

# Office of the Adjutant General

BISMARCK, NORTH DAKOTA

## **Audit Report**

For the Two-year Period Ended  
June 30, 2016



Office of the State Auditor  
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
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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*

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June 5, 2017

The Honorable Doug Burgum, Governor  
Members of the North Dakota Legislative Assembly  
Major General Alan Dohrmann, Adjutant General

We are pleased to submit this audit of the Office of the Adjutant General for the two-year period ended June 30, 2016. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Andrea Wike. Dina Cashman, CPA, and Amanda Westlake were the staff auditors. 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 Major General Dohrmann and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion  
State Auditor

# *Executive Summary*

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## *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 Adjutant General is the Director of the Department of Emergency Services, which consists of the Division of Homeland Security and the Division of State Radio. The Adjutant General serves as the Chairman of the Department of Emergency Services Advisory Committee and is 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 provides 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.*

No.

### **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, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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***

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## ***Audit Objectives***

The objectives of this audit of the Office of the Adjutant General for the two-year period ended June 30, 2016 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the 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, 2016. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The 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***

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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, 2016, operations of the Office of the Adjutant General were primarily supported by federal funds. This is supplemented by general fund appropriations and revenues credited to the agency's operating fund.

### ***Financial Summary***

The Office of the Adjutant General had approximately \$242 million in capital assets as of June 30, 2016. These capital assets consist of land, infrastructure, buildings, and equipment throughout the state of North Dakota.

Total revenues and other sources were \$59,101,993 for the year ended June 30, 2016 as compared to \$68,848,532 for the year ended June 30, 2015. Revenues consisted primarily of federal funds. Federal revenue decreased approximately 14% and there were not any loan proceeds in the fiscal year ended June 30, 2016 due to a decrease in governor and presidentially declared disaster grants given in the 2013-2015 biennium. Other revenues include sales and services, refunds, rental of facilities, legislative transfers, and other miscellaneous revenue. Other revenues remained fairly constant for the Office of the Adjutant General, decreasing only slightly.

Total expenditures for the Office of the Adjutant General were \$110,993,832 for the year ended June 30, 2016 as compared to \$102,818,341 for the prior year. Repairs expenditures decreased and Building and Other Capital Payment expenditures increased due to more repair projects being completed in fiscal year 2015 and more capitalized projects, including the vehicle maintenance shop projects in Fargo and Valley City and completion of the radio towers and Urban Breach projects, in fiscal year 2016. Professional Services decreased due to more services being provided in fiscal year 2015 under a disaster coordination contract and also a decrease in damage assessments as a result of no new disasters being declared. Loan Repayments decreased because of the agency obtaining spending approval from the state disaster relief fund to pay off loans for disaster grants in fiscal year 2015. Legislative transfers increased significantly as a result of Senate Bill 2020, sections 11 and 15 of the 2015 Session Laws requiring \$34 million to be transferred to the State Water Commission from the state disaster relief fund in fiscal year 2016. All other expenditures remained fairly constant.

### ***Analysis of Significant Variances - Budgeted and Actual Expenditures***

The excess Grants line item and Disaster Costs line item appropriations over actual expenditures in the 2013-2015 biennium were due to increased authority for governor and presidentially declared disasters that were not expended.

The excess Radio Communications line item appropriations over actual expenditures in the 2013-2015 biennium were for ongoing projects including the statewide seamless base map, state radio tower package, computer-aided dispatch upgrade, and the voice incident recorder projects that were not completed. These funds were not subject to North Dakota Century Code 54-44.1-11 and

were available to be carried over to the 2015-2017 biennium per sections 11 and 17 of chapter 50 of the 2015 Session Laws.

The excess Tuition Fees line item appropriations over actual expenditures in the 2013-2015 biennium were for unexpended tuition assistance and recruiting and retention incentives to eligible members of the North Dakota national guard. These funds were not subject to North Dakota Century Code 54-44.1-11 and were available to be carried over to the 2015-2017 biennium per sections 14 and 15 of chapter 50 of the 2015 Session Laws.

The excess Air Guard Contract line item appropriations over actual expenditures in the 2013-2015 biennium was a result of the Air National Guard firefighters program being eliminated during the biennium.

