

Office of the Attorney 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

June 27, 2017

Members of the North Dakota Legislative Assembly

The Honorable Wayne Stenehjem, Attorney General, Office of Attorney General

We are pleased to submit this audit of the Office of the Attorney 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 Kristi Morlock. 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 Mr. Stenehjem and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Joshua C. Gallion".

Joshua C. Gallion
State Auditor

Executive Summary

Introduction

The Attorney General is the chief legal counsel and advisor to the state government in North Dakota. He represents and defends the interests of the state and the people of North Dakota.

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 Attorney 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 18 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, management conflicts of interest, contingent liabilities, 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 Attorney General's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), Legal Billing System, Gaming System, and Licensing System are high-risk information technology systems critical to the Office of Attorney General.

Audit Objectives, Scope, and Methodology

Audit Objectives

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

Audit Scope

This audit of the Office of Attorney 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 Attorney General has operations in the following locations. Each location was included in the audit scope:

- Central office in the State Capitol building
- Crime Lab in east Bismarck
- Bureau of Criminal Investigations in north Bismarck
- North Dakota Lottery in north Bismarck

Each location noted above was included in the audit scope, except the North Dakota Lottery. The North Dakota Lottery receives a separate annual financial audit. See the latest financial audit of the North Dakota Lottery at <http://www.nd.gov/auditor/reports.htm>.

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 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 Attorney General's processes and procedures.
- Performed a detailed review of the Law Enforcement Grant awarded by the Office of Attorney General including:
 - Internal control systems;
 - Performance measures;
 - Application review processes;
 - Pre-award process;
 - Managing performance; and
 - Assessing and using results.

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 Attorney 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 ending June 30, 2016, operations of the Office of Attorney General 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

Capital assets consist of the crime lab building, equipment, and intangible assets. Capital assets totaled \$12,297,676 at June 30, 2016 which reflects a \$335,012 increase compared to the prior year. The increase was primarily related to the purchase of vehicles by the Bureau of Criminal Investigation, equipment for the Crime Lab, and software for several divisions using federal and general funds.

Revenues consisted primarily of gaming taxes, legal services, and federal revenue. Other revenues during the audited period included remote alcohol monitoring fees; licenses, permits, and fees; background checks; and fines and forfeitures. Total revenues and other sources were \$14,520,739 for the year ended June 30, 2016 as compared to \$14,914,542 for the year ended June 30, 2015. The decrease in overall revenue was primarily related to revenue that is received for Consumer Protection cases/settlements. The amount of revenue that is received varies depending on the case.

Total expenditures for the Office of Attorney General were \$35,846,702 for the year ended June 30, 2016 as compared to \$35,317,352 for the prior year. Salaries and benefits increased in fiscal year 2016 due to the Office of the Attorney General receiving 36 new positions during the 2015 Legislative Session. Grant expenditures were significantly higher in fiscal 2015 due to the new law enforcement grant program that was authorized for \$9.6 million during the 2013-2015 biennium.

The revenues and expenditures noted above do not include the activity of the North Dakota Lottery. The North Dakota Lottery has a separate annual financial statement audit. The latest audit can be reviewed at <http://www.nd.gov/auditor/reports.htm>.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The operating expenses line item unexpended appropriation for the 2013-2015 biennium was due to the following:

- IT projects that had funds carried over to the next biennium;
- The Bureau of Criminal Investigation and the Crime Laboratory did not receive anticipated federal funding related to operating activities; and
- The Consumer Protection, Fire Marshal, and Gaming divisions had lower than anticipated spending related to operating activities.

