



SUMMARY OF MAJOR ITEMS IN AUDIT REPORTS TO BE PRESENTED AT THE JULY 7, 2020, MEETING

This memorandum provides a summary of major items in audit reports to be presented at the Tuesday, July 7, 2020, Legislative Audit and Fiscal Review Committee meeting.

NORTH DAKOTA UNIVERSITY SYSTEM NONRESIDENT TUITION PERFORMANCE AUDIT (DECEMBER 2019)

Audit purpose: The purpose of this performance audit was to determine the impact of offering resident tuition rates to nonresident students.

The impact of charging nonresident students the resident tuition rate on enrollment and tuition revenue at Minot State University (MiSU) and Williston State College (WSC) was reviewed.

Findings:

- **Resident tuition rates for nonresident students** - Lake Region State College (beginning in 2003), MiSU (beginning in 2009), and WSC (beginning in 2010) currently charge nonresident students the resident tuition rate. Minnesota residents and international students may still be charged an increased tuition rate by those campuses.
- **Impact on enrollment** - Based on the State Auditor's analysis of the impact of offering resident tuition to nonresident students at MiSU and WSC, along with an analysis of 48 institutions in surrounding states, the State Auditor was unable to isolate the impact of offering resident tuition rates to nonresident students due to other events occurring around that same time.
- **Impact on tuition revenue** - The State Auditor estimated a North Dakota University System potential reduction in tuition revenue of nearly \$10 million for the fall 2019 semester if all nonresident students had been charged the resident tuition rate. The State Auditor estimated over 2,600 additional full-time students would be needed to replace the lost revenue.

Audit cost as reported by the State Auditor's office:

North Dakota University System	
State Auditor's office ¹	\$229,461.00
State Auditor's office hours ²	3,477.65
Hourly rate	\$65.98
Agency costs ³	\$0.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill, pursuant to Section 54-10-01(2), directly to the agency for completion of the audit and are deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Potential questions relating to the audit report:

- Were the fees and room and board paid by nonresident students considered in this review?
- Was the physical capacity of the various campuses to enroll additional students considered in this review?
- The majority of nonresident students are Minnesota or Western Interstate Commission for Higher Education residents who are already charged discounted tuition rates.

How many students are charged the full nonresident tuition rate?

How many of those students receive a tuition waiver?

What is the administrative cost of providing those waivers?

- On page 9 of the audit report, nearly \$10 million is identified as a potential reduction in fall 2019 semester revenue. The report states certain waivers were subtracted from that amount, including a waiver at the North Dakota State College of Science (NDSCS). Were graduate teaching/research assistant waivers for nonresident students also removed?

**MINOT STATE UNIVERSITY - FOLLOWUP AUDIT
(MARCH 2020)**

Audit purpose: The purpose of this followup audit was to determine the status of six recommendations regarding emergency preparedness from the performance audit entitled *Emergency Preparedness at Minot State University* dated August 22, 2017.

Findings:

- **Status of recommendations** - The State Auditor concluded MiSU has fully implemented all six recommendations from the original performance audit.

Audit cost as reported by the State Auditor's office:

Minot State University	
State Auditor's office ¹	\$9,565.50
State Auditor's office hours ²	158.5
Hourly rate	\$60.35
Agency costs ³	\$0.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill, pursuant to Section 54-10-01(2), directly to the agency for completion of the audit and are deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Potential questions relating to the audit report:

- None.

**UNIVERSITY OF NORTH DAKOTA- FOLLOWUP AUDIT
(APRIL 2020)**

Audit purpose: The purpose of this followup audit was to determine the status of four recommendations regarding continuity of operations from the performance audit entitled *Continuity of Operations Planning at University of North Dakota* dated September 11, 2017.

Findings:

- **Status of recommendations** - The State Auditor concluded the University of North Dakota has fully implemented all four recommendations from the original performance audit.

Audit cost as reported by the State Auditor's office:

University of North Dakota	
State Auditor's office ¹	\$10,465.00
State Auditor's office hours ²	166.0
Hourly rate	\$63.04
Agency costs ³	\$0.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill, pursuant to Section 54-10-01(2), directly to the agency for completion of the audit and are deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Potential questions relating to the audit report:

- None.

**NORTH DAKOTA UNIVERSITY SYSTEM
(JUNE 30, 2019)**

Audit purpose: The purpose of this audit was to determine that adequate internal control exists over financial reporting and on compliance and other matters based on an audit of the financial statements.

Findings:

- **Inadequate internal controls over affiliated organizations** - During the 2013 audit and subsequent audits, it has been recommended the University System direct institution foundations to improve operations and reporting to obtain General Accepted Accounting Principles (GAAP) compliant financial statements. This audit identified 5 of 20 organizations affiliated with the University System where an audit was required did not obtain an audit on time.

Audit cost as reported by the State Auditor's office:

North Dakota University System	
State Auditor's office ¹	\$187,397.50
State Auditor's office hours ²	2,660.50
Hourly rate	\$70.44
Agency costs ³	\$0.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill, pursuant to Section 54-10-01(2), directly to the agency for completion of the audit and are deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Potential questions relating to the audit report:

- Which institution affiliated organizations are still not complying with GAAP and obtaining audits? Why?

