SUMMARY OF MAJOR ITEMS IN AUDIT REPORTS FOR THE SEPTEMBER 22, 2026, MEETING

This memorandum summarizes major items in audit reports to be presented at the September 22, 2026, Legislative Audit and Fiscal Review Committee meeting.

PUBLIC FINANCE AUTHORITY (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 agency's financial statements.

Other information:

- **Legacy infrastructure bonds** - During the 2021-23 biennium, the Public Finance Authority issued $710.1 million of bonds to support state infrastructure projects and programs and to pay issuance and capitalized interest. The legacy infrastructure bonds are reported separately as a special revenue fund since the bonds are not considered a debt of the state pursuant to the provisions of House Bill 1431 (2021) and Senate Bill 2014 (2021). The repayment of the bonds began in 2023, and the Legislative Assembly appropriated $102.62 million for the repayments in the 2025-27 biennium, the same as the 2023-25 biennium.
- **Loans outstanding** - As shown on page 9, the Public Finance Authority had municipal securities (loans outstanding to political subdivisions) totaling $1,150 million as of December 31, 2025, an increase of 10.3 percent compared to $1,043 million as of December 31, 2024. The Public Finance Authority approved $240 million of new loans in 2025 compared to $146 million in 2024.

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

- The State Auditor's office contracted with Brady Martz, PLLC for the audit of the Public Finance Authority. The cost of the contracted audit was $28,723 for the June 30, 2025, audit compared to $24,245 for the June 30, 2024, audit.

Observations/potential questions relating to the audit report:

- The audit summary prepared by Brady Martz, PLLC can be found on page 51.

NORTH DAKOTA STATE UNIVERSITY
(JUNE 30, 2025 AND 2024)

Audit purpose: The purpose of this audit was to identify errors, internal control weaknesses, or potential violations of law in significant or high-risk functions of the institution. The audit also included the Forest Service, Upper Great Plains Transportation Institute, agricultural experiment stations and research centers, Extension Service, and Northern Crops Institute.

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:

- The audit did not identify any areas of concern.

Observations/potential questions relating to the audit report:

- None.

NORTH DAKOTA STATE COLLEGE OF SCIENCE
(JUNE 30, 2025 AND 2024)

Audit purpose: The purpose of this audit was to identify any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the institution.

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.

Observations/potential questions relating to the audit report:

- None.

VALLEY CITY STATE UNIVERSITY
(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:

- **Tuition waiver documentation and approval** - The State Auditor reported Valley City State University (VCSU) did not consistently follow procedures regarding documentation and approval for the cultural diversity waiver and rural teacher support program waiver. The State Auditor reported VCSU awarded $192,965 in cultural diversity waivers and $73,050 in rural teacher support program waivers in fiscal years 2024 and 2025. VCSU noted the cultural diversity waiver was discontinued in the fall 2025 semester.

  The State Auditor recommended VCSU maintain documentation supporting eligibility and approve waivers before disbursement. VCSU agreed and indicated it would establish a centralized location for eligibility and approval documentation beginning in fall 2026.

Status of prior audit recommendations:

- A prior audit finding related to account coding was considered fully implemented.

Observations/potential questions relating to the audit report:

- Did the students receiving a cultural diversity waiver in fiscal years 2024 and 2025 receive a different tuition waiver in fiscal year 2026?

WILLISTON 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:

- **Tuition waiver procedures and approval** - The State Auditor reported Williston State College (WSC) did not develop procedures for awarding presidential and athletic tuition waivers. The State Auditor reported WSC awarded $62,045 in presidential tuition waivers and $133,054 in athletic tuition waivers in fiscal years 2024 and 2025 without supporting approval. All athletic tuition waivers were used to waive 100 percent of the student's tuition.

  The college also awarded $94,248 in presidential early entry tuition waivers to 222 students in fiscal year 2024. Although the president approved these waivers for fall 2023 only, $53,832 was awarded for spring 2024 without supporting approval documentation.

  The State Auditor recommended WSC develop procedures consistent with State Board of Higher Education policy and retain documentation approving waiver recipients and amounts. The college agreed and reported implementation was underway.

Prior audit findings:

- A prior audit finding related to bank reconciliation was considered not implemented because bank reconciliation recommendations were included in the fiscal years 2024 and 2025 University System financial audits. Therefore, no further followup was performed in this audit. Prior audit findings related to procurement and payroll controls were considered fully implemented.

Observations/potential questions relating to the audit report:

- Are there any State Board of Higher Education limits on tuition waivers?
- Was tuition waived for dual-credit students, or only for early entry students?

