NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Wednesday and Thursday, September 30-October 1, 2009
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Randel Christmann, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Randel Christmann, Joan Heckaman, Jerry Klein, Judy Lee; Representatives Rick Berg, Merle Boucher, Patrick R. Hatlestad, RaeAnn G. Kelsch, Jerry Kelsh, Gary Kreidt, Louis Pinkerton, Chet Pollert, Bob Skarphol, Blair Thoreson, Benjamin A. Vig, Lonny Winrich

Members absent: Representatives Jeff Delzer, Keith Kempenich

Others present: Jim W. Smith, Legislative Council, Bismarck

Senator David O'Connell and Representative Shirley Meyer, members of the Legislative Management, were also in attendance.

See Appendix A for additional persons present.

The legislative budget analyst and auditor reviewed the *Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management*.

COMMENTS BY COMMITTEE CHAIRMAN

Chairman Christmann said the action plan for the 2009-10 interim is similar to the plan for the previous interim. He said the committee may request the State Auditor's office to conduct specific performance audits. He said the State Auditor's office will determine which performance audits to conduct if the committee does not request any. He asked the committee to bring any requests for performance audits to future committee meetings.

COMMITTEE DUTIES AND RESPONSIBILITIES

At the request of Chairman Christmann, the Legislative Council staff reviewed a memorandum entitled *Legislative Audit and Fiscal Review Committee - Statutory Duties and Responsibilities for the 2009-10 Interim - Recommendations and Requests Made During Previous Interims*. The Legislative Council staff said the Legislative Management by statute appoints a Legislative Audit and Fiscal Review Committee as a division of its Budget Section. Pursuant to North Dakota Century Code Section 54-35-02.1, the committee is created:

- For the purpose of studying and reviewing the financial transactions of the state.
- To assure the collection of revenues and the expenditure of money is in compliance with law, legislative intent, and sound financial practices.
- To provide the Legislative Assembly with formal, objective information on revenue collections and expenditures as a basis for legislative action to improve the fiscal structure and transactions of the state.

In addition, the committee is assigned the following duties and responsibilities for the 2009-11 biennium:

1. **State Fair Association** - Receive annual audit reports from the State Fair Association pursuant to Section 4-02.1-18.
2. **Ethyl alcohol and methanol producers** - Receive annual audit reports from any corporation that produces agricultural ethyl alcohol or methanol in this state and which receives a production subsidy from the state pursuant to Section 10-19.1-152, receive annual audit reports from any limited liability company that produces agricultural ethyl alcohol or methanol in this state and which receives a production subsidy from the state pursuant to Section 10-32-156, and receive annual audit reports from any limited partnership that produces agricultural ethyl alcohol or methanol in this state and which receives a production subsidy from the state pursuant to Section 45-10.2-115.
3. **Department of Human Services accounts receivable** - Receive annual reports on the status of accounts receivable for the Department of Human Services and Developmental Center at Westwood Park pursuant to Sections 25-04-17 and 50-06.3-08.
4. **Low-risk incentive fund** - Receive annual audit reports and economic impact reports from the North Dakota low-risk incentive fund. Section 26.1-50-05 provides for the audit report to be submitted to the Legislative Management. The Legislative Management has assigned the responsibility to this committee.
5. **North Dakota Stockmen's Association** - Receive a biennial audit report from the North Dakota Stockmen's Association. Section 36-22-09 provides for the audit report to be submitted to the Legislative Management.

The Legislative Management assigned the responsibility to this committee.

6. **Job Service North Dakota** - Receive a performance audit report, upon the request of the committee, for Job Service North Dakota pursuant to Section 52-02-18.
7. **Performance audits** - The State Auditor is to conduct or provide for performance audits of state agencies as determined necessary by the State Auditor or this committee, and the State Auditor must obtain approval from this committee prior to hiring a consultant to assist with conducting a performance audit pursuant to Section 54-10-01.
8. **Frequency of audits** - Determine the frequency of audits or reviews of state agencies pursuant to Section 54-10-01.
9. **Political subdivisions** - Determine if the State Auditor is to perform audits of political subdivisions on a more frequent basis than once every two years pursuant to Section 54-10-13 and direct the State Auditor to audit or review the accounts of any political subdivision pursuant to Section 54-10-15.
10. **Study and review audit reports** - Pursuant to Section 54-35-02.2, the committee is charged with the following responsibilities:
    a. To study and review audit reports selected by the committee from those submitted by the State Auditor.
    b. To confer with the State Auditor regarding the audit reports reviewed by the committee.
    c. As necessary, to confer with representatives of state departments, agencies, and institutions audited in order to obtain information regarding fiscal transactions and governmental operations.

