



LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Tuesday, March 24, 2026
Harvest Room, State Capitol
Bismarck, North Dakota

Senator Jeffery J. Magrum, Chairman, called the meeting to order at 10:00 a.m.

Members present: Senators Jeffery J. Magrum, David A. Clemens, Richard Marcellais, Bob Paulson, Chuck Walen, Kent Weston;* Representatives Bert Anderson, Patrick R. Hatlestad, Jorin Johnson, Roger A. Maki, Desiree Morton, Mike Motschenbacher, Mike Nathe, Austen Schauer,* Kelby Timmons, Scott Wagner

Members absent: None

Others present: Senator Brad Bekkedahl, Williston, member of the Legislative Management Travis Aho, North Dakota State University; Shayden Akason and Chris Schilken, Department of Commerce; Kayla Axtman, Housing Finance Agency; Krista Fremming, Department of Health and Human Services; Joshua C. Gallion, State Auditor; Corey Gorder, Dakota College at Bottineau; Crystal Hoggarth, Office of Management and Budget; Lynelle Johnson, Department of Public Instruction; David Krebsbach, Robin Putnam,* and Dustin Walcker, North Dakota University System office; Krista Lambrecht and Steven Shirley,* Minot State University; Steve Lundin, John J. Shorey, III, and Michael Wetsch, Private Investigative and Security Board; Jared Mack, Eide Bailly LLP; Scott Molander, Dickinson State University; Jason Ostroski, UHY LLP; Mindy Piatz, Brady Martz & Associates, P.C.; Lisa Stieg, Workforce Safety and Insurance; Charles Tuttle, Bismarck

See [Appendix A](#) for additional persons present.

*Attended remotely

It was moved by Senator Marcellais, seconded by Representative Timmons, and carried on a voice vote that the minutes of the December 9, 2025, meeting be approved as distributed.

Mr. Grant Gader, Fiscal Analyst, Legislative Council, distributed a memorandum entitled [Summary of Major Items in Audit Reports for the March 24, 2026, Meeting](#), and the State Auditor's office executive summaries ([Appendix B](#)).

AUDITS OF STATE AGENCIES, BOARDS, AND COMMISSIONS**Annual Comprehensive Financial Report**

Mr. Dan Cox, Director of Audit Services, State Auditor's office, presented a report entitled [Annual Comprehensive Financial Report State of North Dakota Report on Internal Control, Compliance, and Other Matters, Audit Report for the Year Ended June 30, 2025](#). He noted an unmodified opinion was issued on the financial statements.

Ms. Crystal Hoggarth, Accounting Manager, Office of Management and Budget, presented a summary ([Appendix C](#)) of the [State of North Dakota Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2025](#). She provided information on the change in the state's net position, major funds, and management's discussion and analysis.

University System Annual Financial Report

Mr. Cox presented a report entitled [North Dakota University System Governance Communication Including the Report on Internal Control, Compliance, and Other Matters, Audit Report for the Year Ended June 30, 2025](#). He noted an unmodified opinion was issued with four findings regarding:

- Material audit adjustments at multiple campuses related to Strategic Investment and Improvements Fund revenue recognition;
- Insufficient monitoring of service organizations occurred involving approximately \$585 million in transactions;
- Improper bank reconciliations occurred at Dakota College at Bottineau, Dickinson State University, and Williston State College; and
- Improper investment reconciliations occurred at Bismarck State College.

Ms. Robin Putnam, Director of Financial Reporting, North Dakota University System office, presented the [North Dakota University System Annual Financial Report Fiscal Year Ended June 30, 2025](#). She noted the report for the University System includes the 11 public universities, the University System office, Core Technology Services, and foundations required by government accounting standards to be included as component units of the University System.

State Agency Audit Reports

Mr. Jared Mack, Partner, Eide Bailly LLP, presented the following audit reports:

- [North Dakota State Fair Association](#) (September 30, 2024);
- [State Auditor](#) (June 30, 2025 and 2024), including the [Report on Compliance for the Major Federal Program](#) (June 30, 2025);
- [Legislative Assembly](#) (June 30, 2025 and 2024);
- [Legislative Council](#) (June 30, 2025 and 2024); and
- [Workforce Safety and Insurance](#) (June 30, 2025 and 2024).

