

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Wednesday, July 9, 1997
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Ken Solberg, Vice Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Ole Aarsvold, Tony Clark, Gereld F. Gerntholz, Richard Kunkel, Andrew G. Maragos, Stacey L. Mickelson, Jim Poolman, Bob Skarphol, Francis J. Wald, Gerry L. Wilkie; Senators Evan E. Lips. Duane Mutch, Ken Solberg, Dan Wogsland

Members absent: Representatives Mike Timm, Rex R. Byerly, John Dorso; Senator Harvey D. Tallackson

Others present: See Appendix "A"

Mr. Chester E. Nelson, Jr., Legislative Budget Analyst and Auditor, reviewed the Legislative Council supplementary rules of operation and procedure.

The Legislative Council staff presented a memorandum on the duties and responsibilities of the Legislative Audit and Fiscal Review Committee. The committee is statutorily created for the purposes of studying and reviewing the financial transactions of the state; to ensure the collection and expenditures of its revenues and moneys in compliance with the law and legislative intent and sound financial practices; and to provide the Legislative Assembly with formal, objective information on revenue collection and expenditures for the basis of legislative action to improve the fiscal structure and transactions of the state (North Dakota Century Code (NDCC) Section 54-35-02.1).

The committee's duties and responsibilities include the following:

1. Receive the State Fair Association's audit reports. (NDCC Section 4-02.1-18)
2. Receive the annual audit report from any limited liability company that produces agricultural ethanol or methanol in this state and which receives a production subsidy from the state. (NDCC Section 10-32-156)
3. Receive the annual audited financial statement and report from the North Dakota low-risk incentive fund. (NDCC Section 26.1-50-05)
4. Receive and review annual reports on the status of accounts receivable from the

Department of Human Services and Developmental Center at Westwood Park, Grafton. (NDCC Sections 25-04-17, Developmental Center at Westwood Park, Grafton, and 50-06.3-08, Department of Human Services, including the State Hospital)

5. Receive the biennial performance audit on the divisions of Job Service North Dakota. (NDCC Section 52-02-18)
6. The State Auditor is to perform or provide for performance audits of state agencies as the State Auditor or the Legislative Audit and Fiscal Review Committee determines necessary. (NDCC Section 54-10-01)
7. Determine the frequency of audits or reviews. (NDCC Section 54-10-01)
8. Determine when the State Auditor is to perform audits of political subdivisions. (NDCC Section 54-10-13)
9. Direct the State Auditor to audit or review the accounts of any political subdivision. (NDCC Section 54-10-15)
10. Study and review audit reports submitted by the State Auditor. (NDCC Section 54-35-02.2)
11. Receive report from the Information Services Division with respect to state entity noncompliance with statewide information technology policies and standards. (NDCC Section 54-44.2-12)
12. Receive annual report from the director of the Workers Compensation Bureau and the chairman of the Workers Compensation Bureau Board of Directors. (NDCC Section 65-02-03.3)
13. Receive report from the director of the Workers Compensation Bureau and the auditor regarding the biennial performance audit of the Workers Compensation Bureau. (NDCC Section 65-02-29)
14. Receive report from the director of the Workers Compensation Bureau, the chairman of the Workers Compensation Bureau Board

of Directors, and the auditor regarding the biennial performance audit of the Workers Compensation Bureau. (NDCC Section 65-02-30)

The memorandum also included information on guidelines developed by the committee in past interims for audits performed by the State Auditor's office and independent certified public accountants. The guidelines require that audit reports include specific statements and recommendations regarding:

1. Whether expenditures were made in accordance with legislative appropriations and other state fiscal requirements and restrictions.
2. Whether revenues were accounted for properly.
3. Whether financial controls and procedures are adequate.
4. Whether the system of internal control was adequate and functioning effectively.
5. Whether financial records and reports reconciled with those of state fiscal offices.
6. Whether there was compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning.
7. Whether there was evidence of fraud or dishonesty.
8. Whether there were indications of lack of efficiency in financial operations and management of the agency.
9. Whether actions have been taken by agency officials with respect to findings and recommendations set forth in the audit reports for preceding periods.
10. Whether all activities of the agency were encompassed within appropriations of specific amounts.
11. Whether the agency has implemented the statewide accounting and management information system, including the cost allocation system.
12. Whether the agency has developed budgets of actual anticipated expenditures and revenues on at least a quarterly basis and compares on at least a quarterly basis actual expenditures and revenues on the accrual basis to budgeted expenditures and revenues.