Financial Statements

Statement of Revenues and Expenditures

	June 30, 2016	June 30, 2015
<u>Revenues and Other Sources:</u>		
Gaming Tax	\$ 3,405,603	\$ 3,626,515
Legal Services	2,496,143	2,049,324
Revenue from Federal Government	2,302,601	2,403,078
Remote Alcohol Monitoring Fees	1,793,915	1,634,169
Fines and Forfeitures	1,258,356	2,942,604
Licenses and Fees	1,222,472	754,852
Background Checks	953,994	869,633
Miscellaneous Revenue	294,662	184,890
Fire Marshall	100,859	66,960
Transfers In	692,134	382,517
Total Revenues and Other Sources	\$ 14,520,739	\$ 14,914,542
<u>Expenditures:</u>		
Salaries and Benefits	\$ 21,980,433	\$ 17,783,831
IT Contractual Services and Repairs	2,043,121	1,926,116
Grants	1,927,958	7,360,231
Operating Fees and Services	1,443,061	1,095,319
Supplies	1,438,231	930,233
SCRAM Bracelets	1,087,955	1,078,871
Rent of Building Space	953,422	714,621
IT – Data Processing	830,918	333,129
Fees – Professional Services	699,369	491,902
Travel	631,411	611,088
Repairs	564,199	199,411
Equipment over \$5,000	510,491	311,755
Building Construction	382,139	382,033
Lab Supplies	359,270	324,202
Equipment Under \$5,000	333,752	1,150,467
Miscellaneous Expenditures	241,439	280,655
Professional Development	239,803	171,291
IT – Communications	179,730	172,197
Total Expenditures	\$ 35,846,702	\$ 35,317,352

Statement of Appropriations

For the Fiscal Year Ended June 30, 2016

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	\$ 44,303,039	\$ (1,464,171)	\$ 42,838,868	\$ 20,064,189	\$ 22,774,679
Operating Expenses	26,343,238	(1,268,734)	25,074,504	6,775,394	18,299,110
Capital Assets Technology Project Carryover	2,671,187		2,671,187	649,070	2,022,117
Grants	2,262,659	1,520,000	1,520,000	826,991	693,009
Law Enforcement Grants		1,655,186	1,655,186	1,037,346	617,840
Litigation Fees	50,000	92,581	142,581	125,443	17,138
Abortion Litigation Fees	400,000	(142,581)	257,419	257,349	70
Medical Examinations	660,000		660,000	254,700	405,300
North Dakota Lottery	5,282,778		5,282,778	1,910,134	3,372,644
Arrest & Return of Fugitives	10,000		10,000	5,564	4,436
Gaming Commission	7,490		7,490	4,856	2,634
Contracted HE Legal Services	800,000	(100,000)	700,000		700,000
Intellectual Property Attorney	455,665	(18,671)	436,994	207,378	229,616
Criminal Justice Info Sharing	5,513,206	(292,144)	5,221,062	1,837,389	3,383,673
Law Enforcement	3,902,815	(431,661)	3,471,154	1,473,418	1,997,736
Totals	<u>\$ 92,662,077</u>	<u>\$ (450,195)</u>	<u>\$ 92,211,882</u>	<u>\$ 36,159,799</u>	<u>\$ 56,052,083</u>
Expenditures by Source:					
General Fund	\$ 56,761,292	\$ (3,626,734)	\$ 53,134,558	\$ 23,827,886	\$ 29,306,672
Other Funds	35,900,785	3,176,539	39,077,324	12,331,913	26,745,411
Totals	<u>\$ 92,662,077</u>	<u>\$ (450,195)</u>	<u>\$ 92,211,882</u>	<u>\$ 36,159,799</u>	<u>\$ 56,052,083</u>

Appropriation Adjustments:

Salaries and Benefits:

- \$1,465,975 reduction due to the 4.05 percent budget allotment ordered by the governor in February 2016.
- \$1,804 increase from the State Student Internship Program was authorized by Senate Bill 2015, section 18, of the 2015 Session Laws.

Operating Expenses:

- \$1,318,734 reduction due to the 4.05 budget allotment ordered by the governor in February 2016.
- \$50,000 increase is a transfer from the abortion litigation fees line to cover prosecution witness fees. The increase was approved by the Emergency Commission.

Technology Project Carryover:

- \$1,520,000 appropriation carryover was approved by the Capital Construction Carryover Committee for the following information technology projects:
 - Uniform Crime Reporting Crime Statistics
 - Online Record Checks
 - Online Concealed Weapon Licenses

Law Enforcement Grants:

- \$1,655,186 increase to use any unexpended funds appropriated from the strategic investment and improvements fund from the prior biennium was authorized by Senate Bill 2003, section 5, of the 2015 Session Laws.

