

# NORTH DAKOTA LEGISLATIVE COUNCIL

## Minutes of the

### LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Monday, June 19, 2006  
Roughrider Room, State Capitol  
Bismarck, North Dakota

Representative Francis J. Wald, Chairman, called the meeting to order at 9:00 a.m.

**Members present:** Representatives Francis J. Wald, Ole Aarsvold, Merle Boucher, Jeff Delzer, Andrew G. Maragos, David Monson, Chet Pollert, Bob Skarphol, Blair Thoreson, Mike Timm; Senators Bill L. Bowman, Randel Christmann, Judy Lee

**Members absent:** Representatives RaeAnn G. Kelsch, Earl Rennerfeldt; Senators Jerry Klein, Tim Mathern

**Others present:** See attached appendix

**It was moved by Representative Maragos, seconded by Representative Thoreson, and carried on a voice vote that the minutes of the January 10, 2006, meeting of the Legislative Audit and Fiscal Review Committee be approved as distributed.**

#### DEPARTMENT OF TRANSPORTATION DRIVER AND VEHICLE SERVICES PERFORMANCE AUDIT FOLLOWUP

Chairman Wald called on Mr. Gordy Smith, State Auditor's office, who presented the followup report on the Department of Transportation Driver and Vehicle Services performance audit as of November 28, 2005. He said 11 prior audit recommendations were fully implemented, 14 prior audit recommendations were partially implemented, and 11 recommendations were determined to be not implemented.

Mr. Gordy Smith said the Department of Transportation considered options to use a check recovery system as recommended by the State Auditor's office. He said the response from the Department of Transportation was that the task can be done more efficiently within the division because of the relatively minimal number of nonsufficient funds (NSF) checks.

Mr. Gordy Smith said the Bismarck office of the Department of Transportation Motor Vehicle Division reviews 100 percent of new title and title transfer work performed by the motor vehicle branch office due to the potential liability of the state related to errors. He said five temporary Department of Transportation employees are responsible for conducting these reviews. He said the State Auditor's office identified their total salaries to be approximately \$68,000 per year. He said the State Auditor's office recommended the reviews of new title and title transfer work should be limited to a sampling.

In response to a question from Representative Wald, Mr. Gordy Smith said the Department of Transportation is continuing to review 100 percent of the new title and title transfer work performed by the motor vehicle branch offices. He said the Department of Transportation indicated it would discuss the issue with the Risk Management Division. He said the State Auditor's office did not feel the error rate was significant enough to spend \$68,000 per year to review all transactions.

Mr. Gordy Smith said the State Auditor's office recommended that the Department of Transportation take appropriate action to change the requirements in the North Dakota Century Code to allow for an increase in the driver's license four-year life cycle. He said based on a sample from 10 other states, the average life cycle of a driver's license was 5.2 years. He said the Department of Transportation has not implemented the recommendation but indicated it will evaluate the life cycle of driver's licenses, with an emphasis on safety concerns.

Mr. Keith Magnusson, Director, Driver and Vehicle Services, Department of Transportation, said at least four of the State Auditor's office recommendations which were identified as being partially implemented are now fully implemented. He said the Department of Transportation has implemented a policy that if an individual has written two bad checks to the department within the last five years, the department will only accept cash or a money order from that person.

In response to a question from Representative Aarsvold, Mr. Magnusson said the Department of Transportation does accept credit card payments. He said the credit card payments are processed by the Bank of North Dakota. He said the Department of Transportation is responsible for payment of credit card transaction fees.

In response to a question from Senator Lee, Mr. Magnusson said approximately 15 percent of license renewals are completed on the Internet.

In response to a question from Representative Wald, Mr. Magnusson said if all other options of collecting NSF checks are unsuccessful, the Highway Patrol is sent out to collect the payment or return with the license plate.

In response to a question from Representative Delzer, Mr. Magnusson said the Department of Transportation pays approximately \$250,000 per biennium for credit card transaction fees. He said the

majority of credit card payments relate to motor vehicle fees. He said there are some minimal efficiencies to the department from the use of the Internet for providing services.

In response to a question from Representative Timm, Mr. Magnusson said the new driver's license design is based on current national standards. He said the department has not yet received the final recommendations from the Department of Homeland Security regarding the plan for a national identification card.

In response to a question from Representative Delzer, Mr. Magnusson said the new driver's license design was used starting in May 2006.

Representative Delzer said the Department of Transportation should communicate to the federal government the state's opposition to requirements for excessive or duplicated identification and background checks, which result in additional costs to taxpayers. Mr. Magnusson said the federal requirements are very specific.

### **INFORMATION TECHNOLOGY DEPARTMENT INFORMATION SYSTEM AUDIT REPORT**

Chairman Wald called on Mr. Donald LaFleur, State Auditor's office, who presented the information system audit of the Information Technology Department for the year ended December 31, 2005. He said the audit report contains the following eight recommendations relating to the general controls of the Information Technology Department:

- Develop a security plan that provides centralized direction and control over information security.
- Limit the information available externally regarding the state of North Dakota's computer network--STAGENet.
- Extend vulnerability scanning to all state systems which provide services on the Internet.
- Establish a policy for remote management of Windows systems mandating encryption of userids/passwords and all session data.
- Implement a formal incident response program.
- Review all firewall configurations to ensure the rules are necessary and applicable.
- Implement IP-based access controls for state Internet systems.
- Develop a systematic risk assessment framework.

