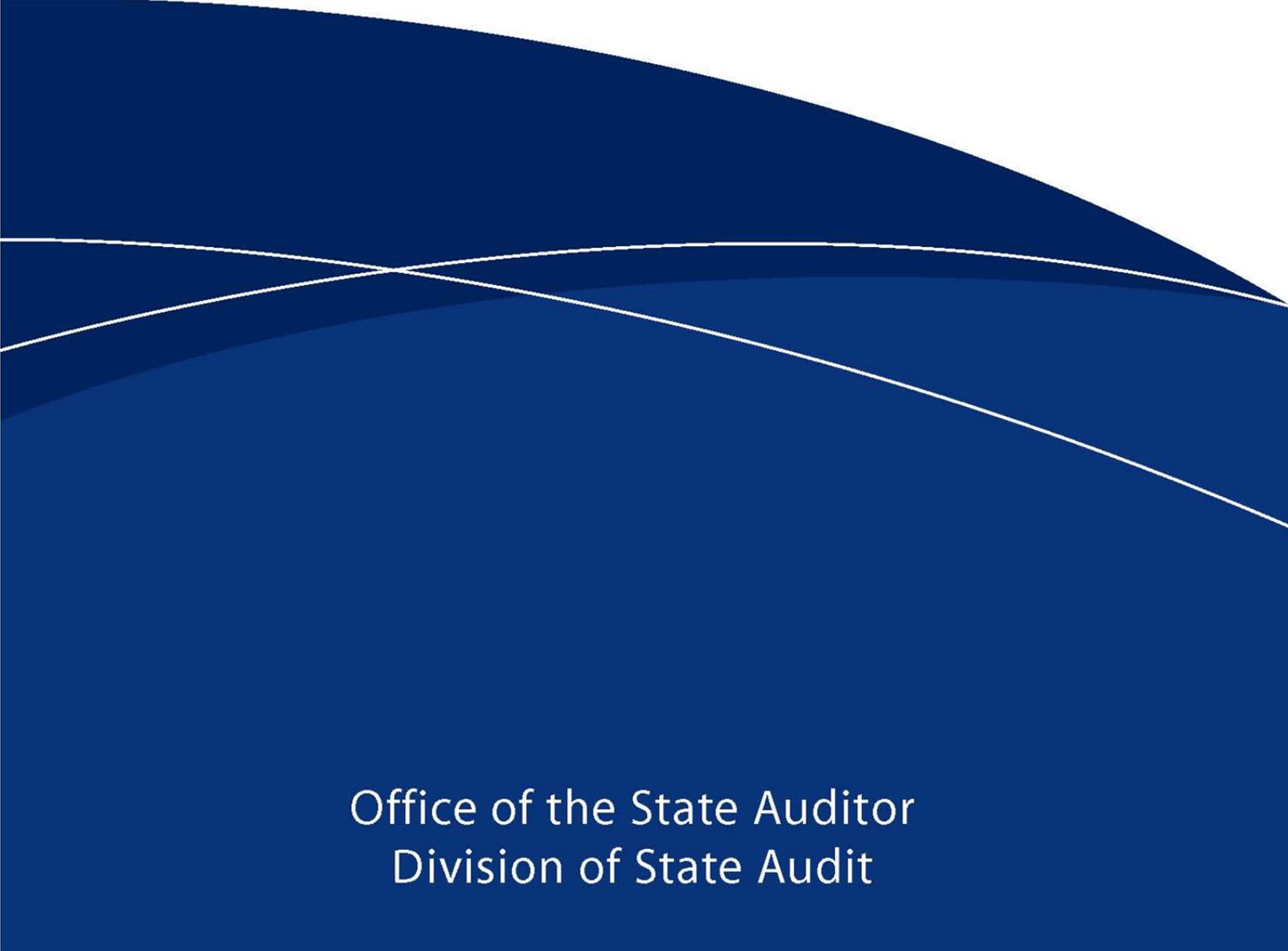


Office of the Adjutant General
BISMARCK, NORTH DAKOTA

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 14, 2013

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Major General David Sprynczynatyk, Office of the Adjutant General

We are pleased to submit this audit of the Office of the Adjutant General 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 Allison Bader. Delan Hellman and Amanda Pierce were the staff auditors. 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 Major General Sprynczynatyk 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 Office of the Adjutant General is charged with the control of the Military Department of the state of North Dakota. The Adjutant General is to perform the duties pertaining to the Adjutant General and other Chiefs of Staff Departments under the regulations and customs of the United States Army. The Adjutant General acts upon the desire and the instruction of the Governor, who is commander in chief of the military forces of the state. The mission of the North Dakota Army and Air National Guard is to provide ready units, individuals, and equipment to support our communities, state, and nation. The National Guard is a reserve component of the United States military forces and, as such, is subject to call into the military services of the United States.