**MAYVILLE STATE UNIVERSITY
(JUNE 30, 2019)**

Audit purpose: The purpose of this audit was to determine:

- Did Mayville State University (MaSU) ensure Head Start and Early Head Start staff met licensing requirements;
- Did MaSU ensure the Head Start and Early Head Start child caregiver ratios are met;
- Are there any exceptions to report relating to statutorily required audit testing?

The institution's financial transactions, expenditures, blanket bond coverage, and child development programs were reviewed.

Findings:

- **Child development programs** - The State Auditor reported MaSU is properly following regulations in both objectives relating to the Head Start and Early Head Start programs.
- **Loans receivable** - The State Auditor found current loans receivable were understated by \$467,347 and long-term loans receivable were overstated by \$467,347 on MaSU's financial statements. The loans receivable amounts relate to Perkins Loans collected and paid to the institution by the North Dakota Student Loan Service Center. The State Auditor reports the error may be due to high turnover in the MaSU business office.
- **Bank reconciliations** - The State Auditor found MaSU is not properly approving bank reconciliations, supporting reconciling items, and is not reconciling bank reconciliations to a \$0 balance. The State Auditor reports MaSU was performing bank reconciliations after several months instead of monthly.
- **Scholarship and waiver noncompliance** - The State Auditor reported MaSU did not retain proper supporting documentation for scholarships and lacked approvals for scholarships as well as tuition and room waivers in 6 out of 22 student files selected for review.

Prior audit findings:

- **Doubtful accounts** - The State Auditor previously recommended MaSU evaluate its allowance for doubtful accounts to determine if its estimate is relevant, sufficient, and reliable. The allowance for doubtful accounts is an estimate of amounts receivable (typically from students) which is estimated to not be collectible. The State Auditor reports **this prior recommendation is partially implemented**, as MaSU has not evaluated its allowance for doubtful accounts to confirm its estimate is accurate.
- **Procurement noncompliance** - The State Auditor previously recommended MaSU properly procure commodities in compliance with state law and University System policies and procedures. The State Auditor found MaSU did not maintain proper procurement documentation in 6 of 10 transactions selected for review during this audit, totaling nearly \$200,000. The State Auditor reports **this prior recommendation is not implemented**, as MaSU did not maintain proper documentation to ensure 6 transactions were properly bid, including for two construction projects, residence hall furniture, playground equipment, sports supplies, and a locker remodel.

Audit cost as reported by the State Auditor's office:

Mayville State University	
State Auditor's office ¹	\$47,067.50
State Auditor's office hours ²	679.0
Hourly rate	\$69.32
Agency costs ³	\$17,800.00
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Potential questions relating to the audit report:

- Did the bank reconciliations identify any discrepancies?
- Were any of the scholarships or waivers reviewed awarded inappropriately?

**NORTH DAKOTA STATE COLLEGE OF SCIENCE
(JUNE 30, 2019)**

Audit purpose: The purpose of this audit was to determine:

- Are NDSCS faculty performing their job duties, receiving evaluations, and being compensated as required by their contracts; and
- Are there any exceptions to report relating to statutorily required audit testing?

The institution's financial transactions, expenditures, blanket bond coverage, and faculty contracts were reviewed.

Findings:

- **Lack of faculty evaluation criteria and official personnel file** - The State Auditor found that NDSCS did not ensure all faculty were receiving adequate evaluations as required by institution and University System policy. The State Auditor reported there was no documentation of goals and specific duties in the faculty contracts for the faculty evaluations to be based upon. The State Auditor also found NDSCS did not include required personnel information in faculty members' personnel files. The State Auditor reported NDSCS did not keep student evaluations of the faculty in the official personnel files.

Prior audit findings:

- **Bank reconciliations** - The State Auditor previously recommended NDSCS reconcile the Bank of North Dakota general account and general ledger balances to a \$0 difference on a monthly basis. The State Auditor reports NDSCS has **fully implemented this prior recommendation**.

Audit cost as reported by the State Auditor's office:

North Dakota State College of Science	
State Auditor's office ¹	\$54,013.00
State Auditor's office hours ²	813.00
Hourly rate	\$66.44
Agency costs ³	\$16,300.00

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Potential questions relating to the audit report:

- None.

**DEPARTMENT OF CAREER AND TECHNICAL EDUCATION
(JUNE 30, 2019)**

Audit purpose: The purpose of this audit was to determine if Department of Career and Technical Education financial transactions, including expenditures, blanket bond coverage, and appropriation requirements were made in accordance with law and appropriation requirements.

The transactions of the Department of Career and Technical Education were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

There were no audit findings identified in the audit report. All findings identified in prior audit reports have been addressed.

Audit cost as reported by the State Auditor's office:

Department of Career and Technical Education	
State Auditor's office ¹	\$39,498
State Auditor's office hours ²	576.50
Hourly rate	\$68.51
Agency costs ³	\$0.00
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Potential questions relating to the audit report:

- On page 9, why did information technology data processing, communications, and services decrease by \$123,439 from \$230,393 in fiscal year 2018 to \$106,954 in fiscal year 2019?
- On page 9, what is the source and purpose of the \$508,029 of transfers out in fiscal year 2019?

**DEPARTMENT OF CORRECTIONS AND REHABILITATION
(JUNE 30, 2019)**

Audit purpose: The purpose of this audit was to determine:

- Are there efficiencies that could reduce the cost of collecting parole and probation supervision fees;
- Are inmates held until the expiration of the offender's sentence or until the offender is lawfully entitled to release;
- Are individuals on parole and probation properly supervised; and
- Are there any exceptions to report relating to statutorily required audit testing?

