



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

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

**LAKE REGION STATE COLLEGE  
 (JUNE 30, 2019)**

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

- That financial transactions including expenditures were made in accordance with law and appropriation requirements.

The institution's transactions were tested and included in the North Dakota University System's basic financial statements on which an unmodified opinion was issued.

**Findings:**

- **Procurement** - Of 11 procurement purchases tested, 5 did not include proper documentation to prove bidding requirements were followed.

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

Lake Region State College	
State Auditor's office <sup>1</sup>	\$20,685.00
State Auditor's office hours <sup>2</sup>	334.00
Hourly rate	\$61.93
Agency costs <sup>3</sup>	\$14,700.00

<sup>1</sup>This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.  
<sup>2</sup>Staff hours incurred to complete the audit.  
<sup>3</sup>This is the billable amount, based on the institution's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the institution 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/potential questions relating to the audit report:**

- None

**NORTH DAKOTA AGRICULTURAL EXPERIMENT STATION,  
NORTH DAKOTA STATE UNIVERSITY EXTENSION SERVICES, AND  
NORTHERN CROPS INSTITUTE  
(JUNE 30, 2019)**

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

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

**Findings:**

- None

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

<b>North Dakota Agricultural Experiment Station, North Dakota State University Extension Services, and Northern Crops Institute</b>	
State Auditor's office <sup>1</sup>	\$38,620.00
State Auditor's office hours <sup>2</sup>	579.50
Hourly rate	\$66.64
Agency costs <sup>3</sup>	\$21,800.00
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**Observations/potential questions relating to the audit report:**

- None

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

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

- That faculty were performing their job duties, receiving evaluations, and being compensated as required by their contracts;
- That the institution properly collected trademark and licensing royalties; and
- That financial transactions including expenditures were made in accordance with law and appropriation requirements.

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

**Findings:**

- **Faculty contracts, evaluations, and compensation** - North Dakota State University (NDSU) did not:
  - Ensure that all faculty members were receiving proper evaluations including student input as required by board and institution policies;
  - Ensure that all faculty members had complete and valid contracts; and
  - Ensure that all faculty members had all required information included in their office personnel file, as required by law.
- **Trademark and licensing royalties** - NDSU was not monitoring the revenues received under the contract for trademark royalties and did not have a policy in place for the distribution of royalty revenues. The State Auditor identified several instances in which NDSU did not received proper compensation and for 2 of the 4 quarters tested the State Auditor was unable to verify the amounts received due to unavailable documentation. The State Auditor identified that although there is not a policy in place for disbursement of royalty revenue, currently NDSU athletics retains all revenue from the trademark licensing program.
- **Construction projects** - NDSU did not maintain proper documentation to support the awarding of contracts for the Sudro Hall expansion architect or a steam tunnel replacement project engineer and construction manager.

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

North Dakota State University	
State Auditor's office <sup>1</sup>	\$90,967.50
State Auditor's office hours <sup>2</sup>	1,384.25
Hourly rate	\$65.72
Agency costs <sup>3</sup>	\$31,500.00

<sup>1</sup>This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.

<sup>2</sup>Staff hours incurred to complete the audit.

<sup>3</sup>This is the billable amount, based on the institution's special funds, which the State Auditor's office is required to bill directly, pursuant to Section 54-10-01(2), to the institution 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/potential questions relating to the audit report:**

- How do other University System institutions handle trademark and licensing royalty revenue?

**VALLEY CITY STATE UNIVERSITY  
(JUNE 30, 2019)**

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

- That faculty were receiving evaluations and compensation and job duties were consistent with their contracts; and
- That financial transactions including expenditures were made in accordance with law and appropriation requirements.

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

**Findings:**

- **Faculty contracts, evaluations, and compensation** - Valley City State University (VCSU) faculty are receiving required evaluations, and compensation and job duties are consistent with their contracts.
- **Procurement** - Of 11 procurement purchases tested, 2 did not include proper documentation to prove bidding requirements were followed.

**Prior audit findings:**

The finding related to procurement was also a prior audit finding.

