

North Dakota Parks and
Recreation Department
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2013

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

January 27, 2014

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Mr. Mark Zimmerman, Director, North Dakota Parks and Recreation Department

We are pleased to submit this audit of the North Dakota Parks and Recreation Department for the biennium ended June 30, 2013. 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 Kevin Scherbenske, CPA. Trevor Huber was the staff auditor. Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director Zimmerman and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script, reading "Rob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Parks and Recreation Department exists to serve as a focal point in the state for activities related to parks and recreation. The Department plans and coordinates government programs encouraging the full development and preservation of existing and future parks, outdoor recreation areas, and nature preserves. In addition, the Department is responsible for the following functions: off-highway vehicle planning and safety programs; snowmobile safety programs and trails; Nature Preserves Act; outdoor recreation grants and statewide recreation planning; and the state Scenic Byways Program.

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 Parks and Recreation Department 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?

Other than our finding addressing the "inadequate procedures surrounding concession inventory" (page 9), we determined internal control was adequate.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

Yes.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a management letter was issued and is included on page 14 of this report, along with management's response.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, 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 Parks and Recreation Department'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 Parks and Recreation Department.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Parks and Recreation Department for the biennium ended June 30, 2013 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of the North Dakota Parks and Recreation Department is for the biennium ended June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota Parks and Recreation Department has its central office in Bismarck and 17 state park and recreation sites throughout North Dakota, of which 13 collect fees. Each location was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed North Dakota Parks and Recreation Department'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 Parks and Recreation Department'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 biennium ended June 30, 2013, operations of the North Dakota Parks and Recreation Department were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Revenues consisted primarily of park permit sales and user fees, federal funds, mineral royalties, and concession sales. Other revenues and other sources during the audited period included intergovernmental reimbursements for shared projects, miscellaneous revenues, donations to the state parks gift fund, and transfers in of pass-through funds from other state agencies. Total revenue decreased due to first-year bonus payments for mineral lease payments which were received in 2012. Total revenues and other sources were \$5,209,335 for the year ended June 30, 2013 as compared to \$7,868,246 for the year ended June 30, 2012.

Total expenditures for the North Dakota Parks and Recreation Department were \$14,967,855 for the year ended June 30, 2013 as compared to \$14,068,824 for the prior year. The increase in total expenditures for the audited period reflects salary increases and building construction projects. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The excess of recreation appropriations over actual expenditures were due to aggressive budgeting by the department as they need flexibility within the trail and snowmobile programs based on fluctuations of off-highway vehicle and snowmobile registrations.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<u>Revenues and Other Sources:</u>		
Park Permits/User Fees	\$ 2,475,923	\$ 2,420,106
Revenue from Federal Government	1,594,679	874,109
Concessions	417,904	380,691
Intergovernmental Revenue	305,894	590,519
Mineral Lease Royalties	225,155	3,180,150
Donations	49,024	43,764
Miscellaneous Revenue	55,748	55,626
Transfers In	85,008	323,281
Total Revenues and Other Sources	<u>\$ 5,209,335</u>	<u>\$ 7,868,246</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 5,383,690	\$ 5,061,575
Repairs	4,406,087	4,470,051
Professional Services	1,099,810	1,197,387
Supplies/Equipment	762,113	606,130
Grants	753,925	616,623
Building Construction	484,009	78,306
Motor Vehicles	426,539	367,469
Utilities	412,069	337,264
Travel	354,687	364,915
IT – Data Processing/Equipment/Supplies	301,882	224,629
Operating Fees and Services	114,506	228,033
Rentals/Leases – Buildings/Land	111,433	178,803
Insurance	92,960	89,194
Printing	90,572	79,090
Food and Clothing	74,879	59,363
Bond Payments	36,742	36,658
Miscellaneous Expenditures	61,952	73,334
Total Expenditures and Other Uses	<u>\$ 14,967,855</u>	<u>\$ 14,068,824</u>

Statement of Appropriations

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	Original Appropriation	Adjustments	Final Appropriation	Expenditures	Unexpended Appropriation
Construction					
Carryover		\$ 841,505	\$ 841,505	\$ 841,505	
Administration	\$ 2,484,885		2,484,885	2,484,556	\$ 329
Natural Resources	18,238,413	150,000	18,388,413	17,534,016	854,397
Recreation	7,529,091	214,000	7,743,091	6,298,193	1,444,898
Peace Garden	1,040,699		1,040,699	1,040,699	
Totals	<u>\$ 29,293,088</u>	<u>\$ 1,205,505</u>	<u>\$ 30,498,593</u>	<u>\$ 28,198,969</u>	<u>\$ 2,299,624</u>
Expenditures by Source:					
General Fund	\$ 16,623,556	\$ 1,026,210	\$ 17,649,766	\$ 16,922,896	\$ 726,870
Other Funds	12,669,532	179,295	12,848,827	11,276,073	1,572,754
Totals	<u>\$ 29,293,088</u>	<u>\$ 1,205,505</u>	<u>\$ 30,498,593</u>	<u>\$ 28,198,969</u>	<u>\$ 2,299,624</u>

Appropriation Adjustments:

The \$841,505 increase in construction carryover was authorized by North Dakota Century Code section 54-44.1-11 that allows for unexpended capital construction budgets to be carried forward into the next biennium. The adjustment was properly approved by the Carryover Committee.