PROTECTION AND ADVOCACY PROJECT
(JUNE 30, 2024 AND 2023)

Audit purpose: The purpose of this audit was to identify any errors, internal control weaknesses, or potential violation of law in significant or high-risk functions of the agency.

Findings:

- The State Auditor's office did not find any areas of concern. No findings were discovered and no deficiencies were identified related to internal controls.

Other information:

- The State Auditor's office reviewed reports and investigations of suspected abuse, neglect, or exploitation for compliance with agency policy, which is a primary purpose of the agency. In the review of 60 sample cases, intake policies were followed, investigation timelines were met, and cases were properly documented.

Observations/potential questions relating to the audit report:

- None.

AERONAUTICS COMMISSION
(JUNE 30, 2025 AND 2024)

Audit purpose: The purpose of this audit was to identify errors, internal control weaknesses, or potential violations of law in significant or high-risk functions of the Aeronautics Commission.

Findings:

- The audit did not identify any areas of concern.

Status of prior audit recommendations:

- The June 30, 2023, audit of the Aeronautics Commission did not include any recommendations.

Observations/potential questions relating to the audit report:

- None.

DEPARTMENT OF CAREER AND TECHNICAL EDUCATION
(JUNE 30, 2025 AND 2024)

Audit purpose: The purpose of this audit was to identify any errors, internal control weaknesses, or potential violations of law for significant and high-risk functions of the agency. No errors, internal control weakness, or potential violations of law for significant and high-risk functions of the agency were identified.

Findings:

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

Observations/potential questions relating to the audit report:

- None.

PARKS AND RECREATION DEPARTMENT
(JUNE 30, 2025 AND 2024)

Audit purpose: The purpose of this audit was to identify any errors, internal control weaknesses, or potential violations of law in high-risk or significant functions of the agency.

No errors, internal control weakness, or potential violations of law for significant and high-risk functions of the agency were identified.

Findings:

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

Observations/potential questions relating to the audit report:

- Actual revenue and expenditures information is provided on pages 8 and 9.

PUBLIC SERVICE COMMISSION
(JUNE 30, 2025 AND 2024)

Audit purpose: The purpose of this audit was to identify any errors, internal control weaknesses, or potential violations of law for significant and high-risk functions of the agency. No errors, internal control weakness, or potential violations of law for significant and high-risk functions of the agency were identified.

Findings:

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

Observations/potential questions relating to the audit report:

- None.

JUDICIAL BRANCH
(JUNE 30, 2025 AND 2024)

Audit purpose: The purpose of this audit was to identify errors, internal control weaknesses, or potential violations of law in significant or high-risk functions of the judicial branch.

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

Findings:

- The State Auditor reported no areas of concern.

Observations/potential questions relating to the audit report:

- None.

DEPARTMENT OF CORRECTIONS AND REHABILITATION (JUNE 30, 2025 AND 2024)

Audit purpose: The purpose of this audit was to identify errors, internal control weaknesses, or potential violations of law in significant or high-risk functions of the department.

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

Findings:

- The State Auditor reported no areas of concern.

Observations/potential questions relating to the audit report:

- None.

TAX COMMISSIONER
(JUNE 30, 2025 AND 2024)

Audit purpose: The purpose of this audit was to identify any errors, internal control weaknesses, or potential violation of law in significant or high-risk functions of the agency.

Findings:

- **Monitoring of GenTax user access logs** - The State Auditor's office identified the Tax Commissioner does not have a formal policy or procedure to routinely review the GenTax access logs for high-risk or unusual activity and has limited monitoring procedures. Federal Internal Revenue Service standards require agencies dealing with federal tax information to maintain audit trails and analyze user logs to identify any unusual or unauthorized access to the information. A review of the access logs did not identify any inappropriate access.

Other information:

- **Revenue collections** - As shown on page 7, the Tax Commissioner collected tax and fee revenues totaling $11.06 billion in the 2023-25 biennium. As included in the prior audit report, the Tax Commissioner collected tax and fee revenues totaling $11.06 billion during the 2021-23 biennium.
- **Appropriation** - As shown on page 9, the Tax Commissioner's final appropriation authority for the 2023-25 biennium totaled $229.03 million, of which $62.65 million was unexpended primarily related to the primary residence credit ($37.98 million) and the homestead tax credit ($23.44 million). Based on the prior audit report, the Tax Commissioner's final appropriation authority for the 2021-23 biennium totaled $64.39 million, of which $5.33 million was unexpended.

Observations/potential questions relating to the audit report:

- None.

