Legislative Council
600 East Boulevard Avenue, Bismarck, ND 58505

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Wednesday, June 17, 2026
Roughrider 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, Roger A. Maki, Desiree Morton, Mike Motschenbacher, Mike Nathe, Austen Schauer, Kelby Timmons, Scott Wagner

Member absent: Representative Jorin Johnson

Others present: Senator David Hogue,* Minot, member of the Legislative Management
Allison Bader, Joshua C. Gallion, Robyn Hoffmann,* and Michael Schmitcke, State Auditor's office; Jessica Christy, Council on the Arts; Corey Gorder,* Dakota College at Bottineau; Jonathan Sanstead, North Dakota State Fair Association; Bruce Johnson, North Dakota Racing Commission; Lynelle Johnson, Department of Public Instruction; Krista Lambrecht* and Steven W. Shirley,* Minot State University; Eric Link, University of North Dakota; Jared Mack, Eide Bailly LLP; Keith Pic, North Dakota Insurance Reserve Fund; Michael Wetsch, Private Investigative and Security Board
Megan J. Gordon and Levi Kinnischtzke, Legislative Council, Bismarck
See Appendix A for additional persons present.
**Attended remotely*

It was moved by Representative Schauer, seconded by Representative Hatlestad, and carried on a voice vote that the minutes of the March 24, 2026, 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 June 17, 2026, Meeting*.

AUDITS OF STATE AGENCIES, BOARDS, AND COMMISSIONS

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

- Bank of North Dakota (December 31, 2025 and 2024); and
- Guaranteed Student Loan Program (December 31, 2025 and 2024).

Ms. Terra Miller Bowley, Haga Kommer, Ltd., Certified Public Accountants, presented the audit report for the North Dakota Stockmen's Association (December 31, 2025 and 2024). She noted an unmodified opinion was issued with two repeat findings related to segregation of duties and the preparation of financial statements resulting from the organization's limited staffing.

Ms. Allison Bader, Audit Manager, State Auditor's office, presented the following audit reports:

- Office of the Governor (June 30, 2025 and 2024); and
- Department of Transportation (June 30, 2025 and 2024).

In response to a question from a committee member, Ms. Bader noted the State Auditor's office reviewed Flexible Transportation Fund payments to political subdivisions and found the Department of Transportation administered the fund in accordance with state law.

Mr. Michael Schmitcke, Audit Manager, State Auditor's office, presented the following audit reports:

- Council on the Arts (June 30, 2025, 2024, 2023, and 2022);
- State Treasurer (June 30, 2025 and 2024);
- Department of Public Instruction (June 30, 2025 and 2024);
- Office of Management and Budget (June 30, 2025 and 2024);
- North Dakota Racing Commission (June 30, 2025, 2024, 2023, and 2022); and
- Department of Environmental Quality (June 30, 2025 and 2024).

In response to a question from a committee member, Ms. Jessica Christy, Executive Director, Council on the Arts, noted the agency addressed a repeat finding regarding salaries charged to federal awards by discontinuing the practice and establishing a process to document future federal salary charges.

Mr. Schmitcke noted the North Dakota Racing Commission exceeded the Racing Promotion Fund spending limit, did not enforce Racing Promotion Fund grant conditions, made improper Breeders' Fund awards, and did not follow procurement requirements.

In response to a question from a committee member, Mr. Bruce Johnson, Executive Director, North Dakota Racing Commission, noted the commission is implementing corrective actions regarding grant administration, award eligibility verification, and procurement procedures. He noted the commission receives revenue through taxes on pari-mutuel wagering and from the General Fund.

Ms. Robyn Hoffmann, Audit Manager, State Auditor's office, presented the following audit reports:

- University of North Dakota (June 30, 2024 and 2023); and
- Lake Region State College (June 30, 2025 and 2024).

Ms. Hoffmann noted, of eight graduate programs reviewed at the University of North Dakota, one program, the School of Law, lacked documentation for determining the basis for admissions decisions.

In response to a question from a committee member, Dr. Eric Link, Provost and Vice President for Academic Affairs, University of North Dakota, noted the university is in good standing with the American Bar Association and met admission standards during its 2021 accreditation review. He further noted the university agreed with the finding and is developing procedures to better document admissions decisions.