In response to a question from Representative Monson, Mr. LaFleur said the State Auditor's office contracted with ManTech International Corporation to test the security of state computer systems. He said the Legislative Assembly appropriated \$100,000 from the general fund for the State Auditor's office to hire the consultant. He said ManTech International Corporation identified some potentially vulnerable systems but was primarily unsuccessful in its attempts to "break into" the system. He said the specific

vulnerabilities identified by ManTech International Corporation were not included in the audit report in order to keep the information from becoming public record.

In response to a question from Representative Skarphol, Mr. LaFleur said ManTech International Corporation concluded that the state of North Dakota is doing a "good job" with information technology security. He said the State Auditor's office will request an appropriation as part of the department's 2007-09 biennium budget request for additional security testing and followup testing.

In response to a question from Representative Aarsvold, Mr. LaFleur said there are potential security issues with state employees taking their laptop computers home or on business trips. He said the best way to secure data on these computers is through the use of encryption. Representative Wald said state agencies should develop policies regarding when computers can be taken home or on business trips.

### **STATE AGENCY AND INSTITUTION AUDIT REPORTS**

Chairman Wald called on Mr. Greg Honl, Eide Bailly LLP, Certified Public Accountants, Fargo, who presented the audit report for the Bank of North Dakota for the years ended December 31, 2005 and 2004. Mr. Honl reviewed the auditor's responses to the committee guidelines and said the audit report contains an unqualified opinion and does not contain any findings or recommendations relating to the financial statements. He said the audit report contains one finding relating to the federal award programs. He said the Bank of North Dakota manually calculates the quarterly special allowance payments adjustments, which are then submitted to the Department of Education. He said miscalculations were occasionally made in calculating the special allowance payments. He said the Bank of North Dakota should conduct an independent review of the adjustment each quarter prior to submitting the adjustment to the Department of Education.

In response to a question from Representative Delzer, Mr. Eric Hardmeyer, President, Bank of North Dakota, said the Bank's tier 1 leverage ratio or ratio of capital to average assets is 8.34 percent. He said the industry standard is a ratio of 5 to 10 percent.

In response to a question from Representative Wald, Mr. Hardmeyer said requests for bids for the new Bank of North Dakota building will be issued on July 5, 2006. He said hopefully construction on the new building will start in August 2006. He said an architect is currently developing the design "elements."

In response to a question from Representative Pollert, Mr. Hardmeyer said the Bank of North Dakota is concerned about recent increases in prices of building supplies. He said \$11 million of special funds spending authority from the Bank's assets was

appropriated by the Legislative Assembly to construct the new building.

In response to a question from Representative Delzer, Mr. Hardmeyer said the Bank's capital balance was approximately \$162 million as of December 31, 2005. He said it is estimated that the Bank's capital balance will be \$175 million at the end of the 2005-07 biennium. He said, pursuant to 2005 House Bill No. 1015, the Bank of North Dakota is to maintain a capital balance of at least \$150 million.

Mr. Honl presented the audit report for the Public Finance Authority for the years ended December 31, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the report contained one internal control finding relating to segregation of accounting duties.

Mr. Honl presented the audit report for the guaranteed student loan program for the years ended September 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Honl presented the audit report for the Ag PACE fund for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report does not contain any findings or recommendations.

In response to a question from Representative Wald, Mr. Hardmeyer said there is a possibility that the Ag PACE and beginning farmer revolving loan funds could be merged into a common fund.

Mr. Honl presented the audit report for the partnership in assisting community expansion (PACE) fund for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report does not contain any findings or recommendations. He said during fiscal year ended June 30, 2005, \$2.2 million was transferred from the PACE fund to the general fund due to lack of demand for PACE funds.

Mr. Honl presented the audit report for the student loan trust for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee's guidelines and said the audit report does not contain any findings or recommendations relating to the financial statements. He said the audit report contains one finding relating to the federal awards program. He said the quarterly adjustments for special allowance payments were occasionally miscalculated. He said an independent review should be conducted of the adjustments each quarter prior to submitting the adjustment to the Department of Education.

Chairman Wald called on Mr. Paul Welk, State Auditor's office, who presented the audit report for the Office of Management and Budget for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains three internal control findings relating to the ConnectND or PeopleSoft

system. He said the State Auditor's office identified ConnectND access control weaknesses. He said this finding was included in many of the June 30, 2005, audit reports. He said the Office of Management and Budget has corrected the weaknesses since the date of the report. In addition, he said, the internal control findings relate to the lack of an approval function for journal entries within the ConnectND general ledger and lack of information relating to internal controls applicable to policies and procedures within the ConnectND accounting and payroll manuals. He said the audit report contains one recommendation for operational improvement relating to inefficiencies in the reporting practices of state agencies relating to processing 1099 forms for vendors and the Internal Revenue Service.