The agency's financial transactions, expenditures, blanket bond coverage, inmate release dates, parole and probation supervision, and possible efficiencies regarding the collection of parole and probation supervision fees were reviewed.

Findings:

- **Parole and probation supervision fees** - Section 12.1-32-07 requires offenders on parole and probation to pay a supervision fee of at least \$55 per month. In the 2017-19 biennium, Department of Corrections and Rehabilitation (DOCR) billed \$7.3 million in supervision fees and collected \$2.4 million. The department incurred over \$500,000 in costs related to the collection of the supervision fees. The State Auditor identified methods used in other states that DOCR could implement with the potential to reduce the cost to the state and increase the collection of supervision fees, including:

Intercepting state income tax refunds to pay supervision fees;

Sanctioning offenders with unpaid supervision fees, including the use of offender curfews, revocation of travel privileges, and increased meeting with parole officers;

Ensuring fee statements are a single page; and

Charging a one-time fee rather than a monthly fee.

- **Inmate releases** - The State Auditor reported inmates were properly held until the expiration of their sentence or until they were lawfully entitled to release.
- **DOCSTARS data** - The State Auditor reported the primary information technology system (DOCSTARS) used for parole and probation only retained the most current supervision level override data, so historical data was not available for review. The Department of Corrections and Rehabilitation reported the DOCSTARS system has been updated and now retains a chronological record of all supervision level overrides.
- **Supervision level override approval** - The State Auditor found DOCR has an inadequate approval process for supervision level overrides. Assigned supervision levels dictate the minimum frequency of contact an officer is required to have with an offender and DOCR policy requires that overrides to assigned supervision levels need to be approved by a program manager or a lead officer. The State Auditor reported the parole and probation officers seeking supervision level overrides were also responsible for documenting that a program manager's or lead officer's approval was obtained for the override. The Department of Corrections and Rehabilitation reported supervision level overrides now must be approved and documented by either a program manager or a lead officer.
- **Pharmacy adjustments** - The State Auditor found that pharmacy inventory adjustments are not being signed by the individual performing the adjustment and the adjustments are not consistently being reviewed and approved by an individual who did not initially prepare the adjustment. The State Auditor reported this could provide an opportunity for the theft of medication. The Department of Corrections and Rehabilitation reported the pharmacy adjustment process has now been modified to ensure a complete accounting of all pharmacy adjustments.

Audit cost as reported by the State Auditor's office:

Department of Corrections and Rehabilitation	
State Auditor's office ¹	\$94,012.50
State Auditor's office hours ²	1,233.00
Hourly rate	\$76.25
Agency costs ³	\$0.00

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²Staff hours incurred to complete the audit.

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Potential questions relating to the audit report:

- Are DOCR and the Office of Management and Budget able to reduce the parole and probation supervision fee statements to 1 page?
- Section 54-10-01(2) (see below) requires the State Auditor to charge an amount equal to the cost of the audit and other services rendered by the State Auditor to all agencies that receive and expend money from other than the general fund. Why was DOCR not charged for a portion of the cost of the audit since it receives and spends special funds?

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

The state auditor shall:

2. Perform or provide for the audit of the general purpose financial statements and a review of the material included in the comprehensive annual financial report of the state and perform or provide for the audits and reviews of state agencies. Except for the annual audit of the North Dakota lottery required by section 53-12.1-03, the state auditor shall audit or review each state agency once every two years. The state auditor shall determine the contents of the audits and reviews of state agencies. The state auditor may conduct any work required by the federal government. The state auditor may not contract for work required by the federal government without the prior approval of the legislative audit and fiscal review committee. **The state auditor shall charge an amount equal to the cost of the audit and other services rendered by the state auditor to all agencies that receive and expend moneys from other than the general fund. This charge may be reduced for any agency that receives and expends both general fund and nongeneral fund moneys. State agencies must use nongeneral fund moneys to pay for audits performed by the state auditor. If nongeneral fund moneys are not available, the agency may, upon approval of the legislative assembly, or the budget section if the legislative assembly is not in session, use general fund moneys to pay for audits performed by the state auditor.** The budget section reviews and approvals must comply with section 54-35-02.9. Audits and reviews may be conducted at more frequent intervals if requested by the governor or legislative audit and fiscal review committee. **(emphasis supplied)**

**STATE DEPARTMENT OF HEALTH
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements and that blanket bond coverage is adequate.

The agency’s transactions were tested and included in the state’s basic financial statements on which an unmodified opinion was issued.

Findings:

- **Improper distribution of rural emergency medical services grants** - The State Department of Health did not retain supporting documentation for the population statistics used to calculate funding for the emergency medical services (EMS) grant distribution. In addition, calculation errors occurred making the grant distribution inaccurate. Spreadsheet errors resulted in \$39,995 of funds being improperly distributed to four licensed ambulance operations. This amount should have been distributed to the 80 other licensed ambulance operations. This includes one licensed ambulance operation that should have received an additional \$6,289 and another that should have received an additional \$5,686. For the remaining 78 licensed ambulance operations, each should have received an average of \$359. The State Auditor recommended the State Department of Health ensure the calculation of the rural EMS grant distribution is correct and that all supporting documentation is retained. The State Department of Health agreed with the recommendation.
- **Special fund appropriation exceeded** - The State Department of Health overspent appropriation authority from the environment and rangeland protection fund by \$2,995. Predetermined coding, commonly referred to as "speed charts", is used to code expenditures and quickly allocate expenditures with predetermined numbers entered into PeopleSoft. One speed chart was not closed promptly, which resulted in an expenditure being charged to the special fund when the appropriation was no longer available. Based on information included in PeopleSoft, the state's accounting software, the State Department of Health overspent the appropriation by \$2,955, \$40 less than reported by the State Auditor. The State Auditor recommended the State Department of Health ensure compliance with appropriation limits set by the Legislative Assembly. The State Department of Health agreed with the recommendation.

