

**Amount to be reimbursed:*

LOCAL GOV'T	AUDIT YEAR	AUDIT COST	1% REV AUDITED	REFUND
Burleigh County WRD	2021	\$ 17,950	\$ 11,746	\$ 6,204.00
Cass County SCD	2020	\$ 12,750	\$ 7,743	\$ 5,007.00
Gwinner RFPD	2018	\$ 17,000	\$ 3,622	\$ 11,000.00 *
Killdeer Ambulance	2017-20	\$ 48,650	\$ 46,629	\$ 2,021.00
Red River Retention Authority	2021	\$ 1,000	\$ 874	\$ 126.00
				\$ 24,358.00

** limited to actual billed amount*

Audits conducted during the 2021-23 Biennium whereby the audit cost was > 1% of the annual revenue amount audited will be refunded the difference between the audit cost & their billing amount upto the full billing amount.

Sixty-eighth
Legislative Assembly
of North Dakota

ENGROSSED HOUSE BILL NO. 1508

Introduced by

Representatives O'Brien, Lefor, Nathe, Sanford, Schreiber-Beck

Senators Kreun, Meyer

1 A BILL for an Act to create and enact a new subdivision to subsection 2 of section 12-60-24, a
 2 new subsection to section 54-10-26, and four new sections to chapter 54-10 of the North
 3 Dakota Century Code, relating to criminal history background checks of employees of the state
 4 auditor and audits of state agencies, political subdivisions, and occupation and professional
 5 boards: to amend and reenact ~~section~~sections 16.1-01-10, 54-10-01, and 54-10-13,
 6 subsection 5 of section 54-10-14, and sections 54-10-15 and 54-10-25 of the North Dakota
 7 Century Code, relating to duties of the state auditor; and to provide a penalty.

8 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

9 **SECTION 1.** A new subdivision to subsection 2 of section 12-60-24 of the North Dakota
 10 Century Code is created and enacted as follows:

11 The state auditor for all employees, as required by section 10 of this Act.

12 **SECTION 2. AMENDMENT.** Section 16.1-01-10 of the North Dakota Century Code is
 13 amended and reenacted as follows:

14 **16.1-01-10. Secretary of state to pass upon sufficiency of petitions - Method - Time**
 15 **limit.**

16 The secretary of state shall have a reasonable period, not to exceed thirty-five days, in
 17 which to pass upon the sufficiency of any petition mentioned in ~~section~~sections 16.1-01-09 and
 18 54-10-15. The secretary of state shall conduct a representative random sampling of the
 19 signatures contained in the petitions by the use of questionnaires, postcards, telephone calls,
 20 personal interviews, or other accepted information-gathering techniques, or any combinations
 21 thereof, to determine the validity of the signatures. Signatures determined by the secretary of
 22 state to be invalid may not be counted and all violations of law discovered by the secretary of
 23 state must be reported to the attorney general for prosecution.

1 **SECTION 3. AMENDMENT.** Section 54-10-01 of the North Dakota Century Code is
2 amended and reenacted as follows:

3 **54-10-01. Powers and duties of state auditor.**

4 1. The state auditor shall:

- 5 a. Be vested with the duties, powers, and responsibilities involved in performing the
6 postaudit of all financial transactions of state government, detecting and reporting
7 any defaults, and determining that expenditures have been made in accordance
8 with law and appropriation acts.
- 9 b. Perform or provide for the audit of the general purpose financial statements and a
10 review of the material included in the comprehensive annual financial report of
11 the state in accordance with government auditing standards.
- 12 c. Perform or provide for audits of state agencies in accordance with government
13 auditing standards and legislative audit and fiscal review committee guidelines
14 developed under section 54-35-02.10. Except for the annual audit of the North
15 Dakota lottery required by section 53-12.1-03, the state auditor shall audit each
16 state agency once every two years. Audits may be conducted at more frequent
17 intervals if requested by the governor or the legislative audit and fiscal review
18 committee. The state auditor shall charge an amount equal to the cost of the
19 audit and other services rendered by the state auditor to all agencies that receive
20 and expend moneys from other than the general fund. This charge may be
21 reduced for an agency that receives and expends both general fund and
22 nongeneral fund moneys. State agencies shall use nongeneral fund moneys to
23 pay for the cost of the audit. If nongeneral fund moneys are not available, the
24 agency may, upon approval of the legislative assembly, or the budget section if
25 the legislative assembly is not in session, use general fund moneys to pay for the
26 audit. If the lead auditor on an agency audit has less than two years of
27 experience with the state auditor or has not previously audited the agency, the
28 agency may not be charged for the audit. Any budget section action under this
29 subdivision must comply with section 54-35-02.9.
- 30 d. Perform or provide for performance audits of state agencies, or the agencies'
31 blended component units or discreetly presented component units, as