Mr. Welk presented the audit report for the Department of Public Instruction for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains two internal control findings relating to ConnectND access control weaknesses and other computer access control weaknesses at the Department of Public Instruction, State Library, School for the Deaf, and North Dakota Vision Services - School for the Blind. He said the audit report contains three findings of noncompliance with legislative intent relating to overspending line item appropriation authority; compliance with North Dakota Century Code (NDCC) Section 54-24.2-04 relating to maintenance of local effort criteria before awarding state aid to public libraries; and completion of the data envelopment project within the required time period, pursuant to 2003 Senate Bill No. 2421. He said the audit report contains three operational improvement recommendations relating to monitoring and reconciling grant program expenditures, supplying requested information to Standard & Poor's for the school evaluation service, and improving the North Dakota Vision Services - School for the Blind web site.

In response to a question from Representative Monson, Mr. Welk said the State Library misinterpreted NDCC Section 54-24.2-04, which provides the maintenance of effort requirement for public libraries to receive state aid. He said the State Auditor's office is working with the Attorney General's office to determine if the local governing bodies will have to repay the state aid for public libraries in the instances where the required local matching funds were not sufficient.

Mr. Welk presented the audit report for the Department of Corrections and Rehabilitation for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains two internal control findings relating to weaknesses in ConnectND access and pharmacy inventory controls. He said the recommendation relating to pharmacy inventory controls was also a prior audit finding.

In response to a question from Senator Bowman, Mr. Welk said the State Auditor's office follows up on

the status of recommendations included in previous audit reports when conducting agency audits. The legislative budget analyst and auditor said the Legislative Audit and Fiscal Review Committee, by motion, may direct the Legislative Council staff to send correspondence to an agency that has not complied with previous audit recommendations requesting the agency to appear before the Legislative Audit and Fiscal Review Committee to explain the reason for noncompliance with the audit recommendations or steps taken to address the recommendations.

Representative Aarsvold said the agencies' ability to implement the audit recommendations may be due to the necessary resources not being appropriated to the agency. Representative Delzer said the Department of Corrections and Rehabilitation hired an additional full-time pharmacy technician in fiscal year 2006. Senator Lee said responsibilities relating to inventory control and dispensing of prescriptions require "skilled" individuals.

**It was moved by Senator Bowman, seconded by Representative Skarphol, and carried on a voice vote to direct the Legislative Council staff to send a letter to the Department of Corrections and Rehabilitation requesting a representative from the department to appear before the Legislative Audit and Fiscal Review Committee during the next meeting to explain the reason for noncompliance with audit recommendations or identify steps taken to address the recommendations and for the State Auditor's office to provide a report to the Appropriations Committees and each member of the Legislative Audit and Fiscal Review Committee at the beginning of the next legislative session regarding significant audit recommendations, including those recommendations that were not implemented, and findings contained in the financial and performance audit reports presented to the Legislative Audit and Fiscal Review Committee during the previous interim.**

Mr. Ed Nagel, State Auditor's office, presented the audit report for the Public Service Commission for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains one internal control finding relating to weaknesses in ConnectND access controls.

Mr. Nagel presented the audit report for the Industrial Commission for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains one internal control finding relating to a weakness in ConnectND access controls.

The committee recessed for lunch from 12:00 noon to 1:00 p.m.

## AUDITS OF INSTITUTIONS OF HIGHER EDUCATION

Mr. John Grettum, State Auditor's office, presented the audit report for Mayville State University for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains two internal control findings relating to coding payroll expenses to incorrect accounts and depositing building lease revenues in funds which are not directly related to supporting the facility being leased. He said two prior audit recommendations were determined not to be implemented relating to maintaining required amounts in bond and interest sinking funds and making adjustments to the accounting system to fairly present activities of governmental units in conformity with generally accepted accounting principles.

In response to a question from Senator Christmann, Mr. Steve Bensen, Vice President for Business Affairs, Mayville State University, said the Traill County Technology Center is an "incubator" for startup businesses. He said the building lease revenues will be transferred into the related building account.

Representative Skarphol distributed information regarding 2004-05 tuition waivers provided by North Dakota University System campuses. A copy of the information presented is on file in the Legislative Council office. He said the information was from the North Dakota University System February 2006 *Student Affordability Report*. He said approximately \$20.3 million in tuition waivers were provided by the state campuses for a total of 7,844 students. He said the tuition revenue lost from providing the waivers could have been used to supplement energy funding shortfalls at the campuses.

In response to a question from Representative Delzer, Mr. Bensen said the State Board of Higher Education defines the types of tuition waivers that may be provided by the campuses. He said Mayville State University is working with the financial aid and athletic departments to reduce the total tuition waivers.