In response to a question from a committee member, Mr. Mack noted the State Fair Association does not have governance authority over the State Fair Foundation and cannot compel cooperation regarding the financial statement presentation finding.

In response to a question from a committee member, Mr. Joshua C. Gallion, State Auditor, noted the single audit of the State Auditor's office was required because annual federal expenditures within the agency exceeded \$750,000 during fiscal year 2025. He noted the Mineral Royalty Division team uses federal funds to conduct compliance reviews of mineral extraction activity to ensure proper federal royalty payments.

In response to a question from a committee member, Ms. Lisa Stieg, Director of Finance, Workforce Safety and Insurance, noted the \$36 million increase in incurred loss and loss adjustment expense during fiscal year 2025 was primarily attributable to the actuarial discount rate being reduced from 4 to 3.5 percent, increasing reserve liabilities by approximately \$40 million.

Ms. Mindy Piatz, Principal, Brady Martz & Associates, P.C., presented the following audit reports:

- [Housing Finance Agency](#) (June 30, 2025 and 2024);
- [Housing Incentive Fund](#) (June 30, 2025 and 2024); and
- [Job Service North Dakota](#) (June 30, 2025 and 2024).

In response to a question from a committee member, Ms. Kayla Axtman, Chief Financial Officer, Housing Finance Agency, noted the agency completes fewer than 20 foreclosures annually and engages real estate agents to sell foreclosed properties at market rates.

Mr. Jason Ostroski, Managing Director, UHY LLP, presented the following audit reports:

- [Retirement and Investment Office](#) (June 30, 2025 and 2024); and
- [Public Employees Retirement System](#) (June 30, 2025 and 2024).

Mr. Gallion presented the following State Auditor's office audit reports:

- [Center for Distance Education](#) (June 30, 2025 and 2024);
- [Securities Department](#) (June 30, 2025, 2024, and 2023);
- [Commission on Legal Counsel for Indigents](#) (June 30, 2025, 2024, 2023, and 2022);
- [Ethics Commission](#) (June 30, 2025, 2024, 2023, and 2022); and
- [Office of Administrative Hearings](#) (June 30, 2025, 2024, 2023, and 2022).

Mr. Gallion noted a conflict of interest exists with the State Auditor's office auditing the Ethics Commission and recommended the State Auditor's office be authorized to contract with an independent auditor for future audits of the Ethics Commission.

Private Investigative and Security Board Audit Report

Mr. Gallion presented the [performance audit of the Private Investigative and Security Board](#) (January 1, 2019 to June 30, 2025), conducted pursuant to Senate Bill No. 2051 (2025). He noted:

- The audit report identified five findings, including a lack of documented policies and procedures, licensing process inefficiencies, pocket card issuance inefficiencies, an impractical renewal time frame, and potential cost-savings through use of the Attorney General's office for legal services.
- Board meeting minutes were not prepared for 31 board meetings from October 2021 through June 2025, resulting in noncompliance with North Dakota Century Code Section 44-04-21.

Mr. Steve Lundin, Vice Chairman, Private Investigative and Security Board, provided comments regarding the performance audit. He noted the board agrees with the audit findings and will establish documented policies and procedures, address license and renewal backlogs, and consider use of the Attorney General's office for legal services.

In response to questions from committee members, Mr. John J. Shorey, III, Executive Director, Private Investigative and Security Board, noted all 31 board meeting minutes cited in the audit report have been completed and approved by the board.

Mr. Michael Wetsch, Chairman, Private Investigative and Security Board, noted the board will consider establishing continuing education requirements for licensees with input from the industry.

OTHER AUDIT RELATED TOPICS **North Dakota University System**

Mr. Dustin Walcker, Senior Internal Auditor, North Dakota University System office, presented information regarding systemwide bank reconciliation monitoring. He noted University System internal auditors have completed monitoring activities at 9 of 11 institutions and are awaiting completion of bank reconciliations at Dickinson State University and Dakota College at Bottineau. He noted no concerns were identified in the bank reconciliations of the institutions reviewed.