The excess Army Guard Contract line item appropriations over actual expenditures in the 2013-2015 biennium 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, 2016</u>	<u>June 30, 2015</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$ 53,047,505	\$ 61,420,554
Refunds	3,958,525	2,767,113
Loan Proceeds		2,022,868
Sales and Services	1,014,480	1,029,559
Intergovernmental Revenue	719,107	1,218,649
Rental of Land and Buildings	208,191	202,996
Other Revenues	104,185	186,793
Transfers In	50,000	
<b>Total Revenues and Other Sources</b>	<b>\$ 59,101,993</b>	<b>\$ 68,848,532</b>
<b><u>Expenditures and Other Uses:</u></b>		
Grants	\$ 29,798,852	\$ 49,148,516
Salaries and Benefits	19,088,147	18,807,138
Buildings and Other Capital Projects	11,137,691	3,364,122
Repairs	4,878,442	8,302,771
Utilities	2,706,712	2,990,118
IT Services	2,510,006	2,493,857
Professional Development	1,557,136	1,386,411
Professional Services	1,367,262	3,042,175
Equipment	1,298,812	2,600,812
Rentals of Land, Buildings, Equipment	759,456	838,564
Travel	503,776	528,565
Loan Repayment	385,417	3,626,291
Supplies	302,216	729,788
Other Operating Expenses	166,222	79,930
Transfers Out	34,533,685	4,879,283
<b>Total Expenditures and Other Uses</b>	<b>\$ 110,993,832</b>	<b>\$ 102,818,341</b>

## Statement of Appropriations

For the Fiscal Year Ended June 30, 2016

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 19,070,689	\$ (3,684)	\$ 19,067,005	\$ 8,918,834	\$ 10,148,171
Operating					
Expenses	15,770,360	(683,397)	15,086,963	4,486,579	10,600,384
Capital Assets	1,128,046		1,128,046	224,807	903,239
Construction					
Carryover		14,919,136	14,919,136	7,822,718	7,096,418
Grants	20,882,761	172,306	21,055,067	5,911,306	15,143,761
Disaster Costs	110,165,484	6,840,792	117,006,276	26,111,724	90,894,552
Civil Air Patrol	311,773		311,773	135,227	176,546
Radio					
Communications	626,000	2,896,034	3,522,034	1,529,952	1,992,082
Tuition Fees	2,517,500	1,042,815	3,560,315	1,673,480	1,886,835
Air Guard Contract	8,054,554		8,054,554	2,716,172	5,338,382
Army Guard					
Contract	59,943,249	(51,596)	59,891,653	16,085,751	43,805,902
Reintegration					
Program	1,903,743		1,903,743	793,074	1,110,669
ND Veterans					
Cemetery	811,486		811,486	381,699	429,787
<b>Totals</b>	<u>\$ 241,185,645</u>	<u>\$ 25,132,406</u>	<u>\$ 266,318,051</u>	<u>\$ 76,791,323</u>	<u>\$ 189,526,728</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 33,033,118	\$ 2,529,365	\$ 35,562,483	\$ 15,415,209	\$ 20,147,274
Other Funds	208,152,527	22,603,041	230,755,568	61,376,114	169,379,454
<b>Totals</b>	<u>\$ 241,185,645</u>	<u>\$ 25,132,406</u>	<u>\$ 266,318,051</u>	<u>\$ 76,791,323</u>	<u>\$ 189,526,728</u>

### Appropriation Adjustments:

The \$3,684 decrease in the Salaries and Wages line item consisted of the following adjustments:

- (\$60,694) – Due to the 4.05 percent budget allotment ordered by the governor in February 2016.
- \$35,661 – Authorized by Senate Bill 2015, section 4 of the 2015 Session Laws for a state agency targeted market equity salary funding pool to provide compensation adjustments for state employees at the agency.
- \$2,700 – Authorized by Senate Bill 2015, section 18 of the 2015 Session Laws for general fund authority transferred from the Office of Management and Budget to provide internships for a Cyber/Infrastructure Analyst intern through the state student internship program.

- \$18,649 - Authorized by Senate Bill 2015, section 19 of the 2015 Session Laws for the Office of Management and Budget to transfer appropriation authority for providing temporary employee health insurance adjustments for state full-time employees of the agency based on guidelines developed by the Office of Management and Budget in accordance with the shared responsibility provisions of the Affordable Care Act (ACA).