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

<b>Valley City State University</b>	
State Auditor's office <sup>1</sup>	\$26,590.00
State Auditor's office hours <sup>2</sup>	409.50
Hourly rate	\$64.93
Agency costs <sup>3</sup>	\$16,300.00
<sup>1</sup> This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.	
<sup>2</sup> Staff hours incurred to complete the audit.	
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**Observations/potential questions relating to the audit report:**

- None

**WILLISTON STATE COLLEGE  
(JUNE 30, 2019)**

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

- That financial transactions including expenditures were made in accordance with law and appropriation requirements.

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

**Findings:**

- **Cash and revenues** - Williston State College (WSC) did not properly reconcile between the campus solutions student finance software, the general ledger, and bank statements. The State Auditor also identified WSC does not have an independent employee perform a reconciliation of receipts to the previous day's financial activities.
- **Procurement** - Of 15 procurement purchases tested, 6 did not include proper documentation to prove bidding requirements were followed.

**Prior audit findings:**

The findings related to cash and revenues and procurement were also prior audit findings.

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

Williston State College	
State Auditor's office <sup>1</sup>	\$44,125.00
State Auditor's office hours <sup>2</sup>	643.50
Hourly rate	\$68.57
Agency costs <sup>3</sup>	\$14,500.00
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**Observations/potential questions relating to the audit report:**

- Has employee turnover contributed to the audit findings?
- On page 15, the end of the year net position for fiscal year 2018 differs significantly from the beginning of the year net position for fiscal year 2019. Why?

**UPPER GREAT PLAINS TRANSPORTATION INSTITUTE  
(JUNE 30, 2019)**

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

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

**Findings:**

- None

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

Upper Great Plains Transportation Institute	
State Auditor's office <sup>1</sup>	\$14,425.00
State Auditor's office hours <sup>2</sup>	228.00
Hourly rate	\$63.27
Agency costs <sup>3</sup>	\$10,400.00
<sup>1</sup> This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. <sup>2</sup> Staff hours incurred to complete the audit. <sup>3</sup> This is the billable amount, based on the institution's special funds, which the State Auditor's office is required to bill directly, pursuant to Section 54-10-01(2), to the institution 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/potential questions relating to the audit report:**

- None

**AGRICULTURE COMMISSIONER  
(JUNE 30, 2019)**

**Audit purpose:** The purpose of this audit was to determine if the Agriculture Commissioner's financial transactions including expenditures and blanket bond coverage were made in accordance with law and appropriation requirements.

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

**Findings:**

- **Waterbank program** - The audit report states the Agriculture Commissioner exceeded general fund appropriation limits by \$25,529.

Section 8 of House Bill No. 1009 (2017) provided the salaries and wages line item in Section 1 of the bill included \$50,000 from the general fund for matching funds for the North Dakota outdoor heritage fund grant provided for the waterbank program. Section 7 of Senate Bill No. 2009 (2015) and Section 7 of Senate Bill No. 2009 (2019) provided the same authority for the 2015-17 and 2019-21 bienniums.

The waterbank program is a water management program conducted in collaboration between the Agriculture Commissioner and Game and Fish Department to conserve surface waters, promote landowner compensation and wetland conservation, and enhance wildlife habitat. The program focuses on managing water in wet conditions and compensating landowners for flooded acres and the surrounding areas that benefit wildlife.

During the 2017-19 biennium, the Agriculture Commissioner spent \$40,942 of the \$50,000 for salaries and wages, of which \$15,413 was spent on the waterbank program and \$25,529 was spent on other department salaries. The remaining \$9,058 was canceled and retained in the general fund at the end of the 2017-19 biennium.

The State Auditor's report states the \$50,000 appropriated from the general fund to the Agriculture Commissioner was available only for matching funds for salaries related to the waterbank program. The report states \$34,587 should have been canceled and returned to the general fund at the end of the 2017-19 biennium instead of \$9,058 and that the Agriculture Commissioner overspent the authority provided by \$25,529.