The Legislative Council staff presented the following proposed action plan for the committee's consideration:

1. Receive audit reports prepared by the State Auditor's office and independent auditors.
2. Receive performance audit reports as determined necessary by the State Auditor or this committee.
3. Receive followup reports for the University of North Dakota School of Medicine and Health Sciences and Wildlife Services program performance audits.
4. Receive information technology audit reports, including an Information Technology Department system audit report and a North Dakota network and security audit report.
5. Request a performance audit be conducted, as deemed necessary by this committee, for Job Service North Dakota pursuant to Section 52-02-18.
6. Direct the Legislative Council staff to send correspondence, as deemed necessary, to each 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 audit recommendations or steps taken to address recommendations.
7. Receive annual reports on the status of accounts receivable for the Department of Human Services and Developmental Center at Westwood Park.
8. Receive annual audit reports from any corporation, limited partnership, or limited liability company that produces ethyl alcohol or methanol in this state and which receives a production subsidy from the state.
9. Develop recommendations and related bill drafts.
10. Prepare the final report for submission to the Legislative Management.

It was moved by Representative Skarphol, seconded by Representative R. Kelsch, and carried on a voice vote that the committee adopt the proposed action plan to fulfill its statutory duties.

AUDIT PROCESS FOR STATE AGENCIES

Chairman Christmann called on Mr. Ron Tolstad, State Auditor's office, who reviewed a document entitled *Overview of Audit Procedures State of North Dakota*. A copy of the information presented is on file in the Legislative Council office. He said the State Auditor's office does not have statutory authority to audit all state agencies. He said agencies that are not audited by the State Auditor are audited by certified public accounting (CPA) firms. He said other state agencies are also audited by CPA firms at the request of the State Auditor when the State Auditor does not have sufficient resources to audit the entity. He said CPA firms are required to follow *Guidelines to Independent Certified Public Accountants Performing Audits of State Agencies* and audits performed by CPA firms are paid for by the state agency being audited.

Mr. Tolstad said the State Auditor's office is audited every two years by an independent CPA firm that is contracted with by the Legislative Council. He said the office also receives a peer review every three years.

Mr. Tolstad said the results of audits are presented to the Legislative Audit and Fiscal Review Committee by the State Auditor's office or the CPA firm that performed the audit.

STUDY OF REQUIREMENTS FOR POLITICAL SUBDIVISION AUDITS

At the request of Chairman Christmann, the Legislative Council staff reviewed a memorandum entitled *Study of the Structure and Requirements of the State Auditor's Office Necessary for Auditing Political Subdivisions - Background Memorandum*.

Section 4 of 2009 House Bill No. 1129 provides for a study of the structure and requirements of the State Auditor's office necessary to carry out its auditing of political subdivisions, as required by law, including how such audits should be adequately self-funded. The Legislative Management has assigned this responsibility to the Legislative Audit and Fiscal Review Committee.

The Legislative Council staff said Sections 54-10-13 and 54-10-14 require the State Auditor to perform audits of political subdivisions. The State Auditor's office has identified the following 1,173 political subdivisions subject to audit:

- Counties (53).
- Cities (354).
- Park districts (186).
- School districts (193).
- Firefighters relief associations (4).
- Airport authorities (10).
- Public libraries (8).
- Water resource districts (20).
- Garrison Diversion Conservancy District (1).
- Rural fire protection districts (226).
- Special education districts (22).
- Area career and technology centers (5).
- Correction centers (4).
- Recreation service districts (1).
- Weed boards (2).
- Irrigation districts (6).
- Rural ambulance service districts (12).
- Southwest Water Authority (1).
- Regional planning councils (8).
- Soil conservation districts (57).

The Legislative Council staff said in lieu of audit reports every two years, Section 54-10-14 allows the State Auditor to receive annual reports from school districts with less than 100 enrolled students; cities with a population of less than 500; park districts and soil conservation districts with less than $200,000 of annual receipts; and other political subdivisions with less than $100,000 of annual receipts, excluding any federal funds passed through the political subdivision to another entity.

The Legislative Council staff said Section 54-10-14 also allows political subdivisions to choose to be audited by a CPA or licensed public accountant rather than by the State Auditor. The public accountant must comply with generally accepted government auditing standards and submit copies of the audit report to the State Auditor's office when the report is delivered to the political subdivision. The State Auditor must review the audit report and may review the public accountant's workpapers to determine if the report and workpapers meet generally accepted government auditing standards. The State Auditor may charge the political subdivision a fee of up to $80 per hour, not to exceed $500, for costs related to reviewing the audit report and workpapers.

