

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

The Legislative Audit and Fiscal Review Committee is a statutorily created committee of the Legislative Management. Pursuant to North Dakota Century Code Section 54-35-02.1, the committee is created as a division of the Budget Section and its members are appointed by the Legislative Management. The committee's purposes are to:

- Study and review the state's financial transactions to assure the collection of state revenues and the expenditure of state money is in compliance with law, legislative intent, and sound financial practices.
- Provide the Legislative Assembly with objective information on revenue collections and expenditures to improve the fiscal structure and transactions of the state.

Pursuant to Section 54-35-02.2, the committee is responsible for studying and reviewing audit reports submitted by the State Auditor on a quarterly basis during the interim. The committee is authorized to make such audits, examinations, or studies of the fiscal transactions or governmental operations of state departments, agencies, or institutions as it may deem necessary.

Committee members were Representatives Emily O'Brien (Chairman), Bert Anderson, Dick Anderson, Josh Boschee, Scott Louser, Mike Nathe, Dan Ruby, Austen Schauer, and Scott Wagner and Senators David A. Clemens, Jerry Klein, Judy Lee, Jeffery J. Magrum, Scott Meyer, and Shawn Vedaa.

Representative Cole Christensen served on the committee until his resignation from the Legislative Assembly in February 2024.

During the 2023-24 interim, the State Auditor's office (SAO) and independent accounting firms presented 32 operational audits conducted using performance auditing standards, 1 performance audit report, and 68 financial audit reports. An additional 13 audit reports were filed with the committee but not formally presented. The committee's policy is to hear only audit reports relating to major agencies and audit reports containing major recommendations. However, other audit reports are presented at the request of any committee member. At the end of this report is a listing of audit reports accepted by the committee.

The committee was assigned the following duties and responsibilities for the 2023-24 interim:

1. Receive the annual audit report for the State Fair Association (Section 4.1-45-17).
2. Receive annual audit reports from any corporation or limited partnership that produces agricultural ethyl alcohol or methanol in this state and which receives a production subsidy from the state (Sections 10-19.1-152 and 45-10.2-115).
3. Receive annual reports on the writeoffs of accounts receivable at the Department of Health and Human Services and Life Skills and Transition Center (Sections 50-06.3-08 and 25-04-17).
4. Receive the annual audited financial statements and economic impact reports from the North Dakota low-risk incentive fund. (Section 26.1-50-05 provides for the financial statements and the report to be submitted to the Legislative Council. The Legislative Management assigned this responsibility to the committee.)
5. Receive an electronic copy of the audit report from the North Dakota Stockmen's Association at least once every 2 years. (Section 4.1-72-08 provides for the financial statements and the report to be submitted to the Legislative Council. The Legislative Management assigned this responsibility to the committee.)
6. Receive a performance audit report of Job Service North Dakota upon the request of the committee (Section 52-02-18).
7. Determine necessary performance audits. (Section 54-10-01 provides the State Auditor is to perform or provide for performance audits of state agencies, or the agencies' blended component units or discreetly presented component units, as determined necessary by the Legislative Assembly or the committee, and provides for the committee to approve the State Auditor's hiring of a consultant to assist with conducting a performance audit.)
8. Determine the frequency of audits or reviews of state agencies (Section 54-10-01).
9. Determine when the State Auditor is to perform audits of political subdivisions (Section 54-10-13).
10. Direct the State Auditor to audit or review the financial records and accounts of any political subdivision (Section 54-10-15).

11. Study and review audit reports submitted by the State Auditor and make recommendations to the Legislative Assembly to reduce a state agency, department, or institution's appropriation if the state agency, department, or institution has failed to correct audit findings (Section 54-35-02.2).
12. Review updates to government auditing standards and develop guidelines for the contents of state agency audit reports. The committee, when developing guidelines, shall consider applicable auditing standards, sound financial practices, compliance with laws and legislative intent, data analyses, and the opportunity to improve the efficient and effective operations of state agencies (Section 54-35-02.10).
13. Receive a biennial report from the State Auditor regarding final report distribution policies and practices and any final audit reports prior to distribution of the final audit report to all individuals charged with the governance of the audit client (Section 54-10-01).
14. Receive a quarterly report from the State Auditor regarding communication processes with audited entities and any changes to the processes, billing practices and procedures, information on audits completed, and audit schedules (Section 54-10-01).