The \$683,397 decrease in the Operating Expenses line item consisted of the following adjustments:

- (\$1,204,503) – Due to the 4.05 percent budget allotment ordered by the governor in February 2016.
- \$471,106 – Authorized by Senate Bill 2016, section 12 of the 2015 Session Laws to carry over to the 2015-2017 biennium any unexpended funds for the computer-aided dispatch upgrade and the disaster coordination contract.
- \$50,000 – Authorized by Senate Bill 2016, section 13 of the 2015 Session Laws to carry over to the 2015-2017 biennium any unexpended funds for the collecting of information on North Dakotans who served in a theatre or area of armed conflict since the Vietnam conflict for the writing, publishing, and distribution of a record of all North Dakota veterans, including a record of all North Dakotans killed in action and missing in action since statehood.

The \$14,919,136 increase in the Construction Carryover line item was approved by the Construction Carryover Legislative Committee.

The \$172,306 increase in the Grants line item was authorized by Senate Bill 2016, section 16 of the 2015 Session Laws to carry over to the 2015-2017 biennium any unexpended funds for payment of adjusted compensation to veterans.

The \$6,840,792 increase in the Disaster Costs line item consisted of the following adjustments:

- \$38,795 – Authorized by Senate Bill 2015, section 19 of the 2015 Session Laws for the Office of Management and Budget to transfer appropriation authority for providing temporary employee health insurance adjustments for state full-time employees of the agency based on guidelines developed by the Office of Management and Budget in accordance with the shared responsibility provisions of the Affordable Care Act (ACA).
- \$4,721,441 - Authorized by Senate Bill 2016, section 18 of the 2015 Session Laws to carry over to the 2015-2017 biennium any unexpended funds 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.
- \$2,080,556 – Authorized by Senate Bill 2016, section 19 of the 2015 Session Laws to carry over to the 2015-2017 biennium any unexpended funds for grants to cities and counties for flood-impacted housing rehabilitation.

The \$2,896,034 increase in the Radio Communications line item consisted of the following adjustments:

- \$1,804 – Authorized by Senate Bill 2015, section 19 of the 2015 Session Laws for the Office of Management and Budget to transfer appropriation authority for providing temporary employee health insurance adjustments for state full-time employees of the agency based on guidelines developed by the Office of Management and Budget in accordance with the shared responsibility provisions of the Affordable Care Act (ACA).
- \$2,203,443 – Authorized by Senate Bill 2016, section 11 of the 2015 Session Laws to carry over to the 2015-2017 biennium any unexpended funds for the statewide seamless base map, state radio tower package, computer-aided dispatch upgrade, and the voice incident recorder projects.
- \$690,787 – Authorized by Senate Bill 2016, section 17 of the 2015 Session Laws to carry over to the 2015-2017 biennium any unexpended funds for state radio tower package projects.

The \$1,042,815 increase in the Tuition Fees line item consisted of the following adjustments:

- \$667,815 – Authorized by Senate Bill 2016, section 14 of the 2015 Session Laws to carry over to the 2015-2017 biennium any unexpended funds to provide tuition assistance, recruiting and retention incentives to eligible members of the North Dakota national guard.
- \$375,000 – Authorized by Senate Bill 2016, section 15 of the 2015 Session Laws to carry over to the 2015-2017 biennium any unexpended funds to provide tuition assistance to eligible members of the North Dakota national guard contingent upon the Adjutant General certifying to the Office of Management and Budget that the national guard has received a new assignment in association with the Grand Forks air force base.

The \$51,596 decrease in the Army Guard Contract line item consisted of the following adjustments:

- (\$72,644) – Due to the 4.05 percent budget allotment ordered by the governor in February 2016.
- \$21,048 - Authorized by Senate Bill 2015, section 19 of the 2015 Session Laws for the Office of Management and Budget to transfer appropriation authority for providing temporary employee health insurance adjustments for state full-time employees of the agency based on guidelines developed by the Office of Management and Budget in accordance with the shared responsibility provisions of the Affordable Care Act.

#### **Expenditures Without Appropriations of Specific Amounts:**

Veterans' Cemetery Maintenance Fund has a continuing appropriation authorized by NDCC section 37-03-14 (\$204,288 of expenditures for this fiscal year).

National Guard Military Grounds Fund has a continuing appropriation authorized by NDCC section 37-03-13 (\$34,290 of expenditures for this fiscal year).