Other information:

None.

Audit cost as reported by the State Auditor's office:

State Department of Health	
State Auditor's office ¹	\$47,462.50
State Auditor's office hours ²	685.00
Hourly rate	\$69.29
Agency costs ³	\$0.00
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Potential questions relating to the audit report:

- Section 54-10-01(2) (See below) provides the State Auditor shall charge an amount equal to the cost of the audit and other services rendered by the State Auditor to all agencies that receive and expend money from other than the general fund. Why was the State Department of Health not charged for a portion of the cost of the audit, since it receives and spends special funds?

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

The state auditor shall:

2. Perform or provide for the audit of the general purpose financial statements and a review of the material included in the comprehensive annual financial report of the state and perform or provide for the audits and reviews of state agencies. Except for the annual audit of the North Dakota lottery required by section 53-12.1-03, the state auditor shall audit or review each state agency once every two years. The state auditor shall determine the contents of the audits and reviews of state agencies. The state auditor may conduct any work required by the federal government. The state auditor may not contract for work required by the federal government without the prior approval of the legislative audit and fiscal review committee. **The state auditor**

shall charge an amount equal to the cost of the audit and other services rendered by the state auditor to all agencies that receive and expend moneys from other than the general fund. This charge may be reduced for any agency that receives and expends both general fund and nongeneral fund moneys. State agencies must use nongeneral fund moneys to pay for audits performed by the state auditor. If nongeneral fund moneys are not available, the agency may, upon approval of the legislative assembly, or the budget section if the legislative assembly is not in session, use general fund moneys to pay for audits performed by the state auditor. The budget section reviews and approvals must comply with section 54-35-02.9. Audits and reviews may be conducted at more frequent intervals if requested by the governor or legislative audit and fiscal review committee. **(emphasis supplied)**

**GOVERNOR'S OFFICE
(JUNE 30, 2019 AND 2018)**

Audit purpose: To review the financial transactions, expenditures, and blanket bond coverage of the Governor's office and to note any exceptions relating to statutorily required audit testing.

Findings:

- There were no audit findings.

Prior audit finding:

- The 2017 operational audit of the Governor's office indicated the office did not have adequate blanket bond coverage in accordance with Section 26.1-21-10. The State Auditor determined the Governor's office is now compliant with blanket bond coverage requirements.

Audit cost as reported by the State Auditor's office:

Governor's Office	
State Auditor's office ¹	\$18,097.50
State Auditor's office hours ²	265.5
Hourly rate	\$68.16
Agency costs ³	\$0.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Observations relating to the audit report:

- Page 9 of the audit report indicates a special funds appropriation of \$265,918 for the Governor's office for the 2017-19 biennium. This amount is the funds received through a continuing appropriation provided to the office in Section 4 of House Bill No. 1001 (2017). The amount includes grants and other funds received for a K-12 innovation task force, for the recovery reinvented program, for a higher education task force, for an education summit, and for a Roughrider Hall of Fame reception.

Potential questions relating to the audit report:

- Were all funds received through the continuing appropriation reported to the Legislative Management as required in Section 4 of House Bill No. 1001 (2017)?

**FOREST SERVICE
(JUNE 30, 2019)**

Audit purpose: The purpose of this audit was to determine if there are any exceptions to report relating to statutorily required audit testing. The agency's financial transactions, expenditures, and blanket bond coverage were reviewed.

Findings:

- The State Auditor reported no areas of concern.

Audit cost as reported by the State Auditor's office:

Forest Service	
State Auditor's office ¹	\$12,882.50
State Auditor's office hours ²	192.50
Hourly rate	\$100.17
Agency costs ³	\$6,400.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill, pursuant to Section 54-10-01(2), directly to the agency for completion of the audit and are deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Potential questions relating to the audit report:

- None.

**OFFICE OF MANAGEMENT AND BUDGET
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to review financial transactions, expenditures, blanket bond coverage, and the alternate procurement process.

Findings:

- **Inadequate control related to alternate procurement** - The Office of Management and Budget was not providing detailed oversight and not properly completing the request form in all cases for the alternate procurement process. The agency may not be receiving all vendor responses, and end dates for recurring purchases were missing or incorrect for approximately 33 percent of the alternate procurement forms.

Other information:

- **Prior audit recommendation** - As shown on page 16, the Office of Management and Budget implemented the recommendations related to the distribution of community service supervision grants.
- **Purchase card policy violation** - As shown on page 17, the State Auditor recommends all authorized users of purchase cards sign their monthly purchase card statement verifying the reconciliation with receipts.
- **Appropriation** - As shown on page 15, the Office of Management and Budget's final appropriation authority for the 2017-19 biennium totaled \$49,657,794, of which \$8,726,928 was unexpended.