NORTH DAKOTA DEVELOPMENT FUND
(JUNE 30, 2025 AND 2024)

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

An unmodified opinion was issued on the entity's financial statements.

Findings:

- **Preparation of financial statements** (Prior period finding) - The North Dakota Development Fund (NDDF) 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 NDDF Board of Directors be aware of the financial reporting of the organization. Management indicated that it contracts with Eide Bailly, LLP to prepare the financial statements because maintaining staff to perform this function is not cost-effective.

- **Material audit adjustments** (Prior period finding) - The audit procedures identified misstatements in NDDF's accounting records, resulting in the auditor proposing material audit adjustments to correct the misstatements. The adjustments were primarily related to NDDF's improper classification between loans and equity investments, as well as errors with accounting for custodial funds and the financial statements not balancing.

  The auditor recommends NDDF develop a document that details various transactions made by NDDF and include supporting documentation to enable staff the ability to easily understand how to properly account for those transactions. The NDDF agreed with the recommendation and plans to transition to a new reporting system that will remedy this audit finding in the future.

- **Segregation of duties** (Prior period finding) - Due to limited staff, NDDF has a lack of segregation of duties in certain accounting functions, including not having a formal approval process for writing off loans, as there is no review or approval process over manual journal entries.

  The auditor recommends all accounting functions be reviewed to determine if additional segregation is feasible to improve efficiency and effectiveness of NDDF and that management implement a level of oversight and approval over all accounting functions. The NDDF management response is that duties of NDDF are segregated as efficiently as possible with the current staff and involves the NDDF Board of Directors in the financial management of the corporation.

- **Loan interest income accounting and reconciliation** (Prior period finding) - Loans greater than 90 days past due should not have interest income calculated on the past due balance. Loan interest receivable and interest income should be reconciled monthly from the loan system to the accounting system and reviewed and approved. The NDDF is not utilizing their accounting system or performing a reconciliation of interest income and interest receivable, which resulted in a material audit adjustment.

  The auditor recommends NDDF obtain training and develop a document that details the accounting for nonaccrual loans within the accounting system and reconcile loan interest income and interest receivable to enable staff the ability to easily understand how to properly account for those transactions. The NDDF agreed with the recommendation and plans to transition to a new reporting system that will assist in remedying this audit finding.

- **Loan and equity investment risk rating controls** (Prior period finding) - The NDDF did not risk rate loan and investment relationships appropriately based on the borrower's current financial position and assessed repayment capability, resulting in audit adjustments to the reserve and provision for loan and investment losses.

  The auditor recommends NDDF improve its risk rating evaluation process corresponding to a borrower's financial position and assessed repayment capability. The NDDF agreed with the finding and plans to improve its risk rating evaluation process and overall understanding of the risk rating evaluation process.

- **Board of directors conflict of interest controls** - The auditor identified loan receivables that were previously disclosed as being partially owned by a member of the NDDF Board of Directors in the previously issued financial statements. It was determined that was an error, as there are no loans receivable or equity investments in which a board of directors member has a direct or indirect ownership percentage as of September 2025. The NDDF conflict of interest form and a lack of understanding of the financial statement disclosures for related party relationships by management led to the misstatement.

  The auditor recommends NDDF implement an effective control function to ensure that related party transactions are appropriately identified and disclosed in the financial statements. The NDDF stated updates to the conflict of interest form were made and the 2024 financial statements were restated. The 2025 financial statements were reissued and restated.

- **Convertible note identification controls** - The NDDF does not have an effective internal control process to identify loans that convert to equity investments to ensure proper accounting and financial reporting.

  The auditor recommends NDDF implement an effective identification mechanism in its internal controls to properly and timely identify loans that convert to equity investments and ensure the accounting and financial reporting is appropriate. The NDDF stated a control process is being implemented to address this finding.

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

- The June 30, 2025, audit was performed by Eide Baily, LLP at a cost of $35,350. The June 30, 2024, audit was performed by Eide Baily, LLP at a cost of $49,000, the same as the June 30, 2023, audit.