GUIDELINES FOR AUDITS OF STATE AGENCIES

The committee received information on and reviewed guidelines developed by prior Legislative Audit and Fiscal Review Committees relating to state agency and institution audits performed by the SAO and independent certified public accountants. For audit periods on or after June 30, 2022:

1. Auditors conducting financial statement audits of state agencies are to prepare an audit summary that identifies the purpose of the audit, the type of audit opinion, findings and recommendations, status of prior recommendations, explanations of significant audit adjustments and misstatements, disagreements with management or difficulties encountered during the audit, other audit report highlights, and the cost of the audit compared to the prior audit.
2. The State Auditor conducting operational audits using performance auditing standards of state agencies is to expand the audit summary to identify the areas reviewed and testing conducted even if there are no related findings or recommendations.

The committee received summary reports for operational audits of state agencies completed by the State Auditor. The summary reports highlight the objective of the audit, including areas of internal control reviewed, findings relating to legislative intent, suggested areas of operational improvement, and key financial information.

At each committee meeting, the committee received Legislative Council audit summaries identifying the audit findings and other pertinent information related to the audit reports.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Section 54-10-01 requires the State Auditor to provide for the audit of the state's general purpose financial statements and to conduct a review of the material included in the *State of North Dakota Annual Comprehensive Financial Report*. The report contains the audited financial statements for state agencies and institutions. The committee received and accepted the *State of North Dakota Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2022*, and the *State of North Dakota Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2023*. An unmodified opinion was issued on the financial statements.

NORTH DAKOTA UNIVERSITY SYSTEM ANNUAL FINANCIAL REPORT

The committee received the North Dakota University System's annual financial report for the fiscal year ended June 30, 2022. An unmodified opinion was issued on the financial statements. As of June 30, 2022, the University System had total assets of \$2.77 billion and total liabilities of \$1.11 billion, resulting in total net assets of \$1.66 billion. The total net assets increased \$130 million during fiscal year 2022.

The committee received the University System's annual financial report for the fiscal year ended June 30, 2023. An unmodified opinion was issued on the financial statements. As of June 30, 2023, the University System had total assets of \$2.94 billion and total liabilities of \$1.22 billion, resulting in total net assets of \$1.72 billion. The total net assets increased \$60 million during fiscal year 2023.

PRESCRIPTION DRUG COVERAGE PERFORMANCE AUDIT

During the 2023 legislative session, the committee met, received, and accepted the performance audit report on the prescription drug coverage of the main Public Employees Retirement System health benefit plan. The State Auditor's office contracted with Myers and Stauffer, LC, to conduct the performance audit, which reviewed the prescription drug

coverage benefit offered to Public Employees Retirement System members by Sanford Health Plan and OptumRx. The performance audit included an analysis of prescription drug claims data from January 1, 2019, through December 31, 2021, to identify potential improvements to the plan. The contract for the performance audit allowed for payment for actual hours worked, not to exceed \$334,222.

The committee was informed Sanford Health Plan and OptumRx failed to provide sufficient documentation to support all required analyses. The auditors were unable to obtain original remittance advices for 2019 and 2020, limiting the ability to validate administrative fees, reconcile drug costs reimbursed to pharmacies, and perform a comprehensive analysis of spread pricing. Further, insufficient data was available for specialty pharmacy claims in all 3 years, limiting the ability of the auditor to analyze the cost of specialty drugs.

Recommendations included adjusting the Sanford Health Plan contract to have a more conservative retained dollar amount (currently the lesser of 50% of shared savings or \$1.5 million to be retained by Sanford Health Plan) and adjusting monthly premiums to reduce the likelihood of significant overfunding of the plan.