Mr. Robert Meidinger, Office of Management and Budget, presented the statewide Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 1996. He presented an outline of the CAFR, a copy of which is on file in the Legislative Council office. He said the CAFR covers all of the state's funds and account groups and financial transactions during the year. He said the CAFR is a general purpose report intended to meet the needs of a broad array of user groups.

Mr. Meidinger reviewed the various sections of the CAFR and the notes to the financial statements. He also reviewed the budgetary report showing actual expenditures to budget for the 1995-97 biennium, and he reviewed the departmental statements by fund for the fiscal year ended June 30, 1996.

Without objection, the vice chairman accepted the North Dakota Comprehensive Annual Financial Report for the year ended June 30, 1996.

Mr. Ed Nagel, State Auditor's office, presented information on the audit process for state agencies and on the relationship between the office of the State Auditor and the Legislative Audit and Fiscal Review Committee. A copy of the report is on file in the Legislative Council office. He reviewed the powers and duties of the State Auditor as set out in the North Dakota Century Code. He also reviewed the different types of state audits and the functions of the State Auditor's office as they relate to audits presented to the Legislative Audit and Fiscal Review Committee. Mr. Nagel also reviewed a list of audits performed by independent certified public accounting firms and a list of audits of occupational and professional boards.

Mr. Nagel presented the North Dakota Retirement and Investment Office audit report for the year ended June 30, 1996. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report indicates that one prior year finding is not fully implemented. He said the report indicates that the finding and related recommendation are currently being addressed by management and progress is being made toward complete implementation.

Vice Chairman Solberg asked if a copy of the letter referred to on page 30 of the audit report could be provided to the committee. A copy of the letter is attached as Appendix "B".

Representative Wald asked what percentage of the investments of the Public Employees Retirement System is in equities. Mr. Scott Engmann, Retirement and Investment Office, said the Public Employees Retirement System Board has set the following asset allocation:

- 29 percent large capital stocks.
- 9 percent small capital stocks.
- 11.5 percent international equities.
- 4 percent international emerging markets.
- 26 percent fixed income.
- 3.5 percent high yield bonds.
- 4.5 percent international bonds.
- 7.5 percent real estate.
- 4 percent venture capital.
- 1 percent short-term cash.

Mr. Engmann said the allocation is reviewed on a monthly basis and the portfolio is rebalanced to these percentages on a quarterly basis.

Without objection, the vice chairman accepted the North Dakota Retirement and Investment Office audit report for the year ended June 30, 1996.

Mr. Nagel presented the Secretary of State audit report for the two-year period ended June 30, 1996. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations.

Senator Wogsland asked about the separate letter referred to on page 11 of the audit report. Mr. Nagel said that refers to a management letter in which items not material enough to be included in the audit report are disclosed to management in an effort to have management improve on these areas. Mr. Bob Schaible, Secretary of State's office, distributed a copy of the letter to the committee members. A copy of the letter is on file in the Legislative Council office.

Without objection, the vice chairman accepted the Secretary of State audit report for the two-year period ended June 30, 1996.

Mr. Nagel presented the Adjutant General audit report for the two-year period ended June 30, 1996. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations.

Representative Wald asked about the current cash flow situation of the National Guard in light of the winter and spring disasters. Adjutant General Keith Bjerke, North Dakota National Guard, said the National Guard currently has a \$3.2 million loan at the Bank of North Dakota. He said the National Guard should soon have the FEMA money with which it will pay back the loan.

Without objection, the vice chairman accepted the Adjutant General audit report for the two-year period ended June 30, 1996.

Mr. Alton Nitschke, Eide Helmeke PLLP, Certified Public Accountants and Consultants, presented the Board of University and School Lands audit report for the years ended June 30, 1996 and 1995. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report contains an unqualified opinion.

