

Office of the
Adjutant General
BISMARCK, NORTH DAKOTA

Audit Report

For the 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

May 18, 2015

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

We are pleased to submit this audit of the Office of the Adjutant General 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 Andrea Wike. Allison Bader and Krista Lambrecht, CPA, 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 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 20 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 and Human Resource Management System (HRMS) 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, 2014 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, 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 Office of the Adjutant General's central office is at Fraine Barracks in Bismarck, North Dakota with several military unit locations 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 June 30, 2014, operations of the Office of the Adjutant General were primarily supported by federal funds. This is supplemented by general fund appropriations and fees credited to the agency's operating fund.

Financial Summary

The Office of the Adjutant General had approximately \$234 million in capital assets as of June 30, 2014. These capital assets consist of land, infrastructure, buildings, and equipment throughout the state of North Dakota.

Total revenues and other sources were \$108,457,360 for the year ended June 30, 2014 as compared to \$178,942,694 for the year ended June 30, 2013. Revenues consisted primarily of federal funds. Federal revenue decreased approximately 23% due to federal disaster grants received in the 2011-2013 biennium for the 2011 flood. Other revenues include refunds, loan proceeds, rental of facilities, legislative transfers, and other miscellaneous revenue. Legislative transfers decreased significantly from \$70,923,650 for the year ended June 30, 2013 to \$22,000,000 for the year ended June 30, 2014. A majority of this decrease is a result of the Office of Management and Budget (OMB) transferring \$48,700,000 in fiscal year 2013 from the state general fund to the state disaster relief fund in accordance with Chapter 579, section 17 of the 2011 Special Session. Refunds increased \$1,272,445 from fiscal year 2013 to fiscal year 2014 as a result of the close out of the 2011 flood. Throughout the close out process, the Federal Emergency Management Agency (FEMA) analyzed the grant expenditures given to local governmental units and denied some of the claims, which was refunded to the Office of the Adjutant General. Other revenues remained fairly constant for the Office of the Adjutant General, increasing only slightly.

Total expenditures for the Office of the Adjutant General were \$108,656,173 for the year ended June 30, 2014 as compared to \$118,976,036 for the prior year. Repairs expenditures increased due to more repair projects being completed in fiscal year 2014 compared to capitalized projects. Other Capital Payment expenditures decreased due to the completion of the building addition of Camp Grafton Readiness Center in fiscal year 2013. Equipment/Software over \$5,000 decreased as large expenditures were processed in fiscal year 2013 for the Central Electronic Bank (CEB) and the Base Map projects. CEB was completed in fiscal year 2013, but the Base Map project continued into fiscal year 2014, but at a slower pace. There was also a decrease in Equipment/Software over \$5,000 as a result of the agency paying off a lease in fiscal year 2013. Transfers Out decreased due to federal disaster grants given to other state agencies in fiscal year 2013 for the 2011 flood. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The excess Grants and Disaster Costs line item appropriations over actual expenditures in the 2011-2013 biennium were due to increased authority for the 2011 flood disasters that were not expended. The excess Army Guard Contract line item appropriations over actual expenditures were due to federal construction contracts. 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, 2014</u>	<u>June 30, 2013</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$80,354,672	\$104,210,534
Refunds	2,788,026	1,515,581
Sales and Services	1,329,663	1,404,960
Loan Proceeds	1,065,363	110,491
Intergovernmental Revenue	657,648	572,747
Rentals of Land and Buildings	201,031	165,811
Other Revenues	60,957	38,920
Transfers In	22,000,000	70,923,650
Total Revenues and Other Sources	<u>\$108,457,360</u>	<u>\$178,942,694</u>
<u>Expenditures and Other Uses:</u>		
Grants, Benefits, and Claims	\$68,590,423	\$68,937,823
Salaries and Benefits	19,420,696	18,883,282
Repairs	5,900,644	4,583,006
Professional Services	3,395,810	4,230,191
Utilities	2,978,947	2,862,476
IT Data Processing	1,439,418	1,341,390
Professional Development	960,695	1,015,989
Capital Payments	916,961	4,681,502
Land and Buildings	902,247	1,738,220
Rentals of Land, Buildings, Equipment	826,880	877,715
IT Contractual Services	638,167	569,392
Travel	549,752	598,733
Equipment/Software Over \$5,000	463,155	4,006,907
Supplies	392,144	1,062,350
IT Communications	310,705	326,968
Operating Fees and Services	256,593	178,964
Extraordinary Repairs	113,157	897,841
Equipment Under \$5,000	92,581	447,384
Other Operating Expenses	155,695	202,417
Transfers Out	351,503	1,533,486
Total Expenditures and Other Uses	<u>\$108,656,173</u>	<u>\$118,976,036</u>