The Department of Emergency Services consists of the Division of Homeland Security and the Division of State Radio. The Adjutant General serves as Director and is Chairman of the Department of Emergency Services Advisory Committee charged to provide direction and guidance in policy formation. The Division of Homeland Security consists of the state operations center section, the disaster recovery section, and the homeland security grant section. The Division of State Radio is dedicated to providing professional voice and data communications to federal, state, local, and tribal public safety agencies, as well as service to the general public.

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 Office of the Adjutant General 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?*

The Office of the Adjutant General has 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.*

Yes, a management letter was issued and is included on pages 18-19 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 Office of the Adjutant General'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, Human Resource Management System (HRMS), and ND National Guard Active Duty Tracking system are high-risk information technology systems critical to the Office of the Adjutant General.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Office of the Adjutant General 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 Office of the Adjutant General'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 Office of the Adjutant General and are they in compliance with these laws?
3. Are there areas of the Office of the Adjutant General's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Office of the Adjutant General 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the Adjutant General's central office is at Fraine Barracks in Bismarck, North Dakota with several military unit locations located throughout the state. The financial data for these military unit locations is included in the scope of this audit.

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 Office of the Adjutant General'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 Office of the Adjutant General'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, 2012, operations of the Office of the Adjutant General were primarily supported by appropriations from the federal government. This is supplemented by general funds and fees credited to the agency's operating funds and other funds under its control.

Financial Summary

The Office of the Adjutant General had approximately \$218 million in capital assets as of June 30, 2012. These capital assets consist of buildings, infrastructure, equipment, and land throughout the state of North Dakota.

Total revenues and other sources were \$166,705,566 for the year ended June 30, 2012 as compared to \$142,739,372 for the year ended June 30, 2011. Revenues consisted primarily of federal funds. Federal revenues increased 42% due to an increase in federal disaster assistance grants received to respond to the 2010 winter storm, 2011 flood, and public assistance program for the 2009 flood. Other revenues include refunds, loan proceeds, program income, hazardous chemical fees, rental of facilities, and legislative transfers. Loan proceeds decreased \$2,546,148 due to funding borrowed from the BND in fiscal year 2011 for the 2010 April ice storm and 2011 flood. In fiscal year 2012, the Adjutant General had authority to use the State Disaster Relief fund. Transfers in decreased \$23,090,710 due to mandatory legislative transfers pursuant to section 2 of Senate Bill 2444 of the 2009 Session Laws and section 3 of Senate Bill 2369 of the 2011 Session Laws. Other revenues remained fairly consistent, increasing slightly.

Total expenditures for the Office of the Adjutant General were \$207,833,497 for the year ended June 30, 2012, as compared to \$160,644,953 for the prior year. The increase in total expenditures reflects primarily increases in grants which account for 62% of total expenditures. Salaries and Benefits expenditures decreased during fiscal year 2012 due to flooding disasters during fiscal year 2011 which required mobilization of temporary National Guard services. Other Capital Payment expenditures increased due to the building addition of the Camp Grafton Readiness Center. Repair expenditures decreased due to completion of the parking lot repair project at the Raymond Bohn Armory and telecommunications replacement and road repair projects at Camp Grafton. Land and buildings expenditures decrease reflects the completion of the Regional Training Institute at Camp Grafton in fiscal year 2011. Transfers out increased due to 2011 flood disaster federal assistance allocated to various other state agencies during fiscal year 2012 and a legislatively mandated transfer to the highway fund pursuant to section 14 of Senate Bill 2371 of the 2011 Session Laws. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The excess Grants and 2009 Flood Disaster line item appropriations over actual expenditures were due to increased authority for the 2009, 2010, and 2011 flood disasters that were not expended in the 2009-2011 biennium.

