

North Dakota Parks and
Recreation Department
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2015



Office of the State Auditor
Division of State Audit

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Contents

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>4</i>
<i>Discussion and Analysis</i>	<i>6</i>
<i>Financial Summary</i>	<i>6</i>
<i>Analysis of Significant Changes in Operations</i>	<i>6</i>
<i>Financial Statements</i>	<i>7</i>
<i>Statement of Revenues and Expenditures</i>	<i>7</i>
<i>Statement of Appropriations</i>	<i>8</i>
<i>Internal Control</i>	<i>10</i>
<i>Compliance With Legislative Intent</i>	<i>11</i>
<i>Operations</i>	<i>13</i>
<i>Management Letter (Informal Recommendations)</i>	<i>14</i>



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

February 8, 2016

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, 2015. 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. Holly Robak was the staff auditor. Cindi Pedersen, 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 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?

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, 2015 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, 2015. 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 13 state parks, 8 recreation areas, and 7 nature preserves located throughout North Dakota. 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, 2015, 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 revenues and other sources were \$6,048,410 for the year ended June 30, 2015 as compared to \$5,717,142 for the year ended June 30, 2014.

Total expenditures for the North Dakota Parks and Recreation Department were \$19,064,435 for the year ended June 30, 2015 as compared to \$14,360,903 for the prior year. The increase in total expenditures for the audited period primarily reflects the purchase of the Lewis and Clark Interpretive Center and increased building repair/trail activity in the second year of the biennium.

Analysis of Significant Changes in Operations

The North Dakota Parks and Recreation Department purchased the marina equipment at Lake Sakakawea State Park for \$746,057 in November 2013.

The North Dakota Parks and Recreation Department purchased the Lewis and Clark Interpretive Center for \$2,050,000 in May 2015.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Revenues and Other Sources:</u>		
Park Permits/User Fees	\$ 3,258,112	\$ 2,923,073
Revenue from Federal Government	880,615	1,400,045
Concession Sales	769,694	542,475
Mineral Lease Royalties	361,725	424,038
Insurance Recoveries	287,147	10,969
Intergovernmental Revenue	154,616	41,071
Donations	60,124	69,344
Miscellaneous Revenue	94,676	190,625
Transfers In	181,701	115,502
Total Revenues and Other Sources	<u>\$ 6,048,410</u>	<u>\$ 5,717,142</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 6,448,143	\$ 6,015,179
Repairs	3,020,479	2,189,327
Land and Buildings	4,421,679	336,541
Professional Services	1,065,321	2,358,454
Grants	745,577	626,157
Equipment	655,470	416,496
Utilities	480,296	462,113
Travel	424,389	395,783
Supplies	440,183	356,969
IT – Data Processing/Equipment/Supplies	360,745	253,998
Food and Clothing	236,053	203,226
Operating Fees	217,879	196,148
Motor Vehicles	168,640	158,626
Rentals/Leases – Buildings/Land/Equipment	142,332	110,842
Insurance	90,802	126,061
Printing	55,148	77,122
Miscellaneous Expenditures	91,299	77,861
Total Expenditures and Other Uses	<u>\$19,064,435</u>	<u>\$14,360,903</u>

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Accrued Leave Payments	\$ 181,577	\$ (16,408)	\$ 165,169	\$ 55,199	\$ 109,970
Construction Carryover		1,166,305	1,166,305	1,044,843	121,462
Administration	2,673,593	16,408	2,690,001	2,561,155	128,846
Natural Resources	20,643,325	2,757,000	23,400,325	21,960,861	1,439,464
Recreation	6,085,875	112,000	6,197,875	5,168,938	1,028,937
Peace Garden	2,223,699		2,223,699	1,039,426	1,184,273
Lewis and Clark – Interpretive Center		125,000	125,000	116,849	8,151
Totals	<u>\$ 31,808,069</u>	<u>\$ 4,160,305</u>	<u>\$ 35,968,374</u>	<u>\$ 31,947,271</u>	<u>\$ 4,021,103</u>
Expenditures by Source:					
General Fund	\$ 20,032,338	\$ 3,215,305	\$ 23,247,643	\$ 20,548,561	\$ 2,699,082
Other Funds	11,775,731	945,000	12,720,731	11,398,710	1,322,021
Totals	<u>\$ 31,808,069</u>	<u>\$ 4,160,305</u>	<u>\$ 35,968,374</u>	<u>\$ 31,947,271</u>	<u>\$ 4,021,103</u>

Appropriation Adjustments:

The \$16,408 transfer from the Accrued Leave Payments line item to the Administration line item was in accordance with House Bill 1015, section 14 of the 2013 Legislative Session.

The \$1,166,305 adjustment to the Construction Carryover line item was approved for various projects by the Capital Construction Carryover Committee.

The \$2,757,000 adjustment to the Natural Resources line item was made up of the following adjustments.