The Agriculture Commissioner's response to the audit finding states the intent of the funding was to provide matching funds of \$50,000 for the duration of the waterbank program, which started in July 2015 and will terminate in December 2024. The Agriculture Commissioner's response indicates the agency did not receive additional funding for salaries in Section 8 of House Bill No. 1009 (2017), but rather was allowed to match up to \$50,000 of salaries already appropriated in Section 1 of the bill for the waterbank program and therefore, if matching funds needed for the waterbank program were less than \$50,000, the remaining amount could be spent on other agency salary needs.

During the 2015-17 biennium, the Agriculture Commissioner spent \$16,563 from the general fund in the salaries and wages line item as matching funds for the waterbank program. As of September 15, 2020, the Agriculture Commissioner has spent \$4,772 from the general fund as matching funds for the waterbank program for the 2019-21 biennium. The Agriculture Commissioner does not anticipate additional general fund matching funds will be needed for the waterbank program during the 2019-21 biennium. The total general fund amount spent as matching funds for the waterbank program since the 2015-17 biennium is \$36,748.

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

<b>Agriculture Commissioner</b>	
State Auditor's office <sup>1</sup>	\$49,849
State Auditor's office hours <sup>2</sup>	740.25
Hourly rate	\$67.34
Agency costs <sup>3</sup>	\$11,500
<sup>1</sup> This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. <sup>2</sup> Staff hours incurred to complete the audit. <sup>3</sup> 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.	

**Observations/potential questions relating to the audit report:**

- Why were no concerns raised regarding the waterbank program in the State Auditor's 2015-17 biennium audit report of the Agriculture Commissioner?
- On page 10, why did revenues decline 56.1 percent from \$15.1 million in fiscal year 2018 to \$6.6 million in fiscal year 2019? Specifically, why did licenses, fees, and registrations revenue decline 73.3 percent from \$6.9 million in fiscal year 2018 to \$1.9 million in fiscal year 2019?



**DEPARTMENT OF TRANSPORTATION  
(JUNE 30, 2019)**

**Audit purpose:** The purpose of this audit was to determine if the Department of Transportation's financial transactions, including expenditures and blanket bond coverage, were made in accordance with law and appropriation requirements.

The transactions of the Department of Transportation 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:**

<b>Department of Transportation</b>	
State Auditor's office <sup>1</sup>	\$91,618.75
State Auditor's office hours <sup>2</sup>	1,239.75
Hourly rate	\$73.90
Agency costs <sup>3</sup>	Pending
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<sup>2</sup> Staff hours incurred to complete the audit.	
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**Observations/potential questions relating to the audit report:**

- None

**DEPARTMENT OF PUBLIC INSTRUCTION  
(JUNE 30, 2019)**

**Audit purpose:** To determine financial transactions including expenditures of the Department of Public Instruction were made in accordance with law and appropriation requirements and that blanket bond coverage is adequate. The State Auditor also reviewed enrollment and transportation data used to make state aid payments to school districts.

**Finding:**

- **Lack of guidance and monitoring for school district transportation funding** - Transportation grant payments are calculated using numerous factors that include route types, bus size, reimbursement rate, number of miles, and number of rides. The Department of Public Instruction provided \$54 million for transportation grant payments to school districts during the biennium ended June 30, 2019. School districts are expected to report transportation data, including miles and rides each year. This data is used for transportation grant payments to school districts for the following school year. The Department of Public Instruction implemented various edit checks in the state automated reporting system (STARS) to ensure transportation data is a positive value, required fields are filled out, and certain thresholds are not exceeded. In addition, each school district electronically signs a certification statement during the electronic data submission. However, procedures are not implemented to review prior year information to detect noticeable changes or lack of changes in data. In addition, the transportation manual does not include guidance regarding how to report transportation data. Because the State Auditor does not have the authority to request necessary transportation documentation from the school districts, the State Auditor was not able to determine if transportation data used to calculate state aid payments to school districts is complete and accurate. The State Auditor recommended the Department of Public Instruction improve guidance to school districts on how to report miles and rides as well as strengthen procedures surrounding the monitoring of transportation data submitted by the school district.