- 1 determined necessary by the legislative assembly, or the legislative audit and
2 fiscal review committee if the legislative assembly is not in session. When
3 determining the necessity of a performance audit, the legislative audit and fiscal
4 review committee shall consider:
- 5 (1) The potential cost-savings or efficiencies that may be gained as a result of
6 the performance audit;
 - 7 (2) The staff resources of the state auditor's office and of the state agency
8 being audited which will be required to conduct the audit;
 - 9 (3) The potential for discovery of noncompliance with state law or legislative
10 intent regarding the program or agency; and
 - 11 (4) The potential for the performance audit to identify opportunities for program
12 improvements.
- 13 e. Report on the functions of the state auditor's office to the governor and the
14 secretary of state in accordance with section 54-06-04 or more often as
15 circumstances may require.
- 16 f. Perform work on mineral royalties for the federal government in accordance with
17 section 1735(a) of the Mineral Lands and Mining Act [30 U.S.C. 1735 et seq.].
- 18 g. Perform all other duties as prescribed by law.
- 19 2. The state auditor may:
- 20 a. Conduct any work required by the federal government.
 - 21 b. ~~Within the resources available to the state auditor, perform or provide for~~
22 ~~performance audits of state agencies as determined necessary by the state~~
23 ~~auditor.~~
 - 24 e. Audit the International Peace Garden at the request of the board of directors of
25 the International Peace Garden.
 - 26 ~~d.c.~~ Contract with a private certified public accountant or other qualified professional
27 to conduct or assist with an audit, review, or other work the state auditor is
28 authorized to perform or provide for under this section. Before entering any
29 contract, the state auditor shall present information to the legislative audit and
30 fiscal review committee on the need for the contract and its estimated cost and
31 duration. Except for performance audits conducted under subdivision d of

1 subsection 1-~~or subdivision b of this subsection~~ and except for audits of
2 occupational or professional boards, the state auditor shall execute the contract
3 and any executive branch agency, including higher education institutions, shall
4 pay the fees of the contractor. For performance audits conducted under
5 subdivision d of subsection 1-~~or subdivision b of this subsection~~, the state auditor
6 may charge a state agency for the cost of a contract relating to an audit, subject
7 to approval by the legislative assembly or the legislative audit and fiscal review
8 committee if the legislative assembly is not in session. When considering a
9 request, the legislative audit and fiscal review committee shall consider the effect
10 of the audit cost on the agency being audited, the necessity of the contract, and
11 the potential benefit to the state resulting from the contract. The state auditor
12 shall notify the affected agency of the potential cost before requesting approval
13 from the legislative assembly or the legislative audit and fiscal review committee.

14 3. All audits performed by the state auditor must be reviewed and approved by a certified
15 public accountant.

16 4. The state auditor may not reject an audit report of an audit performed by a certified
17 public accountant or licensed public accountant which meets generally accepted
18 auditing standards.

19 5. The state auditor shall provide an audit template that meets generally accepted
20 government auditing standards to be used by a certified public accountant or licensed
21 public accountant who is contracted to complete an audit on behalf of a political
22 subdivision or state entity.

23 6. In the audit reports provided to the legislative audit and fiscal review committee under
24 subsection 1 of this section, the state auditor's report for each audit must include:

25 a. A summary of the audit conducted.

26 b. Disclosure of any disagreements with management.

27 c. Any findings and whether the findings were addressed or corrected.

28 d. A copy of the engagement letter, number of staff hours worked to complete the
29 audit, and the final cost of the audit.

30 **SECTION 4. AMENDMENT.** Section 54-10-13 of the North Dakota Century Code is
31 amended and reenacted as follows:

1 **54-10-13. Political subdivisions - Audits—~~State auditor powers.~~**

2 The state auditor shall perform audits of political subdivisions pursuant to section 54-10-14
3 unless otherwise requested by the governing board, ordered by the governor or the legislative
4 audit and fiscal review committee, or on petition pursuant to section 54-10-15, ~~or at the~~
5 ~~discretion of the state auditor for alleged improprieties.~~

6 **SECTION 5. AMENDMENT.** Subsection 5 of section 54-10-14 of the North Dakota Century
7 Code is amended and reenacted as follows:

- 8 5. A political subdivision may not pay a public accountant for an audit until the state
9 auditor has accepted the audit. However, a political subdivision may make progress
10 payments to the public accountant. ~~A political subdivision shall retain twenty percent of~~
11 ~~any progress payment until the audit report is accepted by the state auditor.~~

12 **SECTION 6. AMENDMENT.** Section 54-10-15 of the North Dakota Century Code is
13 amended and reenacted as follows:

14 **54-10-15. Audits of political subdivisions by order of governor or the legislative audit**
15 **and fiscal review committee, upon petition, or upon request of the state court**
16 **administrator.**

- 17 1. The state auditor, by duly appointed deputy auditors or other authorized agents, shall
18 audit or review the books, records, and financial accounts of any political subdivision
19 when ordered by the governor or the legislative audit and fiscal review committee,
20 requested by the governing board, or upon petition of at least thirty-five percent of the
21 qualified electors of any political subdivision enumerated in section 54-10-14 voting for
22 the office of governor at the preceding general election or, in the case of school
23 districts, upon petition of at least thirty-five percent of the qualified electors voting at
24 the preceding school board election, or upon the request of the state court
25 administrator with respect to clerk of district court services provided by a county in
26 accordance with chapter 27-05.2. Fees for the audits must be paid in accordance with
27 the provisions of section 54-10-14.
- 28 2. If an audit is ordered due to financial irregularities or allegations of embezzlement, the
29 governor may suspend an elected or appointed school board member from the
30 individual's duties if the governor determines suspension is in the best interest of the
31 state pending the results of the audit. If the governor suspends an elected or

1 appointed school board member, the governor immediately shall provide notice to the
2 school board with which the suspended member serves. Within five days of receiving
3 notice, the school board shall appoint an individual to replace the suspended member
4 to serve during the pendency of the audit. The governor shall consult with the
5 superintendent of public instruction in determining whether suspension of a member of
6 a school board is in the best interest of the state.