Without objection, the vice chairman accepted the Board of University and School Lands audit report for the years ended June 30, 1996 and 1995.

Mr. Nitschke presented the Municipal Bond Bank audit report for the years ended December 31, 1996 and 1995. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report contains an unqualified opinion.

Without objection, the vice chairman accepted the Municipal Bond Bank audit report for the years ended December 31, 1996 and 1995.

Mr. Nitschke presented the Housing Finance Agency audit report for the years ended June 30, 1996 and 1995. He reviewed the auditor's responses to the committee's guidelines and said the report contains two federal findings, neither of which has related questioned costs. He said the report contains an unqualified opinion.

Without objection, the vice chairman accepted the Housing Finance Agency audit report for the years ended June 30, 1996 and 1995.

Mr. Nitschke presented the Workers Compensation Bureau audit report for the years ended June 30, 1996 and 1995. He reviewed the auditor's responses to the committee's guidelines and said the report contains two findings and recommendations. He said both recommendations relate to subsidiary journals not being reconciled to the general ledger. He said the report contains an unqualified opinion.

Senator Wogsland asked how the favorable investment returns of the bureau have impacted the workers' compensation rates for employers. Mr. Pat Traynor, Director, Workers Compensation Bureau, said effective July 1 there is a three percent rate decrease, partially attributable to strong investment returns of the fund.

Without objection, the vice chairman accepted the Workers Compensation Bureau audit report for the years ended June 30, 1996 and 1995.

Mr. Nitschke presented the State Fair Association audit report for the years ended September 30, 1996 and 1995. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report contains an unqualified opinion.

Without objection, the vice chairman accepted the State Fair Association audit report for the years ended September 30, 1996 and 1995.

Mr. Nitschke presented the North Dakota Building Authority audit report for the years ended June 30, 1996 and 1995. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report contains an unqualified opinion.

Without objection, the vice chairman accepted the North Dakota Building Authority audit report for the years ended June 30, 1996 and 1995.

Mr. Nitschke presented the North Dakota Development Fund, Inc., audit report for the years ended June 30, 1996 and 1995. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report contains an unqualified opinion.

Representative Maragos asked if the committee could be provided with a list of investments held by the North Dakota Development Fund, Inc. Mr. Bryan

Dvirnak, North Dakota Development Fund, said a list could be provided to committee members.

Vice Chairman Solberg requested that the list of investments be provided to the Legislative Council and that the Council staff distribute the list of investments to committee members along with the minutes. (The information was not available at the time the minutes were mailed so it will be sent to committee members at a later date.)

Without objection, the vice chairman accepted the North Dakota Development Fund, Inc., audit report for the years ended June 30, 1996 and 1995.

Mr. Nitschke presented the Technology Transfer, Inc., audit report for the years ended June 30, 1996 and 1995. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report contains an unqualified opinion.

Representative Maragos asked if the committee could also be provided a list showing the current valuation of investments held by Technology Transfer, Inc. Ms. Beverly Fischer, Technology Transfer, Inc., said she would provide the information for the committee.

Vice Chairman Solberg requested that the information list be provided to the Legislative Council and that the Legislative Council staff include the information with the minutes. Attached as Appendix "C" is the information provided by Technology Transfer Inc.

Without objection, the vice chairman accepted the Technology Transfer, Inc., audit report for the years ended June 30, 1996 and 1995.

The committee recessed for lunch at 12:15 p.m. and reconvened at 1:00 p.m.

Mr. Pat Brown, Brady Martz and Associates, Certified Public Accountants, presented the Public Employees Retirement System audit report for the year ended June 30, 1996. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report contains an unqualified opinion.

Without objection, the vice chairman accepted the Public Employees Retirement System audit report for the year ended June 30, 1996.

Mr. Brown presented the Job Service North Dakota audit report for the year ended June 30, 1996. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report contains an unqualified opinion.