Statement of Appropriations

For 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>
Salaries and Wages	\$ 17,632,089	\$ 8,190	\$ 17,640,279	\$ 7,757,277	\$ 9,883,002
Accrued Leave Payments	1,095,993		1,095,993	63,408	1,032,585
Operating Expenses	14,057,379		14,057,379	4,504,010	9,553,369
Capital Assets Construction	2,293,872		2,293,872	521,237	1,772,635
Carryover		937,435	937,435	233,552	703,883
Grants	20,482,761	(36,694)	20,446,067	6,260,370	14,185,697
Disaster Costs	147,718,567	42,053,225	189,771,792	65,680,455	124,091,337
Civil Air Patrol Radio	287,451		287,451	147,072	140,379
Communication	2,735,000	2,255,775	4,990,775	1,050,034	3,940,741
Tuition Fees	2,892,500	581,770	3,474,270	894,238	2,580,032
Air Guard Contract	11,483,158		11,483,158	4,390,187	7,092,971
Army Guard Contract	58,182,671		58,182,671	15,948,087	42,234,584
Reintegration Program	1,486,980		1,486,980	697,855	789,125
ND Veterans Cemetery	647,005		647,005	286,396	360,609
Totals	<u>\$280,995,426</u>	<u>\$45,799,701</u>	<u>\$326,795,127</u>	<u>\$108,434,178</u>	<u>\$218,360,949</u>
Expenditures by Source:					
General Fund	\$ 31,150,829	\$ 3,324,566	\$ 34,475,395	\$ 13,393,447	\$ 21,081,948
Other Funds	249,844,597	42,475,135	292,319,732	95,040,731	197,279,001
Totals	<u>\$280,995,426</u>	<u>\$45,799,701</u>	<u>\$326,795,127</u>	<u>\$108,434,178</u>	<u>\$218,360,949</u>

The \$8,190 increase in the Salaries and Wages line item was authorized by House Bill 1015, section 11 of the 2013 Session Laws for general fund appropriation authority transferred from the Office of Management and Budget to provide internships in the public communications office and the GIS office through the state student internship program.

The \$937,435 increase in the Construction Carryover line item included \$858,685 general fund appropriation authorized by House Bill 1016, section 8 of the 2013 Session Laws to be carried over to the 2013 biennium for the computer-aided dispatch phase 2 project. In addition, \$78,750 was approved by the Construction Carryover Legislative Committee. The carryover funds were for the Unmanned Aircraft Systems (UAS) National Test Site Initiative technology project.

The \$36,694 decrease in the Grants line item was spent during the previous biennium appropriated pursuant to the emergency measure of House Bill 1016, section 16 of the 2013 Session Laws from the general fund for the veterans' bonus program.

The \$42,053,224 increase in the Disaster Costs line item consisted of the following adjustments:

- \$6,274,744 – Authorized by House Bill 1016, section 11 of the 2013 Session Laws to be carried over to the 2013 biennium for flood relief or disaster mitigation projects in incorporated cities and grants to political subdivisions for amounts required to match federal dollars on road grade raising projects and federal emergency relief funding.
- \$4,541,628 – Authorized by House Bill 1016, section 12 of the 2013 Session Laws to be carried over to the 2013 biennium to provide funds to the Bank of North Dakota's rebuilders loan program and to cities and counties for flood-impacted housing rehabilitation.
- \$8,340,625 – Approved by the Emergency Commission for additional federal and special fund appropriation authority and additional Bank of North Dakota borrowing authority for costs associated with the severe winter storm which occurred on October 4-5, 2013 and affected seven counties.
- \$6,076,922 – Approved by the Emergency Commission for additional federal and special fund appropriation authority and additional Bank of North Dakota borrowing authority for costs associated with the severe storms and flooding which occurred during the spring of 2013.
- \$5,049,867 – Approved by the Emergency Commission for additional federal and special fund appropriation authority and additional Bank of North Dakota borrowing authority for costs associated with the southern Red River Valley flooding in the spring of 2013.
- \$4,743,813 – Approved by the Emergency Commission for additional federal fund appropriation authority and loan proceeds from the Bank of North Dakota for the Red River Valley flood disaster in spring of 2013
- \$7,025,625 – Approved by the Emergency Commission for additional federal fund appropriation authority and loan proceeds from the Bank of North Dakota according to the emergency natural disaster provision of NDCC 37-17.1-22 for disaster expenses related to the entire state receiving substantial above normal precipitation in May 2013.