7 3. Upon review of a petition for an audit by the secretary of state under section
8 16.1-01-10, the secretary of state shall forward a valid petition for an audit under
9 subsection 1 to the state auditor. Within fourteen days of determining the sufficiency of
10 a petition under this section, the secretary of state shall provide notice of any
11 approved petition to the legislative audit and fiscal review committee.

12 **SECTION 7. AMENDMENT.** Section 54-10-25 of the North Dakota Century Code is
13 amended and reenacted as follows:

14 **54-10-25. Divulging of certain secret information prohibited - Penalty.**

- 15 1. The state auditor and the auditor's employees, including any person employed by the
16 auditor to perform the examination of any return, report, or other information filed and
17 in the possession of the tax commissioner which is made confidential by law, may not
18 divulge the contents of any return, report, or other information examined or any listing
19 made therefrom by the state auditor or the auditor's employees except when otherwise
20 directed by judicial order, or as is otherwise provided by law.
- 21 2. The state auditor, the auditor's employees, or an agent of the auditor may not divulge
22 any information relating to a matter forwarded to the attorney general or a state's
23 attorney for further investigation until the attorney general or state's attorney has made
24 a determination as to whether there is probable cause to believe a violation of law has
25 occurred.

26 3. An individual who violates this section is guilty of a class C felony.

27 **SECTION 8.** A new subsection to section 54-10-26 of the North Dakota Century Code is
28 created and enacted as follows:

29 The state auditor may not request the working papers of any entity.

30 **SECTION 9.** A new section to chapter 54-10 of the North Dakota Century Code is created
31 and enacted as follows:

1 **Audit findings - Review period.**

2 The state auditor shall provide any audit findings to the audited state entity, political
3 subdivision, or occupational or professional board thirty days before the state auditor publishes
4 the audit findings. The state auditor shall provide all audit findings to the legislative audit and
5 fiscal review committee.

6 **SECTION 10.** A new section to chapter 54-10 of the North Dakota Century Code is created
7 and enacted as follows:

8 **Criminal history background checks - Employees.**

9 Each employee of the state auditor hired after June 30, 2001, shall complete a statewide
10 and nationwide criminal history record check as provided under section 12-60-24. The state
11 auditor is responsible for all costs associated with a statewide and nationwide criminal history
12 record check.

13 **SECTION 11.** A new section to chapter 54-10 of the North Dakota Century Code is created
14 and enacted as follows:

15 **Engagement letters - Prohibition.**

16 Upon completion of an audit, the state auditor may not increase the cost of the audit beyond
17 the estimated cost proposed in the initial engagement letter.

18 **SECTION 12.** A new section to chapter 54-10 of the North Dakota Century Code is created
19 and enacted as follows:

20 **Special state auditor.**

21 If the governor considers it in the best interests of the state, the governor may appoint a
22 special state auditor to examine any state institution, state industry, state department, or public
23 office. The special state auditor has all the powers and authority granted to the state auditor in
24 making audits and shall examine and report upon any other matters connected with the state
25 institutions and public offices as the governor may direct.

HB 1508

City of Parshall

March 9, 2023

Chairperson and members of the legislature, I would like to thank you for this opportunity to testify on behalf of HB1508. I am Kelly Woessner, City Auditor, representing the City of Parshall, and I am here to tell our story regarding a petition audit performed last year.

On February 23, 2022, the State Auditor's office released notification to KFVR that the City of Parshall was to be petition audited (Exhibit "A" copy attached 1 page). I was contacted by friend on February 24, 2022, from out of state that our City was going to be audited. And shortly after, I received a call from KMOT News for a statement regarding the upcoming petition audit. I was not aware of this at this time, nor did I have a letter of engagement. It wasn't until a few days later that I was contacted by the ND State Auditor's office, Heath Erickson, that there was a petition filed by the residents of the City of Parshall to have the City audited. The letter of engagement was not issued until March 7, 2022 (Exhibit "B" copy attached 5 pages). My first response to Mr. Erickson was obviously this is retaliation against me. I told him that they had dropped the ball and that I should not have had to hear this from the news media first. Reason I said this was I had presented a petition audit to have another entity audited in 2020. I petitioned to have an audit done, and I was the only person collecting signatures, so if any one of the people who signed my petition was asked who circulated it, they could only say it was me. I asked for information about the petition, and was told that the petition was not able to be released for me to see. I was told there was only 1 petitioner. I requested that the Auditor's Office should contact some of the signors to see if the petition was presented to them by the petitioner, because I felt that it was not circulated legally and according to the rules set out by the State Auditor's office. Come to find out from some of the people who actually signed that petition, the petition was sitting on the desk in the front office the other business collecting signatures and was also circulated by another person who did not fill out the affidavit of circulator and have it notarized (Exhibit "C" copy of their process attached 4 pages). The petitioner is the person responsible to send the gathered signatures in to the State Auditor's office. All persons who collect signatures are to have a notarized paper stating they were the circulator. Again, I brought it to the attention of the State Auditors and told them I had proof that it was not circulated according to their rules. I do know who the petitioner was and I do know who else circulated the petition, from visiting with residents of our City. I believe that requesting who petitioned the audit and who signed should be of public record.

I was not against the Audit being performed, and I was ready when they started requesting information to proceed.

