

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 (NDCC) 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 NDCC Section 54-35-02.2, the committee is charged with studying and reviewing audit reports submitted by the State Auditor. 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 Gary Kreidt (Chairman), Wesley R. Belter, Jeff Delzer, Ron Guggisberg, Patrick Hatlestad, Jerry Kelsh, Scot Kelsh, Keith Kempenich, Andrew G. Maragos, Bob Martinson, Corey Mock, Chet Pollert, Dan Ruby, Jim Schmidt, Robert J. Skarphol, and Wayne Trottier and Senators Ralph Kilzer, Judy Lee, David O'Connell, Terry M. Wanzek.

During the 2013-14 interim, the State Auditor's office and independent accounting firms presented two performance audit and evaluation reports and 113 financial or information technology application audit reports. During the 2013 regular legislative session, the committee received two additional performance audit and evaluation reports. An additional 41 audit reports were filed with the committee but were 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 the audit reports accepted by the committee.

The committee was assigned the following duties and responsibilities for the 2013-14 interim:

1. Receive the annual audit report for the State Fair Association (NDCC Section 4-02.1-18).
2. Receive the annual audit report from any corporation, limited liability company, or limited partnership that produces agricultural ethyl alcohol or methanol in this state and which receives a production subsidy from the state (NDCC Sections 10-19.1-152, 10-32-156, and 45-10.2-115).
3. Receive annual reports on the write-offs of accounts receivable at the Department of Human Services and Life Skills and Transition Center (NDCC Sections 50-06.3-08 and 25-04-17).
4. Receive the annual audited financial statements and a report from the North Dakota low-risk incentive fund. (NDCC 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 electronic copy of audit report from the North Dakota Stockmen's Association at least one every two years (NDCC Section 4.1-72-08. NDCC Section 36-22-09 provides for the audit report to be submitted to the Legislative Council).
6. Receive the performance audit report of Job Service North Dakota upon the request of the committee (NDCC Section 52-02-18).
7. Determine necessary performance audits (NDCC Section 54-10-01(4) provides the State Auditor is to perform or provide for performance audits of state agencies as determined necessary by the State Auditor or the committee).
8. Approve the State Auditor's hiring of a consultant to assist with conducting a performance audit (NDCC Section 54-10-01).
9. Determine the frequency of audits or reviews of state agencies (NDCC Section 54-10-01(2)).
10. Determine when the State Auditor is to perform audits of political subdivisions (NDCC Section 54-10-13).
11. Direct the State Auditor to audit or review the financial records and accounts of any political subdivision (NDCC Section 54-10-15).

12. Study and review audit reports submitted by the State Auditor (NDCC Section 54-35-02.2).

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 State Auditor's office and independent certified public accountants. For audit periods covering fiscal years since June 30, 2006, auditors of state agencies and institutions are requested to address the following six audit questions:

1. What type of opinion was issued on the financial statements?
2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?
3. Was internal control adequate and functioning effectively?
4. Were there any indications of lack of efficiency in financial operations and management of the agency?
5. Has action been taken on findings and recommendations included in prior audit reports?
6. Was a management letter issued? If so, provide a summary, including any recommendations and the management responses.

In addition, auditors are asked to communicate to the committee eight issues which identify:

1. Significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.
2. Significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditors' conclusions regarding the reasonableness of those estimates.
3. Significant audit adjustments.
4. Disagreements with management, whether resolved to the auditors' satisfaction, relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.
5. Serious difficulties encountered in performing the audit.
6. Major issues discussed with management prior to retention.
7. Management consultations with other accountants about auditing and accounting matters.
8. High-risk information technology systems critical to operations based on the auditors' overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by auditors are directly related to the operations of an information technology system.

AUDIT OF THE STATE AUDITOR'S OFFICE

North Dakota Century Code Section 54-10-04 requires the Legislative Assembly to provide for an audit of the State Auditor's office. The Legislative Council contracted with Eide Bailly LLP for an audit of the State Auditor's office for the years ended June 30, 2013 and 2012. The firm presented its audit report at the committee's January 21, 2014, meeting. The audit report contained an unqualified opinion and one finding on recording of transactions and two significant audit adjustments to reduce work in progress and accounts receivable balances in both the general and operating funds.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

North Dakota Century Code 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 Comprehensive Annual Financial Report (CAFR). The Comprehensive Annual Financial Report contains the audited financial statements for state agencies and institutions. An unmodified opinion was issued on the financial statements. The committee received and accepted the state's June 30, 2012, and June 30, 2013, CAFRs.

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, 2012. An unqualified opinion was issued on the financial statements. As of June 30, 2012, the University System had total assets of \$1.4 billion and total liabilities of \$435.9 million, resulting in total net assets of \$963.7 million. The total net assets increased \$61.6 million during fiscal year 2012. The annual degree credit headcount enrollment for the fall 2011 semester was 48,805, a 2 percent increase over the fall 2010 enrollment.

