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## LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Wednesday, June 29, 2022  
Roughrider Room, State Capitol  
Bismarck, North Dakota

Senator Jerry Klein, Chairman, called the meeting to order at 9:00 a.m.

**Members present:** Senators Jerry Klein, David A. Clemens, Joan Heckaman, Jordan Kannianen, Judy Lee; Representatives Mary Adams, Gary Kreidt, Jeffery J. Magrum, Mike Nathe, Emily O'Brien

**Members absent:** Representatives Cole Christensen, Mary Johnson, Keith Kempenich, Scott Louser, Jim Schmidt, Wayne A. Trottier

**Others present:** See [Appendix A](#)

**It was moved by Representative Kreidt, seconded by Representative Adams, and carried on a voice vote that the minutes of the March 31, 2022, meeting be approved as distributed.**

Mr. Chris J. Kadrmaz, Senior Fiscal Analyst, Legislative Council, distributed audit summaries entitled [Summary of Major Items in Audit Reports to be Presented at the June 29, 2022, Meeting](#).

Chairman Klein announced that as requested by the Budget Section, the committee would be receiving background information regarding certain lease agreements entered by the Attorney General's office.

At the request of Chairman Klein, Mr. Joshua C. Gallion, State Auditor, discussed building lease agreements entered by the Attorney General. He anticipates the Attorney General's lease agreement will be reviewed as part of the agency's audit to be conducted next year.

At the request of Chairman Klein, Mr. C.J. Schorsch, Owner, Parkway Property Management, presented background information relating to the Attorney General leasing a new facility along with changes to the costs of remodeling the facility based on the needs of the Attorney General's office which resulted in cost overruns.

At the request of Chairman Klein, Mr. John Boyle, Director, Facilities Management Division, Office of Management and Budget, explained the process of entering leases along with his discussion with the Attorney General's office regarding the leasing of a new facility and potential savings that could be realized. He suggested significant cost overruns could be avoided if leasing and construction management was centralized with the Office of Management and Budget.

### AUDITS OF STATE AGENCIES, BOARDS, AND COMMISSIONS

Representatives of the State Auditor's office presented the following audit reports:

- [Department of Commerce Audit Report for the Two-Year Period Ended June 30, 2021;](#)
- [Department of Corrections and Rehabilitation Audit Report for the Two-Year Period Ended June 30, 2021;](#)
- [North Dakota Forest Service Audit Report for the Two-Year Period Ended June 30, 2020;](#)
- [Office of the Governor Audit Report for the Two-Year Period Ended June 30, 2021;](#)
- [North Dakota Insurance Department Audit Report for the Two-Year Period Ended June 30, 2021;](#)
- [Judicial Branch Audit Report for the Two-Year Period Ended June 30, 2021;](#)
- [Department of Labor and Human Rights Audit Report for the Two-Year Period Ended June 30, 2021;](#)

- [Office of Administrative Hearings Audit Report for the Two-Year Period Ended June 30, 2020](#);
- [North Dakota Racing Commission Audit Report for the Two-Year Period Ended June 30, 2021](#);
- [North Dakota Lottery Audit Report for the Two-Year Period Ended June 30, 2021](#);
- [North Dakota Agriculture Experiment Station, North Dakota State University Extension Services, and Northern Crops Institute Audit Report for the Two-Year Period Ended June 30, 2021](#);
- [Upper Great Plains Transportation Institute Audit Report for the Two-Year Period Ended June 30, 2021](#); and
- [Office of the State Treasurer Audit Report for the Two-Year Period Ended June 30, 2021](#).

### AUDITS OF STATE AGENCIES, BOARDS, AND COMMISSIONS

Mr. Darrell Lingle, Eide Bailly LLP, Certified Public Accountants, presented the following reports:

- [Bank of North Dakota, Financial Statements for the Years Ended December 31, 2021 and 2020](#);
- [Beginning Farmer Revolving Loan Fund, Financial Statements for the Year Ended December 31, 2021](#);
- [Guaranteed Student Loan Program, Financial Statements for the Years Ended December 31, 2021 and 2020](#);

Mr. Jon Godfread, Insurance Commissioner, provided information regarding the finding of incorrect distributions to fire departments and districts in its audit. He noted the incorrect distributions had been corrected before the audit began and a new process has been implemented to avoid such errors.

Mr. Kadrmas distributed a letter ([Appendix B](#)) from the Department of Financial Institutions pursuant to North Dakota Century Code Section 6-09-29, indicating it has examined the Bank of North Dakota as of December 31, 2021, and had no findings.

Mr. Gallion, presented information regarding the status of the prescription drug coverage performance audit under Section 6 of House Bill No. 1004 (2021). He noted the State Auditor's office has contracted with Myers and Stauffer LC to conduct the audit.

