



North Dakota Legislative Council

Legislative Audit and Fiscal Review Committee

LC# 27.9231.01000

June 2026

SUMMARY OF MAJOR ITEMS IN AUDIT REPORTS FOR THE JUNE 17, 2026, MEETING

This memorandum summarizes major items in audit reports to be presented at the June 17, 2026, Legislative Audit and Fiscal Review Committee meeting.

BANK OF NORTH DAKOTA (DECEMBER 31, 2025 AND 2024)

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 Bank of North Dakota's financial statements.

Other information:

- **Loans outstanding** - As shown on page 6, the Bank had net outstanding loans totaling \$5,987 million as of December 31, 2025, a decrease of \$38 million, or 0.6 percent, compared to the prior year. The decrease in loans is primarily related to a decrease in student and residential loans.
- **Profits** - As shown on page 11, the Bank's profits before transfers totaled \$253.3 million in calendar year 2024 and \$359.5 million in calendar year 2025.
- **Capital position** - As shown on page 9, the Bank's tier one capital leverage ratio was 12.13 percent on December 31, 2025. Based on federal regulations, a "well capitalized" bank must have a tier one capital leverage ratio of at least 4 percent.

Audit cost:

- The State Auditor's office contracted with Eide Bailly LLP for the audit of the Bank. The cost of the contracted audits was \$133,500 for the June 30, 2025, audit and \$129,600 for the June 30, 2024, audit.

Observations/potential questions relating to the audit report:

- **Subsequent event** - As shown on page 65, in February 2026, the Bank sold \$83 million of investments at a loss of \$1.4 million and reinvested the proceeds. The investment change is not anticipated to have a material impact on the 2026 financial statements.
- The audit summary prepared by Eide Bailly LLP is on page 80.

GUARANTEED STUDENT LOAN PROGRAM (DECEMBER 31, 2025 AND 2024)

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 outstanding totaled \$940 million as of December 31, 2025, a decrease of \$57 million compared to the prior year. Due to a policy change in April 2024 limiting student loans to North Dakota residents and out-of-state residents attending North Dakota institutions of higher education, student loan guarantees are anticipated to decline.
- **Reserve balance** - The Bank of North Dakota maintains the required reserves for the guaranteed loans based on historical default rates. As of December 31, 2025, the reserve balance totaled \$47.2 million, a decrease of \$2.1 million compared to the prior year.

Audit cost:

- The State Auditor's office contracted with Eide Bailly LLP for the audit of the Guaranteed Student Loan Program. The cost of the contracted audits was \$30,000 for the June 30, 2025, audit and \$29,000 for the June 30, 2024, audit.

Observations/potential questions relating to the audit report:

- Operating loss - As shown on page 5, the administrative fee paid by the Bank to the program was 3.75 percent, but the administrative fee was reduced to zero beginning in March 2025. As shown on page 6, the program had an operating loss of \$60,000 in fiscal year 2025 primarily resulting from a decrease in the administrative fee paid by the Bank to the program.
- The audit summary prepared by Eide Bailly LLP can be found on pages 17 and 18.

NORTH DAKOTA STOCKMEN'S ASSOCIATION (DECEMBER 31, 2025 AND 2024)

Audit purpose: The purpose of the audit was to obtain reasonable assurance of whether the financial statements of the North Dakota Stockmen's Association (NDSA) are free from material misstatement and to express an opinion on the financial statements.

Findings:

- An unmodified opinion was issued on the NDSA's financial statements.
- Segregation of duties (2025-001) - The 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 NDSA Board of Directors periodically review documentation supporting individual transactions. The association has indicated internal controls will be added where feasible.
- Preparation of financial statements (2025-002) - The association's auditors prepared the financial statements and related notes because the association had limited time and resources to do so in the required format. This practice increases the risk of material misstatement. It was recommended that the board review the audited financial statements for accuracy and accept responsibility for them. The association has indicated it is aware that the audit report needs to be reviewed annually to ensure the financial statements are a fair presentation.

Prior audit findings:

- There were three audit findings during the 2024 audit for NDSA. The segregation of duties finding (2024-001) was repeated as finding 2025-001 and the preparation of financial statements finding (2024-002) was repeated as finding 2025-002.
- Preparation of schedule of expenditures of federal awards (2024-003) - This finding was resolved. The association did not prepare the required schedule of expenditures of federal awards (SEFA) for audit, as they were unaware a single audit was required. This led to the auditors compiling the schedule, which required multiple requests and clarification from the awarding agency to finalize. It was recommended that management implement procedures to ensure the SEFA is accurately prepared and available at the beginning of the audit. The association acknowledged this oversight and implemented procedures to ensure the SEFA is completed for future audits.