The excess Radio Communications line item appropriations over actual expenditures were due to remaining procurement of the Computer Aided Dispatch system. The Carryover Committee approved \$2,455,938 carried forward to the 2011-2013 biennium.

The excess Army Guard Contracts line item appropriations over actual expenditures were mostly due to construction in progress of the Camp Grafton Readiness Center. The Carryover Committee approved \$12,695,716 carried forward to the 2011-2013 biennium. In addition, the biennial budget is based on historical construction estimates while the federal construction contracts that will actually be approved are not yet identified.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$159,583,508	\$112,660,809
Sales and Services	2,634,684	1,289,747
Refunds	1,538,813	793,397
Disaster Mitigation and Relief Program Revenues	638,250	2,278
Hazardous Chemical Fees	270,450	233,825
Rentals/Leases of Land, Rooms, and Buildings	76,564	115,321
Loan Proceeds		2,546,148
Other Revenues	38,998	82,838
Transfers In	1,924,299	25,015,009
Total Revenues and Other Sources	<u>\$166,705,566</u>	<u>\$142,739,372</u>
<u>Expenditures and Other Uses:</u>		
Grants, Benefits, and Claims	\$134,218,915	\$95,885,109
Salaries and Benefits	20,211,118	24,603,727
Other Capital Payments	8,712,520	755,696
Professional Services	6,260,890	5,967,825
Repairs	4,781,888	8,266,611
Operating Fees and Services	2,850,447	3,008,311
Utilities	2,533,586	2,699,756
Extraordinary Repairs	1,859,875	2,223,968
Travel	1,221,851	2,185,710
Equipment Over \$5,000	1,784,233	2,698,132
IT Data Processing	1,143,157	1,089,361
Land and Buildings	1,061,931	3,489,868
Professional Development	950,369	888,157
Rentals/Leases of Buildings, Land, and Equipment	784,802	704,318
Supplies	579,820	1,709,468
IT Contractual Services and Repairs	525,577	442,857
Equipment Under \$5,000	343,288	766,943
IT Communications	315,241	232,011
Other Operating Expenses	214,293	283,708
Transfers Out	17,479,693	2,743,417
Total Expenditures and Other Uses	<u>\$207,833,497</u>	<u>\$160,644,953</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 Wages	\$ 16,517,630		\$ 16,517,630	\$ 6,989,742	\$ 9,527,888
Operating Expenses	13,992,913		13,992,913	3,801,382	10,191,532
Capital Assets	2,982,099		2,982,099	1,279,398	1,702,701
Construction					
Carryover		\$ 15,151,654	15,151,654	8,617,704	6,533,949
Grants	71,929,285	588,256	72,517,541	12,244,445	60,273,096
Flood Disasters	100,923,008	357,813,919	458,736,927	143,700,307	315,036,620
Civil Air Patrol	243,353		243,353	132,772	110,581
Radio					
Communications	3,735,000	305,165	4,040,165	250,617	3,789,548
Tuition Fees	2,407,500		2,407,500	864,608	1,542,892
Air Guard Contract	10,989,323		10,989,323	4,173,053	6,816,270
Army Guard Contract	56,110,757		56,110,757	16,551,155	39,559,602
Reintegration Program	1,550,149		1,550,149	757,085	793,064
ND Veterans Cemetery	576,916		576,916	235,464	341,452
Totals	<u>\$281,957,933</u>	<u>\$373,858,994</u>	<u>\$655,816,927</u>	<u>\$199,597,732</u>	<u>\$456,219,195</u>
Expenditures by Source:					
General Fund	\$ 29,353,555	\$ 3,849,358	\$ 33,202,913	\$ 12,684,238	\$ 20,518,676
Other Funds	252,604,378	370,009,636	622,614,014	186,913,494	435,700,519
Totals	<u>\$281,957,933</u>	<u>\$373,858,994</u>	<u>\$655,816,927</u>	<u>\$199,597,732</u>	<u>\$456,219,195</u>

Appropriation Adjustments:

The \$15,151,654 increase in the Construction Carryover line item was approved by the Construction Carryover Legislative Committee. The carryover funds were reserved for information technology projects, building addition, and water heater/furnace replacements at Camp Grafton, and construction of the joint operations center in Fargo, North Dakota.

The \$588,256 increase in the Grants line item was authorized by Senate Bill 2016 section 7 of the 2011 Session Laws for payment of adjusted compensation to veterans for the Veterans' Bonus Program.