Senator Solberg asked why the unemployment compensation fund balance has dropped and if Job Service North Dakota has any plans on how to address the decreasing balance in the unemployment compensation fund. Mr. Wayne Kindem, Job Service

North Dakota, said unemployment compensation tax rates have been decreased and therefore some decreases in the fund balance has taken place. He said the current balance of the fund is approximately \$38 million. Mr. Kindem said the Grand Forks disaster is expected to have a \$6 million to \$7 million impact on the fund. He said Job Service North Dakota will be presenting information to the Budget Section on the unemployment compensation fund.

Senator Solberg asked if Job Service North Dakota and the Workers Compensation Bureau have started the joint employer audit program as directed by the 1997 Legislative Assembly. Mr. Kindem said Job Service North Dakota and the Workers Compensation Bureau are developing an implementation plan for a joint auditing program.

Representative Skarphol asked what the desired unemployment compensation fund balance would be based on any federal requirements or guidelines. Mr. Kindem said no federal requirements exist as to unemployment compensation fund balances but a "rule of thumb" guideline is for maintaining a fund balance of one and one-half times the highest year payout occurring in the last three years. He said the payout range has been from \$25 million to \$30 million so the unemployment compensation fund balance based upon this guideline would be between \$37.5 million and \$45 million.

Without objection, the vice chairman accepted the Job Service North Dakota audit report for the year ended June 30, 1996.

Mr. Kevin Ritter, Brady Martz and Associates, Certified Public Accountants, presented the North Dakota real estate trust audit report for the years ended June 30, 1996 and 1995. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report contains an unqualified opinion.

Without objection, the vice chairman accepted the North Dakota real estate trust audit report for the years ended June 30, 1996 and 1995.

Mr. Ritter presented the PACE fund audit report for the years ended June 30, 1996 and 1995. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report contains an unqualified opinion.

Without objection, the vice chairman accepted the PACE fund audit report for the years ended June 30, 1996 and 1995.

Mr. Ritter presented the Ag PACE fund audit report for the years ended June 30, 1996 and 1995. He reviewed the auditor's responses to the committee's guidelines and said the report does not contain any findings or recommendations. He said the report contains an unqualified opinion.

Without objection, the vice chairman accepted the Ag PACE fund audit report for the years ended June 30, 1996 and 1995.

The committee delayed action on the following audit reports and requested that they be presented at the next committee meeting.

- School for the Blind (June 30, 1996).
- Potato Council (June 30, 1996).
- Barley Council (June 30, 1996).
- State Board of Cosmetology (June 30, 1996 and 1995).
- Stockmen's Association (December 31, 1996 and 1995).

It was moved by Senator Lips, seconded by Representative Poolman, and carried that the committee accept the following reports:

- Reports accepted without objection by the vice chairman:

For the year ended June 30, 1996:

North Dakota Comprehensive Annual
Financial Report
North Dakota Retirement and Investment
Office
North Dakota Public Employees
Retirement Board
Job Service North Dakota

For the two-year period ended June 30, 1996:

Secretary of State
Adjutant General

For the years ended June 30, 1996 and 1995:

Board of University and School Lands
North Dakota Housing Finance Agency
Workers Compensation Bureau
North Dakota Building Authority
North Dakota Development Fund, Inc.
Technology Transfer, Inc.
North Dakota real estate trust
PACE fund
Ag PACE fund

For the years ended December 31, 1996 and 1995:

North Dakota Municipal Bond Bank

For the years ended September 30, 1996 and 1995:

North Dakota State Fair Association

- Audit reports available but not selected for presentation to the committee:

School for the Deaf (June 30, 1996)
Department of Veterans Affairs (June 30, 1996)
Dairy Products Promotion Commission (June 30, 1996)
Edible Bean Council (June 30, 1996)
Milk Marketing Board (June 30, 1996)
Oilseed Council (June 30, 1996)

Soybean Council (June 30, 1996)

Corn Utilization Council (June 30, 1996)

Seed Department (June 30, 1996)

Beef Commission (June 30, 1996)

Wheat Commission (June 30, 1996)

Guaranteed student loan (September 30, 1996 and 1995)

Student loan trust (June 30, 1996 and 1995)

Board of Clinical Laboratory Practice (June 30, 1995 and 1994)