In response to a question from Representative Thoreson, Mr. Bensen said Mayville State University provides a 50 percent tuition rate reduction to the "benefited" employees and family members of those employees. He said the tuition waiver is used as a recruitment and retention tool. He said this benefit is not offered at all the North Dakota University System campuses.

In response to a question from Senator Bowman, Mr. Bensen said the vast majority of the cultural diversity tuition waivers provided by Mayville State University are to Native American students.

In response to a question from Representative Skarphol, Mr. Bensen said the total headcount at Mayville State University for this past year was 912 students. He said there were 677 full-time equivalent students taking classes on campus.

Representative Skarphol said the report indicates 227 of those students received tuition waivers.

In response to a question from Senator Christmann, Mr. Bensen said in order to attract more students, Mayville State University has provided tuition waivers to out-of-state students. He said often the waivers are provided in an amount to reduce the out-of-state tuition rate to one and one-half times the state rate. He said not all tuition waivers are for 100 percent of the tuition.

Representative Boucher said certain aspects of the campus operations are more efficient with more full-time equivalent students. He said the students receiving tuition waivers still have to pay room and board costs.

In response to a question from Representative Aarsvold, Mr. Bensen said tuition waivers can be used as a method to compete with other campuses for students.

In response to a question from Representative Wald, Mr. Bensen said approximately one-third of the on-campus students at Mayville State University are involved in athletic programs. He said approximately two-thirds of the athletes receive some form of waiver. He said the number of tuition waivers at Mayville State University increased significantly from 2003 to 2005, primarily due to the initiation of a soccer program. He said the soccer program was discontinued this year.

Senator Lee said the priority of the campuses should be to provide quality education programs rather than to increase the number of students enrolled.

Chairman Wald called on Dr. Robert L. Potts, Chancellor, North Dakota University System, who commented on tuition waivers provided by the North Dakota University System campuses. Dr. Potts said he is concerned by the increase in the number and total dollar amount of tuition waivers provided by the campuses. He said because there are too few North Dakota students to support the North Dakota higher education infrastructure, there is a need to attract out-of-state students. He said a certain percentage of the tuition waivers are related to the recent increases in tuition rates. He said the State Board of Higher Education will address the issue of tuition waivers and provide a recommendation to the Legislative Assembly on solutions to control the use of waivers by the campuses.

In response to a question from Representative Boucher, Dr. Potts said the University of North Dakota and North Dakota State University (NDSU), which are both research institutions, provide the largest amount of tuition waivers. He said tuition waivers are necessary for doctoral candidates to assist in the research programs.

Dr. Potts said the State Board of Higher Education has delayed the search for a new president at Mayville State University until the school's revenue shortfall issues can be addressed. He said the State Board of Higher Education appointed a group to assist Mayville State University with its financial issues.

Mr. Grettum presented the audit report for Dickinson State University for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains two findings of noncompliance with legislative intent. He said one finding relates to providing travel advances to employees in instances when the travel did not exceed five days, receiving proper approval for travel advances, and timely completion of travel expense reports. The second recommendation relates to following procurement practices and accounting for capital leases.

Mr. Grettum said Dickinson State University had one employee in the business office that was responsible for posting charges made at the bookstore to student accounts. He said the employee had dependents who attended Dickinson State University and their bookstore charges were never posted to their accounts. He said the total amount questioned was \$2,212 and the employee was terminated.

Mr. Grettum presented the audit report for Minot State University for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains one finding of noncompliance with legislative intent relating to incorrectly recording leases as operating leases rather than capital leases and not using the bidding process for leases when the value of the property is greater than \$10,000.

Mr. Grettum presented the audit report for Minot State University - Bottineau for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report does not contain any findings or recommendations.

Mr. Grettum presented the audit report for Lake Region State College for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report does not contain any findings or recommendations.

Mr. Grettum presented the audit report for Williston State College for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report does not contain any findings or recommendations.

Mr. Grettum presented the audit report for Bismarck State College for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains one internal control finding relating to capitalization of expenses.

Mr. Grettum presented the audit report for Valley City State University for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report does not contain any findings or recommendations.

In response to a question from Representative Delzer, Mr. Grettum said due to the large amount of accounts available on the ConnectND system, there is not always consistency in reporting transactions

among campuses. He said the North Dakota University System has issued guidelines to improve consistency in reporting among the campuses. Ms. Tamara Barber, Director of Financial Reporting, North Dakota University System, said training has been provided to assist the campuses with the reporting of transactions.

### **STATE AGENCY AND INSTITUTION AUDIT REPORTS**

Mr. Nagel presented the audit report for the Children's Services Coordinating Committee for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report does not contain any findings or recommendations. He said the Children's Services Coordinating Committee's funding was eliminated during fiscal year 2005 and the 2005 Legislative Assembly did not allocate any funding for continuance. He said consequently the agency's operations were discontinued as of June 30, 2005.

In response to a question from Representative Delzer, the legislative budget analyst and auditor said the Children's Services Coordinating Committee can continue functioning as a board but there is no funding for the program. He said a bill draft proposed by the Budget Section would address the North Dakota Century Code references relating to the Children's Services Coordinating Committee.