Audit cost as reported by the State Auditor's office:

Office of Management and Budget	
State Auditor's office ¹	\$32,057.50
State Auditor's office hours ²	479.5
Hourly rate	\$66.86
Agency costs ³	\$29,000.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Potential questions relating to the audit report:

- Will the State Auditor review the procurement process used by the agencies that have been delegated purchasing authority by the Office of Management and Budget?

**STATE WATER COMMISSION
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was review financial transactions, expenditures, blanket bond coverage, and to review its dam safety program procedures and regulations.

The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- **Improper emergency action plan process for dams** - The State Engineer is not receiving and approving emergency action plans as required by Section 61-03-25.
- **Dam operating plans not tracked or reviewed** - The State Water Commission does not track the annual receipt and review of required dam operating plans as required by Section 61-03-21.

Audit cost as reported by the State Auditor's office:

State Water Commission	
State Auditor's office ¹	\$40,172.50
State Auditor's office hours ²	571.00
Hourly rate	\$70.35
Agency costs ³	\$20,600.00
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Potential questions relating to the audit report:

- Why did buildings and right of way land purchases shown on page 14 increase by \$2,284,799 from \$104,787 to \$2,389,586?

**TAX COMMISSIONER
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to review tax collections and refunds, expenditures, and blanket bond coverage.

Findings:

- No findings were discovered and no deficiencies were identified related to internal controls.

Other information:

- **Prior audit recommendation** - As shown on page 6, the Tax Commissioner implemented a process for document approval of system access privileges in the GenTax system to address a recommendation from the prior audit.
- **Revenue collections** - As shown on page 9, the Tax Commissioner collected tax and fee revenue totaling \$8.77 billion during the 2017-19 biennium.
- **Appropriation** - As shown on page 11, the Tax Commissioner's final appropriation authority for the 2017-19 biennium totaled \$53,581,122, of which \$1,788,829 was unexpended.

Audit cost as reported by the State Auditor's office:

Tax Commissioner	
State Auditor's office ¹	\$26,070.00
State Auditor's office hours ²	351.0
Hourly rate	\$74.27
Agency costs ³	\$0.00
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Potential questions relating to the audit report:

- None.

**STATE TREASURER
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to review financial transactions, expenditures, and blanket bond coverage.

Findings:

- No findings were discovered and no deficiencies were identified related to internal controls.

Other information:

- **Revenue and transfers** - As shown on page 8, the State Treasurer processed revenue collections and transfers totaling \$3.39 billion during the 2017-19 biennium.
- **Expenditures and tax distributions** - As shown on page 8, the State Treasurer processed expenditures and tax distributions totaling \$6.57 billion during the 2017-19 biennium.
- **Appropriation** - As shown on page 9, the State Treasurer's final appropriation authority for the 2017-19 biennium totaled \$9,867,399, of which \$245,073 was unexpended.

Audit cost as reported by the State Auditor's office:

State Treasurer	
State Auditor's office ¹	\$37,192.50
State Auditor's office hours ²	531.50
Hourly rate	\$69.98
Agency costs ³	\$0.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Potential questions relating to the audit report:

- None.

**DEPARTMENT OF HUMAN SERVICES
(JUNE 30, 2019)**

Audit purpose: The State Auditor reviewed the Department of Human Services including previous recommendations made by the State Auditor relating to childcare, foster care, child protection services, and others.

Findings:

- **Payments after death** (Prior audit finding) - A total of \$108,425 may have been paid in Medicaid benefits for medical services billed for services dated after a beneficiary's date of death.
- **Child care correction orders not resolved** (Prior audit finding) - Child care providers are operating without proper reinspection of correction orders, potentially jeopardizing the health and safety of children.
- **Monitoring child care providers with memorandums of understanding** (Prior audit finding) - The department is not properly monitoring child care providers operating under a Memorandum of Understanding agreement resulting in increased risks to the health and safety of children when in child care.
- **Failure to timely contact suspected victims of child abuse and neglect** (Prior audit finding) - Prior audit recommendations have not been implemented which may cause a child to stay in an at-risk environment susceptible to abuse or neglect for an additional amount of time.
- **Not performing quality assurance for child protection services** (Prior audit finding) - Without sufficient monitoring procedures the department is unable to ensure that services will protect the health and welfare of children.
- **Confirmed child abusers not listed on index** (Prior audit finding) - Background check search results of the child abuse and neglect index may be inaccurate.
- **Financial errors** - The department reported incorrect financial information for the state's comprehensive annual financial report.
- **Medicaid drug rebate system errors** (Prior audit finding) - There is increased potential for fraud and errors to occur and be undetected within the Medicaid drug rebate program.

Prior audit findings:

- The audit report details the status of prior audit recommendation not implemented. Recommendations not implemented include improper procedures for memorandum of understanding agreements with child care providers, lack of tracking and resolution of child care correction orders, incomplete background checks for adults in foster care homes, untimely response to reports of child abuse or neglect, inaccurate child abuse and neglect index entries, inconsistent monitoring of child protection services, inadequate control for the drug rebate system, and payments to deceased and incarcerated individuals. Some prior audit findings are no longer applicable due to the county social and human service project and the redesign of department programs.