When the audit began, the auditors would send me email requests for information from the City, and I would return the requested information immediately or within the day. We received the first bill from the State Auditor's Office and paid it on April 18, 2022 in the amount of \$12,500.00 (Exhibit "D" copy of bill attached). This process lasted a little over a month. They came to my office for 1 day for a verification of records, and that is all the time that was spent on site. All documentation was emailed to their office. On May 20, 2022 I received the final bill from the State Auditor's office in the amount of

\$26,750.00 (Exhibit "E" copy of the bill attached). I presented this to the City Council on June 8, 2022, for payment and it was not passed for payment. The City regularly has annual audits performed each year and the State Auditor approves each of these audits. Costs of the audits for the past five years is as follows:

2016 - \$5,800.00 Rath & Mehrer

2017 - \$9,300.00 Rath& Mehrer

2018 - \$7,000.00 Rath& Mehrer

2019 - \$8,300.00 Rath& Mehrer

2020 - \$8,800.00 Rath& Mehrer

TOTAL: \$39,200.00

This cost from the State Auditor's was more than what it had cost the City of Parshall for the last 5 years. The City of Parshall has Rath and Mehrer audit their books every year, so the City does follow the requirements of NDCC 54-10-14. Our past audits are also reviewed by the State of ND and we pay a fee for this also.

A press release was made on May 27, 2022, regarding the outcome of the Audit (Exhibit "F" copy attached). It appeared their only problem was that checks were not voided timely.

There are many small Cities in North Dakota and they would not be prepared or financially able to pay these prices if a petition audit was executed on them. Most of the reasons given to the State Auditors to conduct an audit of our City were unjustified and personal from the petitioner, however they still have to follow up on all inquiries.

To date the City of Parshall has not paid the additional \$26,750.00 and had asked for an opinion from the ND Attorney General's Office (Exhibit "G" which is attached). The letter from the Attorney General's office stated that they cannot issue an opinion. This leaves the City holding the bill at this time. The outcome of the audit was good.

As shown above, fair and reasonable charges should be around the \$8800.00 price, and not almost 5 times higher.

The findings in the actual audit report were only 4 items, and financials were in good standing (Exhibit "H" copy attached 7 pages).

Again, a reminder that the ND State Auditors only spent 1 day on site and all other correspondence was transferred through email and the City of Parshall turned out to be ok, does not justify the cost of \$39,250.00. What happens if another person feels that they would like to petition for another audit to be done. This could be an ongoing issue for any community.

I want to thank you for this opportunity to tell you our story and hope that this will not happen to other communities in ND.

In closing, I listened to the testimony of Mr. Josh Gallion before the House Committee and would like to add that during Mr. Gallion's testimony, he stated that the petition audit on the City of Parshall was a

retaliation audit and that the (so-called) petitioner questioned the City of Parshall's Public Library hours and who drives the City vehicles, does not justify why the audit should have taken place, but again due diligence to verify the petitioner as the only person collecting signatures should have been addressed when I questioned the petition. Community members let me know who was holding the petition when they were asked to sign it, and it was not the certified petitioner. Our City only had 4 material weaknesses from the result of the audit performed by the State which are attached.

Dan Cox from the Auditor's Office provided this to the Majority Leader and Appropriations Chair on February 13, 2023.

From Dan Cox today:

#3 ~ a) City of Parshall audit bill higher than past audits, b) audit bill higher than market value, c) audit bill didn't match SAO records, & d) the SAO is double-dipping by billing Parshall when they're funded by the General Fund

This was Dan Cox's reply to #3 above:

FACT = a) you cannot compare the cost of a financial audit to the cost of a petition audit as a petition audit must complete a financial audit PLUS address each valid concern from the petitioners, b) market value cannot be determined by what one firm charges but the average of what all firms in the market charge, c) amounts didn't match our spreadsheet sent to Legislative Council because Parshall has not paid all of their bill despite being told by the Attorney General's Office they need to, & d) the staff doing the audit are not paid from the general fund budget but from their own special operating fund which derives its monies from audit fees billed to clients

The fact that they did not due their due diligence to confirm that the petition was circulated within their guidelines and not honor our request to verify its legality, this audit may have never happened. Hence we would not have this large outstanding bill from this agency. I have attached a copy of the Attorney General's Opinion that states we should take action with the State Auditor and it does not say we should pay the bill.

I was recently contacted by the auditing firm we have had in the past to perform our 2022 audit and I feel that because of the State Audit, they have now increased their fees to \$12,500.00.

I would be happy to address any questions if you would like to call me at (701) 862-3459.

Kelly Woessner, City Auditor, City of Parshall





ADVERTISEMENT

Audit to begin on the City of Parshall

AUDIT FOR THE CITY OF PARSHALL

- REQUESTED THROUGH PETITION
- REQUIRED AT LEAST 50 SIGNATURES
- RESULTS TO BE ANNOUNCED ONCE COMPLETE

Parshall audit (KFYR)

By Brian Gray

Published: Feb. 23, 2022 at 11:44 AM CST



PARSHALL, N.D. (KFYR) - The state auditor's office is set to begin an audit on the City of Parshall, by request of a citizen-led petition.

An audit of a city by way of a petition is the first of its kind for the state department. The state auditor says the public will receive the results of the audit once it is complete.

"We look forward to working with the staff of the City of Parshall to address the concerns that were brought to our attention," said State Auditor Joshua Gallion.

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STATE AUDITOR
Joshua C. Gallion



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"B" #1

March 7, 2022

Kelly Woessner
City Auditor
25 N Main St.
Parshall, ND 58770

Dear Ms. Woessner:

This letter is to inform you of the petition audit of the City of Parshall for the year ended December 31, 2021. We will audit the financial statements of the governmental activities, the business type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information that collectively comprise the basic financial statements of the City of Parshall as of and for the year ended December 31, 2021.