Mr. Nagel presented the audit report for the Tax Commissioner's office for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains one internal control finding relating to weaknesses in ConnectND access controls.

Mr. Welk presented the audit report for the Parks and Recreation Department for the years ended June 30, 2005 and 2004. He reviewed the auditor's responses to the committee guidelines and said the audit report contains one internal control finding relating to ConnectND access controls. He said the audit report contains one finding of noncompliance with legislative intent relating to overspending special fund appropriation authority.

In response to a question from Representative Delzer, the legislative budget analyst and auditor said penalties for exceeding appropriation authority depend on the intent and seriousness of the violation and the specific North Dakota Century Code section violated. He said if the State Auditor's office believes there is a violation of law, it should be referred to the Attorney General's office.

Mr. Doug Prchal, Director, Parks and Recreation Department, said the department overspent the appropriation authority from the water development trust fund by \$700 due to "overlooking" the project's interest expense. He said the \$700 was repaid to the water development trust fund from other appropriated funding within the department's operating line item. He said overspending of appropriation authority from

the trail tax transfer fund and state parks gift fund were due to incorrect coding of transactions and has since been corrected.

### **NORTH DAKOTA UNIVERSITY SYSTEM ANNUAL FINANCIAL REPORT**

Ms. Barber presented the annual financial report for the North Dakota University System for the fiscal year ended June 30, 2005. She said an unqualified opinion was issued on the financial statements. She said as of June 30, 2005, the North Dakota University System had total assets of \$916.6 million and total liabilities of \$265.4 million, resulting in a net assets total of \$651.2 million. She said total net assets increased \$11.2 million during fiscal year 2005.

Ms. Barber said the annual degree credit headcount for the fall of 2004 was 42,503, a 2.1 percent increase over the previous fall enrollment. She said campuses continue to experience enrollment increases, resulting in increases in tuition revenues. She said revenues from student tuition and fees were \$181,280,000 for the fiscal year ended June 30, 2005, which is an increase of 20 percent as compared to the fiscal year ended June 30, 2004. She said during the 2004-05 academic year, the campuses raised tuition rates an average of 15.4 percent to help offset the general fund appropriation reduction in the 2003-05 biennium.

### **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Ms. Eileen Holwegner, Office of Management and Budget, presented the Comprehensive Annual Financial Report (CAFR) for the state of North Dakota for the fiscal year ended June 30, 2005. Ms. Holwegner reviewed the information contained in the report and a supplemental report entitled *2003-2005 Biennium Budget and Actual Detail - (Budgetary Basis)*. Copies of both reports are on file in the Legislative Council office.

Mr. Welk presented the State Auditor's office report on the state of North Dakota internal control and compliance report for the fiscal year ended June 30, 2005. He said the report indicates that the State Auditor's office has audited the general purpose financial statements for the state of North Dakota for the year ended June 30, 2005. He said the report contains three internal control findings relating to ConnectND access control weaknesses, lack of an approval function for journal entries on the ConnectND general ledger, and the need for daily reconciliation of the cash balance per the ConnectND accounting system to the Bank of North Dakota balance by the State Treasurer's office.

### **NORTH DAKOTA UNIVERSITY SYSTEM AUDIT REPORT**

Mr. Grettum presented the annual financial report for the North Dakota University System for the year ended June 30, 2005. He said two prior audit

recommendations relating to providing information to auditors in a timely manner and reconciling cash per bank to cash per general ledger on a monthly basis were not implemented. He said the report contains eight internal control recommendations, including:

- Reconciling cash per bank to cash per ledger on a monthly basis.
- Proper use of account codes, funds, fund groups, and functions that are available on ConnectND to comply with generally accepted accounting principles.
- Implementing and enforcing antifraud policies and procedures.
- Developing a comprehensive payroll manual outlining payroll policies and procedures.
- Segregating accounting duties and maintaining an audit trail for payroll changes.
- Documenting approval by an authorized person for all transactions that affect the general ledger.
- Preparing timely reconciliations and accurate financial information relating to payroll.
- Providing proper supporting documentation and submitting information in a timely and consistent manner relating to scholarship allowance calculations.

In response to a question from Representative Boucher, Mr. Grettum said the bank reconciliation component was not initially included in the ConnectND system and had to be written after the system was purchased.

In response to a question from Senator Bowman, Ms. Laura Glatt, Vice Chancellor for Administrative Affairs, North Dakota University System, said North Dakota State University disagrees with the State Auditor's office recommendation relating to use of account codes, fund groups, and functions. She said NDSU has had a longstanding management practice of budgeting fringe benefits as a pool so that each department's payroll budget only includes its gross salaries and wages. She said NDSU realizes there are pros and cons to this management practice but believes it is a management responsibility delegated to NDSU under board policy and, as a result, NDSU does not intend to change its practice. She said the Legislative Assembly and the State Board of Higher Education could direct NDSU to change its practice relating to budgeting of fringe benefits. She said this is not a major issue to the North Dakota University System office.