Audit cost:

- The December 31, 2025, audit of NDSA was conducted by Haga Kommer, Ltd., at a cost of \$24,500. The December 31, 2024, audit was completed at a cost of \$34,400.

Observations/potential questions relating to the audit report:

- None.

**GOVERNOR'S OFFICE
(JUNE 30, 2025 AND 2024)**

Audit purpose: The purpose of this audit was to determine if there are any errors, internal control weaknesses, or other potential violations of law for significant or high-risk functions of the agency.

Findings:

- No significant errors, internal control weaknesses, or potential violations of law were identified.

Audit cost:

- The State Auditor did not charge the Governor's office for the audit.

Observations/potential questions relating to the audit report:

- None.

**COUNCIL ON THE ARTS
(JUNE 30, 2025, 2024, 2023, AND 2022)**

Audit purpose: The purpose of this audit was to determine if there are any internal control weaknesses or violations of state law.

Findings:

- **Payroll charged to federal awards not supported** - The State Auditor reported the agency spent \$205,605 of federal awards on payroll without documentation of the time employees worked on the federal program. The amount is considered unallowable and could be subject to recoupment from the federal government. This finding was first identified in the 2020-21 audit and has continued to occur. The agency agreed with the finding and indicated procedures now require employees to complete timesheets documenting time worked on federal programs.
- **Expenditures outside legislatively restricted fund purpose** - The State Auditor reported the agency spent \$12,825 from the Cultural Endowment Fund on unallowable purchases, including \$10,000 for staff training, \$2,687 for Executive Director candidate travel and lodging, and \$138 for a staff retreat. State law restricts purchases from the fund to programs supporting cultural awareness, access to the arts, development of artistic talent, and North Dakota's heritage. The agency agreed with the finding and indicated procedures will be implemented to ensure only allowable expenses are paid from the fund.

Audit cost:

- The State Auditor did not charge the Council on the Arts for conducting the audit.

Observations/potential questions relating to the audit report:

- None.

**STATE TREASURER
(JUNE 30, 2025 AND 2024)**

Audit purpose: The purpose of this audit was to review financial transactions, expenditures, internal controls, and potential violations of law.

Findings:

- No findings were discovered and no deficiencies were identified related to a review of financial transactions and internal controls.

Other information:

- **Revenue and transfers** - As shown on page 7, the State Treasurer processed revenue collections and transfers totaling \$6 billion during the 2023-25 biennium.
- **Expenditures and tax distributions** - As shown on page 7, the State Treasurer processed expenditures and tax distributions totaling \$9.23 billion during the 2023-25 biennium.
- **Appropriation** - As shown on page 8, the State Treasurer's final appropriation authority for the 2023-25 biennium totaled \$2,501,518, including \$2,206,518 from the General Fund and \$295,000 from special funds.

Audit cost:

- The State Auditor did not charge the State Treasurer for performing the audit.

Observations/potential questions relating to the audit report:

- None.

**DEPARTMENT OF PUBLIC INSTRUCTION
(BIENNIUM ENDED JUNE 30, 2025)**

Audit purpose: The primary objective of this audit was to determine if there are any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency.

Findings:

- **Improper Paraprofessional-to-Teacher Program reimbursements - Finding 2025-01**

Condition - The State Auditor reported the Department of Public Instruction (DPI) made payments to a university for scholarships that did not meet application requirements set in program guidance.

Recommendation - The State Auditor recommended DPI implement procedures to ensure Paraprofessional-to-Teacher Program reimbursements are only made for applicants who have submitted applications that meet program guidance.

Agency response - The department agreed with the State Auditor's finding.

Prior audit finding:

- No audit findings were identified in the prior audit report.

Other information:

- **Internal control** - In addition, the State Auditor reviewed DPI's administration of state-funded grants used to support free meals for eligible students beyond federal guidelines. The review did not include auditing individual school districts or their point-of-sale meal systems, as eligibility determinations and meal counting occur at the school level and are subject to separate oversight. Based on procedures performed, the State Auditor determined that DPI has processes in place to administer the program in accordance with legislative intent.

Audit cost:

- The State Auditor did not charge DPI for audit costs.

Observations/potential questions relating to the audit report:

- Due to different reporting formats, total expenditures and other uses of \$2,922,792,555 on the Statement of Revenues and Expenditures on page 9 are \$386,945 more than expenditures totaling \$2,922,405,610 on the Statement of Appropriations on page 11.

**OFFICE OF MANAGEMENT AND BUDGET
(JUNE 30, 2025 AND 2024)**

Audit purpose: The purpose of this audit was to determine if there are any errors, internal control weaknesses, or other potential violations of law for significant or high-risk functions of the agency.

Findings:

- No significant errors, internal control weaknesses, or potential violations of law were identified.