The \$357,813,919 increase in the Flood Disasters line item includes \$329,600,000 approved by the Emergency Commission to accept federal funds from the Federal Emergency Management Agency for the federal share of the 2011 statewide flood disaster. Also, Senate Bill 2371 sections 9, 15, and 20 of the 2011 Special Session Laws approved additional

appropriation for the rebuilders loan program and cities and counties for flood-impacted housing rehabilitation (\$10,000,000), defraying expenses of presidentially declared state disasters (\$29,500,000), and flood-damaged school infrastructure grants (\$500,000). In addition, the original appropriation was decreased for amounts spent during the previous biennium (\$11,786,081) appropriated pursuant to the emergency measure of section 3 of Senate Bill 2016 and section 4 of Senate Bill 2369 of the 2011 Session Laws for the purpose of defraying expenses related to the 2011 flood disasters and state disasters and flood mitigation efforts.

The \$305,165 increase in the Radio Communications line item was made pursuant to Senate Bill 2016 section 8 of the 2011 Session Laws for the next generation 911 study, the state radio tower study, and the new state radio tower site near Wales, North Dakota.

Expenditures Without Appropriations Of Specific Amounts:

Veterans' Cemetery Maintenance Fund has a continuing appropriation authorized by NDCC section 37-03-14 (\$465,008 of expenditures for this fiscal year).

National Guard Military Grounds Fund has a continuing appropriation authorized by NDCC section 37-03-13 (\$146,551 of expenditures for this fiscal year).

Insurance Recoveries Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$19,975 of expenditures for this fiscal year).

Statement of Appropriations

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 Wages	\$ 14,225,041	\$ 3,341,713	\$ 17,566,754	\$ 14,843,011	\$ 2,723,743
Operating Expenses	7,793,948	8,357,585	16,151,533	11,909,682	4,241,849
Capital Assets	2,241,017	70,000	2,311,017	2,293,918	17,099
Construction					
Carryover		10,373,471	10,373,471	10,373,471	
Grants	46,001,781	95,213,283	141,215,064	89,072,749	52,142,315
2009 Flood Disaster	125,500,000	75,664,317	201,164,317	136,297,311	64,867,007
Civil Air Patrol	222,836	335,000	557,836	514,731	43,105
Radio					
Communications	3,745,000		3,745,000	983,898	2,761,102
Tuition Fees	2,407,500	(100,000)	2,307,500	2,293,932	13,568
Air Guard Contract	9,551,543	8,939	9,560,482	7,991,308	1,569,174
Army Guard					
Contract	60,058,099	19,546	60,077,645	35,045,516	25,032,129
Reintegration					
Program	1,377,409		1,377,409	1,372,471	4,938
ND Veterans					
Cemetery	489,141		489,141	429,962	59,179
Federal Stimulus					
Funds - 2009	3,783,770	366,819	4,150,589	3,817,460	333,130
Totals	<u>\$277,397,085</u>	<u>\$193,650,673</u>	<u>\$471,047,758</u>	<u>\$317,239,420</u>	<u>\$153,808,338</u>
Expenditures by Source:					
General Fund	\$ 40,725,214	\$ (4,508,125)	\$ 36,217,089	\$ 32,657,460	\$ 3,559,629
Other Funds	236,671,871	198,158,798	434,830,669	284,581,960	150,248,709
Totals	<u>\$277,397,085</u>	<u>\$193,650,673</u>	<u>\$471,047,758</u>	<u>\$317,239,420</u>	<u>\$153,808,338</u>

Appropriation Adjustments:

The \$3,341,713 increase in the Salaries and Benefits line item includes \$410,598 authorized for Public Assistance and Hazard Mitigation Grant programs related to natural disasters occurring within the state from 1997 through 2007. The increase also includes amounts authorized to accept federal funds from the Federal Emergency Management Agency and to borrow and accept loan proceeds from the Bank of North Dakota under the provisions of NDCC 54-16-13 for expenditures related to the April 2010 storm (\$207,000), spring 2010 flooding (\$2,607,600), and 2010 severe winter storm (\$45,000). These adjustments were properly approved by the Emergency Commission. In addition, appropriation was allocated by the Office of Management and Budget from the statewide salary equity pool appropriated pursuant to House Bill 1015 of the 61st Legislative Assembly for salary and market equity compensation adjustments for executive branch state employees to the Salaries and Benefits line item

(\$71,515), Air Guard Contract line item (\$8,939), and the Army Guard Contract line item (\$19,546).