Mr. David Krebsbach, Chief Financial Officer, North Dakota University System office, presented information ([Appendix D](#)) regarding the status of shared services initiatives.

Mr. Travis Aho, Associate Controller, North Dakota State University, provided information regarding shared services provided by North Dakota State University to Dickinson State University. He noted Dickinson State University maintains seven bank accounts, reconciliations have been completed through November 2023, and all reconciliations through February 2026 are anticipated to be completed by April 2026. He noted no fraudulent activity has been identified.

Ms. Krista Lambrecht, Vice President for Administration and Finance, and Dr. Steven Shirley, President, Minot State University; and Mr. Corey Gorder, Campus Dean, Dakota College at Bottineau, provided comments regarding the bank reconciliation process and shared services with Minot State University and Dakota College at Bottineau.

Mr. Scott Molander, President, Dickinson State University, provided information ([Appendix E](#)) regarding shared services with North Dakota State University. He noted Dickinson State University will continue to use shared services with North Dakota State University on an ongoing basis following implementation of corrective actions related to the findings in its audit report for the years ended June 30, 2024 and 2023.

Department of Health and Human Services

Ms. Michele Gee, Director, Economic Assistance Division, Department of Health and Human Services, provided information ([Appendix F](#)) regarding child care programs, including an update on the 2025-27 biennium budget deficit and programmatic adjustments. She noted:

- Programmatic adjustments adopted to address the projected \$35.5 million shortfall for child care assistance programs include implementation of a waitlist; adjustment of state maximum rates to the 50th percentile of market rate for preschool, school age, and part-time care; modification of Quality Rating and Improvement System bonus payments; establishment of minimum attendance requirements; and modifications of age eligibility requirements.
- North Dakota receives an annual federal Temporary Assistance for Needy Families (TANF) block grant of approximately \$26 million, which may be carried over and used for other programs if funding is unexpended. The department is planning to repurpose \$23 million in carryover TANF funding to cover the remaining child care program budget deficit.

In response to questions from committee members, Ms. Gee noted the transferred TANF funding represents previously unobligated balances and does not affect current TANF Program operations. She noted there is no federal limit on the duration of TANF carryover funding.

Ms. Krista Fremming, Interim Executive Director, Medical Services Division, Department of Health and Human Services, provided information ([Appendix G](#)) regarding increasing health care costs, including an overview of recent:

- Trends regarding departmental payments for health care services; and
- Research examining the increasing costs relating to chronic diseases.

In response to a question from a committee member, Ms. Fremming noted federal law prohibits disclosure of Medicaid rebate amounts for specific drugs.

School Meals

Ms. Lynelle Johnson, Director, Child Nutrition and Food Distribution, Department of Public Instruction, presented information ([Appendix H](#)) regarding school meals in North Dakota. She noted:

- Of the 193 school districts in North Dakota, 85 responded to a department survey.
- Reported school meal debt among responding districts totals \$1.43 million, with 54 districts pursuing collection actions to recover unpaid balances and 4 districts recording meal debt information on a student's transcript or permanent record.
- Pursuant to Section 22 of House Bill No. 1013 (2025), all schools are required to have free and reduced-price meal applications electronically available in fall 2026.
- The department does not monitor food waste measurements in schools.
- Implementation of a universal school meal program is estimated to cost the state \$133 million for the 2027-29 biennium, including an estimated reimbursement rate increase of approximately 3.6 percent per year. Implementation is contingent upon voter approval of Measure No. 3, an initiated constitutional measure that may be on the November 3, 2026, general election ballot.

- The department is not aware of any reports alleging schools denying meals to students. All schools participating in the National School Lunch Program were required to update their policy to align with House Bill No. 1494 (2023), which requires schools to provide meals to all students who request one.

Department of Commerce

Mr. Chris Schilken, Commissioner, Department of Commerce, presented information ([Appendix I](#)) regarding Wonder Fund North Dakota and the Tourism Destination Development Grant Program. He noted litigation involving the Wonder Fund has been dismissed with prejudice.