It was moved by Representative Nathe, seconded by Representative Wagner, and carried on a roll call vote that, pursuant to North Dakota Century Code Section 54-35-02.2, the committee accept the following reports reviewed by the committee at its June 17, 2026, meeting:

1. **Bank of North Dakota (December 31, 2025 and 2024)**
2. **Guaranteed Student Loan Program (December 31, 2025 and 2024)**
3. **North Dakota Stockmen's Association (December 31, 2025 and 2024)**
4. **Office of the Governor (June 30, 2025 and 2024)**
5. **Council on the Arts (June 30, 2025, 2024, 2023, and 2022)**
6. **State Treasurer (June 30, 2025 and 2024)**
7. **Department of Public Instruction (June 30, 2025 and 2024)**

8. **Office of Management and Budget (June 30, 2025 and 2024)**
9. **Department of Transportation (June 30, 2025 and 2024)**
10. **North Dakota Racing Commission (June 30, 2025, 2024, 2023, and 2022)**
11. **Department of Environmental Quality (June 30, 2025 and 2024)**
12. **University of North Dakota (June 30, 2024 and 2023)**
13. **Lake Region State College (June 30, 2025 and 2024)**

Senators Magrum, Clemens, Paulson, Walen, and Weston and Representatives Anderson, Hatlestad, Maki, Morton, Motschenbacher, Nathe, Schauer, Timmons, and Wagner voted "aye." No negative votes were cast.

OTHER AUDIT-RELATED TOPICS

Dakota College at Bottineau Bank Reconciliations

Ms. Krista Lambrecht, Vice President for Administration and Finance, and Dr. Steven W. Shirley, President, Minot State University; and Mr. Corey Gorder, Campus Dean, Dakota College at Bottineau, provided information (Appendix B) regarding bank reconciliations at the Dakota College at Bottineau. Ms. Lambrecht noted Minot State University is assisting Dakota College at Bottineau, bank reconciliations are current through May 2026, and ongoing reconciliations will continue through the institutions' shared services initiative.

State Fair Foundation

Mr. Jonathan Sanstead, Special Assistant Attorney General, North Dakota State Fair Association, provided information (Appendix C) regarding the North Dakota State Fair Foundation. He noted the foundation has been dissolved and will not appear in association audit reports after the 2026 audit. He further noted the foundation and association were legally separate entities and the foundation's remaining funds were transferred to an account administered by a regional economic development organization, consistent with Internal Revenue Service requirements.

School Meals

Ms. Lynelle Johnson, Director, Child Nutrition and Food Distribution Programs, Department of Public Instruction, presented information (Appendix D) regarding school meal debt. She noted:

- 79 of 193 school districts participating in the federal National School Lunch Program responded to a February 2026 survey and reported $1.1 million in meal debt.
- Among respondents, 30 districts pursued collection from households, 4 included meal debt information on student records, 73 used donated funds to reduce balances, and 21 used funding from the school general fund to cover bad debt.
- House Bill 1494 (2023) requires schools to provide meals regardless of account balance, resulting in negative balances for students not eligible for free or reduced-price meals.

In response to questions from committee members, Ms. Johnson noted districts manage meal debt locally, balances change daily, and payments of debt are not reported to the department.

In response to a question from Chairman Magrum, Ms. Johnson said the department can provide updated school meal debt information as of June 30, 2026, to the committee at its next meeting.

Private Investigative and Security Board

Mr. Michael Wetsch, Chairman, Private Investigative and Security Board, presented information (Appendix E) regarding the status of corrective actions related to the findings in the board's performance audit for the period January 1, 2019, to June 30, 2025. He noted:

- The board is drafting a system of internal controls, has developed a process to monitor licenses and registrations, has begun depositing checks in accordance with Office of Management and Budget policy, is updating its records retention schedule in consultation with the Attorney

General's office and the Information Technology Department, and continues to seek industry input regarding issuing annual pocket cards.

- The board will use the Attorney General's office for litigation services and retain its current Special Assistant Attorney General for general counsel services.

North Dakota Insurance Reserve Fund

Mr. Keith Pic, Chief Executive Officer, North Dakota Insurance Reserve Fund, presented information (Appendix F) regarding the activities of the North Dakota Insurance Reserve Fund, pursuant to Section 26.1-23.1-08. He noted the fund:

- Was established in 1986 as a member-owned, nonprofit governmental risk pool for North Dakota political subdivisions, is not a state agency, and is regulated by the Insurance Department.
- Provides liability, public assets, and automotive coverage and, since 2019, has administered the State Fire and Tornado Fund and the State Bonding Fund under contract with the state.
- Provided coverage to 2,615 political subdivisions and public nonprofit corporations in 2025, an estimated 95 percent of eligible entities in the state.
- Received 1,845 new claims and provided coverage for 1,821 in 2025, a 98.7 percent acceptance rate. The State Fire and Tornado Fund received 306 claims and provided coverage for 267, an 87.3 percent acceptance rate.
- Reported $67.6 million in assets, $34.0 million in liabilities, and $33.6 million in members' surplus as of December 31, 2025.
- Received five complaints through the Insurance Department in 2025, each closed without a recommendation for further action.