Board of Athletic Trainers (June 30, 1996 and 1995)

State Board of Chiropractic Examiners (December 31, 1996)

Board of Counselor Examiners (June 30, 1996 and 1995)

State Board of Funeral Service (June 30, 1996 and 1995)

Board of Nursing (June 30, 1996 and 1995)

Board of Examiners for Nursing Home Administrators (June 30, 1996 and 1995)

Board of Occupational Therapy Practice (May 31, 1996 and 1995)

State Board of Pharmacy (June 30, 1996 and 1995)

State Board of Registration for Professional Engineers and Land Surveyors (June 30, 1996 and 1995)

Real Estate Commission (June 30, 1996 and 1995)

Respiratory Care Examining Board (September 30, 1996 and 1995)

State Board of Veterinary Medical Examiners (June 30, 1996 and 1995)

Board of Water Well Contractors (June 30, 1996 and 1995)

Real Estate Appraiser Qualifications and Ethics Board (June 30, 1995 and 1994)

Private Investigation and Security Board (June 30, 1996 and 1995)

Voting "aye" were Representatives Aarsvold, Clark, Gerntholz, Kunkel, Maragos, Mickelson, Poolman, Skarphol, Wald, and Wilkie and Senators Lips, Mutch, Solberg, and Wogsland. No negative votes were cast.

Senator Solberg informed the committee that the Lake Agassiz Regional Planning Council was intending to form a foundation before Senate Bill No. 2047, as passed by the 1997 Legislative Assembly, becomes effective. He said he is wondering why the planning council thinks it is necessary to form a foundation before this committee has the authority to request the State Auditor's office to perform an audit of a regional planning council.

Representative Aarsvold said he could support this committee's requesting the State Auditor's office to perform an audit of a regional planning council

because that is what Senate Bill No. 2047 provides for. He said he could not support something outside of what is authorized by the legislation passed last session.

Senator Lips asked where the funding would come from for an audit of a regional planning council, if the audit was conducted by the State Auditor's office. Mr. Nagel said the Political Subdivision Division of the State Auditor's office would perform the audit and would bill the regional planning council for the cost of the audit.

Representative Wald asked if the State Auditor's office could review the most current audit of a particular regional planning council since the regional planning councils already have audits done by independent public accounting firms. Mr. Nagel said if the committee wants the State Auditor's office to look at a particular area that would be an option. He said if the committee wants the State Auditor's office to verify the amounts contained in an audit report, it would require the State Auditor's office do more than just review the audit report done by an independent firm.

Representative Poolman asked if the State Auditor's office would be able to look into why a regional planning council would be attempting to set up a separate foundation if the State Auditor's office is doing a review of an existing audit report. Mr. Nagel said the State Auditor's office could review an existing audit and expand the scope to include inquiries relating to the formation of a separate foundation.

It was moved by Representative Poolman, seconded by Representative Skarphol, and carried that the Legislative Audit and Fiscal Review Committee request that the State Auditor's office review the most current financial audit report of the Lake Agassiz Regional Planning Council and interview staff of the Lake Agassiz Regional Planning Council in order to determine why the Lake Agassiz Regional Planning Council may be forming a foundation. Voting "aye" were Representatives Clark, Gertholz, Kunkel, Maragos, Mickelson, Poolman, Skarphol, Wald, and Wilkie and Senators Mutch and Solberg. Voting "nay" were Representative Aarsvold and Senators Lips and Wogsland.

Mr. John Grettum, State Auditor's office, presented the North Dakota University System audit report for the year ended June 30, 1996. He said the report contains an unqualified opinion. Mr. Grettum said this is the first time the University System audit report is in one document. He reviewed the history of how the University System single audit report was developed and reviewed the format of the University System audit report. He said although the audit report is in one document, the individual campus

financial information is included in the back of the document.

Mr. Grettum reviewed the auditor's responses to the committee's guidelines and said the report contains four findings and related recommendations. He said the first recommendation relates to the University of North Dakota not complying with NDCC Section 15-10-12. He said the State Auditor's office recommends that the University of North Dakota comply with the Century Code by remitting all of its institutional income from tuition collections to the State Treasurer. He said the university has indicated that it will comply with this recommendation.