The Legislative Council staff said the State Auditor's office's Division of Local Government Audits is primarily responsible for auditing political subdivisions, reviewing audits submitted by public accounting firms, and reviewing annual reports submitted in lieu of audit reports. The State Auditor's office, in its 2009 budget request, removed three full-time equivalent (FTE) positions due to the closing of the local government audit office in Bismarck. The Division of Local Government Audits is now located in the Fargo office and currently has six FTE auditor positions and two part-time temporary auditor positions. The 2009 Legislative Assembly provided approximately $1.34 million of special funds for the division for the 2009-11 biennium.

The Legislative Council staff said political subdivision audits are conducted in accordance with generally accepted government auditing standards. Government auditing standards include general standards relating to independence, professional judgment, competence, quality control, and assurance. Audit standards are published in the United States Government Accountability Office's *Government Auditing Standards*, commonly referred to as the "Yellow Book."

The Legislative Council staff presented the following proposed study plan for the committee's consideration:

1. Receive and review information regarding a history of the State Auditor's office's Division of Local Government Audits, including funding and staffing levels.
2. Receive and review information regarding the State Auditor's office staffing needs, revenues, and costs relating to conducting political subdivision audits.
3. Receive testimony from other interested persons regarding the study of the structure and requirements of the State Auditor's office necessary to carry out its auditing of political subdivisions.
4. Develop recommendations and any bill drafts necessary to implement the recommendations.
5. Prepare a final report for submission to the Legislative Management.

Chairman Christmann called on Mr. Gordy Smith, State Auditor's office, who presented information regarding the Division of Local Government Audits. A copy of the information presented is on file in the Legislative Council office. He said prior to 1991, the division's expenses were paid by the state general fund. He said the 1991 Legislative Assembly determined the division should be self-funded. He said the division recently lost three experienced auditors within 22 months. He said governmental audits are becoming more complex and the division is experiencing difficulty in finding auditors willing to travel.

In response to a question from Representative Skarphol regarding audits discovering fraud, Mr. G. Smith said auditors are charged with assessing the risk of the entity but an audit is not a guarantee of

finding fraud. He said the majority of fraud investigations is the result of the detection of fraud by the entity, not the auditors.

In response to a question from Representative Vig, Mr. G. Smith said entry-level auditors generally earn $700 to $800 more per month at private CPA firms than at the State Auditor's office.

In response to a question from Representative J. Kelsh, Mr. G. Smith said several smaller CPA firms have discontinued performing political subdivision audits and some larger firms are unable to accept additional clients. He said the lack of available audit firms has caused costs to increase. He said this problem is more significant in the western part of the state.

In response to a question from Representative Boucher, Mr. G. Smith said it is possible that political subdivisions will have longer periods between audits. He said political subdivisions required to have federal audits follow a stricter timeline.

Chairman Christmann said the issues surrounding political subdivision audits are serious. He urged committee members to contact the Legislative Council office or the State Auditor's office if they would like information presented or have questions to be answered at future meetings.

Representative Skarphol requested information be presented at a future meeting regarding the length of time required by the State Auditor's office to review audits submitted by private firms.

It was moved by Representative Skarphol, seconded by Representative R. Kelsch, and carried on a voice vote that the committee adopt the proposed study plan for its study of requirements for political subdivision audits.

DEPARTMENT OF COMMERCE PERFORMANCE AUDIT

Mr. G. Smith presented the Department of Commerce performance audit dated August 11, 2009. He said the objectives of the performance audit were to determine if:

1. The application process and monitoring of centers of excellence provide adequate accountability for the use of state funds; and
2. An adequate system for monitoring operations of the Department of Commerce has been established.

Mr. G. Smith said the performance audit contains 50 recommendations. A copy of the audit recommendations is attached as Appendix B. Based on the performance audit, he said, the State Auditor's office determined:

- The application process and monitoring of centers of excellence have not provided adequate accountability for the use of state funds. No determination has been made regarding the centers of excellence having the desired economic impact as required by state law.
- The Department of Commerce has not established an adequate system for monitoring department operations. Improvements are needed to have an effective departmentwide monitoring function.
- Improvements are needed to ensure policies relating to the North Dakota Development Fund, Inc., are reviewed, updated, and complied with.
- Improvements are needed to ensure policies relating to the Agricultural Products Utilization Commission are reviewed, updated, and complied with.

In response to a question from Representative Boucher, Mr. G. Smith said there are no formal agreements entered between the Centers of Excellence Commission and approved applicants. He said only the application includes information on how the funds will be spent.

In response to a question from Representative Berg, Mr. G. Smith said in two cases, the centers of excellence applicants determined they would not be able to obtain the necessary matching funds; therefore, the centers of excellence grant funds were not provided to these applicants.