- \$150,000 adjustment for expenses for trails on leased land adjacent to the Little Missouri State Park approved by the Emergency Commission on December 10, 2013.
- \$130,000 adjustment for expenses related to the marina at Lake Sakakawea approved by the Emergency Commission on March 5, 2014.
- \$298,000 adjustment for projects at Lewis and Clark State Park, Fort Stevenson State Park, and Lake Sakakawea State Park approved by the Emergency Commission on March 5, 2014.
- \$129,000 adjustment for additional authority to spend a grant from the North Dakota Outdoor Heritage Fund approved by the Emergency Commission on March 5, 2014.

- \$2,050,000 adjustment for funds to purchase the Lewis and Clark Interpretive Center authorized by Senate Bill 2019, section 7 of the 2015 session.

The \$112,000 adjustment to the Recreation line item was for additional authority to spend a grant from the North Dakota Outdoor Heritage Fund approved by the Emergency Commission on March 5, 2014.

The \$125,000 adjustment to the Lewis and Clark – Interpretive Center line item was for operating expenditures of the Interpretive Center through June 30, 2015 and was authorized by Senate Bill 2019, section 6 of the 2015 session.

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 (\$1,303,085 of expenditures for this biennium).

Insurance Recoveries Property Fund has a continuing appropriation authorized by North Dakota Century Code section 54-44.1-09.1 (\$173,786 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2015, 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.
- Controls surrounding the concession inventory.

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 North Dakota Parks and Recreation Department in a management letter dated February 8, 2016.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, 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:

- Compliance with appropriation law. (2013 Legislative Session – House Bill 1019, section 1 and 2).
- Proper use of up to \$122,000 from the Game and Fish Department for maintenance, operating, and repairs to boat ramps at state parks (2013 Legislative Session – House Bill 1019, section 3).
- Proper payment of up to \$200,000 for completion of interpretive exhibits at the Icelandic State Park Visitor Center (2013 Legislative Session – House Bill 1019, section 4).
- Proper use of revenue from oil wells completed after July 1, 2013 (2013 Legislative Session – House Bill 1019, section 6).
- Proper payment of up to \$775,000 for purchase of a marina (2013 Legislative Session – House Bill 1019, section 7).
- Proper payment of \$2,050,000 for purchase of the Lewis and Clark Interpretive Center (2015 Legislative Session – Senate Bill 2019, section 7).
- Proper authorization of all funds used by the department.
- 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 OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts and petty cash funds.
- Compliance with payroll certification process.
- Proper use of the Bank of North Dakota as depository for credit card revenue in accordance with NDCC 54-06-08.2.
- Adequate blanket bond coverage of employees (North Dakota Century Code section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping and surplus property requirements.

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 February 8, 2016.

Operations

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

Management Letter (Informal Recommendations)

February 8, 2016

Mr. Mark Zimmerman
Director, North Dakota Parks and Recreation Department
1600 E Century Ave Suite 3
Bismarck ND 58503

Dear Mr. Zimmerman:

We have performed an audit of the North Dakota Parks and Recreation Department for the biennium ended June 30, 2015, 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.

LEGISLATIVE INTENT

Informal Recommendation 15-1: We recommend the Department comply with North Dakota Century Code section 54-06-08.1 and obtain approval from the State Auditor and State Treasurer for any accounts located at a financial institution other than the Bank of North Dakota.

Informal Recommendation 15-2: We recommend the Department comply with OMB policy 214 and record a previous biennium expenditure refund as revenue in the current biennium.

Informal Recommendation 15-3: We recommend the Department comply with OMB policy 216 and complete a fraud risk assessment for their agency at least every biennium.

Informal Recommendation 15-4: We recommend the Department comply with OMB procurement guidelines regarding purchases over \$25,000.

INVENTORY

Informal Recommendation 15-5: We recommend the Department comply with Generally Accepted Accounting Principles and record inventory at the lower of cost or market.

Informal Recommendation 15-6: We recommend the Department comply with North Dakota Century Code section 55-08-07.1 with regards to the use of the concession revolving fund.

Informal Recommendation 15-7: We recommend the Department implement procedures to ensure safeguarding and reporting of concession inventory.

FIXED ASSETS

Informal Recommendation 15-8: We recommend the Department comply with North Dakota Century Code section 44-04-07 and maintain adequate documentation of the annual fixed asset inventory.

REVENUE

Informal Recommendation 15-9: We recommend the Department strengthen controls surrounding revenue collected at the state parks.

PAYROLL

Informal Recommendation 15-10: We recommend the Department comply with North Dakota Administrative Policy 4-07-10-04 and complete performance reviews at least annually.

GRANTS

Informal Recommendation 15-11: We recommend the Department ensure grant progress reports are filed on a timely basis as required by the grant manual.

Informal Recommendation 15-12: We recommend the Department monitor grants to ensure performance measures included in the grant manual are being achieved.

Management of North Dakota Parks and Recreation Department agreed with these recommendations.

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

Sincerely,



Kevin Scherbenske
Auditor in-charge

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