The \$150,000 increase in the Natural Resources line was approved by the Emergency Commission to provide housing for a park ranger at Lewis and Clark State Park in Williams County.

The \$214,000 increase in the Recreation line was authorized in HB1009, Section 5 of the 2009 Session which noted up to \$400,000 of the Recreation line is not subject to the provisions of section 54-44.1-11 and any unexpended funds from this appropriation may be expended during the biennium beginning July 1, 2011.

Expenditures Without Appropriations Of Specific Amounts:

State Parks Concession Fund has a continuing appropriation authorized by North Dakota Century Code section 55-08-07.1 (\$834,265 of expenditures for this biennium).

Insurance recoveries has a continuing appropriation authorized by North Dakota Century Code section 54-44.1-09.1 (\$3,447 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2013, we identified the following areas of the North Dakota Parks and Recreation Department's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *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 not adequate noting certain matters involving internal control and its operation that we consider to be significant deficiencies.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiency in internal control. We also noted other matters involving internal control that we have reported to management of North Dakota Parks and Recreation Department in a management letter dated January 27, 2014.

Inadequate Procedures Surrounding Concession Inventory (Finding 13-1)

Condition:

The North Dakota Parks and Recreation Department has not implemented procedures to ensure concession inventory is adequately safeguarded.

While a year-end inventory was taken, there was no review of any inventory adjustments for point-of-sale systems, nor a review of beginning inventory, purchases, sales, and ending inventory for non-perpetual systems.

Criteria:

OMB internal control guidelines states perpetual records should be adjusted to periodic physical inventories taken annually or on a cyclical basis, at least once a year. Unusual differences between physical counts and detailed inventory records should be investigated.

Cause:

The North Dakota Parks and Recreation Department was unaware of the risks associated with concession inventory.

Effect or Potential Effect:

The agency would be unable to determine if concession inventory is missing.

Recommendation:

We recommend the North Dakota Parks and Recreation Department implement procedures to safeguard concession inventory.

This may include a review of any inventory adjustments for point-of-sale systems and a review of beginning inventory, purchases, sales, and ending inventory for non-perpetual systems.

Parks and Recreation Department Response:

Agree. The North Dakota Parks & Recreation Department has recently purchased a Point of Sale computerized system to assist with the sales of products and to help keep track of concession inventories at the various parks around the state.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested North Dakota Parks and Recreation Department's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Received up to \$122,000 from the Game and Fish Department for maintenance, operating, and repairs to boat ramps at state parks (2011 North Dakota Session – Senate Bill 2019, section 3).
- Received up to \$400,000 from the Game and Fish Department for costs to raise the elevation of the Grahams Island State Park access road (2011 North Dakota Session – Senate Bill 2019, section 4).
- Established noncriminal penalties for violation of rules adopted by the director. (North Dakota Century Code section 55-08-01.3, subsection 12).
- Compliance with deposit requirements for State Park Fund revenues (North Dakota Century Code section 55-08-07).
- Proper authorization of all funds.
- Proper use of the following legally restricted funds:
 - Snowmobile fund.
 - State Parks Gift fund.
 - Trail Tax Transfer fund.
 - State Parks Concession fund.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2011 North Dakota Session - SB2019).
- Compliance with OMB's Purchasing Procedures Manual.
- Proper use of outside bank accounts and credit card processing.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the North Dakota Parks and Recreation Department in a management letter dated January 27, 2014.

Operations

This audit did not identify areas of the North Dakota Parks and Recreation Department's operations where we determined it was practical at this time to help to improve efficiency or effectiveness. However, we did note a certain matter involving operations that we have reported to management of the Department in a management letter dated January 27, 2014.

Management Letter (Informal Recommendations)

January 27, 2014

Mr. Mark Zimmerman, Director
North Dakota Parks and Recreation Department
1600 East Century Avenue, Suite 3
Bismarck, ND 58505

Dear Mr. Zimmerman:

We have performed an audit of the North Dakota Parks and Recreation Department for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Parks and Recreation Department'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.

REVENUE

Informal Recommendation 13-1: We recommend the Department implement procedures to ensure all revenue collected is deposited.

LEGISLATIVE INTENT

Informal Recommendation 13-2: We recommend the Department comply with State Procurement guidelines.

PAYROLL

Informal Recommendation 13-3: We recommend the PeopleSoft payroll register report be approved by an authorized individual.

Informal Recommendation 13-4: We recommend the Department require all employees to submit timesheets for all hours worked and to pay employees in the next available pay period. We also recommend the Department ensure all non-exempt employees are paid the correct overtime pay for any hours worked in excess of 40 in a single work week.

FIXED ASSETS

Informal Recommendation 13-5: We recommend the Department ensure individuals responsible for taking the annual inventory complete the inventory forms as required and properly remove assets from the inventory list when the asset is traded in, retired, or disposed.

OPERATIONS

Informal Recommendation 13-6: We recommend the Department ensure any land access lease agreements include only land that will be beneficial to the Department or public.

Management of North Dakota Parks and Recreation Department 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,



Kevin Scherbenske
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