Mr. Shane C. Goettle, Commissioner, Department of Commerce, presented testimony regarding the Department of Commerce performance audit. He said the department is pleased with the results of the audit report and agrees with the majority of the recommendations. He said the department has implemented or is in the process of implementing 30 of the 50 recommendations.

Mr. Goettle said when the Department of Commerce was given oversight authority for the centers of excellence program, the department had an economic impact analysis conducted by North Dakota State University. He said the report was provided to the 2009 Legislative Assembly. He distributed a summary of the report.

In response to a question from Representative Boucher, Mr. Goettle said each university or college president signs the centers of excellence application for their institution. In addition, he said, center directors sign a compliance agreement.

In response to a question from Representative Winrich, Mr. Goettle said the Department of Commerce has contracted with a vendor to provide Indian business development services and is not using an FTE position. He said the position for Indian business development has been reclassified within the department.

In response to a question from Representative J. Kelsh, Mr. Goettle said the department has established an oversight process for centers of excellence. He said the centers of excellence are monitored over a 6- to 10-year period. He said the first centers of excellence began approximately three and one-half years ago.

Representative Boucher suggested the Department of Commerce provide updates to the

committee on the status of the recommendations contained in the audit report at future meetings.

The committee recessed for lunch at 12:30 p.m. and reconvened at 1:15 p.m.

CONNECTND

Mr. Don LaFleur, State Auditor's office, presented the North Dakota University System ConnectND finance component audit report for the fiscal year ended June 30, 2008. He said the ConnectND finance component system is shared by state agencies and the University System. He said an earlier audit was conducted on the finance component for state agencies. He said the recommendations apply to state agencies and the University System. Based on the audit, he said, the State Auditor's office determined:

- Developers have access to the PeopleSoft production environment.
- There are users who have unnecessary "superuser" access.
- There are unnecessary security roles and permission lists.
- Financial data in other modules does not always agree to the general ledger.

Mr. LaFleur presented the followup report on the North Dakota University System ConnectND Campus Solutions information system audit. He said six recommendations were determined to be fully implemented, two were determined to be partially implemented, and two were determined to be not implemented.

INTERNAL CONTROL AND COMPLIANCE REPORTS

Mr. John Grettum, State Auditor's office, presented the State Auditor's office internal control and compliance report on the audit of the general purpose financial statements included in the June 30, 2008, annual financial report for the North Dakota University System. He reviewed the auditor's responses to the committee guidelines and said five prior audit recommendations were not implemented. He said the prior audit recommendations not implemented related to:

- Proper use of account codes, funds, fund groups, and functions available on PeopleSoft to comply with generally accepted accounting principles.
- Accrued payroll liability reconciliations.
- Approval of online transactions.
- Preparation of financial statements in accordance with generally accepted accounting principles.
- Monitoring of PeopleSoft access rights.

Mr. Grettum said the report identifies eight current audit recommendations relating to:

- Central stores inventory.
- Risk assessment system and the role of internal auditors.
- Segregation of accounting duties.
- Cash receipts.
- Cash and investments and related disclosure.
- North Dakota State University scholarship allowance.
- Bank reconciliations.
- Segregation of duties relating to inventory.

In response to a question from Representative Berg, Mr. Grettum said the compliance report on the audit of the general purpose financial statements included in the June 30, 2009, annual financial report for the North Dakota University System will be completed in January 2010.

Representative Berg requested the 2008 compliance and annual financial reports be available for reference purposes when the 2009 reports are presented.

In response to a question from Representative R. Kelsch, Ms. Laura Glatt, Vice Chancellor for Administrative Affairs, North Dakota University System office, said 50 percent of the recommendations have been implemented. She said although a FTE position to assist campuses and provide training would be helpful, other positions are a higher priority.

Mr. Tolstad presented the State Auditor's office report on the internal control, compliance, and other matters of the state of North Dakota Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. He said the State Auditor's office has audited the general purpose financial statements for the state of North Dakota for the year ended June 30, 2008. He said two prior audit recommendations relating to adequate fraud programs and access to information technology applications were not implemented. He said the report identifies seven internal control weaknesses relating to:

- Lack of adequate resources devoted to financial reporting.
- Improper financial reporting.
- Lack of fraud programs and controls.
- Lack of state agency general ledger transaction approval.
- Limiting access to information technology applications.
- Inaccurate estimates.
- Financial reporting errors.

In response to a question from Senator Heckaman, Mr. Tolstad said audit adjustments are necessary to ensure financial statements are presented in accordance with generally accepted accounting principles. He said the adjustments will not jeopardize federal fund awards.