ATTORNEY GENERAL LEASED FACILITY INVESTIGATIVE REPORT

The committee received an investigative report from the Montana Department of Justice on the lease agreement and the remodeling and construction of facilities leased by the Attorney General located at 1720 Burlington Drive, Bismarck. The committee received background information and the timeline relating to the lease agreement and cost overruns from the Attorney General; and the fact-finding investigative final report from representatives of the Montana Department of Justice; and from representatives of Vogel Law Firm representing Stealth Properties LLC, and D&S LLC, the owners and managers of the property a response to the investigative report.

STATE AUDITOR QUARTERLY REPORTS

The committee received quarterly reports from the State Auditor regarding its communication processes with audited entities and any changes to the processes, billing practices and procedures, information on audits completed, and audit schedules pursuant to section 54-10-01.

In addition, the committee received information regarding State Auditor fees and the impact to state agencies and other public entities. Section 54-10-01 requires the SAO to charge certain agencies an amount that covers the cost of the audit.

PERFORMANCE AUDIT OF THE STATE AUDITOR'S OFFICE

Section 3 of House Bill No. 1541 (2023 special session) provided an appropriation to the Legislative Council to contract for a performance audit of the SAO. Forvis, LLP, was contracted to conduct the performance audit at a cost not to exceed \$285,000. The firm began the performance audit in August 2024, and the audit is expected to be completed in November 2024. The performance audit includes an evaluation of the efficiency and effectiveness of the SAO relative to industry best practices, and includes a review of the hours required to complete audits, methods used to monitor staff time, billing processes, and quality assurance processes. The audit also includes an assessment of the adequacy and timeliness of communications with audited entities, governing boards, and the public.

OTHER INFORMATION

The committee received other information and reports, including an examination report of the Bank of North Dakota by the Department of Financial Institutions pursuant to Section 6-09-29.

Pursuant to Sections 25-04-17 and 50-06.3-08, the Department of Health and Human Services is required to report to the committee regarding accounts receivable writeoffs at the State Hospital, Life Skills and Transition Center, and human service centers as of June 30 of each fiscal year. Accounts receivable writeoffs as of June 30, 2023, were \$7,207,642 at the State Hospital, \$3,795 at the Life Skills and Transition Center, and \$300,338 at the human service centers.

AUDIT REPORTS ACCEPTED BY THE LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE DURING THE 2023-24 INTERIM

Agency	Audit Report Date	Meeting Date Accepted
Addiction counselor internship loan program	June 30, 2021 and 2022	July 26, 2023
Addiction counselor internship loan program	June 30, 2022 and 2023	December 19, 2023
Aeronautics Commission	June 30, 2022 and 2023	June 20, 2024
Ag partnership in assisting community expansion (PACE) Fund	June 30, 2021 and 2022	July 26, 2023
Ag PACE Fund	June 30, 2022 and 2023	December 19, 2023
Annual Comprehensive Financial Report	June 30, 2022	July 26, 2023