## Statement of Appropriations

For the Biennium Ended June 30, 2015

Expenditures by Line Item:	Original Appropriation	Adjustments	Final Appropriation	Expenditures	Unexpended Appropriation
Salaries and Wages	\$ 17,632,089	\$ (1,006,974)	\$ 16,625,115	\$ 16,070,436	\$ 554,679
Accrued Leave					
Payments	1,095,993		1,095,993	283,337	812,656
Operating Expenses	14,057,379	5,000,000	19,057,379	13,876,589	5,180,790
Capital Assets	2,293,872		2,293,872	2,060,556	233,316
Construction					
Carryover		937,435	937,435	930,502	6,933
Grants	20,482,761	(36,694)	20,446,067	12,926,817	7,519,250
Disaster Costs	147,718,567	48,567,225	196,285,792	110,989,287	85,296,505
Civil Air Patrol	287,451		287,451	282,043	5,408
Radio					
Communications	2,735,000	2,255,775	4,990,775	2,096,545	2,894,230
Tuition Fees	2,892,500	581,770	3,474,270	2,431,455	1,042,815
Air Guard Contract	11,483,158		11,483,158	7,514,273	3,968,885
Army Guard Contract	58,182,671	1,010,164	59,192,835	34,846,249	24,346,586
Reintegration Program	1,486,980	5,000	1,491,980	1,489,745	2,235
ND Veterans					
Cemetery	647,005		647,005	640,475	6,530
<b>Totals</b>	<u>\$ 280,995,426</u>	<u>\$ 57,313,701</u>	<u>\$ 338,309,127</u>	<u>\$ 206,438,309</u>	<u>\$ 131,870,818</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 31,150,829	\$ 3,324,566	\$ 34,475,395	\$ 30,627,763	\$ 3,847,632
Other Funds	249,844,597	53,989,135	303,833,732	175,810,546	128,023,186
<b>Totals</b>	<u>\$ 280,995,426</u>	<u>\$ 57,313,701</u>	<u>\$ 338,309,127</u>	<u>\$ 206,438,309</u>	<u>\$ 131,870,818</u>

### Appropriation Adjustments:

The \$1,006,974 decrease in the Salaries and Wages line item consisted of the following adjustments:

- \$1,015,164 – Transferred into the Army Guard Contract and Reintegration Program line items in the amounts of \$1,010,164 and \$5,000, respectively. This was authorized by House Bill 1016, section 7 of the 2013 Session Laws exempting the Adjutant General to North Dakota Century Code section 54-16-14 to transfer appropriation authority between line items as it relates to state employee compensation increases.
- \$8,190 – Increase 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 \$5,000,000 increase in the Operating Expenses line item was approved by the Emergency Commission for additional special fund appropriation authority from the State Disaster Relief fund, as required by North Dakota Century Code section 37-17.1-27, which funds were appropriated as an emergency measure by Senate Bill 2023, section 1, subdivision 9 of the 2015 Session Laws to pay loans obtained for the state share of presidential declared disasters in the 2013 – 2015 biennium.

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 2013-2015 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 \$48,567,225 increase in the Disaster Costs line item consisted of the following adjustments:

- \$6,274,745 – Authorized by House Bill 1016, section 11 of the 2013 Session Laws to be carried over to the 2013-2015 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 2013-2015 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 for disaster expenses related to the entire state receiving substantial above normal precipitation in May 2013.

- \$3,589,000 – Approved by the Emergency Commission for additional federal fund appropriation authority and loan proceeds from the Bank of North Dakota for expenses related to the extensive flooding occurring between June 18, 2014 and July 1, 2014, in the counties of Benson, Bottineau, Divide, Eddy, McHenry, Mountrail, Pierce, Renville, and Ward, and on the Standing Rock Indian Reservation.
- \$2,800,000 – Approved by the Emergency Commission for loan proceeds from the Bank of North Dakota for disaster expenses related to presidential declared disasters in 2009, 2010, and 2011.
- \$125,000 – Approved by Emergency Commission for loan proceeds from the Bank of North Dakota for expenses related to a fire emergency occurring April 2015 in Burleigh County and for anticipated additional costs due to the current drought conditions through June 30, 2015.

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 2013-2015 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 2013-2015 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 (\$894,471 of expenditures for this biennium).