The \$2,255,775 increase in the Radio Communication line item was authorized by House Bill 1016, section 10 of the 2013 Session Laws to be carried over to the 2013 biennium for the state radio tower package (\$1,433,865) and statewide seamless base map project (\$821,910).

The \$581,770 increase in the Tuition Fees line item was authorized by House Bill 1016, section 13 of the 2013 Session Laws to be carried over to the 2013 biennium to provide tuition assistance to eligible members of the North Dakota National Guard.

Expenditures Without Appropriations Of Specific Amounts:

Veterans' Cemetery Maintenance Fund has a continuing appropriation authorized by NDCC section 37-03-14 (\$234,385 of expenditures for this fiscal year).

National Guard Military Grounds Fund has a continuing appropriation authorized by NDCC section 37-03-13 (\$1,420 of expenditures for this fiscal year).

Statement of Appropriations

For 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>
Salaries and Wages	\$ 16,517,630	\$ 0	\$ 16,517,630	\$ 14,105,275	\$ 2,412,355
Operating Expenses	13,992,913		13,992,913	9,282,416	4,710,497
Capital Assets	2,982,099	1,201,240	4,183,339	2,868,321	1,315,018
Construction Carryover		15,151,654	15,151,654	13,593,044	1,558,609
Grants	71,929,285	938,256	72,867,541	25,262,237	47,605,304
Disaster Costs	100,923,008	359,578,919	460,501,927	206,196,304	254,305,624
Civil Air Patrol	243,353		243,353	238,542	4,811
Radio Communication	3,735,000	555,165	4,290,165	2,002,521	2,287,644
Tuition Fees	2,407,500		2,407,500	1,825,730	581,770
Air Guard Contract	10,989,323		10,989,323	8,446,184	2,543,139
Army Guard Contract	56,110,757		56,110,757	32,490,392	23,620,365
Reintegration Program	1,550,149		1,550,149	1,507,273	42,876
ND Veterans Cemetery	576,916		576,916	505,417	71,499
Totals	<u>\$281,957,933</u>	<u>\$377,425,234</u>	<u>\$659,383,167</u>	<u>\$318,323,656</u>	<u>\$341,059,511</u>
Expenditures by Source:					
General Fund	\$ 29,353,555	\$ 5,650,598	\$ 35,004,153	\$ 29,825,133	\$ 5,179,020
Other Funds	252,604,378	371,774,636	624,379,014	288,498,523	335,880,491
Totals	<u>\$281,957,933</u>	<u>\$377,425,234</u>	<u>\$659,383,167</u>	<u>\$318,323,656</u>	<u>\$341,059,511</u>

The \$1,201,240 increase in the Capital Assets line item authorized as an emergency measure of House Bill 1016, section 14 of the 2013 Session Laws for the state radio communications center project.

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 \$938,256 increase in the Grants line item consisted of the following adjustments:

- \$588,256 - Authorized by Senate Bill 2016 section 7 of the 2011 Session Laws for payment of adjusted compensation to veterans for the Veterans' Bonus Program.
- \$600,000 - Authorized as an emergency measure of House Bill 1016, section 14 of the 2013 Session Laws from the general fund for the Veterans' Bonus Program.

- (\$250,000) – Transferred to the Radio Communications line item as approved by the Emergency Commission to accept available federal emergency management performance grant program funds for the state radio tower system.

The \$359,578,919 increase in the Disaster Costs line item consisted of the following adjustments:

- \$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.
- \$40,000,000 – Authorized by Senate Bill 2371, sections 9, 15, and 20 of the 2011 Special Session Laws 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).
- (\$11,786,081) - Amount spent during the previous biennium 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.
- \$60,000 – Authorized by the Emergency Commission, under the provisions of North Dakota Century Code sections 54-16-13 and 37-17.1-27, for increased spending authority to accept loan proceeds from the Bank of North Dakota for initial response to anticipated 2013 spring flooding.
- \$775,000 – Authorized by the Emergency Commission, under the provisions of North Dakota Century Code sections 54-16-13 and 37-17.1-27, for increased spending authority to accept loan proceeds from the Bank of North Dakota to respond to anticipated flooding in the Red River Valley areas of Cass and Richland counties.
- \$400,000 – Authorized by the Emergency Commission for increased spending authority to accept federal funds from the Federal Emergency Management Agency for the Red River Valley flood disaster in April and May 2013.
- \$530,000 – Authorized by the Emergency Commission for increased spending authority to accept \$397,500 federal funds from the Federal Emergency Management Agency and \$132,500 in loan proceeds from the Bank of North Dakota according to North Dakota Century Code sections 54-16-13 and 37-17.1-22 for disaster expenses related to the entire state receiving substantial above normal precipitation.

