

Statewide Single Audit State of North Dakota **Governance Communication**

For the Two-Year Period Ended June 30, 2016

JOSHUA C. GALLION
STATE AUDITOR



Office of the State Auditor
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

Senator Jerry Klein – Chairman
Representative Chet Pollert – Vice Chairman

Representatives

Karla Rose Hanson
Patrick Hatlestad
Keith Kempenich
Lawrence R. Klemin
Gary Kreidt
Andrew G. Maragos
Bob Martinson
Corey Mock
Mike Nathe
Marvin E. Nelson

Senators

Judy Lee
Merrill Piepkorn

Contents

<i>Transmittal Letter</i>	1
<i>Executive Summary</i>	2
<i>Responses to LAFRC Audit Questions</i>	2
<i>LAFRC Audit Communications</i>	3
<i>Governance Communication</i>	5

STATE AUDITOR
JOSHUA C. GALLION



PHONE
(701) 328-2241
FAX
(701) 328-1406

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

Transmittal Letter

March 28, 2017

Legislative Audit and Fiscal Review Committee

Honorable Doug Burgum, Governor

Members of the North Dakota Legislative Assembly

Pam Sharp, CPA, Director
Office of Management and Budget

I am pleased to submit our governance communication and responses to the LAFRC audit questions for the statewide single audit of the state of North Dakota. This report relates to the audit of the state's federal awards for the two-year period ended June 30, 2016.

The audit manager for this audit was Cindi Pedersen, CPA, CM. Inquiries or comments relating to this audit may be directed to Ms. Pedersen by calling her at (701) 328-4743. I would like to express my appreciation to Ms. Sharp and her staff for the courtesy, cooperation, and assistance they provided to this office during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Joshua C. Gallion".

Joshua C. Gallion
State Auditor

Executive Summary

Responses to LAFRC Audit Questions

1. What type of opinion was issued on the financial statements?

An unqualified (clean) opinion was given on the state of North Dakota's schedule of expenditures of federal awards.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

An adverse opinion was issued on the Medicaid program due to the issues noted in finding numbers 2016-002, 2016-003, 2016-004 and 2016-005 in the Schedule of Findings and Questioned Costs included in the statewide single audit report.

Qualified opinions were issued on the: eligibility and allowable costs compliance requirements of the CCDF Cluster due to the issues noted in finding numbers 2016-018 and 2016-019; eligibility compliance requirement of the Children's Health Insurance Program due to the issue noted in finding number 2016-016; and subrecipient monitoring compliance requirement of the Mathematics and Science Partnerships Program due to the issue noted in finding number 2016-063 in the Schedule of Findings and Questioned Costs included in the statewide single audit report.

As noted in the document titled "Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133" included in the statewide single audit report, there were 44 findings related to other matters of noncompliance with laws and regulations included in the Schedule of Findings and Questioned Costs.

3. Was internal control adequate and functioning effectively?

Material weaknesses in internal control were noted and are described in finding numbers 2016-002, 2016-004, 2016-005, 2016-06, 2016-016, 2016-018 and 2016-020 listed in the Schedule of Findings and Questioned Costs in the statewide single audit report.

As noted in the document titled "Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133" included in the statewide single audit report, there were 45 significant deficiencies in internal control included in the Schedule of Findings and Questioned Costs.

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, except for the 16 findings shown as not implemented or partially implemented in the Summary Schedule of Prior Audit Findings included in the statewide single audit report.

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

A management letter was not issued.

LAFRC Audit Communications

1. *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, and no management conflicts of interest or significant unusual transactions noted.

2. *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.*

No accounting estimates are used in reporting expenditures of federal funds.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *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.*

We did not have any disagreements with management that were significant to the financial statements.

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

We did not experience any serious difficulties in performing the audit.

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

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

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

We are not aware of any applicable management consultations with other accountants.

8. *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.*

The PeopleSoft ConnectND Finance and Human Resource Management System (HRMS) are the most high-risk information technology systems critical to the operations of the state. There are numerous other high-risk systems which are identified in the agency audit reports. One of those systems is the Medicaid Management Information System (MMIS) at the Department of Human Services. The adverse opinion on the Medicaid program is related to this system.

Governance Communication

Legislative Audit and Fiscal Review Committee
North Dakota Legislative Assembly

We have audited the schedule of expenditures of federal awards of the state of North Dakota for the two-year period ended June 30, 2016, and have issued our report thereon dated March 28, 2017. Professional standards require that we provide you with the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the state of North Dakota are described in Note 2 to the schedule of expenditures of federal awards. No new accounting policies were adopted and the application of existing policies was not changed during the two-year period ended June 30, 2016. We noted no transactions entered into by the State during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the schedule of expenditures of federal awards in the proper period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected and Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no known or likely misstatements that we needed to report to management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management of the agencies with federal programs audited as major programs. These representations were made on various dates throughout the audit process.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. It should be noted that the retention of the State Auditor is a matter of state law and is not under the control of the Office of Management and Budget.

This information is intended solely for the use of Legislative Audit and Fiscal Review Committee, the Legislative Assembly, and management of the state of North Dakota and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully yours,

A handwritten signature in cursive script that reads "Cindi Pedersen, CPA". The signature is written in black ink and is positioned below the text "Respectfully yours,".

Cindi Pedersen, CPA
Audit Manager

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241