National Guard Military Grounds Fund has a continuing appropriation authorized by NDCC section 37-03-13 (\$276,560 of expenditures for this biennium).

## ***Internal Control***

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In our audit for the two-year period ended June 30, 2016, 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 expenditures of the Department of Emergency Services.
- Controls surrounding the processing of purchase card expenditures.
- Controls surrounding the processing of payments made for tuition assistance.
- Controls effecting the safeguarding and capitalization of assets.
- Controls surrounding the payroll processing of hourly employees.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216) and, for programs receiving Federal funds, the Code of Federal Regulation as set forth by the Federal Government (2 CFR 200.303).

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

## *Compliance with Legislative Intent*

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In our audit for the two-year period ended June 30, 2016, 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).
- Compliance with appropriation laws (2013 Session Laws):
  - \$1,500,000 appropriated from the state disaster relief fund to the housing finance agency for the purpose of providing grants for flood-impacted housing assistance (chapter 16, section 4).
- Compliance with appropriation laws (2015 Session Laws):
  - \$2,000,000 appropriated from the state disaster relief fund for the purpose of providing for repair and replacement of infrastructure and for removal of debris and other health hazards in recreation service districts that are experiencing chronic flooding (chapter 50, section 3).
  - \$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 50, section 9).
  - Proper use of unexpended appropriation relating to subdivision 2 of section 1 of chapter 16 of the 2013 Session Laws exempt from cancellation (NDCC 54-44.1-11) and appropriated for the completing the statewide seamless base map, state radio tower package, computer-aided dispatch upgrade, and the voice incident recorder projects (chapter 50, section 11).
  - Proper use of unexpended appropriation relating to subdivision 2 of section 1 of chapter 16 of the 2013 Session Laws exempt from cancellation (NDCC 54-44.1-11) and appropriated for the computer-aided dispatch upgrade and the disaster coordination contract (chapter 50, section 12).
  - Proper use of unexpended appropriation relating to subdivision 1 of section 1 of chapter 16 of the 2013 Session Laws exempt from cancellation (NDCC 54-44.1-11) and appropriated for the collecting of information on North Dakotans who served in a theatre or area of armed conflict since the Vietnam conflict for the writing, publishing, and distribution of a record of all North Dakota veterans, including a record of all North Dakotans killed in action and missing in action since statehood (chapter 50, section 13).
  - Proper use of unexpended appropriation relating to subdivision 1 section 1 of chapter 16 of the 2013 Session Laws exempt from cancellation (NDCC 54-44.1-11) and appropriated for providing tuition assistance, recruiting and retention incentives to eligible members of the North Dakota national guard (chapter 50, section 14).
  - Proper use of unexpended appropriation relating to section 3 of chapter 16 of the 2013 Session Laws exempt from cancellation (NDCC 54-44.1-11) and appropriated for providing tuition assistance to eligible members of the North Dakota national guard contingent upon the Adjutant General certifying to the Office of Management and Budget that the national guard has received a new assignment in association with the Grand Forks air force base (chapter 50, section 15).

- Proper use of unexpended appropriation relating to section 9 of chapter 16 of the 2013 Session Laws exempt from cancellation (NDCC 54-44.1-11) and appropriated for payment of adjusted compensation to veterans (chapter 50, section 16).
- Proper use of unexpended appropriation relating to section 10 of chapter 16 of the 2013 Session Laws exempt from cancellation (NDCC 54-44.1-11) and appropriated for the state radio tower package (chapter 50, section 17).
- Proper use of unexpended appropriation relating section 11 of chapter 16 of the 2013 Session Laws exempt from cancellation (NDCC 54-44.1-11) and appropriated for flood relief or disaster mitigation projects in incorporated cities, and grants to political subdivision for amounts required to match federal dollars on road grade raising projects and federal emergency relief funding (chapter 50, section 18).
- Proper use of unexpended appropriation relating to section 12 of chapter 16 of the 2013 Session Laws exempt from cancellation (NDCC 54-44.1-11) and appropriated for grants to cities and counties for flood-impacted housing rehabilitation (chapter 50, section 19).
- \$3,000,000 appropriated from the state disaster relief fund to be transferred to Valley City State University (chapter 52, section 2).
- 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)
- 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).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2013 North Dakota Session Laws chapter 16 and 2015 North Dakota Session Laws chapter 50).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- 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.

## *Operations*

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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.

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