Audit cost as reported by the State Auditor's office:

Department of Human Services	
State Auditor's office ¹	\$229,629.00
State Auditor's office hours ²	3,155.00
Hourly rate	\$72.78
Agency costs ³	\$68,900.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill, pursuant to Section 54-10-01(2), directly to the agency for completion of the audit and are deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Potential questions relating to the audit report:

- None.

**VETERANS' HOME
(JUNE 30, 2019)**

Audit purpose: The purpose of this audit was to determine if Veterans' Home financial transactions, including expenditures, blanket bond coverage, and resident rates were made in accordance with law and appropriation requirements.

The transactions of the Veterans' Home were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

There were no audit findings identified in the audit report. There were no prior audit findings for the Veterans' Home.

Audit cost as reported by the State Auditor's office:

Veterans' Home	
State Auditor's office ¹	\$26,855
State Auditor's office hours ²	401.50
Hourly rate	\$101.76
Agency costs ³	\$14,000
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill, pursuant to Section 54-10-01(2), directly to the agency for completion of the audit and are deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Potential questions relating to the audit report:

- On page 9, what is the source and purpose of the transfers in of \$355,992 in fiscal year 2018 and \$355,992 in fiscal year 2019?
- On page 9, why have medical, dental, and optical expenditures and food and clothing expenditures increased despite declining basic care and skilled care census?

**JUDICIAL BRANCH
(FEBRUARY 2020)**

Audit purpose: The purpose of this audit was to determine if there are any exceptions to report relating to statutorily required audit testing. The agency's financial transactions, expenditures, and blanket bond coverage were reviewed.

Findings:

- The State Auditor reported no areas of concern.

Audit cost as reported by the State Auditor's office:

Judicial branch	
State Auditor's office ¹	\$19,115.00
State Auditor's office hours ²	274.5
Hourly rate	\$69.64
Agency costs ³	\$0.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill, pursuant to Section 54-10-01(2), directly to the agency for completion of the audit and are deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Potential questions relating to the audit report:

- None.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (JUNE 30, 2019 AND 2018)

Audit purpose: The purpose of this audit was to test internal controls and compliance in order to express an opinion on the financial statements of North Dakota, but not to express an opinion on internal controls.

Findings:

- **Lack of required note disclosures** - The Office of Management and Budget (OMB) does not have adequate procedures in place to ensure inclusion of required disclosures from component auditor reports in the Comprehensive Annual Financial Report (CAFR). The Bank of North Dakota audit report contained a note disclosure identifying \$1.47 billion of securities assigned as collateral for debt which was not included in the CAFR note disclosures as required by Governmental Accounting Standards Board (GASB) statement 88. In addition, the University System audit report disclosed \$4 million of capitalized interest as required by GASB statement 62 which was not included in the CAFR note disclosures.

Other information:

- **Office of Management and Budget response/corrective action** - The Office of Management and Budget responded that although OMB agrees with the auditors that the two disclosures were inadvertently not included in the notes to the financial statements and subsequently added after being brought to attention of staff, OMB does not feel the missing disclosures qualitatively affect the user’s ability to understand the State’s financial position and results of operation. Furthermore, OMB does not agree that the two missing note disclosures constitute a significant deficiency in internal controls. The Office of Management and Budget will continue to work with the component units and their auditor reports to ensure all necessary note disclosures are included in the CAFR.

Audit cost as reported by the State Auditor's office:

Comprehensive Annual Financial Report	
State Auditor's office ¹	\$556,433.00
State Auditor's office hours ²	7,668.00
Hourly rate	\$72.57
Agency costs ³	\$0.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill, pursuant to Section 54-10-01(2), directly to the agency for completion of the audit and are deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Potential questions relating to the audit report:

- Are the number of audit adjustments shown on the beginning of page 14 unusually large?
- What is the reason for the audit adjustments not being recorded properly as shown on the beginning of page 14?

**BANK OF NORTH DAKOTA
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the agency's financial statements.

Other information:

- **Loans outstanding** - As shown on page 6, the Bank had outstanding loans totaling \$4,477 million as of June 30, 2019, a decrease of \$55 million, or 1.2 percent, compared to the prior year.
- **Profits** - As shown on page 9, the Bank's profits before transfers totaled \$156.2 million in fiscal year 2018 and \$176.3 million in fiscal year 2019.
- **Capital position** - As shown on page 11, the Bank's tier one capital leverage ratio was 13.6 percent on June 30, 2019. Based on federal regulations, a "well capitalized" bank must have a tier one capital leverage ratio of at least 5 percent.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP, Certified Public Accountants, for the audit of the Bank of North Dakota. The cost of the contracted audit was \$109,050.

Potential questions relating to the audit report:

- None.

BEGINNING FARMER REVOLVING LOAN FUND (DECEMBER 31, 2019 AND 2018)

Audit purpose: The purpose of this audit was to determine that financial statements are free from material misstatement.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **New loans** - The Bank of North Dakota approved 157 loans totaling \$28.1 million in 2019 and 169 loans totaling \$33.8 million in 2018. As of December 31, 2019, \$6.3 million was available for new loans.
- **Interest rate buydowns** - Over the life of the loans approved in 2019, the interest rate buydowns total \$2.9 million, a decrease of \$0.2 million compared to 2018.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP, Certified Public Accountants, for the audit of the beginning farmer revolving loan fund. The cost of the contracted audit was \$7,500.