**Other information:**

- **Enrollment data** - The Department of Public Instruction utilizes enrollment data to calculate state aid payments to school districts. In the biennium ended June 30, 2019, \$1.9 billion was paid to school districts for state school aid. The Assistant Attorneys General assigned to the State Auditor and the Department of Public Instruction determined neither agency had the authority to request student records from school districts. Therefore, the Department of Public Instruction must rely on business manager training, edit checks in STARS, student data review, and the school district's certification that the data is accurate. The State Auditor was not able to request student records from school districts to verify enrollment data submitted to the Department of Public Instruction was complete and accurate. Because the State Auditor was not able to review student records at the school district level to check the district's data submission, the focus of the audit was STARS, data analysis, and reviews of student data performed by the Department of Public Instruction. The State Auditor reported no significant data issues were identified in the enrollment data available to the Department of Public Instruction.

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

<b>Department of Public Instruction</b>	
State Auditor's office <sup>1</sup>	\$101,555.00
State Auditor's office hours <sup>2</sup>	1,391.50
Hourly rate	\$72.98
Agency costs <sup>3</sup>	Pending
<sup>1</sup> This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.	
<sup>2</sup> Staff hours incurred to complete the audit.	
<sup>3</sup> 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/potential questions relating to the audit report:**

- What was the reason for the Attorney General's determination that neither the State Auditor nor the Department of Public Instruction had the authority to obtain supporting enrollment and transportation documentation from the school districts?

- Why are total expenditures of \$2,322,548,256 on the Statement of Revenues and Expenditures on page 19 \$4,736,280 more than expenditures totaling \$2,317,811,976 on the Statement of Appropriations on page 20?

**PARKS AND RECREATION DEPARTMENT  
(JUNE 30, 2019)**

**Audit purpose:** The purpose of this audit was to determine if the Parks and Recreation Department's financial transactions, including expenditures and blanket bond coverage, were made in accordance with law and appropriation requirements.

The transactions of the Parks and Recreation Department 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.

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

Parks and Recreation Department	
State Auditor's office <sup>1</sup>	\$34,173.75
State Auditor's office hours <sup>2</sup>	470.25
Hourly rate	\$72.67
Agency costs <sup>3</sup>	\$0.00
<sup>1</sup> This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. <sup>2</sup> Staff hours incurred to complete the audit. <sup>3</sup> 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.	

**Observations/potential questions relating to the audit report:**

- Section 54-10-01(2) requires the State Auditor to charge all agencies that expend money from other than the general fund for the cost of the audit. The auditor may reduce the fee for agencies that spend both general fund and nongeneral fund money. Why was the agency not charged for a portion of the audit costs since 44 percent of its 2017-19 biennium expenditures were from nongeneral fund sources?

**NORTH DAKOTA BUILDING AUTHORITY  
(JUNE 30, 2020 AND 2019)**

**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 fund's financial statements.

**Other information:**

- **Projects** - The 2019 Legislative Assembly authorized \$130 million of construction projects for the 2019-21 biennium supported by bonds issued through the State Building Authority, including \$30 million in House Bill No. 1003 (2019) and \$100 million in Senate Bill No. 2297 (2019).
- **Bond anticipation notes** - The State Building Authority issued \$60 million of bond anticipation notes in May 2020 due in December 2020 with an interest rate of 1.5 percent. The bond anticipation notes provide early funding to start the construction projects prior to the issuance of the bonds.

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

The State Auditor's office contracted with Brady, Martz & Associates PC for the audit of the State Building Authority. The cost of the contracted audit is pending.

**Observations/potential questions relating to the audit report:**

- What is the estimated cost per biennium to repay the \$130 million of bonds that will be issued for construction projects authorized in the 2019-21 biennium?

**OFFICE OF THE STATE AUDITOR - PEER REVIEW  
(APRIL 1, 2019 THROUGH MARCH 31, 2020)**

**Audit purpose:** The purpose of the external peer review was to review the system of quality control of the State Auditor in effect for the period April 1, 2019 through March 31, 2020 and to express an opinion on the design of the system and the State Auditor's compliance with the system based on the review.

**Findings:** The State Auditor received a peer review rating of "pass."

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

The State Auditor contracted with the National Association of State Auditors, Comptrollers and Treasurers for \$3,518 to perform the peer review.

**Observations/potential questions relating to the audit report:**

- None