

Tobacco Prevention and Control Executive Committee

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium
June 30, 2017

Office of the State Auditor
Division of State Audit

Report Highlights

Internal Control: We evaluated and tested high risk areas including: expenditures (including purchase card transactions), legislative intent and the ConnectND computer system.

- We did not note any deficiencies that are required to be brought to the attention of those charged with governance.

Legislative intent: We evaluated and tested high risk areas including: appropriation laws, bond coverage, investment authorization, and interest allocation.

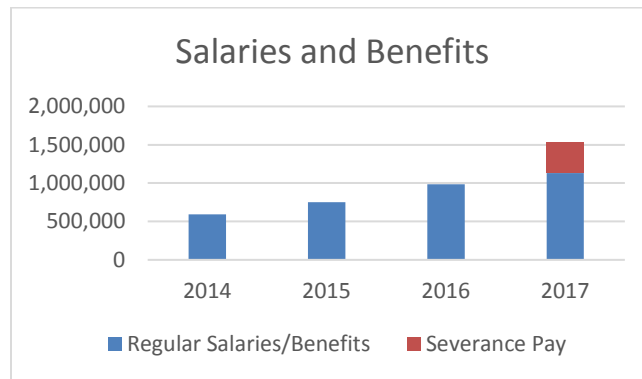
- We concluded there was compliance with the legislative intent.

Operations:

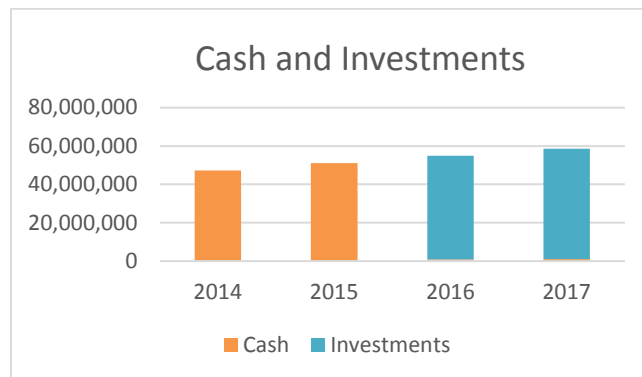
- As the agency was dissolved July 1, 2017, operational improvements were not reviewed.

Financial:

- The large increase in salaries and benefits from \$986,590 in fiscal year 2016 to \$1,530,537 in fiscal year 2017 is primarily due to severance packages totaling \$400,739 on June 30, 2017. All nine employees received severance for six months of pay and the cost of six months of health insurance.



- The Tobacco Prevention and Control fund will be used by the Department of Health and the Department of Human Services for the 2017-2019 biennium – no transfer of funds was necessary.
- During fiscal year 2016, \$53.5 million of the Tobacco Prevention and Control Fund cash balance was invested with the State Investment Board.



Source: ConnectND legal amounts.

**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

**Senator Jerry Klein – Chairman
Representative Chet Pollert – Vice Chairman**

Representatives

**Bert Anderson
Patrick Hatlestad
Mary Johnson
Keith Kempenich
Gary Kreidt
Andrew G. Maragos
Mike Nathe
Marvin E. Nelson
Wayne A. Trottier**

Senators

**Dwight Cook
Judy Lee
Richard Marcellais**

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
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BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

August 18, 2017

The Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly

We are pleased to submit this audit of the Tobacco Prevention and Control Executive Committee for the biennium ended June 30, 2017. 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. 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 former Executive Director Ms. Jeanne Prom and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

Executive Summary

Introduction

Voters in North Dakota passed the Statewide Initiated Measure 3 in 2008 which established a comprehensive tobacco use prevention and control program using the Centers for Disease Control and Prevention best practices. A nine-member Tobacco Prevention and Control Advisory Committee is appointed by the Governor pursuant to North Dakota Century Code (NDCC) section 23-42-02. A three-member executive committee is selected by the advisory committee from its membership pursuant to NDCC section 23-42-03. The North Dakota Tobacco Prevention and Control Executive Committee administers the tobacco prevention and control trust fund for the implementation and administration of the comprehensive tobacco use prevention and control program. The tobacco prevention and control trust fund consists of tobacco settlement dollars obtained by the state under section IX(c)(2) of the agreement adopted by the east central judicial district court in its judgment entered December 28, 1998 [Civil No. 98-3778] in State of North Dakota, ex rel. Heidi Heitkamp v. Phillip Morris, Inc.

The 2017 Legislative Assembly eliminated the Tobacco Prevention and Control Executive Committee in Senate Bill 2024.

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 Tobacco Prevention and Control Executive Committee 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, a management letter was not issued.

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 Tobacco Prevention and Control Executive Committee'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 Capital Management (HCM) System, and Program Reporting System are high-risk information technology systems critical to the Tobacco Prevention and Control Executive Committee.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Tobacco Prevention and Control Executive Committee for the biennium ended June 30, 2017 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Tobacco Prevention and Control Executive Committee'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 Tobacco Prevention and Control Executive Committee and are they in compliance with these laws?

Audit Scope

This audit of the Tobacco Prevention and Control Executive Committee is for the biennium ended June 30, 2017. 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 Tobacco Prevention and Control Executive Committee's sole location is its Bismarck office which 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.
- 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 Tobacco Prevention and Control Executive Committee'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.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Revenues:</u>		
Tobacco Settlement Funds	\$11,426,840	\$11,480,889
Investment Earnings	1,121,123	603,641
Conference Registration Fees	5,140	8,115
Miscellaneous Revenue	180	3,259
Total Revenues and Other Sources	<u>\$12,553,283</u>	<u>\$12,095,904</u>
<u>Expenditures:</u>		
Salaries and Benefits	\$ 1,065,160	\$ 986,590
Paid Retirement/Sick Leave	64,638	
Severance Pay	400,739	
Grants	4,940,476	4,814,153
Professional/Consulting Services	1,434,700	1,335,451
IT Services	230,500	146,621
Rent of Building Space	62,765	48,159
Operating Fees	47,891	32,113
Travel	23,985	42,145
Professional Development	16,729	21,808
Miscellaneous Expenditures	31,064	28,792
Total Expenditures and Other Uses	<u>\$8,318,647</u>	<u>\$7,455,832</u>

Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Comprehensive Tobacco Control	\$16,548,039		\$16,648,039	\$15,774,479	\$ 773,560
Totals	<u>\$16,548,039</u>	<u>\$ -</u>	<u>\$16,648,039</u>	<u>\$15,774,479</u>	<u>\$ 773,560</u>
Expenditures by Source:					
Special Funds	\$16,548,039		\$16,648,039	\$15,774,479	\$ 773,560
Totals	<u>\$16,548,039</u>	<u>\$ -</u>	<u>\$16,648,039</u>	<u>\$15,774,479</u>	<u>\$ 773,560</u>

Internal Control

In our audit for the biennium ended June 30, 2017, we identified the following areas of the Tobacco Prevention and Control Executive Committee's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of expenditures.
- Controls surrounding purchase card expenditures.
- 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).

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

In our audit for the biennium ended June 30, 2017, we identified and tested the Tobacco Prevention and Control Executive Committee's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations (2015 North Dakota Session Laws House Bill 1024).
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Statutory authority for investments.
- Interest deposited into the Tobacco Prevention and Control fund (NDCC 54-27-25(2)).
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset record-keeping.
- Compliance with payroll related laws including certification of payroll and severance pay.

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.

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

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