NORTH DAKOTA UNIVERSITY SYSTEM ANNUAL FINANCIAL REPORT

Ms. Robin Putnam, Director of Financial Reporting, North Dakota University System, presented the annual financial report for the North Dakota University System for the fiscal year ended June 30, 2008. She said an unqualified opinion was issued on the financial

statements. As of June 30, 2008, she said, the University System had total assets of $1,067 million and total liabilities of $344 million, resulting in net assets of $723 million. She said net assets increased $20.2 million during fiscal year 2008.

Ms. Putnam said the annual degree credit headcount for the fall of 2007 was 41,827, less than a 1 percent decrease from the previous fall enrollment. She said total operating revenues of the University System increased 4 percent from fiscal year 2007 as a result of increases in tuition and fees, grants and contracts, and sales and services of education departments. She said investment income decreased by 46 percent from fiscal year 2007 due to declining market interest rates.

In response to a question from Representative Skarphol, Ms. Putnam said she will provide information regarding the effect on workload from increases in e-learning.

In response to a question from Representative Skarphol, Mr. Grettum said the State Auditor has the authority to review information from component units if it relates to activities the state is a party to, including funding for the new presidents' houses at the University of North Dakota and North Dakota State University. He said the State Auditor's office anticipates reviewing the cost of the houses as part of the 2009 University System office audit.

In response to a question from Representative Skarphol, Ms. Putnam said she will provide information to the Legislative Council regarding the loss on sale of capital assets in fiscal year 2007.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Ms. Eileen Holwegner, Office of Management and Budget, presented the state of North Dakota Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. She reviewed the information contained in the report and a supplemental report entitled *2007-2009 Biennium Budget and Actual Detail*. Copies of both reports are on file in the Legislative Council office.

AUDITS OF STATE AGENCIES, BOARDS, AND COMMISSIONS

Chairman Christmann announced the audit report for the Potato Council for the years ended June 30, 2008 and 2007 included on the agenda will not be presented until the next committee meeting.

Mr. Ed Nagel, State Auditor's office, presented the audit report for the Adjutant General for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report identifies one internal control finding relating to establishing fraud risk assessments and controls and one finding of noncompliance with legislative intent relating to fees charged by the Division of State Radio. He said the recommendation relating to fees charged by the Division of State Radio was also a prior audit finding.

Mr. Nagel presented the audit report for the Attorney General's office for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report does not contain any findings or recommendations.

Mr. Nagel presented the audit report for the Department of Financial Institutions for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report identifies one finding of noncompliance with legislative intent relating to the biennial cash balance of the financial institutions regulatory fund. He said no recommendation was made regarding the biennial cash balance as 2009 Senate Bill No. 2160 amended Section 6-01-01.1. He said if the amendments to Section 6-01-01.1 are implemented correctly, the finding will be addressed.

Mr. Nagel presented the audit report for the Game and Fish Department for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report identifies two internal control findings relating to establishing fraud risk assessments and controls and a lack of general ledger transaction approval procedures.

Mr. Nagel presented the audit report for the Highway Patrol for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report identifies two internal control weaknesses relating to establishing fraud risk assessments and controls and a weakness in PeopleSoft general ledger controls. He said the report also identifies two findings of noncompliance with legislative intent relating to fee collections and fixed assets records and two areas for operational improvements relating to grant closing procedures and fixed assets tracking procedures. He said the recommendations relating to general ledger controls, fee collections, fixed assets records, and grant closing procedures were also prior audit findings.

Mr. Nagel presented the audit report for the State Historical Society for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report identifies two internal control findings relating to establishing fraud risk assessments and controls and segregation of duties. He said the recommendation regarding segregation of duties was also a prior audit finding.

In response to a question from Representative Skarphol, Mr. David C. Skalsky, Assistant Director, State Historical Society, said the revenue bonds proceeds identified in the audit were for bonds issued for the archives expansion at the Heritage Center and the Chateau de Mores Interpretive Center at Medora.

Mr. Nagel presented the audit report for the Indian Affairs Commission for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report does not contain any findings or recommendations.

Mr. Nagel presented the audit report for the Information Technology Department for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report identifies one internal control finding relating to establishing fraud risk assessments and controls and one finding of noncompliance with legislative intent relating to appropriation laws.

Mr. Nagel presented the audit report for the Mill and Elevator Association for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and identifies one internal control finding relating to establishing fraud risk assessments and controls.

Mr. Nagel presented the audit report for the North Dakota Lottery for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and identifies one internal control finding relating to approval procedures and coding errors.

Mr. Nagel presented the audit report for the Protection and Advocacy Project for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report does not contain any findings or recommendations.

Mr. Nagel presented the audit report for the Secretary of State for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report identifies one internal control finding relating to establishing fraud risk assessments and controls.

