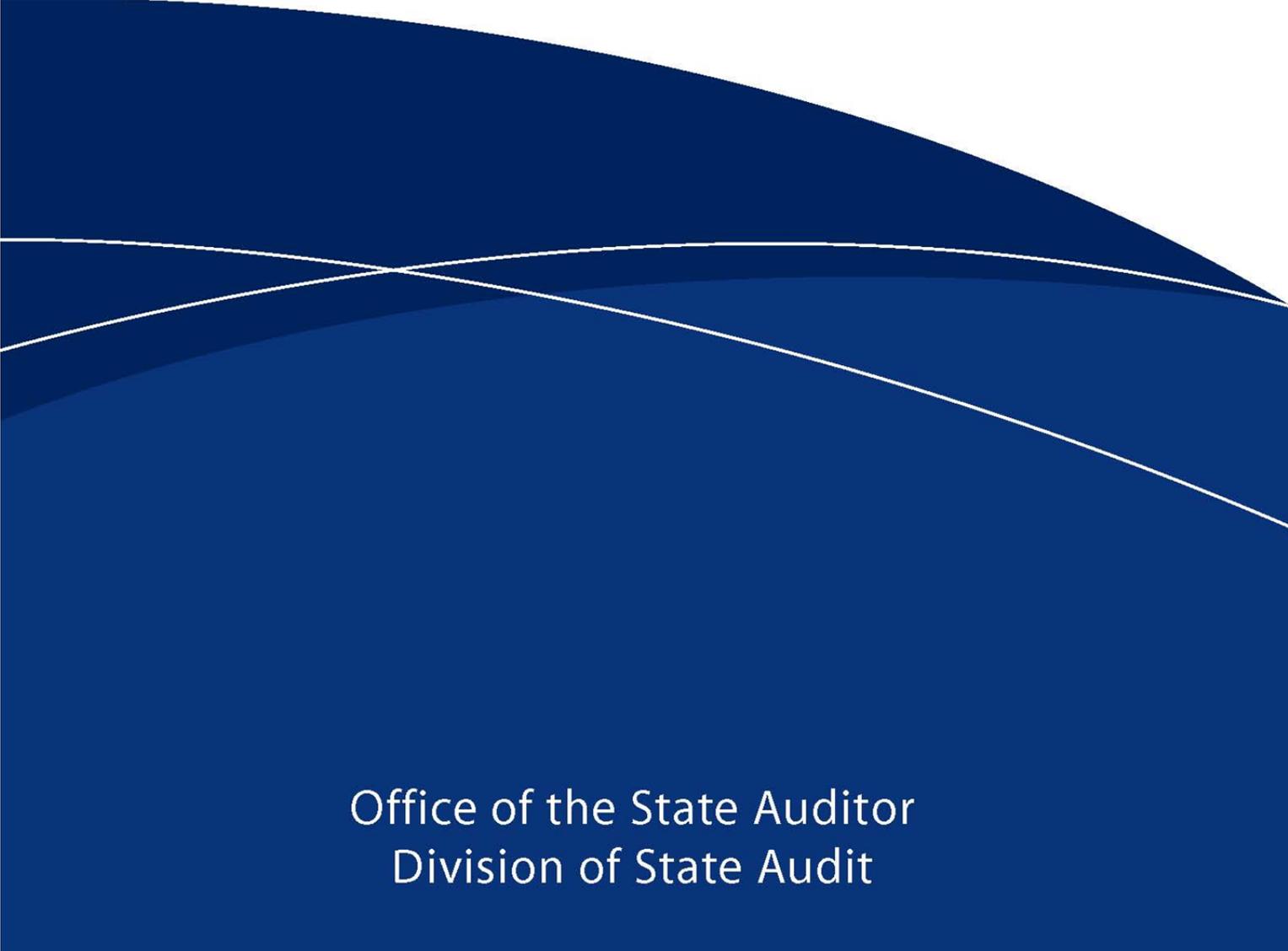


North Dakota Parks and
Recreation Department
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2011

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

May 11, 2012

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Mr. Mark Zimmerman, Director, Parks and Recreation Department

We are pleased to submit this audit of the Parks and Recreation Department for the biennium ended June 30, 2011. 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 Richard Fuher, CPA. Jacqueline Castleberry was the staff auditor. 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 Mr. Zimmerman 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 "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Parks and Recreation Department exists to serve as a focal point in the state for activities related to parks. The Department plans and coordinates government programs encouraging the full development and preservation of existing and future parks, outdoor recreation areas, and nature preserves. In addition, the Department is responsible for the following functions: off-highway vehicle planning and safety programs; snowmobile safety programs and trails; Nature Preserves Act; outdoor recreation grants and statewide recreation planning; and the State Scenic Byways Program.