In response to a question from Representative Skarphol, Ms. Glatt said a number of business practices were changed because of the implementation of the ConnectND system. She said NDSU's refusal to change its practice relating to budgeting of fringe benefits is not a software-driven issue.

In response to a question from Representative Wald, Ms. Glatt said the North Dakota University System office tries to give the campuses flexibility in

managing finances. She said the Legislative Audit and Fiscal Review Committee may want to receive testimony from representatives of NDSU regarding the issue.

In response to a question from Representative Skarphol, Ms. Glatt said the State College of Science has experienced problems with the ConnectND system similar to the problems experienced by the other campuses. She said they are resolving issues internally and with assistance from other campuses rather than using the Information Technology Department help desk.

## **COLLECTION AND USE OF 911 FEES REPORT**

Chairman Wald called on Mr. Russ Timmreck, Director, State Radio Division, Department of Emergency Services, who presented information regarding the implementation of recommendations included in the performance audit of the collection and use of 911 fees. A copy of the information presented is on file in the Legislative Council office. Mr. Timmreck said a request for proposal has been processed and awarded to Maximus, Inc., to do a complete review of State Radio costs and to provide a recommendation for an appropriate fee schedule for services provided, based on State Radio's actual costs. He said this report and the related recommendations should be available by the end of September 2006.

Mr. Timmreck said several subcommittees have been formed consisting of representatives of the North Dakota 911 Association and the Department of Emergency Services Advisory Committee to address the performance audit recommendations.

Mr. Paul Hendrickson, Sheriff, Griggs County, said the monthly \$1 per line access fee is not adequate to fully support emergency services communications. He said many ideas have been proposed during the Department of Emergency Services Advisory Committee subcommittee meetings for solutions to secure appropriate funding for 911 costs.

Mr. Terry Traynor, North Dakota Association of Counties, Bismarck, said counties agree that there is a lack of uniformity among counties and cities in their use of emergency services communication system revenues. He said Slope County has different emergency communication needs than the city of Fargo, thus it seems logical that spending priorities would also be different. He said forcing uniformity among the dissimilar jurisdictions may not meet citizen needs.

Ms. Tammy Lapp-Harris, Morton County Emergency Manager and 911 Coordinator, Mandan, said there is widespread disagreement with the State Auditor's office recommendation for the Division of Emergency Services to obtain proper legislative authority to provide dispatching services to various state entities, political subdivisions, and other entities and to charge fees for the services provided. She

said Morton County will not use State Radio's dispatching services if there is a charge.

In response to a question from Representative Timm, Ms. Lapp-Harris said other counties are in agreement with Morton County regarding the recommendation to have State Radio charge for dispatching services.

In response to a question from Representative Delzer, the legislative budget analyst and auditor said he was not aware of any previous studies regarding whether there is a need for 22 separate public safety answering points in North Dakota.

In response to a question from Representative Skarphol, Mr. Timmreck said prepaid wireless and Voice over Internet Protocol technologies are not required to participate in collection of the monthly \$1 per month service fee. He said this creates an unfair competitive advantage among different communication companies. He said the Department of Emergency Services Advisory Committee subcommittees hope to reach a consensus relating to the charges and uses of 911 fees and present the recommendation to the Legislative Assembly.

In response to a question from Representative Skarphol, Mr. Traynor said the North Dakota Association of Counties had accumulated \$2.1 million from 911 fees as of April 30, 2005. He said each political subdivision receiving 911 fees entered into a five-year contract with the North Dakota Association of Counties to coordinate the implementation of the networking nonpremise equipment upgrades, testing, and ongoing services necessary for wireless 911. The contract with the counties is set to expire on June 30, 2008. He said the North Dakota Association of Counties then entered into a contract with the telephone providers for implementing the wireless 911 system. He said funding was accumulated in advance of the payment to the telephone companies for their services. He said any fund balance remaining after the five-year contract with the counties is completed will be returned to the counties.

### **CONTINUING APPROPRIATION STUDY**

Chairman Wald called on Ms. Pam Sharp, Director, Office of Management and Budget, who presented information regarding the committee's study of continuing appropriation authority. A copy of the information presented is on file in the Legislative Council office. Ms. Sharp said the Office of Management and Budget has authority for eight continuing appropriations. She said the continuing appropriations relate to risk management premiums, workers' compensation premiums, Human Resource Management Services training fees, Capitol grounds planning funds, preliminary planning revolving funds, postage revolving funds, indigent civil legal services, and central supply revolving funds.

Chairman Wald called on Ms. Stephanie Gullickson, Grants Manager, Department of Public Instruction, who presented information regarding the committee's study of continuing appropriation

authority. A copy of the information presented is on file in the Legislative Council office. She said the Department of Public Instruction has authority for three continuing appropriations. She said the continuing appropriations relate to revolving printing funds, vision aids and appliances funds, and the displaced homemaker program.