Litigation Fees:

- \$17,851 increase was a transfer from the abortion litigation fees line for prosecution witness fees. The increase was approved by the Emergency Commission.
- \$75,000 increase was a transfer from the abortion litigation fees line to cover the fees and costs of other pending litigation. The increase was approved by the Emergency Commission.

Abortion Litigation Fees:

- \$142,581 decrease was transferred to the operating line (\$50,000) and litigation fees line (\$92,581). The decrease was approved by the Emergency Commission.

Contracted HE Legal Services:

- \$100,000 reduction due to the 4.05 percent budget allotment ordered by the governor in February 2016.

Intellectual Property Attorney:

- \$18,671 reduction due to the 4.05 percent budget allotment ordered by the governor in February 2016.

Criminal Justice Info Sharing:

- \$292,144 reduction due to the 4.05 percent budget allotment ordered by the governor in February 2016.

Law Enforcement:

- \$431,661 reduction due to the 4.05 percent budget allotment ordered by the governor in February 2016.

Expenditures Without Appropriations of Specific Amounts:

Asset Forfeiture Fund has a continuing appropriation authorized by NDCC section 54-12-14 (\$104,383 of expenditures for fiscal year 2016).

Attorney General Refund Fund has a continuing appropriation authorized by NDCC section 54-12-18 (\$16,475 of expenditures for fiscal year 2016).

Special Operations Team Reimbursement Fund has a continuing appropriation authorized by NDCC section 54-12-23 (\$4,099 of expenditures for fiscal year 2016)

Multi-Jurisdictional Drug Task Force Fund has a continuing appropriation authorized by NDCC section 54-12-26 (\$280,334 of expenditures for fiscal year 2016).

North Dakota Sobriety Program Fund has a continuing appropriation authorized by NDCC section 54-12-29 (\$1,191,746 of expenditures for fiscal year 2016).

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>
Salaries and Benefits	\$ 34,984,562	\$ 269,804	\$ 35,254,366	\$ 34,211,477	\$ 1,042,889
Accrued Leave Payments	1,057,247		1,057,247	103,526	953,721
Operating Expenses	26,994,056	50,744	27,044,800	12,797,646	14,247,154
Capital Assets Technology Project Carryover	2,363,077	299,620	2,662,697	2,213,870	448,827
Grants	2,373,947	505,000	2,373,947	2,047,122	326,825
Law Enforcement Grants	9,600,000		9,600,000	7,944,814	1,655,186
Litigation Fees	50,000	152,500	202,500	123,243	79,257
Abortion Litigation Fees	400,000		400,000	233,667	166,333
Medical Examinations	660,000		660,000	408,890	251,110
North Dakota Lottery	4,133,821		4,133,821	3,202,300	931,521
Arrest & Return of Fugitives	10,000	15,000	25,000	11,187	13,813
Gaming Commission	7,368		7,368	1,836	5,532
Contracted HE Legal Services	1,200,000		1,200,000	1,200,000	
Totals	<u>\$ 83,834,078</u>	<u>\$ 1,292,668</u>	<u>\$ 85,126,746</u>	<u>\$ 64,937,191</u>	<u>\$ 20,189,555</u>
Expenditures by Source:					
General Fund	\$ 38,851,628	\$ 339,782	\$ 39,191,410	\$ 38,845,003	\$ 346,407
Other Funds	44,982,450	952,886	45,935,336	26,092,188	19,843,148
Totals	<u>\$ 83,834,078</u>	<u>\$ 1,292,668</u>	<u>\$ 85,126,746</u>	<u>\$ 64,937,191</u>	<u>\$ 20,189,555</u>

Appropriation Adjustments:

Salaries and Benefits:

- \$200,000 increase from the operating line to fund salaries of staff members in oil impacted areas. The increase was approved by the Emergency Commission.
- \$66,000 increase to accept federal funds from the Office of National Drug Control Policy, High Intensity Drug Trafficking areas to fund a prosecutor in Minot and Williston to assist in prosecution related drug trafficking. The increase was approved by the Emergency Commission.