In response to questions from committee members, Mr. Shayden Akason, Deputy Director of Economic Development and Finance, Department of Commerce, noted:

- Of the \$58.6 million awarded to the Department of Commerce by the United States Department of the Treasury under the State Small Business Credit Initiative, \$45 million was authorized for the Direct Investment Program, also known as Wonder Fund North Dakota, and \$13.6 million was authorized for the Angel Match Program, which is administered by the North Dakota Development Fund.
- The Direct Investment Program is managed by O'Leary Ventures, a private venture capital investment company selected through a competitive request for proposal process in January 2023, and investment decisions are made independently by O'Leary Ventures investment professionals.
- The agreement with O'Leary Ventures provides that the contract will terminate in 10 years unless extended by mutual written agreement of the Department of Commerce and O'Leary Ventures. Upon termination of the contract, funding invested by O'Leary Ventures is to be remitted to the state.

In response to a question from a committee member, Mr. Gallion noted the State Auditor's office does not audit Wonder Fund North Dakota because the federal funds administered through the fund are exempt from single audit requirements and the fund is administered by a private entity outside the State Auditor's office audit jurisdiction.

OTHER INFORMATION

Mr. Gallion provided comments regarding the status of ongoing audits. He noted:

- Performance audit of child care programs is anticipated to be completed by the end of 2026.
- Performance audit of the North Dakota Development Fund is anticipated to be completed by August 2026.
- The State Auditor's office plans to release the Department of Health and Human Services operational audit in segments rather than as a single comprehensive report, given the size and complexity of the audit.

It was moved by Senator Clemens, seconded by Representative Morton, and carried on a roll call vote that, subject to approval from the Chairman of the Legislative Management, the committee encourage the Attorney General to consider arranging for an investigation of Stark County regarding findings of material noncompliance with Sections 11-23-02 and 57-15-31 identified in the December 31, 2023, Stark County audit report. Senators Magrum, Clemens, Walen, and Weston and Representatives Hatlestad, Johnson, Maki, Morton, Motschenbacher, and Timmons voted "aye." Representatives Schauer and Wagner voted "nay."

It was moved by Senator Walen, seconded by Representative Timmons, and carried on a voice vote that, pursuant to Section 54-35-02.2, the committee accept the following reports reviewed by the committee at its March 24, 2026, meeting:

1. North Dakota Annual Comprehensive Financial Report (June 30, 2025)
2. University System Annual Financial Report (June 30, 2025)

- 3. North Dakota State Fair Association (September 30, 2024)
- 4. State Auditor (June 30, 2025 and 2024), including the Report on Compliance for the Major Federal Program (June 30, 2025)
- 5. Legislative Assembly (June 30, 2025 and 2024)
- 6. Legislative Council (June 30, 2025 and 2024)
- 7. Workforce Safety and Insurance (June 30, 2025 and 2024)
- 8. Housing Finance Agency (June 30, 2025 and 2024)
- 9. Housing Incentive Fund (June 30, 2025 and 2024)
- 10. Job Service North Dakota (June 30, 2025 and 2024)
- 11. Retirement and Investment Office (June 30, 2025 and 2024)
- 12. Public Employees Retirement System (June 30, 2025 and 2024)
- 13. Center for Distance Education (June 30, 2025 and 2024)
- 14. Securities Department (June 30, 2025, 2024, and 2023)
- 15. Commission on Legal Counsel for Indigents (June 30, 2025, 2024, 2023, and 2022)
- 16. Ethics Commission (June 30, 2025, 2024, 2023, and 2022)
- 17. Office of Administrative Hearings (June 30, 2025, 2024, 2023, and 2022)
- 18. Private Investigative and Security Board (January 1, 2019 to June 30, 2025)

Comments by Interested Persons

Mr. Charles Tuttle, Bismarck, provided comments regarding political subdivision reserve balances and school meals.

No further business appearing, Chairman Magrum adjourned the meeting at 5:05 p.m.

Grant Gader
Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:9