This audit is being conducted pursuant to a petition under North Dakota Century Code (NDCC) 54-10-15, which is as follows:

Audits of political subdivisions by order of governor or the legislative audit and fiscal review committee, upon petition, or upon request of the state court administrator.

The state auditor, by duly appointed deputy auditors or other authorized agents, shall audit or review the books, records, and financial accounts of any political subdivision when ordered by the governor or the legislative audit and fiscal review committee, requested by the governing board, or upon petition of at least thirty-five percent of the qualified electors of any political subdivision enumerated in section 54-10-14 voting for the office of governor at the preceding general election or, **in the case of school districts, upon petition of at least thirty-five percent of the qualified electors voting at the preceding school board election**, or upon the request of the state court administrator with respect to clerk of district court services provided by a county in accordance with chapter 27-05.2. Fees for the audits must be paid in accordance with the provisions of section 54-10-14.

We have also been engaged to report on supplementary information other than RSI that accompanies City of Parshall's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

- Budgetary Comparison Schedules

#2

Audit Objectives

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with the modified cash basis of accounting, which is an other comprehensive basis of accounting, and to report on the fairness of the supplementary information referred to above when considered in relation to the financial statements as a whole.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and will include tests of the accounting records of City of Parshall and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of City of Parshall 's financial statements. Our report will be addressed to the city commission of the City of Parshall. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or may withdraw from this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by Government Auditing Standards. The report on internal control and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control on compliance, and (2) that the report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that City of Parshall is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards may not satisfy the relevant legal, regulatory, or contractual requirements.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will assist with preparation of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and that you have reviewed and provided the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any non-audit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles, for the preparation and fair presentation of the financial statements in conformity with the modified cash basis of accounting, which is an other comprehensive basis of accounting, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of

the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence. Since most of our audit documentation becomes public information, you are also responsible for notifying us of any confidential information you provide us so that we can properly safeguard such confidential information.

It is the policy of the State Auditor to use the State's Secure File Transfer System (<https://secure.intranetapps.nd.gov/itd/filetransfer/login.htm>) when sending or receiving audit client computer files. If you need assistance with this system, please notify us. Computer files should not be e-mailed to auditors.

Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, Grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws, regulations, contracts, agreements, and Grants and for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that we report.

You are responsible for the preparation of the supplementary information in conformity with the modified cash basis of accounting, which is an other comprehensive basis of accounting. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with the modified cash basis of accounting, which is an other comprehensive basis of accounting; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with the modified cash basis of accounting, which is an other comprehensive basis of accounting; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Professional standards require us to be independent with respect to City of Parshall in the performance of our services. Any discussions that you have with personnel of our office regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

Other Services

We will also assist in preparing the financial statements and related notes of City of Parshall in conformity with the modified cash basis of accounting based on information provided by you. These non-audit services do not constitute an audit under Government Auditing Standards and such services will not be conducted in accordance with Government Auditing Standards. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Audit Procedures-General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedure-Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risk of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedure-Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of City of Parshall's compliance with the provisions of applicable laws, regulations, contracts, agreements, and Grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing, as well as prepare any requested supporting schedules.

#5

GAAS require that we communicate certain additional matters related to the conduct of our audit to those charged with governance. Such matters include (1) our responsibilities under auditing standards generally accepted in the United States of America; (2) an overview of the planned scope and timing of the audit; (3) significant findings from the audit, including, among others: (a) the initial selection of and changes in significant accounting policies and their application; (b) the process used by management in formulating particularly sensitive accounting estimates and the basis for our conclusions regarding the reasonableness of those estimates; (c) significant difficulties that we encountered in dealing with management related to the performance of the audit; (d) audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on your financial reporting process and uncorrected misstatements of the financial statements that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole; (e) any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or our report; (f) management representations; (g) our views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters; (h) major issues that were discussed with management in connection with the retention of our services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards, and if applicable, events or conditions indicating there could be a substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time; and (4) other matters as considered necessary or required to be communicated under professional standards.

If you intend to publish or otherwise reproduce the financial statements and make reference to our office, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

The audit documentation for this engagement is the property of the Office of the State Auditor. Once an audit is complete most of our audit documentation is public information. This audit documentation is therefore subject to inspection in our office with prior authorization by the State Auditor, Director, or Audit Managers. Any confidential information or data in our work papers will be safeguarded from public disclosure. Management is responsible for informing us of any confidentiality provisions related to documentation provided to the State Auditor's Office.

We expect to begin our audit in March 2022 and to issue our reports upon completion. Heath Erickson, CPA will be the audit manager and is responsible for supervising the engagement.

Our fee for these services will be at our standard hourly rates plus travel and other out-of-pocket costs. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report or any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Copies of our latest peer review reports may be found online at <https://www.nd.gov/auditor/about-us/peer-review-reports>

We believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know.

Very truly yours,



Heath Erickson, CPA
Audit Manager
Division of Local Government Audit

STATE AUDITOR
Joshua C. Gallion



Office of the
State Auditor

PHONE
701-328-2241
FAX
701-328-2345

www.nd.gov/auditor

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota, 58505

ndsao@nd.gov

|
C

PETITION FOR FINANCIAL AUDIT

We, the undersigned, being qualified electors request an audit authorized by North Dakota Century Code 54-10-15. The state auditor shall audit and review the books, records, and financial accounts of _____, which is a political subdivision enumerated in North Dakota Century Code 54-10-14.

This audit will be charged to the political subdivision that is the subject of this petition as set forth in North Dakota Century Code 54-10-15.