Agency	Audit Report Date	Meeting Date Accepted
Annual Comprehensive Financial Report	June 30, 2023	March 21, 2024
Bank of North Dakota	December 31, 2021 and 2022	July 26, 2023
Bank of North Dakota College Save Program	December 31, 2020 and 2021	July 26, 2023
Bank of North Dakota College Save Program	December 31, 2021 and 2022	July 26, 2023
Beginning farmer revolving loan fund	December 31, 2021 and 2022	July 26, 2023
Bismarck State College	June 30, 2021 and 2022	December 19, 2023
Clean Sustainable Energy Authority	June 30, 2022	July 26, 2023
Clean Sustainable Energy Authority	June 30, 2022 and 2023	December 19, 2023
Comprehensive Health Association	December 31, 2020 and 2021	July 26, 2023
Comprehensive Health Association	December 31, 2021 and 2022	December 19, 2023
COVID-19 PACE loan program	June 30, 2021 and 2022	July 26, 2023
COVID-19 PACE loan program	June 30, 2022 and 2023	December 19, 2023
Dakota College at Bottineau	June 30, 2021 and 2022	December 19, 2023
Department of Agriculture	June 30, 2022 and 2023	June 20, 2024
Department of Environmental Quality	June 30, 2022 and 2023	March 21, 2024
Department of Financial Institutions	June 30, 2021 and 2022	July 26, 2023
Department of Health	June 30, 2021	February 16, 2023
Department of Public Instruction	June 30, 2022 and 2023	March 21, 2024
Department of Transportation	June 30, 2020 and 2021	February 16, 2023
Department of Trust Lands	June 30, 2021 and 2022	July 26, 2023
Department of Trust Lands	June 30, 2022 and 2023	December 19, 2023
Department of Veterans Affairs	June 30, 2021 and 2022	July 26, 2023
Dickinson State University	June 30, 2021 and 2022	December 19, 2023
Game and Fish Department	June 30, 2021 and 2022	December 19, 2023
Housing Finance Agency	June 30, 2022	July 26, 2023
Housing Incentive Fund	June 30, 2021 and 2022	July 26, 2023
Indian Affairs Commission	June 30, 2021 and 2022	July 26, 2023
Industrial Commission	June 30, 2022 and 2023	March 21, 2024
Information Technology Department	June 30, 2021 and 2022	December 19, 2023
Infrastructure revolving loan fund	June 30, 2021 and 2022	July 26, 2023
Infrastructure revolving loan fund	June 30, 2022 and 2023	December 19, 2023
Innovation technology loan fund (Bank of North Dakota)	June 30, 2021 and 2022	July 26, 2023
Innovation technology loan fund (Bank of North Dakota)	June 30, 2022 and 2023	December 19, 2023
Insurance Department	June 30, 2022 and 2023	Future
Job Service North Dakota	June 30, 2023	December 19, 2023
Legislative Assembly	June 30, 2022 and 2023	March 21, 2024
Legislative Council	June 30, 2022 and 2023	March 21, 2024
Medical Facility Infrastructure Loan Fund	June 30, 2021 and 2022	July 26, 2023
Medical Facility Infrastructure Loan Fund	June 30, 2022 and 2023	December 19, 2023
Mill and Elevator Association	June 30, 2022	July 26, 2023
Mill and Elevator Association	June 30, 2022 and 2023	December 19, 2023
Minot State University	June 30, 2021 and 2022	December 19, 2023
North Dakota Annual Comprehensive Financial Report	June 30, 2022	July 26, 2023
North Dakota Barley Council	June 30, 2021 and 2022	March 21, 2024
North Dakota Beef Commission	June 30, 2021 and 2022	July 26, 2023
North Dakota Beef Commission	June 30, 2022 and 2023	March 21, 2024
North Dakota Building Authority	June 30, 2021 and 2022	July 26, 2023
North Dakota Building Authority	June 30, 2022 and 2023	December 19, 2023
North Dakota Corn Utilization Council	June 30, 2022	July 26, 2023
North Dakota Dairy Promotion Commission	June 30, 2021 and 2022	July 26, 2023
North Dakota Development Fund	June 30, 2022 and 2023	March 21, 2024
North Dakota Dry Bean Council	June 30, 2021 and 2022	July 26, 2023
North Dakota Dry Pea and Lentil Council	June 30, 2021 and 2022	July 26, 2023
North Dakota Ethanol Council	June 30, 2021 and 2022	July 26, 2023
North Dakota Guaranteed Student Loan Program	December 31, 2021 and 2022	July 26, 2023
North Dakota Highway Patrol	June 30, 2021 and 2022	December 19, 2023
North Dakota Lottery	June 30, 2022	July 26, 2023
North Dakota Lottery	June 30, 2022 and 2023	December 19, 2023
North Dakota Milk Marketing Board	June 30, 2021 and 2022	July 26, 2023
North Dakota Oilseed Council	June 30, 2021 and 2022	July 26, 2023
North Dakota Potato Council	June 30, 2021 and 2022	July 26, 2023
North Dakota Protection and Advocacy Project	June 30, 2021 and 2022	July 26, 2023
North Dakota Single Audit	June 30, 2021 and 2022	December 19, 2023
North Dakota Single Audit	June 30, 2019 and 2020	December 19, 2023
North Dakota Soybean Council	June 30, 2022	July 26, 2023