Potential questions relating to the audit report:

- As noted on page 6, Senate Bill No. 2197 (2019) provides an option for borrowers to access a 10-year loan with a fixed interest rate in addition to the variable rate offered under the current program. How will this change impact the amount needed for interest rate buydowns?

**COMMUNITY WATER FACILITY LOAN FUND
(DECEMBER 31, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial statements are free from material misstatement.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Outstanding loans** - As of December 31, 2019, the balance of outstanding loans totaled \$20.1 million.
- **New loans** - The fund did not have any new loans in 2018 or 2019. The cash available for new loans was \$15.8 million as of December 31, 2019.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP, Certified Public Accountants, for the audit of the community water facility loan fund. The cost of the contracted audit was \$4,900.

Potential questions relating to the audit report:

- As shown on page 4, the fund balance is \$35.9 million. Is this a conflict with Section 6-09.5-03, which limits the fund to \$25 million?
- The program appears to have minimal usage. Could the funds be transferred to another program, or could the program be combined with other existing loan programs for water projects to increase the utilization of the fund?

NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM (DECEMBER 31, 2019 AND 2018)

Audit purpose: The purpose of this audit was to determine that financial statements are free from material misstatement.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Outstanding loan guarantees** - Loan guarantees totaled \$1.16 billion as of December 31, 2019, a decrease of \$0.01 billion compared to the prior year.
- **Reserve balance** - The Bank of North Dakota maintains the required reserves for the guaranteed loans based on historical default rates. As of December 31, 2019, the reserve balance totaled \$44.6 million, an increase of \$1.6 million compared to the prior year.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP, Certified Public Accountants, for the audit of the North Dakota guaranteed student loan program. The cost of the contracted audit was \$25,000.

Potential questions relating to the audit report:

- As noted on page 16, will the program need additional reserves if student loan defaults increase as a result of Coronavirus (COVID-19)?

**NORTH DAKOTA DEVELOPMENT FUND
(JUNE 30, 2019)**

Audit purpose: The purpose of this audit was to express an opinion on the financial statements of the North Dakota Development Fund, Inc.

The North Dakota Development Fund's transactions were tested and included in the organization's financial statements, on which an unmodified opinion was issued.

Findings:

Preparation of financial statements - The North Dakota Development Fund does not have adequate staff to provide for the preparation of the organization's financial statements. While this is not uncommon for similar sized organizations, it is recommended that management and the North Dakota Development Fund Board of Directors be aware of the financial reporting of the organization. **This finding was identified in previous audit reports.**

Audit cost as reported by the Department of Commerce:

The North Dakota Development Fund contracted with Eide Bailly, LLP, Certified Public Accountants, for \$12,500 to perform the audit.

Potential questions relating to the audit report:

- None.

**LEGISLATIVE ASSEMBLY
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of the audit was to obtain reasonable assurance about whether the financial statements are free from material misstatement.

As part of obtaining reasonable assurance about whether the Legislative Assembly's financial statements are free from material misstatement, the transactions of the Legislative Assembly were tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Findings:

- There were no findings identified in the audit report. There were no prior audit findings related to the financial statements of the Legislative Assembly.
- There were no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Audit cost:

The Legislative Assembly contracted with Eide Bailly, LLP, Certified Public Accountants, for \$1,850 to perform the audit.

Potential questions relating to the audit report:

- None.

**LEGISLATIVE COUNCIL
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of the audit was to obtain reasonable assurance about whether the financial statements are free from material misstatement.

As part of obtaining reasonable assurance about whether the Legislative Council's financial statements are free from material misstatement, the transactions of the Legislative Council were tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Findings:

- There were no findings identified in the audit report. There were no prior audit findings related to the financial statements of the Legislative Council.
- There were no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Audit cost:

The Legislative Council contracted with Eide Bailly, LLP, Certified Public Accountants, for \$5,850 to perform the audit.

Potential questions relating to the audit report:

- None.

STATE AUDITOR'S OFFICE (JUNE 30, 2019 AND 2018)

Audit purpose: The purpose of the audit was to obtain reasonable assurance about whether the financial statements of State Auditor's office are free from material misstatement.

As part of obtaining reasonable assurance about whether the State Auditor's financial statements are free from material misstatement, the transactions of the State Auditor were tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Findings:

- **Work in process - Material weakness 2019-001**

Description: The work in process balance did not appropriately reflect the amount earned by the State Auditor at the end of each fiscal year. The discrepancy was caused by jobs being improperly included in the work in process balance and going undetected by someone within the entity. The financial statements were adjusted by \$4,515 for the year ended June 30, 2019, and \$19,491 for the year ended June 30, 2018.

Recommendation: The work in process and accounts receivable worksheets be appropriately reviewed to ensure correct formulas and to prevent job balances from being improperly included. (The State Auditor concurred with the recommendation.)

Prior audit findings:

- **Work in process - Material weakness 2017-A**

2017-19 biennial audit report - In their report on internal control dated January 5, 2018, Eide Bailly, LLP, Certified Public Accountants, reported the work in process balance did not appropriately reflect the amount earned by the State Auditor at the end of each fiscal year. The discrepancy was caused in part by a formula error in the work in process worksheet and in part due to jobs not being taken out of the work in process balance before being reported in the accounts receivable balance and going undetected by someone within the entity. The financial statements needed to be adjusted by \$23,950 for the year ended June 30, 2017, and \$9,200 for the year ended June 30, 2016. Eide Bailly, LLP, Certified Public Accountants, recommended the work in process and accounts receivable worksheets be appropriately reviewed to ensure correct formulas and to prevent job balances from being duplicated. The State Auditor concurred with the recommendation and indicated procedures would be put in place to ensure work in process is properly computed and reported.