Chairman Wald called on Ms. Karlene Fine, Executive Director and Secretary, Industrial Commission, who presented information regarding the committee's study of continuing appropriation authority. A copy of the information presented is on file in the Legislative Council office. Ms. Fine said the Industrial Commission has authority for nine continuing appropriations. She said the continuing appropriations relate to abandoned oil and gas well plugging and site reclamation funds, cash bond funds for plugging oil and gas wells and reclamation of oil and gas well sites, cartographic products funds, fossil excavation and restoration funds, global positioning system data funds, lignite research funds, North Dakota Building Authority, oil and gas reservoir funds, and oil and gas research funds.

Chairman Wald called on Brigadier General Jerald L. Engelman, Deputy Adjutant General, who presented information regarding the committee's study of continuing appropriation authority. A copy of the information presented is on file in the Legislative Council office. He said the Adjutant General has authority for four continuing appropriations. He said the continuing appropriations relate to the National Guard emergency funds, National Guard military grounds funds, Veterans Cemetery maintenance funds, and Veterans Cemetery trust funds.

### **REQUEST FOR PERFORMANCE AUDIT CONSULTANT**

Mr. Gordy Smith requested approval from the committee to hire a consultant to assist with conducting the University of North Dakota School of Medicine and Health Sciences performance audit pursuant to NDCC Section 54-10-01. The section provides that the State Auditor must notify the agency of the need for a consultant and subsequently obtain approval of the Legislative Audit and Fiscal Review Committee prior to hiring a consultant to assist with conducting a performance audit. He said the section provides that the agency or institution that is audited is required to pay for the cost of the approved consultant.

Mr. Gordy Smith said the State Auditor's office would like to request approval from the committee to spend up to \$100,000 for a consultant to assist with the performance audit of the University of North Dakota School of Medicine and Health Sciences. He said representatives of the University of North Dakota School of Medicine and Health Sciences will be asked to participate in the process of bidding for and hiring the consultant. He said the State Auditor's office will conduct a preliminary evaluation of the University of

North Dakota School of Medicine and Health Sciences to determine the aspects of the performance audit which will require a consultant.

Senator Lee distributed information to the committee regarding the University of North Dakota School of Medicine and Health Sciences. A copy of the information presented is on file in the Legislative Council office. She said the handout identifies public concerns regarding the operations of the medical school.

Senator Lee said the cost of a consultant is minimal in comparison to the total 2005-07 biennium budget of approximately \$31 million from the general fund for the University of North Dakota School of Medicine and Health Sciences. She said the performance audit is a way to make sure the resources of the medical school are being used in the most effective way.

In response to a question from Senator Lee, Mr. Gordy Smith said he would ask the Attorney General's office whether a clause can be put into the contract with the consultant providing that the consultant would not provide any services to the school after completion of the performance audit in relation to implementing the performance audit recommendations.

In response to a question from Representative Aarsvold, Mr. Gordy Smith said the State Auditor's office will review the accreditation report and other recent reports regarding the University of North Dakota School of Medicine and Health Sciences during the preliminary review. He said the State Auditor's office will try to avoid duplicating subject areas covered by these reports.

Chairman Wald read a note from Senator Mathern indicating concern regarding the proposed performance audit of the University of North Dakota School of Medicine and Health Sciences. In the note, Senator Mathern said the performance audit would be time-consuming for staff and keep them from being productive in other ways.

Representative Maragos said he is not aware of any problems at the School of Medicine. He said conducting a performance audit of the University of North Dakota School of Medicine and Health Sciences seems like "a solution in search of a problem."

Representative Delzer said the University of North Dakota School of Medicine and Health Sciences is doing a good job but may not be "in line" with its mission.

Representative Aarsvold said he would like to see the accreditation report before deciding on whether a consultant is needed for a performance audit.

Senator Lee said she is aware of individuals who have serious concerns regarding the operations of the University of North Dakota School of Medicine and Health Sciences but are reluctant to discuss those issues in public. She said the accreditation process relates strictly to academics.

In response to a question from Representative Monson, Mr. Gordy Smith said it will require

approximately 2,000 to 2,500 hours of audit work to complete the performance audit.

In response to a question from Representative Timm, Mr. Gordy Smith said it will be the goal of the State Auditor's office to complete the performance audit of the University of North Dakota School of Medicine and Health Sciences before the end of the 2007 Legislative Assembly. He said the State Auditor's office plans to start preliminary work for the performance audit in September 2006. He said the University of North Dakota School of Medicine and Health Sciences indicated that the accreditation report will be available in July 2006.

In response to a question from Representative Delzer, Mr. Gordy Smith said if a consultant is hired prior to the next Legislative Audit and Fiscal Review Committee meeting, the State Auditor's office will provide a report to the committee regarding the choice of a consultant. Representative Wald asked the State Auditor's office to keep the Legislative Audit and Fiscal Review Committee members notified of the progress in hiring the consultant for the performance audit.