Mr. Grettum said the second finding relates to the classification of a fund at the University of North Dakota which was used for a systemwide project. He said the recommendation from the State Auditor's office is that the university activity be properly recorded and classified on the general ledger as it relates to expenditures for the development of a new computer system. He said the University of North Dakota is working with the staff of the State Auditor's office on options available to properly account for this and other systemwide activities in the future.

Mr. Grettum said the third finding relates to the proper deposit of funds. He said the State Auditor's office recommended that certain investments be deposited in accordance with NDCC Section 15-10-12. He said the recommendation of the State Auditor's office is that all applicable revenues received by the University of North Dakota in the future, which are identified in NDCC Section 15-10-12, be properly deposited in the Bank of North Dakota. Mr. Grettum said the University of North Dakota has since transferred the funds in question from an outside financial institution to the Bank of North Dakota.

Mr. Grettum said the fourth finding relates to procedures performed by the State Auditor's office on internal service funds within the North Dakota University System campuses. He said two instances were noted where funds greater than \$50,000 were utilized from an internal service fund without receiving Budget Section approval, as required by law. He said the first instance was at the University of North Dakota which paid indirect cost allocations out of internal service funds. Mr. Grettum said five indirect cost transfers of greater than \$50,000 each were recorded in various internal service funds.

Mr. Grettum said the other finding relating to internal service fund expenditures was at Minot State University which made a payment in excess of \$50,000 for utilities from an internal service fund. He said Minot State University thought that since it was two separate invoices, each of which was under \$50,000, it did not need Budget Section approval. He said since both invoices were paid in one payment

and the amount exceeded \$50,000, the State Auditor's office considered it necessary to get Budget Section approval.

Mr. Larry Isaak, North Dakota University System, commented on the North Dakota University System audit report. He said the University System agrees with some of the recommendations made by the State Auditor's office and has already begun implementing changes to address some of the recommendations contained in the report. Mr. Isaak said the note in the financial report regarding deficit fund balances has been addressed by the State Board of Higher Education. He said the board has expressed concern regarding the numerous deficit fund balances on some of the campuses. He said in particular the board is having the University of North Dakota bring a plan to address the deficit balances to the State Board of Higher Education. He said the board will also be receiving reports from the University of North Dakota on a semiannual basis regarding the progress being made on eliminating the deficit fund balances. Mr. Isaak said the board is considering procedures which would make it aware of deficit fund balances in the future, before the deficit balances show up in an audit report.

Mr. Isaak said in regard to the internal service fund findings made by the State Auditor's office, there is a need for consistency on how indirect cost allocations are handled. He said 80 percent to 85 percent of the cost are nonstate dollars. He said by using indirect cost allocation charges there is the ability to generate additional federal dollars. Mr. Isaak said the University System has received a letter from the federal government that the procedures it is using for charging indirect costs to internal service funds is acceptable. He said it may be beneficial to involve a third party to make recommendations on how to handle the differences between the University System and the State Auditor's office when it comes to the indirect cost allocations. Mr. Isaak said the University System does not oppose coming to the Budget Section for approval of such expenditures. He said the question raised by the State Auditor's office is whether or not indirect costs are appropriate charges to internal service funds.

Mr. Lyle Beiswenger, University of North Dakota, commented on the deficit fund balances. He said as of June 30 the athletic fund deficit balance has been eliminated. He said the Grand Forks Family Practice Center fund now has a positive balance, and the Minot Family Practice Center deficit fund balance should be resolved by 1999. He said the Center for Aerospace Sciences deficit fund balances are being resolved, and the university is looking at selling some aircraft and using the proceeds from the sale to address the deficit fund balances.

Representative Wald asked if the university anticipates a decrease in enrollment and related revenue reductions due to the flood. Dr. Kendall Baker, University of North Dakota, said currently the enrollment is approximately 12.9 percent behind where it was a year ago. He said the graduate enrollment area is showing the largest decrease and that freshman enrollment is very strong. He said in regard to revenue losses relating to enrollment decreases, approximately \$250,000 is lost for every one percent drop in enrollment.