Other information:

- **Capital asset reporting error** - Certain errors resulting in misstatements of amounts previously reported for capital assets as of June 30, 2017, were discovered during the current year. Accordingly, adjustments were made to beginning net position as of July 1, 2017, to correct the errors. The audit opinions were not modified with respect to these matters.
- **Management's discussion and analysis section omitted** - The State Auditor has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, and is considered to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Audit cost:

The Legislative Council contracted with Eide Bailly, LLP, Certified Public Accountants, for \$10,250 to perform the audit.

Potential questions relating to the audit report:

- The management's discussion and analysis section is required by GASB. Why did the State Auditor's office choose not to prepare the management's discussion and analysis section?

STATE FAIR ASSOCIATION (SEPTEMBER 30, 2019)

Audit purpose: The purpose of the audit was to obtain reasonable assurance about whether the financial statements of the State Fair Association, and of its discretely presented component unit, North Dakota State Fair Foundation, are free from material misstatement.

As part of obtaining reasonable assurance about whether the State Fair Association's financial statements are free from material misstatement, the transactions of the State Fair Association were tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Findings:

- There were no findings identified in the audit report.
- There were no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other information:

- As of September 30, 2018, the balance sheet of the North Dakota State Fair Foundation, a discretely presented component unit of the State Fair Association, included endowed notes receivable of \$1,110,000. As of September 30, 2019, \$35,000 was deemed to be collectible. An allowance for doubtful collections of \$1,075,000 was recorded and charged to bad debt expense of the North Dakota State Fair Foundation.
- Subsequent to year-end, the State Fair Association has been negatively impacted by the effects of the COVID-19 pandemic. The association is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of April 14, 2020, the date of issuance of these financial statements, the full impact to the association's financial position is not known. On May 11, 2020, the State Fair announced the cancellation of the 2020 fair.

Audit cost:

The State Fair contracted with Eide Bailly, LLP, Certified Public Accountants, for \$20,500 to perform the audit.

Potential questions relating to the audit report:

- Regarding Footnote 4, what is the nature of the North Dakota State Fair Foundation's relationship with Golf Minot, Inc. and how did the notes receivable for over \$1 million originate? Why is all but \$35,000 uncollectible?

**PUBLIC FINANCE AUTHORITY
(DECEMBER 31, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the agency's financial statements.

Other information:

- **Internal Revenue Service rebates** - As shown on page 29, the Public Finance Authority did not have rebates due to the Internal Revenue Service as of December 31, 2019, a decrease of \$3 million compared to the prior year.
- **Loans outstanding** - As shown on page 8, the Public Finance Authority had municipal securities (loans outstanding to political subdivisions) totaling \$878 million as of December 31, 2019, an increase of 6 percent compared to the prior year.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Brady, Martz and Associates, PC, Certified Public Accountants, for the audit of the Public Finance Authority. The cost of the contracted audit was \$20,000.

Potential questions relating to the audit report:

- How will the recent changes in interest rates affect any rebates due to the Internal Revenue Service?
- Will the current economic slowdown cause an increase in defaults or delinquencies for political subdivisions?

**NORTH DAKOTA STOCKMEN'S ASSOCIATION
(DECEMBER 31, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to express an opinion on the North Dakota Stockmen's Association financial statements.

The agency's transactions related to the operating fund were tested and included in the organization's financial statements on which an unmodified opinion was issued.

Findings:

- **Segregation of duties** - The Stockmen's Association does not have adequate staff to provide for appropriate internal controls related to segregation of accounting duties. This is common of small entities, as it is not economically feasible to further segregate duties without additional staff. It is recommended that the Stockmen's Association Board of Directors periodically review documentation supporting individual transactions. The Stockmen's Association has indicated internal controls will be added where feasible.

Audit cost as reported by the North Dakota Stockmen's Association:

The North Dakota Stockmen's Association contracted with Haga Kommer, Certified Public Accountants, for \$10,175 to perform the audit.

Potential questions relating to the audit report:

- On page 10, what is the nature of the accounts receivables owed from the Department of Environmental Quality (\$25,625) and State Department of Health (\$39,905) referenced in note 4?

**COLLEGE SAVE PLAN
(DECEMBER 31, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial statements are free from material misstatement.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Program balance** - The balance of the accounts in the College SAVE plan totaled \$535.8 million on December 31, 2019, an increase of \$80.2 million from December 31, 2018.
- **Administrative fees** - The administrative fees totaled \$3.5 million for 2019, an increase of \$0.1 million compared to 2018. Of the \$3.5 million, the Bank of North Dakota received approximately \$500,000 with the remaining \$3 million paid to the program manager and investment broker.
- **Program accounts** - The program included 39,309 active accounts on December 31, 2019, an increase of 2,517 accounts from December 31, 2018. As of December 31, 2019, the average account balance was \$13,600.
- **Matching funds** - The Bank provided \$425,975 of matching funds to qualifying accounts in 2019, a decrease of \$115,906 compared to 2018.

Audit cost:

The audit of the College SAVE plan is paid for by the investment manager through the administration fees collected from the College SAVE investment accounts.

Potential questions relating to the audit report:

- None.