CHIEF PETITIONER

The following is the name and address of the qualified elector of the political subdivision who, as the chief petitioner for the petitioners, represents and acts for the petitioners in accordance with law:

Top three (3) major concerns

Name: _____

Address: _____

City: _____, ND Zip: _____

Contact #: _____

Contact Email: _____

1) _____

2) _____

3) _____

BEFORE COLLECTING SIGNATURES, PLEASE FILL OUT THE ABOVE INFORMATION AND
E-MAIL OR MAIL TO THE STATE AUDITOR'S OFFICE AT:

#2

Mail: NDSAO
600 E. Blvd. Ave. Dept. 117
Bismarck, ND 58505
Email: NDSAO@ND.GOV

The State Auditor's Office will notify you at the above contact information provided, that the petition has been approved and can be circulated for signatures. Do not start collecting signatures until our office has let you know approval status.

INSTRUCTIONS FOR PETITION

HOW TO CIRCULATE: Each individual Petition must be circulated in its entirety with the completed information shown above and must be made available to each signer at the time of signing. Each person collecting signatures shall sign and have his or her signature on the petition notarized affirming that the signatures are of qualified electors.

Only qualified electors of the political subdivision may sign the petition. In addition to signing and printing the person's name, petition signers shall include: the date of signing; their complete residential address to include the name of the North Dakota city and its corresponding ZIP code.

For a petition to be sufficient, it must contain signatures from at least thirty-five percent of the qualified electors of any political subdivision enumerated in section 54-10-14 voting for the office of governor at the preceding general election or, in the case of school districts, upon petition of at least thirty-five percent of the qualified electors voting at the preceding school board election.

Incomplete information provided by petition signers will invalidate such signatures.

WHO FILES: The Petition must be submitted by the chief petitioner to the State Auditor before the petitions are circulated and after signatures have been gathered.

WHEN TO FILE: 180 days from the approval of the petition for circulation by the State Auditor's Office.

ASSISTANCE: Questions regarding the Petition may be directed to the State Auditor's office at (701) 328-2241.

#3

We, the undersigned, being qualified electors request an audit authorized by North Dakota Century Code 54-10-15. The state auditor shall audit and review the books, records, and financial accounts of _____, which is a political subdivision enumerated in North Dakota Century Code 54-10-14.

INSTRUCTIONS TO PETITION SIGNERS

You are being asked to sign a petition. You must be a qualified elector. This means you are eligible to vote in the political subdivision subject to this petition. All signers shall legibly print their name, complete residential address, and the date of signing on the petition. Every qualified elector signing a petition must do so in the presence of the individual circulating the petition.

QUALIFIED ELECTORS

Month/Day /Year	PRINTED Name of Qualified Elector	SIGNED Name of Qualified Elector	Residential Address	City, State, ZIP Code
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				

#4

State of North Dakota

County of _____
(County where signed)

I, _____, being sworn, say that I am a qualified elector; that I reside at

(circulator)

(address)

that each signature contained on the attached petition for the state auditor to audit and review the books, records, and financial accounts of _____ was executed in my presence; and that to the best of my knowledge and belief each individual whose signature appears on the attached petition is a qualified elector; and that each signature contained on the attached petition is the genuine signature of the individual whose name it purports to be.

(Signature of circulator)

Subscribed and sworn to before me on _____, 20____, at _____, North Dakota
(city)

(Notary Stamping Device)

(Signature of notarial officer)

INVOICE

"D"

Please Remit To:

Office of the State Auditor
600 East Boulevard - Dept. 117
Bismarck ND 58505-0400
United States

Page: 1
Invoice No: SA0000017837
Invoice Date: 03/22/2022
Customer Number: 31120
Payment Terms: Due Immed
Due Date: 03/22/2022

Bill To:

CITY OF PARSHALL
Governing Board
PO BOX 159
PARSHALL ND 58770

AMOUNT DUE: 12,500.00 USD

Amount Remitted



pd. Ck# 035865
4-18-2022

For billing questions, please call 701-328-2241

Line	Adj	Identifier	Description	Quantity	UOM	Unit Amt	Net Amount
1		POLITICAL SUB	Political Sub Audits	1.00	EA	12,500.00	12,500.00
			PROGRESS BILL #1 - YEAR ENDED 2021				
SUBTOTAL:							12,500.00
TOTAL AMOUNT DUE :							12,500.00

PLEASE RETURN TOP PORTION WITH PAYMENT. THANK YOU!

"E"

INVOICE

Please Remit To:
Office of the State Auditor
600 East Boulevard - Dept. 117
Bismarck ND 58505-0400
United States

Page: 1
Invoice No: SA0000017969
Invoice Date: 05/20/2022
Customer Number: 31120
Payment Terms: Due Immed
Due Date: 05/20/2022

Bill To:

CITY OF PARSHALL
Governing Board
PO BOX 159
PARSHALL ND 58770

AMOUNT DUE: 26,750.00 USD

PAST DUE

Amount Remitted



For billing questions, please call 701-328-2241

Line	Adj	Identifier	Description	Quantity	UOM	Unit Amt	Net Amount
1		POLITICAL SUB	Political Sub Audits	1.00	EA	26,750.00	26,750.00
			FINAL BILL - YEAR ENDED 2021				

PLEASE RETURN TOP PORTION WITH PAYMENT. THANK YOU!