Mr. Nelson asked if the internal service fund indirect cost allocation procedures are the same at all of the institutions. Ms. Laura Glatt, University System office, said the University System put in place a procedure for how internal services funds are operated. She said all procedures are uniform across the system. She said the difference is that the University of North Dakota is the only campus charging indirect costs to internal service funds. She said if other campuses start charging indirect costs to internal service funds, they would utilize the same procedures as the University of North Dakota.

Representative Poolman said it appears that the issue of indirect cost allocations to internal service funds is a public policy issue. He said an Attorney General's opinion is the best way to resolve the issue. He said if it is determined to be illegal, the issue is resolved and if it is determined to not be illegal, then it is time for the legislative branch to make a policy statement regarding this issue.

It was moved by Representative Poolman, seconded by Representative Aarsvold, and carried that the Legislative Audit and Fiscal Review Committee request the Legislative Council chairman to request an Attorney General's opinion on whether the charging of indirect costs to internal service funds by the University of North Dakota is within the legal limits of the law. Voting "aye" were Representatives Aarsvold, Clark, Gerntholz, Kunkel, Mickelson, Poolman, Skarphol, Wald, and Wilkie and Senators Lips, Mutch, Solberg, and Wogsland. No negative votes were cast.

Vice Chairman Solberg indicated that unless there is an objection from a committee member, the audit report on the North Dakota University System would be held until the next meeting at which time the Attorney General's opinion can be reviewed and the issue of indirect cost allocations to internal service funds resolved.

Mr. Dan Sipes, State Auditor's office, presented the general controls audit report on the Information Services Division for the period July 1, 1996, through May 30, 1997. A copy of the report is on file in the Legislative Council office. He said the report contains an unqualified opinion. He said the prior audit included seven recommendations, of which six have

been implemented. He said the one recommendation not implemented concerned controls over production source and object codes.

Mr. Sipes said the object of the audit was to assess the adequacy of the client control environment and the control procedures and to determine if the client's stated control procedures provide reasonable assurance that the control objectives in the following areas were achieved:

1. Organizational responsibilities.
2. Backup and recovery.
3. Information security.
4. Operations and data control.
5. Physical security.
6. System development life cycle.
7. System software.
8. Year 2000 compliance.

Mr. Sipes said the report contains four recommendations as follows:

1. Information Services Division should perform disaster recovery testing on a regular basis.
2. Information Services Division should implement procedures to positively identify callers before resetting IDs.
3. Information Services Division should implement a change management system for client/server applications.
4. Information Services Division should implement procedures to ensure the synchronization of production source code and production object code.

It was moved by Senator Lips, seconded by Representative Skarphol, and carried that the Legislative Audit and Fiscal Review Committee accept the Information Services Division general controls audit for the period July 1, 1996, through May 30, 1997. Voting "aye" were Representatives

Aarsvold, Clark, Gerntholz, Kunkel, Maragos, Mickelson, Poolman, Skarphol, Wald, and Wilkie and Senators Lips, Mutch, Solberg, and Wogsland.

Vice Chairman Solberg indicated to Mr. Sipes that he should contact the chairman of the Legislative Council's Information Technology Committee in order to present this report to that committee. Mr. Sipes said he would follow up on that.

Mr. Nelson presented an Attorney General's opinion which had been requested at the October 15, 1996, Legislative Audit and Fiscal Review Committee meeting regarding nonrecourse lease revenue bonds issued by the University of North Dakota Aerospace Foundation. A copy of the opinion is on file in the Legislative Council office. Mr. Nelson said the opinion states that the bonds are not general obligation debt. He said the opinion further states that the issuance of the bonds was not in violation of the constitutional debt limitation contained in Article X, Section 13, of the Constitution.

Vice Chairman Solberg announced that the next committee meeting is scheduled for Tuesday, October 7, 1997.

The committee adjourned at 3:50 p.m.

Paul R. Kramer
Senior Fiscal Analyst

Chester E. Nelson, Jr.
Legislative Budget Analyst and Auditor

ATTACH:3