Audit cost:

- The State Auditor did not charge the agency for conducting the audit.

Observations/potential questions relating to the audit report:

- None.

**DEPARTMENT OF TRANSPORTATION
(JUNE 30, 2025 AND 2024)**

Audit purpose: The purpose of this audit was to determine if there are any errors, internal control weaknesses, or other potential violations of law for significant or high-risk functions of the agency.

Findings:

- No significant errors, internal control weaknesses, or potential violations of law were identified.

Audit cost:

- The State Auditor did not charge the department for conducting the audit.

Observations/potential questions relating to the audit report:

- None.

RACING COMMISSION
(JUNE 30, 2025, 2024, 2023, AND 2022)

Audit purpose: The purpose of this audit was to determine if there are any errors, internal control weaknesses, or other potential violations of law for significant or high-risk functions of the agency.

Findings:

- **Promotion Fund overspending** - North Dakota Century Code Section 53-06.2-11 provides the Racing Commission may receive \$25,000, or 25 percent of the fund, whichever is greater, each year from the Promotion Fund for operating expenses of the commission. The commission overspent the 25 percent fund balance limit by amounts ranging from \$46,292 to \$128,155 during each year included in the audit.
- **Promotion Fund grant conditions not met** - Racing Commission policy provides the commission may award grants from the Promotion Fund. Grant applications are required to explain the proposed use of funds and grant recipients are required to provide itemized expenditure reports within 60 days of the completion of an event. The State Auditor reviewed grant awards and determined certain grants were awarded without a recipient completing an application and certain grantees did not provide itemized reports regarding how grant funds were used.
- **Improper Breeders' Fund awards** - The Breeders' Fund provides funding for North Dakota-bred horses competing in races. The Racing Commission did not properly confirm changes in ownership before dispersing certain awards to horse owners.
- **Improper procurement** - The Racing Commission did not complete written contracts or utilize proper procurement methods for certain purchases and services.

Audit cost:

- The State Auditor did not charge the Racing Commission for conducting the audit.

Observations/potential questions relating to the audit report:

- None.

**DEPARTMENT OF ENVIRONMENTAL QUALITY
(BIENNIUM ENDED JUNE 30, 2025)**

Audit purpose: To determine if there are any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency.

Findings:

- No errors, internal control weaknesses, or potential violations of law were identified.

Prior Audit Findings:

- No audit findings were identified in the prior audit report.

Audit cost:

- The State Auditor did not charge the Department of Environmental Quality for audit costs.

Observations/potential questions relating to the audit report:

- Total expenditures and other uses of \$67,473,341, on the Statement of Revenues and Expenditures on page 7, are \$4,001,356 more than expenditures totaling \$63,471,985 on the Statement of Appropriations on page 8. The difference relates to expenditures and transfers from the Environmental Quality Restoration Fund, Petroleum Release Compensation Fund, and Abandoned Vehicle Fund during the 2023-25 biennium.

**UNIVERSITY OF NORTH DAKOTA
(JUNE 30, 2024 AND 2023)**

Audit purpose: The purpose of this audit was to determine whether the University of North Dakota (UND) had any errors, internal control weaknesses, or potential violations of law for significant and high-risk functions of the agency. The State Auditor also reviewed the process used by the UND School of Medicine and Health Sciences to admit students into the Medical Doctor Program, based on their admission policies.

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

Findings:

- **Lack of transparency for UND School of Law admission decisions** - The State Auditor reported the UND School of Law had no documentation to support how the admissions committee arrived at decisions to admit, waitlist, or deny students. Of 25 applicants tested during the fall 2022 and fall 2023 terms, the admissions committee subjectively evaluated applicants without evaluation tools, set guidelines, or notes supporting each decision. The State Auditor recommended the UND School of Law develop evaluation tools and guidelines to consistently document the factors evaluated for each applicant. The university agreed with the recommendation and noted the American Bar Association concluded in 2021 the school was in compliance with all standards related to admissions. The State Auditor noted the 2021 review was outside the audit period and, without supporting documentation, could not determine whether American Bar Association standards were followed at the time of the decisions.

Prior audit findings:

- The June 30, 2022, audit of UND did not include any recommendations.

Audit cost:

- The State Auditor did not charge UND for conducting the audit.

Observations/potential questions relating to the audit report:

- None.

**LAKE REGION STATE COLLEGE
(JUNE 30, 2025 AND 2024)**

Audit purpose: The purpose of this audit was to determine if there were any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency.

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

Findings:

- The audit did not identify any areas of concern.

Status of prior audit recommendations:

- The June 30, 2023, audit of Lake Region State College did not include any recommendations.

Audit cost:

- The State Auditor did not charge Lake Region State College for conducting the audit.

Observations/potential questions relating to the audit report:

- None.