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 Parks and Recreation Department 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?

Other than our findings addressing "noncompliance with state procurement guidelines" (page 12) and "noncompliance with state park fund revenues" (page 13), the Parks and Recreation Department was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing the "state park revenue control weakness" (page 9), we determined internal control was adequate.

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?

No, the recommendation from the prior audit report "state park revenue control weakness" as shown on page 15, was not implemented.

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 16 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, no management conflicts of interest were noted, no contingent liabilities were identified 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 Parks and Recreation Department'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 Parks and Recreation Department.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Parks and Recreation Department for the biennium ended June 30, 2011 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of the Parks and Recreation Department is for the biennium ended June 30, 2011. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Parks and Recreation Department has its central office in Bismarck and 17 state park sites throughout North Dakota, of which 13 collect fees. Each location 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 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 Parks and Recreation Department'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

The accompanying financial statements have been prepared to present the Parks and Recreation Department'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 biennium ended June 30, 2011, operations of the Parks and Recreation Department 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 park permit sales and user fees, as well as federal funds and concession sales. Other revenues during the audited period included intergovernmental reimbursements for shared projects, other miscellaneous revenues, donations to the state parks gift fund, and transfers in of pass-through funds from other state agencies. These all remained fairly constant for the Parks and Recreation Department, decreasing only slightly. Total revenues were \$3,988,860 for the year ended June 30, 2011 as compared to \$4,213,789 for the year ended June 30, 2010.

Total expenditures for the Parks and Recreation Department were \$11,555,881 for the year ended June 30, 2011 as compared to \$12,054,162 for the prior year. The decrease in total expenditures for the audited period reflects primarily the timing of payment requests for the International Peace Garden and land acquisitions. The increase in expenditures for salaries and benefits reflected the general salary increases whereas the increase in repairs was due to the timing of project progress and completion. All other expenditures remained fairly constant.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The natural resources line item variance (\$14,084,992 appropriated compared to \$12,936,976 actual expenditures) is primarily due to unfinished construction projects. The Parks and Recreation Department requested approval from the Carryover Committee to carry forward \$841,505 of the unexpended appropriation into the next biennium to finish the projects.

The recreation line item variance (\$8,091,430 appropriated compared to \$3,209,451 actual expenditures) is due to over-estimated federal revenue.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Revenues and Other Sources:</u>		
Park Permits / User Fees	\$ 1,964,502	\$ 1,939,226
Revenue From Federal Government	1,430,040	1,236,276
Concessions	265,942	295,997
Intergovernmental Reimbursements	85,937	295,177
Miscellaneous Revenue	114,752	126,254
Donations	12,345	28,370
Transfers In	115,342	292,489
Total Revenues and Other Sources	<u>\$ 3,988,860</u>	<u>\$ 4,213,789</u>
<u>Expenditures:</u>		
Salaries and Benefits	\$ 4,667,701	\$ 4,364,599
Repairs	2,301,462	1,027,852
International Peace Garden	365,721	2,362,733
Supplies	924,188	774,439
Grants, Benefits, and Claims	740,533	714,070
Professional Services	558,381	525,167
Motor Vehicles and Equipment Over \$5,000	348,374	313,013
Utilities	335,808	286,214
Travel	288,560	269,894
Land and Building Acquisitions	29,558	490,415
Other Capital Payments	133,814	184,978
IT – Communications and Data Processing	153,177	147,305
Insurance	170,453	95,202
Equipment and Furniture Under \$5,000	145,253	87,547
Rentals / Leases of Buildings and Land	122,127	107,091
Operating Fees and Services	111,906	106,246
Printing	54,052	73,728
Food and Clothing	52,736	55,903
Professional Development	21,760	32,469
Postage	24,685	25,904
Miscellaneous Expenditures	5,632	9,393
Total Expenditures	<u>\$ 11,555,881</u>	<u>\$ 12,054,162</u>

Statement of Appropriations

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Construction					
Carryover		\$ 758,143	\$ 758,143	\$ 758,143	
Deferred					
Maintenance	\$ 835,400		835,400	835,400	
Administration	2,182,685	59,052	2,241,737	2,148,103	\$ 93,634
Natural Resources	13,674,675	410,317	14,084,992	12,936,976	1,148,016
Recreation	8,060,799	30,631	8,091,430	3,209,451	4,881,979
Peace Garden	2,728,454		2,728,454	2,728,454	
Federal Stimulus Funds – 2009	800,000		800,000	325,776	474,224
Totals	<u>\$ 28,282,013</u>	<u>\$ 1,258,143</u>	<u>\$ 29,540,156</u>	<u>\$ 22,942,303</u>	<u>\$ 6,597,853</u>
Expenditures by Source:					
General Fund	\$ 15,333,959	\$ 1,071,159	\$ 16,405,118	\$ 15,221,149	\$ 1,183,970
Other Funds	12,948,054	186,984	13,135,038	7,721,154	5,413,883
Totals	<u>\$ 28,282,013</u>	<u>\$ 1,258,143</u>	<u>\$ 29,540,156</u>	<u>\$ 22,942,303</u>	<u>\$ 6,597,853</u>