SUBTOTAL: 26,750.00

TOTAL AMOUNT DUE : 26,750.00

"F"

by: Brendan Rodenberg
Posted: May 27, 2022 / 12:35 PM CDT
Updated: May 27, 2022 / 02:55 PM CDT

SHARE

Parshall audit reveals delayed financial statements

The North Dakota State Auditor's Office recently finished its audit on the City of Parshall.

In February, the office received a citizen petition request to look at the city's books. Under state law, the auditor's office can be called to audit or review a political subdivision if enough qualified voters of that entity request the audit. In Parshall's case, the petition required 50 valid signatures to obtain the audit or review.

The Auditor's Office found one main issue: concerns regarding the city's failure to properly file and void checks at an appropriate time.

The office noted such a failure makes accurately reporting the city's finances extremely difficult, which could potentially cause the finances to be misrepresented.

State Auditor take to Parshall after citizen petition

The auditor requested Parshall begin to void their checks in a more timely manner in the general ledger, in order to ensure reporting of cash and expenses is done as quickly and as accurately as possible.

Normally, state audits occur once a year, but special audits can take place when requested by citizens through petitions requesting the State Auditor's office to perform an in-depth audit of a city or other government entity outside of the designated times. In this case, a successful citizen petition effort was what led to Parshall's audit.



STATE OF NORTH DAKOTA
OFFICE OF ATTORNEY GENERAL
www.attorneygeneral.nd.gov
(701) 328-2210

"G"

Drew H. Wrigley
ATTORNEY GENERAL

December 2, 2022

Mr. William E. Woods Jr.
City of Parshall
Box 159
Parshall, ND 58770-0159

Dear Mr. Woods,

In June you requested an opinion from this office regarding issues surrounding an audit conducted by the North Dakota State Auditor's office. The audit was done pursuant to a petition as set forth in N.D.C.C. § 54-10-15(1). You take issue with whether the circulator witnessed the people signing the petition. You ask what agency is responsible for verifying the contents of a petition. The petition is filed with the State Auditor, so it is the office that has the responsibility to judge whether any filed petition meets the requirements of the statute. The statute, however, is silent regarding whether a circulator must witness the signatures. The only requirement set out in the statute is that the petition is signed by at least thirty-five percent of the electors of any political subdivision. . .for office of governor.¹ The responsibility to verify that requirement is with the Auditor's Office.

You also dispute the bill received by the State Auditor. The law allows the State Auditor to charge an amount equal to the fair value of the audit. This office cannot issue an opinion resolving factual issues.² Therefore, we cannot determine whether the auditor's bill represents the fair market value of an audit. As we discussed previously, concerns about the authority of the State Auditor should be addressed with your legislative representative. If you take issue with the audit amount, you should contact the State Auditor to come to a resolution regarding the amount owed.

Sincerely,

MaryKae Kelsch
Assistant Attorney General

¹ N.D.C.C. § 54-10-15(1).

² N.D.A.G. 2004-L-49; N.D.A.G. 2002-F-07; N.D.A.G. 94-L-327.

"H" #1

STATE AUDITOR
Joshua C. Gallion



PHONE
701-328-2241
FAX
701-328-2345

www.nd.gov/auditor

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota, 58505

ndsco@nd.gov

GOVERNANCE COMMUNICATION

May 23, 2022

Board of City Councilmembers
City of Parshall
Parshall, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Parshall, North Dakota, for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 7, 2022. Professional standards also require that we communicate to you with the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Parshall are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the City of Parshall during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the governmental activities financial statements were:

Management's estimate of the useful lives of capital assets is based on past history of each classification of capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#2

CITY OF PARSHALL
Governance Communication - Continued

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedule lists all misstatements provided by management or detected as a result of audit procedures that were corrected by management.

	<u>Client Provided Adjustments</u>		<u>Audit Adjustments</u>		<u>Total Adjustment</u>	
	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
Governmental Activities						
<u>To record net position PPA</u>						
Capital Assets, Net	-	-	2,061,023	-	2,061,023	-
Cash	6,958	-	-	-	6,958.00	-
Net Position - Jan 1	-	6,958	-	2,061,023	-	2,067,981
<u>To record depreciation expense</u>						
Depreciation Expense	-	-	87,091	-	87,091	-
Accumulated Depreciation	-	-	-	87,091	-	87,091
<u>To record capital asset additions</u>						
Capital Assets	-	-	59,841	-	59,841	-
Expenditures	-	-	-	59,841	-	59,841
General Fund						
<u>To record prior period errors PPA</u>						
Cash	6,958	-	-	-	6,958	-
Fund Balance - Jan 1	-	6,958	-	-	-	6,958
<u>To record voids</u>						
Cash	-	-	9,298	-	9,298	-
Expenditures	-	-	-	9,298	-	9,298
<u>To record change in due from other funds</u>						
Cash	-	-	114,682	-	114,682	-
Due from other funds	-	-	-	114,682	-	114,682
Special Revenue Fund						
<u>To record voids</u>						
Cash	-	-	2,369	-	2,369	-
Expenditures	-	-	-	2,369	-	2,369
Business Type Activities						
<u>To record capital asset PPA</u>						
Capital Assets, Net	117,313	-	-	-	117,313	-
Net Position - Jan 1	-	117,313	-	-	-	117,313
<u>To record change in due to other funds</u>						
Due to Other Funds	-	-	114,682	-	114,682	-
Net Position - Unrestricted	-	-	-	114,682	-	114,682
Water Fund						
<u>To record voids</u>						
Cash	-	-	114,682	-	114,682	-
Expenditures	-	-	-	114,682	-	114,682
<u>To record capital asset PPA</u>						
Capital Assets, Net	117,313	-	-	-	117,313	-
Net Position - Jan 1	-	117,313	-	-	-	117,313
Fiduciary Activities						
<u>To record custodial funds PPA</u>						
Cash	72,059	-	-	-	72,059	-
Net Position - Jan 1	-	72,059	-	-	-	72,059
Component Unit - Airport						
<u>To record Airport PPA</u>						
Net Position - Jan 1	-	-	1,481,164	-	1,481,164	-
Capital Assets	-	-	-	1,198,372	-	1,198,372
Cash	-	-	-	282,792	-	282,792