The \$8,357,585 increase in the Operating Expenses line item includes amounts authorized to accept federal funds from the Federal Emergency Management Agency (FEMA) and to borrow and accept loan proceeds from the Bank of North Dakota under the provisions of NDCC 54-16-13 for expenditures related to the April 2010 storm (\$319,000), spring 2010 flooding (\$3,110,875), and 2010 severe winter storm (\$25,000). An additional \$3,000,000 authority to accept federal funds from FEMA was authorized for monitoring and inspection of damaged sites from these disasters. These adjustments were properly approved by the Emergency Commission. In addition, \$1,802,709 appropriation was carried forward pursuant to emergency measures in sections 1 and 2 of House Bill 1023 of the 2009 Session Laws for the purpose of providing state matching funds for public assistance and disaster hazard mitigation programs and expenses incurred for the snow emergency in January 2009. Authorized by House Bill section 8 of the 2009 Session Laws, \$100,000 was transferred from Tuition Fees line to provide for the maintenance and repair of state-owned armories.

The \$70,000 increase in the Capital Assets line item and \$335,000 increase in the Civil Air Patrol line were authorized to accept federal funds for the purchase of a mobile command and emergency operations trailer and a radar system for the civil air patrol aircraft. These adjustments were properly approved by the Emergency Commission.

The \$10,373,471 increase in the Construction Carryover line item was authorized by section 54-44.1-11 of the NDCC which allows for unexpended capital construction budgets to be carried forward to the next biennium. The adjustment was properly approved by the Carryover Committee.

The \$95,213,283 increase in the Grants line item includes \$2,304,837 authorized for Public Assistance and Hazard Mitigation Grant programs related to natural disasters occurring within the state from 1997 through 2007. The increase also includes amounts authorized to accept federal funds from the Federal Emergency Management Agency and to borrow and accept loan proceeds from the Bank of North Dakota under the provisions of NDCC 54-16-13 for expenditures related to the April 2010 storm (\$33,516,500), spring 2010 flooding (\$26,265,900), and 2010 severe winter storm (\$17,451,875). These adjustments were properly approved by the Emergency Commission. Pursuant to sections 2 and 6 of House Bill 1482 of the 2009 Session Laws, appropriation in the Grants line was increased \$1,300,956 related to unexpended appropriation authority from the previous biennium carried forward for the purpose of providing adjusted compensation to eligible veterans. In addition, the original appropriation was decreased for amounts spent during the previous biennium (\$250,000) appropriated pursuant to the emergency measure of section 34 of House Bill 1015 of the 2009 Session Laws for the purpose of providing grants to eligible political subdivisions that experience damage or destruction due to the tornado during the summer of 2007. The original appropriation was also decreased for amounts spent during the previous biennium (\$5,376,784) appropriated pursuant to the emergency measure of section 6 of Senate Bill 2012 of the 2009 Session Laws for the purpose of providing emergency snow removal grants to counties, cities and townships. Also, \$20,000,000 was transferred from the 2009 Flood Disaster line item to the Grants line item to properly reflect appropriation authority of section 6 of Senate Bill 2010 of the 2009 Session Laws for emergency snow removal grants.

The \$75,664,317 increase in the 2009 Flood Disaster line item includes \$63,000,000 appropriation authority to accept federal funds from the Federal Emergency Management Agency for the 2009 flood disaster. This adjustment was properly approved by the Emergency Commission. In addition, the original appropriation was decreased \$24,335,683 for amounts spent during the previous biennium appropriated pursuant to the emergency measure of section 1 of Senate Bill 2444 of the 2009 Session Laws for the purpose of defraying the expenses related to the 2009 flood disaster. Senate Bill 2369 sections 2, 3, and 4 and Senate Bill 2016 sections 3 and 5 were emergency measures of the 2011 Session Laws approving appropriation increases for flood related costs (\$22,500,000), state disaster relief (\$25,500,000), and emergency snow removal grants (\$9,000,000).