Observations/potential questions relating to the audit report:

- This report is through June 30, 2025. During the 2025 regular legislative session, the Legislative Assembly authorized the transfer of $25 million from the Strategic Investment and Improvements Fund to NDDF, and authorized the Department of Commerce to borrow up to $25 million through a Bank of North Dakota line of credit to be transferred to NDDF, effective July 1, 2025, through June 30, 2027.
- On page 8, the condensed statement of revenues, expenses, and changes in net position, nonoperating revenue increased $87,448,526, or 1,043.4 percent, from $8,381,374 in fiscal year 2023 to $95,829,900 in fiscal year 2024. Nonoperating revenue for fiscal year 2025 was $5,823,652.
- On page 8, the condensed statement of revenues, expenses, and changes in net position, bad debt expense increased $8,489,489, or 2,083.5 percent, from $407,467 in 2023 to $8,896,956 in 2024. Bad debt expense for fiscal year 2025 was $8,193,804.
- On page 9, the statement of net position, funding restricted for child care as of June 30, 2024, was $4,218,095. Funding restricted for child care as of June 30, 2025, was $8,186,928.
- On page 11, the statements of cash flows, disbursements of business loans totaled $29,184,300 in fiscal year 2024 and $20,293,913 in fiscal year 2025.
- On pages 14 and 15, note 1 provides a description of each activity in which funding is used by NDDF.
- On page 19, note 2 provides for the amount of cash, cash equivalents, and certificates of deposits held for NDDF at the Bank of North Dakota. The total for fiscal year 2024 was $84,803,262. The total for fiscal year 2025 was $69,227,364.

- On page 22, note 7 includes information on related party transactions, including contracted salaries and benefits with the Department of Commerce and an equity investment in Wonder Fund North Dakota.
- On pages 25 through 28, detailed lists of assets, liabilities, revenues, expenses, and cash flow are provided for each activity under NDDF.

NORTH DAKOTA DEVELOPMENT FUND PERFORMANCE AUDIT (JULY 1, 2019, THROUGH JUNE 30, 2024)

Audit purpose: The purpose of this audit was to evaluate the administration of NDDF financing programs, financing effectiveness, and management of financial risk.

Findings:

- **Portfolio monitoring and financial risk** - The NDDF lacked sufficiently documented policies, criteria, analyses, and supporting records for portfolio monitoring, risk ratings, reserve requirements, impairment, and evaluating future lending capacity.

  The auditor recommends documented policies and procedures, consistent reserve and loss-recognition methodologies, retention of significant decision records, and enhanced board reporting. The finding does not conclude that higher-risk financing or reliance on appropriations is inherently inappropriate. (Pages 10-20)

- **Conflict-of-interest controls** - The NDDF did not retain board conflict-of-interest forms for fiscal years 2020 and 2021 and retained only one form for fiscal year 2022. Five entities associated with two board members received approximately $3.96 million during the audit period.

  The auditor recommends establishing a formal conflict review process, comparison of proposed transactions with board and staff disclosures, centralized relationship tracking, broader disclosure requirements, and retention of annual disclosures and documentation of recusals and approvals. (Pages 21-23)

- **Verification of job outcomes** - The NDDF relied on borrower-reported employment information without independent verification. For 91 projects with available data, borrowers reported 424.5 net new jobs.

  The auditor recommends applying a risk-based verification process using payroll reports, tax filings, workforce records, or other supporting documentation. Verification criteria should consider funding amounts, reported employment effects, project risk, and administrative burden. (Pages 24-28)

- **Application and approval documentation** - Documentation exceptions affected 25 of 40 sampled transactions, including missing underwriting records, approval documentation, and evidence of board oversight. The sample represented approximately $61.4 million, or 75 percent of approved transaction amounts during the audit period. The NDDF also lacked sufficient processing-date records, formal denial tracking, and documented reconsideration procedures.

  The auditor recommends standardized processing, approval, documentation, retention, and denial practices. (Pages 29-31)

Management response:

- The NDDF generally supported further formalization of its policies and documentation while emphasizing its role in providing higher-risk gap financing. Management reported that it had strengthened governance practices, prohibited related-party financing, and discontinued delegated lending authority, with financing decisions now subject to board approval.

  Management plans additional reviews and phased improvements beginning in the 4th quarter of 2026, following its annual financial audit. Regarding employment data, management emphasized that state law requires estimates and stated it would evaluate additional documentation and possible risk-based corroboration procedures, considering costs and administrative burdens. (Pages 40-44)

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

- In Senate Bill 2396 (2025), the Legislative Assembly provided the State Auditor's office a $250,000 appropriation for the purpose of contracting for the performance audit of NDDF. The State Auditor's office contracted with Eide Bailly, LLP for the audit at a cost of $224,200.

Observations/potential questions relating to the audit report:

- During the audit period, NDDF approved 126 loans and investments totaling approximately $81.8 million. Programs included the North Dakota Development Fund, Regional Rural Development Revolving Loan Fund, Child Care Loan Program, Angel Match Program, and venture and technology financing. (Page 5)
- How does NDDF plan to assess and implement enhancements to its policies and governance practices, and how will progress be reported to the board?