Appropriation Adjustments:

The \$758,143 increase in construction carryover was authorized by North Dakota Century Code section 54-44.1-11 that allows for unexpended capital construction budgets to be carried forward into the next biennium. The adjustment was properly approved by the Carryover Committee.

The increases in administration, natural resources, and recreation were authorized by House Bill 1015 of the 2009 Session Laws for market equity increases for classified employees.

Expenditures Without Appropriations Of Specific Amounts:

State Parks Concession Fund has a continuing appropriation authorized by North Dakota Century Code section 55-02-04 (\$637,607.54 of expenditures for this biennium).

Insurance recoveries have a continuing appropriation authorized by North Dakota Century Code section 54-44.1-09.1 (\$33,131.99 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2011, we identified the following areas of the Parks and Recreation Department'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 Recreational Trails Program grants.

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 that internal control was not adequate, noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

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 identified the following significant deficiency in internal control. We also noted other matters involving internal control that we have reported to management of Parks and Recreation Department in a management letter dated May 11, 2012.

State Park Revenue Control Weakness (Finding 11-1)

Condition:

The Parks and Recreation Department has not incorporated policies and procedures to conduct periodic on-site or desk reviews as part of its monitoring efforts to ensure controls surrounding revenue collections at state parks are in place and operating effectively.

Criteria:

According to the Committee of Sponsoring Organizations (COSO) *Internal Control - Integrated Framework Executive Summary*, monitoring, verifications, reconciliations, and segregation of duties are control activities used to ensure necessary actions are taken to address an entity's operating risks.

Cause:

The Parks and Recreation Department has not strengthened controls surrounding revenue collections at state parks to ensure all fees are collected and properly deposited, as previously recommended.

Effect or Potential Effect:

Without proper monitoring there is an increased risk of theft.

Recommendation:

We recommend the Parks and Recreation Department incorporate policies and procedures to conduct periodic on-site or desk reviews of supporting documentation for revenue collected at state parks to ensure controls at the state parks are in place and operating effectively.

Parks and Recreation Department Response:

The Department agrees with the finding and will work on implementing on-site desk reviews in 2012-2013 as time and budget allows.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2011, we identified and tested Parks and Recreation Department's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with snowmobile and off-highway vehicle safety fee uses and reporting requirements (North Dakota Century Code sections 39-24-03.1 and 39-29-01.1).
- Compliance with land acquisition guidelines (North Dakota Century Code section 55-04-02).
- Compliance with deposit requirements for State Park Fund revenues (North Dakota Century Code section 55-08-07).
- Compliance with Concession Fund surplus transfer requirements (North Dakota Century Code section 55-08-07.1).
- Proper use of funding provided from the Game and Fish Operating Fund for maintenance, operating, and extraordinary repairs related to boat ramps (2009 North Dakota Session Laws chapter 19, section 4).
- Proper use of federal stimulus funds (2009 North Dakota Session Laws chapter 19, section 9).
- Proper use of the following legally restricted funds:
 - Snowmobile Fund.
 - Trail Tax Transfer Fund.
 - State Parks and Recreation Concession Revolving Fund.
 - State Parks Gift Fund.
- Application of proper statutory rates relating to revenue.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2009 North Dakota Session Laws chapter 19).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts, petty cash funds, credit card processing, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping and surplus property,
- 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 has occurred or is likely to have occurred.

The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are described below. Other than those findings, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of the Parks and Recreation Department in a management letter dated May 11, 2012.

Noncompliance With State Procurement Guidelines (Finding 11-2)

Condition:

The Parks and Recreation Department did not comply with State Procurement guidelines for 7 of the 19 transactions tested. Noncompliance issues included:

- Items were procured without the solicitation of bids or prior approval from the Office of Management and Budget for the limited competitive or noncompetitive purchases,
- Items were procured without soliciting the required number of bids or providing written justification as to why the required number of bids was not obtained, and
- An individual made a purchase that exceeded their certified level of procurement training.

Criteria:

According to the Office of Management and Budget's State Procurement Manual, when needed commodities or services cannot be obtained from an existing source or government entity, state procurement procedures must be used.