The \$366,819 increase to Federal Stimulus Funds-2009 line item includes a decrease of \$33,181 for the amount spent during the previous biennium authorized by section 2 of House Bill 1016 of the 2009 Session Laws for military energy-related maintenance and repairs. This section was declared an emergency measure. In addition, \$400,000 increase in spending authority to accept federal American Recovery and Reinvestment Act funds was approved by the Emergency Commission for new furnaces and water heaters at Camp Grafton.

Expenditures Without Appropriations Of Specific Amounts:

Veterans' Cemetery Maintenance Fund has a continuing appropriation authorized by NDCC section 37-03-14 (\$111,611 of expenditures for this biennium).

National Guard Military Grounds Fund has a continuing appropriation authorized by NDCC section 37-03-13 (\$47,923 of expenditures for this biennium).

National Guard Emergency Fund has a continuing appropriation authorized by NDCC section 37-01-04.1 (\$737,926 of expenditures for this biennium).

Insurance Recoveries Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$211,589 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 Office of the Adjutant General'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.
- Controls surrounding the State Active Duty Payroll.

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 Office of the Adjutant General in a management letter dated March 14, 2013.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2012, we identified and tested the Office of the Adjutant General's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper 911 fee structure based on actual costs (NDCC 37-17.3-09)
- Proper collection of fees from users of law enforcement telecommunications systems (NDCC 3717.3-08(2)).
- Proper use of the following legally restricted funds:
 - National Guard Emergency Fund (NDCC 37-01-04.1)
 - State Hazardous Chemicals Fund (NDCC 37-17.1-07.1)
 - National Guard Military Grounds Fund (NDCC 37-03-13)
 - Veterans' Cemetery Maintenance Fund (NDCC 37-03-14)
 - Veterans' Cemetery Trust Fund (NDCC 39-04-10.10)
- Compliance with Emergency Commission or Budget Section changes to appropriations (NDCC 54-16-03)
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2009 North Dakota Session Laws Chapters 15, 16, 40, and 64 and 2011 North Dakota Session Laws Chapter 261).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute (NDCC 44-08-04, NDCC 54-06-09)
- Compliance with fixed asset requirements including record-keeping, annual physical inventory and use of surplus property (NDCC 54-27-21, NDCC 44-04-07, NDCC 54-44-04.06).
- Compliance with payroll-related laws certification of payroll and payroll changes (NDCC 54-44.3-16)

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 Office of the Adjutant General in a management letter dated March 14, 2013.

Operations

This audit did not identify areas of Office of the Adjutant General's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Management Letter (Informal Recommendations)

March 14, 2013

Major General David Sprynczynatyk
Adjutant General
Office of the Adjutant General
30 Fraire Barracks Lane
Bismarck, ND 58506

Dear Major General Sprynczynatyk:

We have performed an audit of the Office of the Adjutant General for the two-year ended June 30, 2012, and have issued a report thereon. As part of our audit, we gained an understanding of the Office of the Adjutant General'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 Office of the Adjutant General ensure expenditures are properly charged as to class for appropriated and non-appropriated funding sources.

Informal Recommendation 12-2: We recommend the Adjutant General ensure the Emergency Purchase Explanation Form be completed for purchases made during an emergency.

PERVASIVE CONTROLS

Informal Recommendation 12-3: We recommend the Office of the Adjutant General include statements for the following key components in their Code of Ethics Policy:

1. Full, fair, accurate, timely and understandable disclosure in reports and documents.
2. Compliance with applicable governmental laws, rules, and regulations.
3. The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code.

REVENUES

Informal Recommendation 12-4: We recommend the Office of the Adjutant General increase the accuracy of amounts billed to counties for 911 fees based on actual detail for providing the services.

LEGISLATIVE INTENT

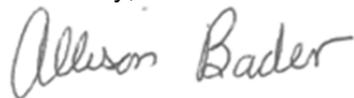
Informal Recommendation 12-5: We recommend the Adjutant General complete physical inventory of fixed assets for the Department of Emergency Services on an annual basis in accordance with NDCC 44-04-07.

Informal Recommendation 12-6: We recommend the Office of the Adjutant General introduce legislation to eliminate inconsistency within NDCC 37-17.3-08(2) for the application of fees assessed to city and county law enforcement entities accessing the Law Enforcement Telecommunications System.

Management of Office of the Adjutant General 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,



Allison Bader
Auditor in-charge

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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