Representatives of the State Auditor's office presented information regarding recent changes to costs charged to state agencies for audits, including hourly rates and the number of hours to conduct the audit of select entities.

Mr. Godfread commented on audit costs for the Insurance Department.

Mr. Allen H. Knudson, Legislative Budget Analyst and Auditor, Legislative Council, reviewed a memorandum entitled [Audit Report Communications and Contents](#).

Mr. Dan Cox, Quality Assurance Manager, State Auditor's office, presented information ([Appendix C](#)) regarding options for including financial schedules on certain assets and liabilities in operational audit reports. He suggested not including information on certain assets and liabilities in operational audit reports.

**It was moved by Senator Lee, seconded by Representative Kreidt, and carried on a roll call vote that, for audit periods on or after June 30, 2022, except for audits currently under contract:**

- 1. Auditors conducting financial statement audits of state agencies replace the six audit-related questions/responses and eight audit-related communications within the audit report with a separate audit summary that identifies the purpose of the audit, the type of audit opinion, findings and recommendations, status of prior recommendations, explanations of significant audit adjustments and misstatements, disagreements with management or difficulties encountered during the audit, other audit report highlights, and the cost of the audit compared to the prior audit.**
- 2. The State Auditor conducting operational audits using performance auditing standards of state agencies discontinue including the six audit-related questions/responses and eight audit-related communications in the audit report and expand the audit summary to identify the areas reviewed and testing conducted even if there are no related findings or recommendations.**

Senators Klein, Clemens, Heckaman, Kannianen, and Lee and Representatives Adams, Kreidt, Magrum, Nathe, and O'Brien voted "aye." No negative votes were cast.

The committee discussed options for reviewing the Attorney General's facility lease arrangements.

Mr. Gallion presented options for reviewing building lease agreements at the Attorney General's office. He suggested the review could be part of a performing audit or an extended review.

Chairman Klein suggested the State Auditor's office could conduct an extended review of building lease agreements entered by the Attorney General and report to the next Legislative Audit and Fiscal Review Committee meeting.

**It was moved by Representative Nathe, seconded by Representative Magrum, and carried on a voice vote that the State Auditor work with the Attorney General to gather and review documentation and other information related to the lease agreement and the remodeling and construction of facilities leased by the Attorney General located at 1720 Burlington Drive, Bismarck, and to report the findings to the Legislative Audit and Fiscal Review Committee at its next meeting.**

**It was moved by Representative Kreidt, seconded by Representative Magrum, and carried on a voice vote that the audit of the North Dakota Stockmen's Association (December 31, 2020 and 2021) be presented at the next Legislative Audit and Fiscal Review Committee meeting.**

### **COMMITTEE DISCUSSION AND STAFF DIRECTIVES**

**It was moved by Representative O'Brien, seconded by Representative Adams, and carried on a roll call vote that, pursuant to Section 54-35-02.2, the committee accept the following reports reviewed by the committee at its June 29, 2022, meeting:**

- 1. Department of Commerce (June 30, 2020 and 2021)**
- 2. Department of Corrections and Rehabilitation (June 30, 2020 and 2021)**
- 3. North Dakota Forest Service (June 30, 2019 and 2020)**
- 4. Governor's office (June 30, 2020 and 2021)**
- 5. Insurance Department (June 30, 2020 and 2021)**
- 6. Judicial branch (June 30, 2020 and 2021)**
- 7. Department of Labor and Human Rights (June 30, 2020 and 2021)**
- 8. Office of Administrative Hearings (June 30, 2019 and 2020)**
- 9. Racing Commission (June 30, 2020 and 2021)**
- 10. North Dakota Lottery (June 30, 2020 and 2021)**
- 11. North Dakota Agriculture Experiment Station, North Dakota State University Extension Services, and Northern Crops Institute (June 30, 2020 and 2021)**
- 12. Upper Great Plains Transportation Institute (June 30, 2020 and 2021)**
- 13. State Treasurer's office (June 30, 2020 and 2021)**
- 14. Bank of North Dakota (December 31, 2020 and 2021)**
- 15. Beginning farmer revolving loan fund (December 31, 2021)**
- 16. Guaranteed student loan program (December 31, 2020 and 2021)**

Senators Klein, Clemens, Heckaman, Kannianen, and Lee and Representatives Adams, Kreidt, Magrum, Nathe, and O'Brien voted "aye." No negative votes were cast.

No further business appearing, Chairman Klein adjourned the meeting at 11:53 a.m.

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Chris J. Kadrmaz  
Senior Fiscal Analyst

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Allen H. Knudson  
Legislative Budget Analyst and Auditor

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