Cause:

Lack of management oversight surrounding procurement requirements.

Effect or Potential Effect:

All qualified persons are not being offered a fair and equal opportunity to sell to the state and necessary commodities and services may not be procured at a competitive cost.

Recommendation:

We recommend the Parks and Recreation Department comply with State Procurement guidelines.

Parks and Recreation Department's Response:

The Department agrees with the finding and has already assigned State Procurement training to all staff.

Noncompliance With State Park Fund Revenues (Finding 11-3)

Condition:

The Parks and Recreation Department did not deposit approximately \$11,800 in revenue from rentals, such as kayaks, boats, skis, and snow shoes into the state park fund in accordance with North Dakota Century Code section 55-08-07.

Criteria:

North Dakota Century Code section 55-08-07 states all revenues collected as rentals must be placed in the state park fund.

Cause:

The Parks and Recreation Department has historically deposited such revenue into the concession fund since concession funding was used to purchase the items and because the items are rented through concession stands.

Effect or Potential Effect:

The Parks and Recreation Department is not complying with North Dakota Century Code.

Recommendation:

We recommend the Parks and Recreation Department deposit all revenues from rentals into the state park fund in accordance with North Dakota Century Code section 55-08-07.

Parks and Recreation Department's Response:

The Department agrees with the finding and will begin coding all rental revenue into the state park operating fund beginning January 2013.

Operations

This audit did not identify areas of the Parks and Recreation Department's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Prior Recommendations Not Implemented

State Park Revenue Control Weakness (Finding 09-1)

Recommendation:

We recommend the Parks and Recreation Department strengthen controls surrounding revenue collections to ensure all fees are collected and properly deposited.

Status:

Not implemented. This finding was modified and readdressed on page 9.

Management Letter (Informal Recommendations)

May 11, 2012

Mr. Mark Zimmerman, Director
Parks and Recreation Department
1600 East Century Avenue, Suite 3
Bismarck, ND 58503-0649

Dear Mr. Zimmerman:

We have performed an audit of the Parks and Recreation Department for the biennium ended June 30, 2011, and have issued a report thereon. As part of our audit, we gained an understanding of the Parks and Recreation Department'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.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 11-1: We recommend the Parks and Recreation Department follow OMB's Purchase Card Policies by ensuring compliance with the reconciliation process outlined therein, and preventing employees from splitting transactions to bypass cardholder limits.

Informal Recommendation 11-2: We recommend the Parks and Recreation Department ensure public funds are not used for private purposes.

Informal Recommendation 11-3: We recommend the Parks and Recreation Department reconcile federal funds deposited on PeopleSoft to an amount shown by the federal government as paid to the agency. This reconciliation should be done by someone independent of the individual responsible for drawing down federal funds.

LEGISLATIVE INTENT

Informal Recommendation 11-4: We recommend the Parks and Recreation Department comply with North Dakota Century Code section 44-04-07 and Office of Management and Budget Fiscal and Administrative Policy 205 related to an annual physical fixed asset inventory.

Informal Recommendation 11-5: We recommend the Parks and Recreation Department ensure the fees charged for annual motor vehicle permits are in accordance with North Dakota Century Code section 55-08-06.

Informal Recommendation 11-6: We recommend the Parks and Recreation Department establish policies and procedures to ensure projects and land acquisitions are properly capitalized.

Informal Recommendation 11-7: We recommend the Parks and Recreation Department develop procedures to track safety fee expenditures and reporting requirements to ensure compliance with North Dakota Century Code sections 39-24-03.1 (snowmobile safety fees) and 39-29-01.1 (off-highway vehicle safety fees).

Informal Recommendation 11-8: We recommend the Parks and Recreation Department seek a formal Attorney General's Opinion to determine whether:

- A) The Department had the authority to establish permanent restricted endowments at the North Dakota Community Foundation using donations received in the form of bequests of money, trusts, and other donations with similar restrictions; or
- B) These donations should be deposited in the state parks gift fund in accordance with North Dakota Century Code section 55-08-07.2 and invested at the Bank of North Dakota.

GENERAL

Informal Recommendation 11-9: We recommend the Parks and Recreation Department run the NDSALL_VIEW_OMB_STO_JRNLS query that was developed for reviewing transactions processed by OMB and the State Treasurer's Office on a monthly basis and sign off on those transactions.

Informal Recommendation 11-10: We recommend the Parks and Recreation Department use their purchase card as a form of payment to vendors accepting purchase cards.

Management of Parks and Recreation Department 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 "Richard Fuher".

Richard Fuher, CPA
Auditor in-charge

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Division of State Audit

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