

# Office of the State Auditor

*Division of State Audit*

## Indian Affairs Commission Bismarck, North Dakota

Audit Report for the  
Two-Year Period Ended June 30, 2008  
Client Code 316

*Robert R. Peterson*  
*State Auditor*



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BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

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May 13, 2009

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Mr. Scott Davis, Executive Director, Indian Affairs Commission

We are pleased to submit this audit of the Indian Affairs Commission for the two-year period ended June 30, 2008. 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. Andrea Wike was the staff auditor. Fred Ehrhardt, CPA was the audit supervisor and Paul Welk, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-3647. We wish to express our appreciation to Mr. Davis and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

The North Dakota Indian Affairs Commission was established by the 1949 State Legislature to facilitate working relationships between the state and tribal governments. The function of the Commission is to be the liaison between the executive branch and the tribes of North Dakota. Duties include mediation service with the tribes and state and working with other state agencies regarding proper protocol in working with Indian people and tribal governments.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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

Financial statements were not prepared by the Indian Affairs Commission 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 unqualified 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?*

The Indian Affairs Commission has implemented all 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 15 of this report, along with management's response.

### **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, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

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.*

The Indian Affairs Commission's financial statements do not include any significant accounting estimates.

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.*

None.

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

None.

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.*

None.

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.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Indian Affairs Commission.

# *Audit Objectives, Scope, and Methodology*

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## *Audit Objectives*

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The objectives of this audit of the Indian Affairs Commission for the two-year period ended June 30, 2008 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Indian Affairs Commission'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 Indian Affairs Commission and are they in compliance with these laws?
3. Are there areas of the Indian Affairs Commission's operations where we can help to improve efficiency or effectiveness?

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## *Audit Scope*

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This audit of the Indian Affairs Commission is for the two-year period ended June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Indian Affairs Commission's sole location is its central office which will be included in the audit scope.

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## *Audit Methodology*

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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. Nonstatistical sampling was used and the results were projected to the population. Further 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) ERP system.
- Observed Indian Affairs Commission'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 Indian Affairs Commission'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 June 30, 2008, operations of the Indian Affairs Commission were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

### ***FINANCIAL SUMMARY***

Revenues consisted primarily of money received from the sale of tribal and cultural guides. Total revenues were \$0 for the year ended June 30, 2008 as compared to \$3,239 for the year ended June 30, 2007.

Total expenditures for the Indian Affairs Commission were \$248,967 for the year ended June 30, 2008 as compared to \$195,566 for the prior year. The increase in expenditures for salaries and benefits reflected the general salary increases, the hiring of an additional employee and equity adjustments granted by the Legislature. All other expenditures remained fairly constant.

### ***ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENDITURES***

The Indian Affairs Commission's final appropriation for the biennium ended June 30, 2007 was \$407,297 and the final total expenditures were \$385,853 for an unexpended appropriation of \$21,444 or 5.3%. The primary unexpended appropriation line item was Operating Expenses for approximately \$20,000. This unexpended balance was mainly due to not receiving as much federal funds from the Department of Human Services through the Olmstead Real Choices system grant.

# Financial Statements

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## STATEMENT OF REVENUES AND EXPENDITURES

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b><u>Revenues and Other Sources:</u></b>		
Sale of Publications		\$ 2,146
Transfers In		1,093
<b>Total Revenues and Other Sources</b>	<u>\$ 0</u>	<u>\$ 3,239</u>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$215,344	\$176,880
Travel	10,873	4,876
IT – Data Processing and Communications	6,865	4,131
Office Equipment and Furniture	3,635	3,043
IT Equipment	3,220	
Professional Development	2,365	265
Fees – Professional Services	2,288	26
Office Supplies	2,282	3,695
Operating Fees and Services	752	1,455
Printing and Postage	608	427
Building Supplies	256	
Supplies – IT Software	233	
Insurance	175	428
Supply/Material-Professional	71	200
Miscellaneous Supplies		140
<b>Total Expenditures and Other Uses</b>	<u>\$248,967</u>	<u>\$195,566</u>

## STATEMENT OF APPROPRIATIONS

For The Fiscal Year Ended June 30, 2008

<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	\$ 485,363	\$ 336	\$ 485,699	\$ 215,098	\$ 270,601
Operating Expenses	85,895		85,895	33,869	52,026
<b>Totals</b>	<u>\$ 571,258</u>	<u>\$ 336</u>	<u>\$ 571,594</u>	<u>\$ 248,967</u>	<u>\$ 322,627</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 566,258	\$ 336	\$ 566,594	\$ 248,967	\$ 317,627
Other Funds	5,000		5,000		5,000
<b>Totals</b>	<u>\$ 571,258</u>	<u>\$ 336</u>	<u>\$ 571,594</u>	<u>\$ 248,967</u>	<u>\$ 322,627</u>

### Appropriation Adjustments:

The \$336 increase in Salaries and Wages line item was due to additional appropriation authority granted by Senate Bill 2189 for market equity increases for classified state employees.

## STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2007

<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	\$ 343,402		\$ 343,402	\$ 341,566	\$ 1,836
Operating Expenses	63,895		63,895	44,286	19,609
<b>Totals</b>	<u>\$ 407,297</u>		<u>\$ 407,297</u>	<u>\$ 385,853</u>	<u>\$ 21,444</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 387,297		\$ 387,297	\$ 384,760	\$ 2,537
Other Funds	20,000		20,000	1,093	18,907
<b>Totals</b>	<u>\$ 407,297</u>		<u>\$ 407,297</u>	<u>\$ 385,853</u>	<u>\$ 21,444</u>

### Appropriation Adjustments:

There were no appropriation adjustments for the biennium ended June 30, 2007.

### Expenditures Without Appropriations Of Specific Amounts:

Indian Affairs Commission Printing Fund has a continuing appropriation authorized by NDCC 54-36-08. There was \$1,624 in expenditures for this biennium.

## *Internal Control*

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In our audit for the two-year period ended June 30, 2008, we identified the following areas of the Indian Affairs Commission's internal control as being the highest risk:

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### Internal Controls Subjected To Testing

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- Controls surrounding the processing of 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 *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

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

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of Indian Affairs Commission in a management letter dated May 13, 2009.

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2008, we identified and tested Indian Affairs Commission's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### Legislative Intent Included In Our Audit Scope

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- The use of Fund 364 - the Indian Affairs Commission printing fund. This fund is a legally restricted fund and can only be used for the purposes of producing and distributing publications and informational and educational materials.
- Fees are established for the publications and informational and educational materials that are equal to the postage and printing cost of the publications (North Dakota Century Code section 54-36-09).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2005 North Dakota Session Laws chapter 33 and 2007 North Dakota Session Laws chapter 5).
- 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, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and 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* requires 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 have occurred or are likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the Indian Affairs Commission in a management letter dated May 13, 2009.

## *Operations*

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This audit did not identify areas of Indian Affairs Commission's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

## ***Management Letter (Informal Recommendations)***

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May 13, 2009

Mr. Scott Davis, Executive Director  
Indian Affairs Commission  
600 E. Boulevard Avenue  
Bismarck, ND 58505

Dear Mr. Davis:

We have performed an audit of the Indian Affairs Commission for the two-year period ended June 30, 2008, and have issued a report thereon. As part of our audit, we gained an understanding of the Indian Affairs Commission's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

### **GENERAL**

Informal Recommendation 08-1: We recommend the North Dakota Indian Affairs Commission:

- A. Draft a code of ethics or code of business conduct that addresses, at a minimum:
  - Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
  - Full, fair, accurate, timely, and understandable disclosure in reports and documents;
  - Compliance with applicable governmental laws, rules, and regulations;

- The prompt internal reporting of violations of the code to appropriate person or persons identified in the code;
  - Description of what constitutes fraudulent behavior; and
  - Accountability for adherence to the code and sanctions to be imposed on those who breach it.
- B. Ensure employees have annually acknowledged their receipt and reading of the code.

Informal Recommendation 08-2: We recommend the North Dakota Indian Affairs Commission:

- A. Establish and perform a fraud risk assessment on a recurring basis.
- B. Design and document the necessary control activities to ensure that each significant fraud exposure identified during the risk assessment process has been adequately mitigated and that each of the identified mitigating controls has been adequately tested by management.

Informal Recommendation 08-3: We recommend the North Dakota Indian Affairs Commission use state sources of supply and rotate solicited vendors on an equitable basis. We also recommend that individuals that are responsible for purchases under \$2,500 obtain Level I Procurement training.

Informal Recommendation 08-4: We recommend the North Dakota Indian Affairs Commission utilize their purchase card whenever possible.

## **LEGISLATIVE INTENT**

Informal Recommendation 08-5: We recommend the North Dakota Indian Affairs Commission have an individual separate from the individual responsible for inventory records take the inventory on an annual basis.

Informal Recommendation 08-6: We recommend the North Dakota Indian Affairs Commission run an agency procurement card statement and reconcile this report to the individual purchase card statements and receipts on a monthly basis.

Informal Recommendation 08-7: We recommend the North Dakota Indian Affairs Commission:

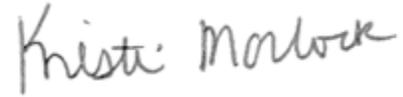
- Code non-state employee travel to account 521060 (Non-State Employee Travel);
- Ensure that an employee traveling for only one day code their meal expenses to account 521035 (IRS Meals Taxable); and
- Ensure that someone is reviewing the coding of expenditures prior to being approved in the PeopleSoft system.

Informal Recommendation 08-8: We recommend the North Dakota Indian Affairs Commission account for travel payments made by electronic funds transfer by sending written support to the travel agency to ensure all payments are accounted for, and ensure all unused airline tickets are rolled over into new tickets.

Management of Indian Affairs Commission agreed with these recommendations.

I encourage you to call myself 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,

A handwritten signature in cursive script that reads "Kristi Morlock".

Kristi Morlock  
Auditor in-charge