Mr. Nagel presented the audit report for the State Seed Department for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report identifies one internal control finding relating to establishing fraud risk assessments and controls.

Mr. Grettum presented the audit report for the North Dakota University System office for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report identifies one finding of noncompliance with legislative intent relating to the accountability measures report.

In response to a question from Representative Boucher, Mr. Grettum said the amounts for research expenditures reported in the *2008 Accountability Measures Report* were those reported to the National Science Foundation rather than amounts reported in the University System's annual audited financial statements. He said the amounts reported to the National Science Foundation should be reconciled to the audited financial statement amounts.

Ms. Glatt said the amounts reported to the National Science Foundation can be substantiated. She said a reconciliation to the audited financial statements would require a significant amount of work. She said the University System uses National Science Foundation data for comparability to other campuses.

Mr. Nagel presented the audit report for the Department of Veterans' Affairs for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report identifies one internal control finding relating to loans receivable balances.

Mr. G. Smith presented the statewide single audit report for the years ended June 30, 2008 and 2007. He said the statewide single audit is the state's audit of all federal funds received by state agencies and institutions during fiscal years 2008 and 2007. He said the report identifies 51 internal control and compliance findings and questioned costs.

The committee recessed at 5:00 p.m. and reconvened at 9:00 a.m. on Thursday, October 1, 2009.

Chairman Christmann called on Mr. John Mongeon, Brady Martz & Associates PC, Certified Public Accountants, who presented the audit report for the Bank of North Dakota for the years ended December 31, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and identifies one internal control finding relating to completion of annual escrow analyses.

In response to a question from Representative Berg, Mr. Kirby Martz, Chief Financial Officer, Bank of North Dakota, said Congress is considering a change to federal student loans that would involve the loans being made directly by the United States Department of Education rather than local banks. He said the Bank will continue to service the loans. He said the Bank's Dakota education alternative loan (DEAL) program has grown to $80 million annually.

Mr. Mongeon presented the audit report for the partnership in assisting community expansion (PACE) fund for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not include any findings or recommendations.

Mr. Mongeon presented the audit report for the Ag PACE fund for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not include any findings or recommendations.

Mr. Mongeon presented the audit report for the beginning farmer revolving loan fund for the years ended December 31, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not include any findings or recommendations.

In response to a question from Representative Kreidt, Mr. Bob Humann, Senior Vice President, Bank of North Dakota, said to qualify as a beginning farmer an individual must be at least 18 years of age, farming must be the individual's primary occupation, and the

size of the farm must be less than 30 percent of the average farm size in the county. He said the Bank will not finance a farm with fewer than 80 acres.

Mr. Mongeon presented the audit report for the community water facility loan fund for the years ended December 31, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not include any findings or recommendations.

In response to a question from Representative Skarphol, Mr. Humann said loans from the community water facility loan fund provide supplementary financing in conjunction with federal money received directly by the community.

In response to a question from Senator Lee, Mr. Humann said rural water projects are eligible for loans. He said any size community is eligible for a loan if it meets the qualifications established by the United States Department of Agriculture Rural Development utilities program.

Mr. Mongeon presented the audit report for the developmentally disabled facility loan program for the years ended December 31, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not include any findings or recommendations.

Mr. Mongeon presented the audit report for the guaranteed student loan program for the years ended September 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not include any findings or recommendations.

In response to a question from Senator Lee, Mr. Humann said he would provide information to the Legislative Council regarding the loan default rate for North Dakota students.

Mr. Mongeon presented the audit report for the Public Finance Authority for the years ended December 31, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and identifies one internal control finding relating to segregation of duties.

Mr. Mongeon presented the audit report for the Public Employees Retirement System for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not include any findings or recommendations.

Mr. Mongeon presented the audit report for the Retirement and Investment Office for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not include any findings or recommendations.

Mr. Steve Cochrane, Executive Director/Investment Director, Retirement and Investment Office, presented testimony regarding fraudulent activity relating to funds invested with Westridge Capital Management and its affiliated broker/dealer, WG Trading Investors, L.P. He said the State Investment Board invested approximately $23 million with Westridge and approximately $136 million with WG Trading. He said the board has recovered the $23 million invested with Westridge but over 50 percent of the $136 million invested with WG Trading is in a court-appointed receivership. He said approximately $54 million will be written down to reflect the potential loss to the pension trusts. He said the maximum potential loss is approximately equal to any unrealized gains the pension trusts have reflected over the years.

Mr. Mongeon presented the audit report for Workforce Safety and Insurance for the years ended June 30, 2008 and 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and identifies one finding of noncompliance with legislative intent relating to financial reserve balances.