In response to a question from Representative Boucher, Mr. Gordy Smith said the State Auditor's office would conduct the performance audit of the University of North Dakota School of Medicine and Health Sciences even if the Legislative Audit and Fiscal Review Committee did not approve a consultant. Mr. Gordy Smith said he has no preconceived idea of the scope of the audit. He said the State Auditor's office will survey other states, legislators, management and staff of the medical school, and review recent studies in determining the scope of the performance audit.

**It was moved by Senator Lee, seconded by Representative Delzer, and carried on a roll call vote that the Legislative Audit and Fiscal Review Committee approve the State Auditor's office request to hire a consultant to assist with conducting the University of North Dakota School of Medicine and Health Sciences performance audit pursuant to North Dakota Century Code Section 54-10-01 at a cost not to exceed \$100,000 and that the performance audit include a review of the family practice residency programs in Bismarck, Minot, and Grand Forks.** Representatives Delzer, Pollert, Skarphol, and Thoreson and Senators Bowman, Christmann, and Lee voted "aye." Representatives Wald, Aarsvold, Boucher, Maragos, Monson, and Timm voted "nay."

## **COMMITTEE DISCUSSION AND STAFF DIRECTIVES**

**It was moved by Representative Skarphol, seconded by Representative Maragos, and carried on a roll call vote that, pursuant to North Dakota Century Code Section 54-35-02.2, the committee accept the following reports presented to the committee:**

1. Department of Transportation Driver and Vehicle Services performance audit followup (November 28, 2005).
2. Information Technology Department information system audit (December 31, 2005).
3. Bank of North Dakota (December 31, 2005 and 2004).
4. Public Finance Authority (December 31, 2005 and 2004).
5. Guaranteed student loan program (September 30, 2005 and 2004).
6. Ag PACE fund (June 30, 2005 and 2004).
7. Partnership in assisting community expansion (PACE) fund (June 30, 2005 and 2004).
8. Student loan trust (June 30, 2005 and 2004).
9. Office of Management and Budget (June 30, 2005 and 2004).
10. Department of Public Instruction (June 30, 2005 and 2004).
11. Department of Corrections and Rehabilitation (June 30, 2005 and 2004).
12. Public Service Commission (June 30, 2005 and 2004).
13. Industrial Commission (June 30, 2005 and 2004).
14. Children's Services Coordinating Committee (June 30, 2005 and 2004).
15. Tax Commissioner's office (June 30, 2005 and 2004).
16. Parks and Recreation Department (June 30, 2005 and 2004).
17. Mayville State University (June 30, 2005 and 2004).
18. Dickinson State University (June 30, 2005 and 2004).
19. Minot State University (June 30, 2005 and 2004).
20. Minot State University - Bottineau (June 30, 2005 and 2004).
21. Lake Region State College (June 30, 2005 and 2004).
22. Williston State College (June 30, 2005 and 2004).
23. Bismarck State College (June 30, 2005 and 2004).
24. Valley City State University (June 30, 2005 and 2004).
25. North Dakota Comprehensive Annual Financial Report (June 30, 2005).
26. North Dakota University System (June 30, 2005).
27. Reports available but not selected for presentation:
  - a. Peace Officer Standards and Training Board (December 31, 2004 and 2003).
  - b. Abstracters' Board of Examiners (August 31, 2005).
  - c. Abstracters' Board of Examiners (August 31, 2004).
  - d. Board of Social Work Examiners (June 30, 2005 and 2004).
  - e. Education Standards and Practices Board (June 30, 2004).
  - f. Board of Funeral Service (June 30, 2004 and 2003).
  - g. Board of Addiction Counseling Examiners (June 30, 2005 and 2004).
  - h. Board of Occupational Therapy Practice (June 30, 2005 and 2004).
  - i. Board of Dental Examiners (June 30, 2005 and 2004).
  - j. Board of Cosmetology (June 30, 2005).
  - k. Private Investigative and Security Board (June 30, 2004).
  - l. Private Investigative and Security Board (June 30, 2003).
  - m. Board of Law Examiners (June 30, 2005 and 2004).
  - n. Board of Chiropractic Examiners (December 31, 2005).
  - o. Board of Registration for Professional Engineers and Land Surveyors (June 30, 2005).
  - p. Board of Respiratory Care (January 31, 2005 and 2004).
  - q. Real Estate Commission (June 30, 2005).
  - r. Board of Examiners for Hearing Instrument Dispensers (June 30, 2005 and 2004).
  - s. Board of Examiners for Hearing Instrument Dispensers (June 30, 2003 and 2002).
  - t. State Board of Reflexology (June 30, 2005).
  - u. Athletic Training Board (June 30, 2005).
  - v. Board of Registration for Professional Soil Classifiers (June 30, 2005).

Representatives Wald, Aarsvold, Boucher, Delzer, Maragos, Monson, Pollert, Skarphol, Thoreson, and Timm and Senators Bowman, Christmann, and Lee voted "aye." No negative votes were cast.

The meeting was adjourned subject to the call of the chair at 5:45 p.m.

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Donald J. Wolf  
Senior Fiscal Analyst

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Jim W. Smith  
Legislative Budget Analyst and Auditor

[ATTACH:1](#)