In response to questions from committee members regarding claims relating to the Northwood school bus accident, Mr. Pic noted:

- The fund has deposited funds with the court and is working to distribute the funds to affected individuals. The at-fault party tendered its policy limits early in the process and the fund was invited to participate in the settlement process but declined, determining after review of claim documentation the matter was better resolved through the court.
- Individuals involved in the accident have not been asked by the fund to retain their own counsel.

Higher Education Institution Return on Investment

Dr. John W. Carroll, former Vice President for Strategic Initiatives, Bismarck State College, provided information (Appendix G) regarding a proposed study of the return on investment of higher education institutions in North Dakota. He proposed using North Dakota University System, residency, and income data to evaluate graduate retention and income by degree and institution. He noted the University System lacks access to income data, tax revenues, and long-term residency information.

MEMORANDUMS AND PROPOSED STATUTORY CHANGES

Political Subdivision Noncompliance with State Law

Mr. Allen H. Knudson, Legislative Budget Analyst and Auditor, Legislative Council, provided information regarding the committee's consideration of the Stark County audit report and its request to the Legislative Management to forward the report to the Attorney General.

Senator David Hogue provided comments regarding political subdivision noncompliance with property tax levy limitations. He noted:

- Stark County levied approximately $5.4 million in property taxes in excess of the amount authorized by law.
- Potential solutions for levy limitation noncompliance include imposing financial consequences on noncompliant political subdivisions and authorizing taxpayers seeking abatements to bring claims on behalf of similarly situated taxpayers.

Ms. Megan J. Gordon, Code Revisor, Legislative Council, presented a memorandum entitled *Political Subdivision Noncompliance with State Law - Roles of the Legislative Assembly, State Auditor, and Attorney General*. She noted:

- The Legislative Assembly does not directly enforce state law against political subdivisions; rather, the Legislative Assembly's role is structural and indirect and includes establishing the legal framework that enables effective enforcement or legislative oversight.
- Property owners may seek abatement or refund of taxes under Chapter 57-23, including for the erroneous computation of property tax.

It was moved by Senator Clemens, seconded by Representative Maki, and carried on a roll call vote that the committee recommend the Chairman of the Legislative Management direct the Tax Reform and Relief Advisory Committee to consider, as part of its study of property tax reform and relief:

- **Potential legislative changes for consideration by the 2027 Legislative Assembly to address political subdivision noncompliance with property tax levy limitations, including penalties or other enforcement mechanisms for taxing district noncompliance with property tax levy limitations; and**
- **Potential legislation to provide for the withholding of state funding from Stark County, in an amount equal to the taxes levied by the county in excess of its levy limitations for years covered by and, if applicable, subsequent to the Stark County audit report for the year ended December 31, 2023.**

Senators Magrum, Clemens, Marcellais, Paulson, Walen, and Weston and Representatives Maki, Morton, Motschenbacher, Schauer, and Timmons voted "aye." Representatives Anderson, Hatlestad, Nathe, and Wagner voted "nay."

Wonder Fund North Dakota and Angel Match Programs

Mr. Levi Kinnischtzke, Senior Fiscal Analyst, Legislative Council, presented a memorandum entitled *Wonder Fund North Dakota and Angel Match Programs*. He noted:

- House Bill 1395 (2021) provided federal funds appropriation authority to the Department of Commerce for a State Small Business Credit Initiative Capital Program. The United States Department of the Treasury awarded $58,641,843 for the initiative.
- The Treasury authorized $45 million of the award for Wonder Fund North Dakota. O'Leary Ventures manages the program under a 10-year agreement, and if the agreement is not extended in 2033, any assets liquidated after termination will be transferred to the Department of Commerce and, absent legislative direction, likely will be deposited in the General Fund.
- The Treasury authorized $13,641,843 of the award for the Angel Match Program, which is managed by the North Dakota Development Fund. Funding remaining at the conclusion of the program is available for expenditure by the North Dakota Development Fund pursuant to continuing appropriation authority under Section 10-30.5-10.

Proposed Statutory Changes

Mr. Joshua C. Gallion, State Auditor, provided comments regarding potential audit-related statutory changes. He identified several items, including the establishment of a data analytics team, cybersecurity assessments for local government entities, and political subdivision noncompliance.

No further business appearing, Chairman Magrum adjourned the meeting at 4:29 p.m.

Grant Gader
Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:7