Chairman Christmann called on Ms. Missy Thompson, Eide Bailly LLP, Certified Public Accountants, who presented the audit report for the North Dakota Development Fund, Inc., for the years ended June 30, 2008 and 2007. She reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not include any findings or recommendations.

Ms. Thompson presented the audit report for the State Fair Association for the years ended September 30, 2008 and 2007. She reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and identifies two internal control findings relating to segregation of duties and preparation of financial statements.

In response to a question from Representative Skarphol, Mr. Bob Wagoner, Director, State Fair Association, said the new grandstand project is on schedule. He said the project is being bid in parts to expedite the process and keep costs down.

Ms. Barb Aasen, Eide Bailly LLP, Certified Public Accountants, presented the audit report for the Board of University and School Lands for the years ended June 30, 2008 and 2007. She reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and identifies two internal control findings relating to recording of transactions and preparation of financial statements.

Ms. Thompson presented the audit report for the Housing Finance Agency for the years ended June 30, 2008 and 2007. She reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not include any findings or recommendations.

Ms. Aasen presented the audit report for Job Service North Dakota for the years ended June 30, 2008 and 2007. She reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and identifies four internal control findings relating to information technology user rights, segregation of duties, financial

reporting, and suspended or debarred party searches. She said the audit report for Job Service North Dakota for the years ended June 30, 2007 and 2006 was reissued to report an audit adjustment. She said the report contains an unqualified opinion and identifies three internal control findings relating to shared passwords, storage of backup tapes, and financial reporting.

Chairman Christmann called on Ms. Rhonda Mahlum, Mahlum Goodhart PC, Certified Public Accountants, who presented the audit report for the North Dakota Stockmen's Association for the years ended December 31, 2008 and 2007. She reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and identifies two internal control findings relating to segregation of duties and financial reporting.

Chairman Christmann called on Mr. Martz to present the audit report for College SAVE for the years ended December 31, 2008 and 2007. He said the Bank of North Dakota acts as trustee for the College SAVE plan, Upromise Investments, Inc., is the plan manager, and the Vanguard Group, Inc., is the investment manager. He said the College SAVE audit was conducted by Thomas & Thomas LLP, Certified Public Accountants. He said the audit report contains an unqualified opinion and does not include any findings or recommendations.

DEPARTMENT OF HUMAN SERVICES' ACCOUNTS RECEIVABLES

Chairman Christmann called on Ms. Brenda Weisz, Chief Financial Officer, Department of Human Services, who presented information on the status of the department's accounts receivables pursuant to Sections 25-04-17 and 50-06.3-08. A copy of the information presented is on file in the Legislative Council office. She said the total amount written off by the Department of Human Services for fiscal year 2009 was $5,745,680, of which $1,061,958 related to the human service centers, $4,579,486 related to the State Hospital, and $104,236 related to the Developmental Center.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

Committee members requested the following audit reports be presented at the next committee meeting:

1. Board of Cosmetology (June 30, 2008).
2. Securities Commission (June 30, 2008).
3. Milk Marketing Board (June 30, 2008 and 2007).
4. Beef Commission (June 30, 2008 and 2007).
5. Dairy Promotion Commission (June 30, 2008 and 2007).
6. Dry Bean Council (June 30, 2008 and 2007).
7. Barley Council (June 30, 2008 and 2007).
8. Dry Pea and Lentil Council (June 30, 2008 and 2007).
9. Oilseed Council (June 30, 2008 and 2007).
10. Wheat Commission (June 30, 2008 and 2007).

In response to a question from Representative Skarphol, Mr. Nagel said the State Auditor's office is not obligated by statute to conduct followup audits. He said it has been the practice of the office to conduct followup audits on performance audits approximately 18 months after the initial audit.

Representative Berg suggested that audits for fiscal or calendar year 2008 that have not been presented to the committee be presented at the same time the 2009 audits are presented.

In response to a question from Representative Skarphol, Mr. Nagel said the 2009 audits will not be completed until at least six months after the end of the fiscal or calendar year.

In response to a question from Representative Winrich, Mr. Nagel said the financial statement audits of boards and commissions do not include a review of adoption of national standards.

Representative Skarphol requested the State Auditor's office present information at a future meeting regarding the State Auditor's authority relating to audits or reviews of entities and component units of the North Dakota University System.