#3

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 23, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were engaged to report on *budgetary comparison schedules, and notes to the supplementary information*, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the City Commissioners and management of City of Parshall, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of City of Parshall for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve City of Parshall.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
May 23, 2022

#4

CITY OF PARSHALL
Schedule of Audit Findings
For the Year Ended December 31, 2021

2021-001 SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

The City Auditor is responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Effect

The lack of segregation of duties increases the risk of material misstatement to the City of Parshall's financial condition, whether due to error or fraud.

Cause

Management has chosen to allocate its economic resources to other functions of the City of Parshall.

Criteria

According to the COSO framework, proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel, so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the city.

Prior Recommendation

Yes

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we will recommend the following:

- Financial statements and credit memos should be reviewed by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and bank reconciliations.
- Include the board in reviewing credit memos, manual adjustments, etc.

City of Parshall's Response

The City is aware of the condition and segregates duties whenever possible. The City agrees with the findings.

#5

CITY OF PARSHALL
Schedule of Audit Findings – Continued

2021-002 LACK OF SUPPORTING DOCUMENTATION FOR BUDGET ESTIMATES – MATERIAL NONCOMPLIANCE

Condition

The City of Parshall did not maintain supporting documentation for year-end cash, transfers, and revenues for the 2021 General Fund and Special Revenue Fund budgets.

Effect

The estimates for year-end cash, transfers, and revenues are key components in the tax levy calculation in any budget year. Thus, the City of Parshall may have improperly calculated the tax levies for the general fund and special revenue fund.

Cause

The City of Parshall did not maintain supporting documentation for the estimates included in the budgets.

Criteria

N.D.C.C. §57-15-31(1) states, "The amount to be levied by any county, city, township, school district, park district, or other municipality authorized to levy taxes must be computed by deducting from the amount of estimated expenditures for the current fiscal year as finally determined, plus the required reserve fund determined upon by the governing board from the past experience of the taxing district, the total of the following items:

- a. The available surplus consisting of the free and unencumbered cash balance;
- b. Estimated revenues from sources other than direct property taxes;
- c. The total estimated collections from tax levies for previous years;
- d. Expenditures that must be made from bond sources;
- e. The amount of distributions received from an economic growth increment pool under section 57-15-61; and
- f. The estimated amount to be received from payments in lieu of taxes on a project under section 40-57.1-03."

Prior Recommendation

No

Recommendation

We recommend the City of Parshall ensure its compliance with all aspects of N.D.C.C. §57-15-31(1). We further recommend the City of Parshall review budgeted estimates carefully to ensure supporting documentation exists to support the estimated amounts used in the preliminary and final budgets prior to approval.

City of Parshall's Response

The City agrees with the findings. City will create a worksheet to define A-F for year-end closeout.

#6

CITY OF PARSHALL
Schedule of Audit Findings – Continued

2021-003 CAPITAL ASSET MAINTENANCE– MATERIAL WEAKNESS

Condition

During testing, it was found that street improvement projects in the amount of \$2,061,023 were not included in the 2021 capital asset listing. A prior period adjustment to the financial statements was proposed and accepted by the City of Parshall.

Effect

The financial statements may have been materially misstated if the capital assets had not been adjusted during the audit.

Cause

The City of Parshall's management does not have sufficient procedures in place to ensure the capital asset listing used to compile the financial statements is accurate and free of material misstatement.

Criteria

The City of Parshall is responsible for the adjusting entries to its annual financial statements and to ensure the financial statements are reliable, free of material misstatement, and in accordance with the modified cash basis of accounting.

Prior Recommendation

No

Recommendation

We recommend the City of Parshall review the capital asset additions and deletions list at the end of the year to ensure that the capital asset listing is accurate and free of material misstatement.

City of Parshall's Response

The Capital assets would be updated when the annual audit by an independent firm would have been completed in February 2022, as this project was completed last year. City Agrees with findings.

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CITY OF PARSHALL
Schedule of Audit Findings – Continued

2021-004 MATERIAL AUDIT ADJUSTMENTS – MATERIAL WEAKNESS

Condition

The City of Parshall included expenditures in the amount of \$126,349 in its general ledger that were voided after the last audit period. Adjustments to the general ledger were proposed and accepted by the City of Parshall.

Effect

The financial statements may have been materially misstated if adjustments have not been made for voided checks in the general ledger.

Cause

The City of Parshall's management does not adjust expenditures in the general ledger, for voided checks, in a timely manner.

Criteria

The City of Parshall is responsible for the adjusting entries to its annual financial statements and to ensure the financial statements are reliable, free of material misstatement, and in accordance with the modified cash basis of accounting.

Prior Recommendation

No

Recommendation

We recommend that the City of Parshall void checks timely in the general ledger to ensure accurate reporting of cash and expenditures in each fund.

City of Parshall's Response

The City of Parshall has an independent audit every year, at which time the outstanding checks are voided and reconciled. The City will void checks throughout the year as per recommendation. City Agrees with findings.