In addition to the \$250,000 transfer from the Grants Line item, the \$555,165 increase in the Radio Communications line item included a \$305,165 increase 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 (\$680,073 of expenditures for this biennium).

National Guard Military Grounds Fund has a continuing appropriation authorized by NDCC section 37-03-13 (\$147,971 of expenditures for this biennium).

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

Internal Control

In our audit for the two-year period ended June 30, 2014, 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 and capitalization 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 *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 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 37-17.3-08(3)).
- Compliance with appropriation laws (2011 Session Laws):
 - \$22,500,000 appropriated from federal funds or other income for the purpose of defraying expenses relating to 2011 flood disasters (chapter 42, section 3).
 - \$3,500,000 appropriated from the state disaster relief fund for the purpose of providing the required state share of funding for defraying the expenses associated with presidentially declared state disasters pursuant to NDCC 37-17.1-27 (chapter 42, section 5).
 - \$500,000 appropriated for transfer to the operating expenses and capital assets line items to provide for maintenance and repair of state-owned armories (chapter 42, section 6).
 - Proper use of unexpended appropriation relating to section 3 of chapter 312 of the 2009 Session Laws exempt from cancellation (NDCC 54-44.1-11) and appropriated for the purpose of payment of adjusted compensation to veterans. Unexpended funds transferred to the veterans' cemetery trust fund (chapter 42, section 7).
- Compliance with appropriation laws (2011 Special Session Laws):
 - \$10,000,000 appropriated from the state disaster relief fund for the purpose of providing funds to the Bank of North Dakota's rebuilders loan program and to cities and counties for flood-impacted housing rehabilitation (chapter 579, section 9).
 - \$29,500,000 appropriated from the state disaster relief fund for the purposes of providing the required state share of funding for defraying the expenses associated with presidentially declared state disasters (chapter 579, section 15).
 - \$5,000,000 appropriated from the state disaster relief fund for the purpose of providing grants to political subdivisions for a portion of the local share required to match federal emergency relief funding relating to a disaster event occurring during 2012 that exceeds \$50,000,000 in damages across the state (chapter 579, section 16).
 - \$500,000 appropriated from the general fund for the purpose of providing flood-damaged school infrastructure grants to eligible school districts to defray expenses relating to school buildings or other infrastructure damage due to a flood event during the summer of 2011 (chapter 579, section 20).
- Compliance with appropriation laws (2013 Session Laws):
 - \$25,000 appropriated from the general fund for the purpose of paying costs of the members of the statewide interoperability executive committee expenses in providing an inventory of technologies for radio communications and analyzing information (chapter 273, section 4).

- Proper use and authorization of the following legally restricted funds:
 - 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)
- Proper authorization of expenditures without appropriations of specific amounts:
 - Veterans' Cemetery Maintenance Fund (NDCC 37-03-14)
 - National Guard Military Grounds Fund (NDCC 37-03-13)
 - Insurance Recoveries Property Fund NDCC 54-44.1-09.1)
- Proper authorization of other funds:
 - National Guard Emergency Fund (NDCC 37-01-04.1)
 - State Disaster Relief Fund (NDCC 37-17.1-27)
 - Radio Communications Fund (NDCC 37-17.3-08)
 - Emergency Management Fund (NDCC 37-17.1)
 - National Guard Fund (NDCC 37-01-38)
- Compliance with Emergency Commission or Budget Section changes to appropriations (NDCC 54-16-03).
- Compliance with appropriations and related transfers (2011 North Dakota Session Laws chapter 42, 2011 North Dakota Special Session Laws chapter 579, and 2013 North Dakota Session Laws chapter 273, Section 4.
- Compliance with OMB's Purchasing Procedures Manual.
- 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, surplus property, and annual inventory.
- Compliance with payroll-related laws including statutory salaries for applicable 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 Office of the Adjutant General in a management letter dated May 18, 2015.

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)

May 18, 2015

Major General David Sprynczynatyk
Adjutant General
Office of the Adjutant General
30 Fraine 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 period ended June 30, 2014, 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 a certain condition we did not consider reportable within the context of your audit report. This condition relates 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 or 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 14-1: We recommend the Office of the Adjutant General introduce legislation to eliminate inconsistency within NDCC 37-17.3-08 (3) 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 this recommendation.

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,

A handwritten signature in cursive script that reads "Andrea Wike".

Andrea Wike
Auditor in-charge

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600 East Boulevard Avenue – Department 117
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