It was moved by Representative Boucher, seconded by Representative J. Kelsh, and carried on a voice vote that the committee receive information at a future meeting regarding the following:

- **Contracts entered by the Department of Commerce during the 2007-09 biennium exceeding $100,000.**
- **State Investment Board actuarial reports and the status of funds in receivership.**
- **Significant audit adjustments included in the North Dakota University System audit report, including the reasons for the adjustments and the University System's plans to prevent future adjustments.**

It was moved by Representative R. Kelsch, seconded by Representative Thoreson, and carried on a roll call vote that pursuant to Section 54-35-02.2 the committee accept the following reports available but not selected for presentation:

1. **Building Authority (June 30, 2008 and 2007).**
2. **Board of Chiropractic Examiners (December 31, 2008).**
3. **Corn Utilization Council (June 30, 2008 and 2007).**
4. **Education Standards and Practices Board (June 30, 2008).**
5. **Board of Massage (June 30, 2007 and 2006).**
6. **Board of Physical Therapy (June 30, 2008 and 2007).**
7. **State Board of Registration for Professional Engineers and Land Surveyors (June 30, 2008).**
8. **Board of Psychologist Examiners (June 30, 2007 and 2006).**

9. **Board of Public Accountancy (June 30, 2008).**
10. **Real Estate Commission (June 30, 2008).**
11. **State Board of Reflexology (June 30, 2008).**
12. **Board of Respiratory Care (January 31, 2007 and 2006).**
13. **Board of Water Well Contractors (June 30, 2008 and 2007).**

Senators Christmann, Heckaman, Klein, and Lee and Representatives Berg, Boucher, Hatlestad, R. Kelsch, J. Kelsh, Kreidt, Pollert, Skarphol, Thoreson, Vig, and Winrich voted "aye." No negative votes were cast.

It was moved by Senator Lee, seconded by Representative Skarphol, and carried on a roll call vote that pursuant to Section 54-35-02.2 the committee accept the following reports presented to the committee:

1. **Department of Commerce performance audit (August 11, 2009).**
2. **North Dakota University System ConnectND finance component (June 30, 2008).**
3. **North Dakota University System student administration component followup audit (May 12, 2009).**
4. **North Dakota University annual financial report (June 30, 2008).**
5. **North Dakota Comprehensive Annual Financial Report (June 30, 2007).**
6. **Adjutant General (June 30, 2008 and 2007).**
7. **Attorney General (June 30, 2008 and 2007).**
8. **Department of Financial Institutions (June 30, 2008 and 2007).**
9. **Game and Fish Department (June 30, 2008 and 2007).**
10. **Highway Patrol (June 30, 2008 and 2007).**
11. **State Historical Society (June 30, 2008 and 2007).**
12. **Indian Affairs Commission (June 30, 2008 and 2007).**
13. **Information Technology Department (June 30, 2008 and 2007).**
14. **Mill and Elevator Association (June 30, 2008 and 2007).**
15. **North Dakota Lottery (June 30, 2008 and 2007).**
16. **Protection and Advocacy Project (June 30, 2008 and 2007).**
17. **Secretary of State (June 30, 2008 and 2007).**
18. **State Seed Department (June 30, 2008 and 2007).**
19. **North Dakota University System office (June 30, 2008 and 2007).**
20. **Department of Veterans' Affairs (June 30, 2008 and 2007).**
21. **Statewide single audit (June 30, 2008 and 2007).**
22. **Bank of North Dakota (December 31, 2008 and 2007).**
23. **Ag PACE fund (June 30, 2008 and 2007).**
24. **PACE fund (June 30, 2008 and 2007).**
25. **Beginning farmer revolving loan fund (December 31, 2008 and 2007).**
26. **Community water facility loan fund (December 31, 2008 and 2007).**
27. **Developmentally disabled facility loan program (December 31, 2008 and 2007).**
28. **Guaranteed student loan program (September 30, 2008 and 2007).**
29. **Public Finance Authority (December 31, 2008 and 2007).**
30. **Public Employees Retirement System (June 30, 2008 and 2007).**
31. **Retirement and Investment Office (June 30, 2008 and 2007).**
32. **Workforce Safety and Insurance (June 30, 2008 and 2007).**
33. **North Dakota Development Fund, Inc. (June 30, 2008 and 2007).**
34. **State Fair Association (September 30, 2008 and 2007).**
35. **Board of University and School Lands (June 30, 2008 and 2007).**
36. **Housing Finance Agency (June 30, 2008 and 2007).**
37. **Job Service North Dakota (June 30, 2008 and 2007 and reissue of June 30, 2007 and 2006 report).**
38. **North Dakota Stockmen's Association (December 31, 2008 and 2007).**
39. **College SAVE (December 31, 2008 and 2007).**

Senators Christmann, Heckaman, Klein, and Lee and Representatives Boucher, Hatlestad, R. Kelsch, J. Kelsh, Kreidt, Pollert, Skarphol, Thoreson, Vig, and Winrich voted "aye." No negative votes were cast.

No further business appearing, Chairman Christmann adjourned the meeting at 12:15 p.m.

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Becky Keller
Senior Fiscal Analyst

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Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:2