- \$3,804 increase to provide temporary employee health insurance adjustments for state employees, determined to be full time based guidelines developed by OMB. The increase was approved by the Emergency Commission.

Operating Expenses:

- \$200,000 decrease was a transfer to the salaries line to fund salaries of staff members in oil impacted areas. The decrease was approved by the Emergency Commission.
- \$46,744 increase to accept federal funds from the North Dakota Department of Transportation received by them as a grant from the National Institute of Justice, DNA Backlog Reduction Program, for the purchase of a gas chromatograph/mass spectrophotometer, solid phase extraction unit, and a genetic analyzer. The increase was approved by the Emergency Commission.
- \$34,000 increase to accept federal funds from the Office of National Drug Control Policy, High Intensity Drug Trafficking areas to fund a prosecutor in Minot and Williston to assist in prosecution related drug trafficking. The increase was approved by the Emergency Commission.
- \$50,000 increase for the purpose of defraying expenses for the period January 1, 2015, through June 30, 2015. The increase was authorized in Senate Bill 2023, section 1, of the 2015 Session Laws.
- \$120,000 increase to accept state contingency funds for reimbursement to cities and counties for prosecution witness fees in cases heard in district and juvenile court. The increase was approved by the Emergency Commission.

Capital Assets:

- \$299,620 increase to accept federal funds from the North Dakota Department of Transportation received by them as a grant from the National Institute of Justice, DNA Backlog Reduction Program, for the purchase of a gas chromatograph/mass spectrophotometer, solid phase extraction unit, and a genetic analyzer. The increase was approved by the Emergency Commission.

Technology Project Carryover:

- \$505,000 increase approved by the Construction Carryover Committee.

Litigation Fees:

- \$84,000 increase was to accept state contingency funds for the lawsuit against the United States Department of Agriculture and its Forest Service and separately to defend North Dakota's enforcement of its laws related to the Tobacco Sales Act. The increase was approved by the Emergency Commission.
- \$68,500 increase to accept state contingency funds because of depletion of funds associated with legal cases including tobacco diligent enforcement, MKB Management vs. B. Burdick (2011-13 abortion inducing drugs litigation), and the State of North Dakota vs. United States (section line litigation). The increase was approved by the Emergency Commission.

Arrest & Return of Fugitives:

- \$15,000 increase to accept state contingency funds to reimburse local law enforcement for costs incurred when the Governor orders felon extraditions for those fugitives located outside of North Dakota. The increase was approved by the Emergency Commission.

Expenditures without Appropriations of Specific Amounts:

Asset Forfeiture Fund has a continuing appropriation authorized by NDCC section 54-12-14 (\$275,658 of expenditures for this biennium).

Attorney General Refund Fund has a continuing appropriation authorized by NDCC section 54-12-18 (\$122,994 of expenditures for this biennium).

Special Operations Team Reimbursement Fund has a continuing appropriation authorized by NDCC section 54-12-23 (\$13,449 of expenditures for this biennium)

Multi-Jurisdictional Drug Task Force Fund has a continuing appropriation authorized by NDCC section 54-12-26 (\$1,325,077 of expenditures for this biennium).

North Dakota Sobriety Program Fund has a continuing appropriation authorized by NDCC section 54-12-29 (\$1,551,064 of expenditures for this biennium).

Internal Control

In our audit for the two-year period ended June 30, 2016, we identified the following areas of the Office of Attorney General's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the Legal Billing System, Licensing System, and Gaming 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. However, we noted a matter involving internal control that we have reported to management of the Office of Attorney General in a management letter dated June 27, 2017.