Agency	Audit Report Date	Meeting Date Accepted
North Dakota Soybean Council	June 30, 2023	March 21, 2024
North Dakota State College of Science	June 30, 2022 and 2023	June 20, 2024
North Dakota State Fair Association	September 30, 2021	July 26, 2023
North Dakota State Fair Association	September 30, 2022	December 19, 2023
North Dakota University System	June 30, 2022	July 26, 2023
North Dakota University System	June 30, 2022 and 2023	March 21, 2024
North Dakota Student Loan Trust	June 30, 2021 and 2022	July 26, 2023
North Dakota Student Loan Trust	June 30, 2022 and 2023	December 19, 2023
North Dakota University System office	June 30, 2021 and 2022	December 19, 2023
North Dakota Vision Services - School for the Blind	June 30, 2022 and 2023	March 21, 2024
North Dakota Wheat Commission	June 30, 2021 and 2022	July 26, 2023
Office of the Adjutant General	June 30, 2021 and 2022	December 19, 2023
Office of the Attorney General	June 30, 2021 and 2022	March 21, 2024
Office of the Governor	June 30, 2022 and 2023	June 20, 2024
Office of the State Auditor	June 30, 2022 and 2023	March 21, 2024
PACE Fund	June 30, 2021 and 2022	July 26, 2023
PACE Fund	June 30, 2022 and 2023	December 19, 2023
Public Employees Retirement System	June 30, 2021 and 2022	July 26, 2023
Public Employees Retirement System	June 30, 2022 and 2023	March 21, 2024
Public Employees Retirement System - Other Postemployment Benefits	June 30, 2022	July 26, 2023
Public Employees Retirement System - Other Postemployment Benefits	June 30, 2023	March 21, 2024
Public Employees Retirement System - Pension	June 30, 2022	July 26, 2023
Public Employees Retirement System - Pension	June 30, 2023	March 21, 2024
Public Employees Retirement System - Prescription Drug Coverage	December 31, 2019, 2020, and 2021	February 16, 2023
Public Finance Authority	December 31, 2020 and 2021	July 26, 2023
Public Finance Authority	December 31, 2021 and 2022	December 19, 2023
Public Finance Authority	December 31, 2022 and 2023	June 20, 2024
Rebuilders Permanent Loan Fund	June 30, 2021 and 2022	July 26, 2023
Rebuilders Permanent Loan Fund	June 30, 2022 and 2023	December 19, 2023
Retirement and Investment Office	June 30, 2021 and 2022	July 26, 2023
Retirement and Investment Office	June 30, 2022 and 2023	March 21, 2024
School construction assistance revolving loan fund	June 30, 2021 and 2022	July 26, 2023
School construction assistance revolving loan fund	June 30, 2022 and 2023	December 19, 2023
School for the Deaf	June 30, 2022 and 2023	June 20, 2024
Secretary of State	June 30, 2021 and 2022	December 19, 2023
Securities Department	June 30, 2021 and 2022	July 26, 2023
State Historical Society	June 30, 2021 and 2022	December 19, 2023
State Library	June 30, 2020 and 2021	December 19, 2023
State Library	June 30, 2022 and 2023	March 21, 2024
State Seed Department	June 30, 2021 and 2022	July 26, 2023
Teachers' Fund for Retirement Employment Schedules	June 30, 2023	March 21, 2024
University of North Dakota	June 30, 2021 and 2022	December 19, 2023
Water Infrastructure Revolving Loan Fund	June 30, 2022	July 26, 2023
Water Infrastructure Revolving Loan Fund	June 30, 2022 and 2023	December 19, 2023
Workforce Safety & Insurance	June 30, 2022 and 2023	December 19, 2023