Compliance with Legislative Intent

In our audit for the two-year period ended June 30, 2016, we identified and tested the Office of Attorney General's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriation to purchase secure continuous remote alcohol monitors for individuals in the 24-7 sobriety program (2013 North Dakota Session Laws – House Bill 1302).
- Compliance with Law Enforcement Grants appropriation (2013 North Dakota Session Laws – House Bill 1358).
- Compliance with appropriation for an intellectual property attorney and continuation of contracted higher education legal services (2015 North Dakota Session Laws – House Bill 1003).
- Compliance with appropriation for targeted market equity funding for gaming audit staff and criminal investigators (2015 North Dakota Session Laws – Senate Bill 2003).
- Compliance with Attorney General Refund Transfer Exemption (2015 North Dakota Session Laws – Senate Bill 2003).
- Compliance with exemption related to appropriation for Law Enforcement Grants (2015 North Dakota Session Laws – Senate Bill 2003).
- Adoption of rules to establish eligibility access to the criminal justice data information sharing system (2015 North Dakota Session Laws – Senate Bill 2003).
- Proper receipt and allocation of gaming taxes (North Dakota Century Code section 53-06.1-12).
- Proper use of Attorney General's Operating fund (North Dakota Century Code section 54-12-08).
- Proper use of the following legally restricted funds:
 - Asset Forfeiture Fund
 - Attorney General Refund Fund
 - Gaming and Excise Tax Allocation Fund
 - Insurance Regulatory Trust Fund
 - Multi-Jurisdictional Drug Task Force Fund
 - North Dakota Sobriety Program Fund
 - Reduce Cigarette Ignition Propensity Fund
 - Special Operations Team Reimbursement Fund
 - Tobacco Settlement Trust Fund
- Application of proper statutory rates relating to revenue.
- Proper fund authorization.
- Compliance with OMB's Purchasing Procedures Manual.
- Compliance with appropriations and related transfers (2013 North Dakota Session Laws chapter 3 and 2015 North Dakota Session Laws chapter 37).
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Compliance with payroll-related laws including statutory salaries for applicable elect and appointed positions, and certification of payroll.
- Proper use of the State Treasurer (State Constitution, article X, section 12).

- Adequate blanket bond coverage of employees (North Dakota Century Code section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, surplus property, annual inventory, and lease analysis 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.

Operations

Our audit of the Office of Attorney General included reviewing operations surrounding the Law Enforcement Grant Program.

Law Enforcement Grant Program

Background

House Bill 1358, section 11, from the 2013 Session Laws appropriated \$9.6 million from the strategic investment and improvements fund to the Office of the Attorney General for the purpose of awarding grants to law enforcement agencies, for crime-related needs of the Office of the Attorney General, and for the development of a uniform law enforcement and custody manual.

Our audit of the Office of Attorney General's Law Enforcement Grant was designed and conducted to meet the following objectives:

- Are policies and procedures in place to ensure that necessary information is adequately conveyed to the grantee?
- If applicable, were performance measures properly developed?
- Has a process been developed that ensures the integrity and validity of the selection process?
- Do grant requirements, including such items as grant agreements and contracts, work plans, or status and financial reports facilitate accountability?
- Do monitoring efforts validate financial status, outputs and outcomes, results, and continued compliance with grant provisions?
- Does management compile data and information from grant program operations to be able to assess program performance versus expectations.

Our audit did not identify any instances of inefficient operations within the Law Enforcement Grant Program.

Management Letter (Informal Recommendations)

June 27, 2017

Honorable Wayne Stenehjem
Attorney General
Office of Attorney General
600 E Boulevard Avenue
Bismarck, ND 58505

Dear Mr. Stenehjem:

We have performed an audit of the Office of Attorney General for the two-year period ended June 30, 2016, and have issued a report thereon. As part of our audit, we gained an understanding of the Office of Attorney 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 audit to make comments and suggestions which we hope will be useful to you.

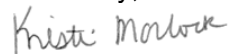
In connection with the audit, gaining an understanding of the internal control structure and tests of compliance with laws and regulations referred to above, we noted a certain condition we did not consider reportable within the context of your audit report. This condition relates to areas of general 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 for 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.

Informal Recommendation 16-1: We recommend the Office of Attorney General periodically review access rights to ensure individuals have the correct and appropriate authority.

Management of Office of Attorney General agreed with the recommendation.

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,



Kristi Morlock
Auditor in-charge

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