The committee received the University System's annual financial report for the fiscal year ended June 30, 2013. An unqualified opinion was issued on the financial statements. As of June 30, 2013, the University System had total assets of \$1.47 billion and total liabilities of \$428 million, resulting in total net assets of \$1,042 million. The total net assets increased \$70.6 million during fiscal year 2013. The annual degree credit headcount enrollment for the fall 2012 semester was 48,203, a 1 percent decrease over the fall 2011 enrollment.

PERFORMANCE AUDITS AND EVALUATIONS

North Dakota University System Office

During the 63rd Legislative Assembly, the Legislative Audit and Fiscal Review Committee received and accepted the performance audit report of the University System office conducted by the State Auditor's office. The committee consisted of members of the Legislative Assembly who served on the committee during the 2011-12 interim. The objective of the audit was to determine if the University System office is adequately staffed to perform its functions.

The performance audit included 15 recommendations. The recommendations provide that the University System office:

1. Ensure the necessary resources are obtained to adequately perform the functions and duties of the office.
2. Ensure a system-wide monitoring function is established for the university system.
3. Ensure there is a unified system of higher education. If a unified system is unattainable, ensure appropriate action is taken to remove unified system language in laws and make appropriate changes to higher education's organizational structure and operations.
4. Develop a plan to establish the expectations of the office and use the plan to guide resource allocation.
5. Improve the university system's strategic planning and measuring performance processes.
6. Comply with State Board of Higher Education Policy 703.1 and ensure early retirement agreements only include payments authorized by policy.
7. Make improvements related to the assessment of campuses for paying the costs of employees. At a minimum, the University System office should:
 - a. Obtain proper State Board of Higher Education approval prior to assessing campuses;
 - b. Ensure assessments are properly budgeted and accounted for at the University System office and campus level; and
 - c. Ensure moneys assessed are used for the purpose for which the assessment was charged.
8. Take appropriate action to have internal audit functions within the University System report to the appropriate University System office personnel rather than to an institution president.
9. Establish an internal audit charter consistent with the definition of internal audit, the Code of Ethics, and other applicable standards.
10. Ensure State Board of Higher Education policies and University System procedures are concise, up to date, accurate, and user-friendly.
11. Ensure a formal written policy and/or procedure is established regarding the process to be used for drafting, reviewing, and approval of new or amended North Dakota University System procedures.
12. Comply with North Dakota Administrative Code (NDAC) Chapter 42-02-02 requirements related to the Indian Scholarship program.
13. Review NDAC Title 42 related to the Indian Scholarship program and take appropriate action to make changes.
14. Ensure information provided is consistently and accurately reported.
15. Ensure compliance with NDCC Chapter 54-46 and maintain an appropriate records management program.

Water Appropriations Division

During the 63rd Legislative Assembly, the Legislative Audit and Fiscal Review Committee received and accepted the performance audit report for the Water Appropriations Division of the office of the State Engineer. The committee consisted of members of the Legislative Assembly who served on the committee during the 2011-12 interim. The State Auditor contracted with KPMG, LLP, Certified Public Accountants to perform an assessment of the industrial water use monitoring and reporting policies and procedures used by the Water Appropriations Division. The audit period for which information was reviewed was January 2010 through June 2012.

The Water Appropriations Division is a component of the office of the State Engineer with designated responsibilities including administering and processing water rights, adjudicating and evaluating water rights, monitoring water resources, disseminating water resource information, developing community water supplies, conducting water resource research, and identifying and evaluating potential water supplies for economic development.

The performance audit included 17 recommendations. Major recommendations include that the Water Appropriations Division:

1. Ensure adequate documentation of monitoring and reporting processes by developing standard policies.
2. Ensure Annual Use Form (AUF) submissions comply with laws, rules, policies, and implement an online reporting tool.
3. Implement remote terminal metering devices and develop policies and guidelines for field inspection activities to reduce reliance on self-reporting by the permit holder.
4. Develop and implement an online reporting tool to reduce manual reporting processes.
5. Ensure enforcement of permit use reporting policies, and provide customer outreach to educate permit holders on reporting practices to prevent permit holders from reporting use allocation data for multiple permits on a single AUF.
6. Develop policies for document management activities and consider technology and database enhancements to reduce inconsistency within the document management system and across file types.
7. Consider the quantity and quality of use report information and enforce policies on information requirements, provide customer outreach to educate permit holders, and consider technology enhancements, including an online reporting tool.
8. Consider the use of electronic recording devices to reduce manual processes.
9. Ensure compliance with policies on industrial water use and well monitoring processes to assess compliance with laws, rules, regulations, policies, and procedures, including permit conditions.
10. Ensure compliance with monitoring policies and procedures for managing temporary industrial water use permits issued in lieu of irrigation to assess compliance with laws, rules, regulations, policies, and procedures.
11. Define and document criteria used to determine use reporting requirements to reduce inconsistency in the application of reporting conditions placed on temporary permits.
12. Enforce policies on reporting deadlines, and provide customer outreach to educate permit holders as a result of variations in the consistency of use data and timeliness of reporting.
13. Develop policies and guidelines for field inspection activities to reduce inconsistency with field inspection practices.
14. Ensure compliance with monitoring policies and procedures utilized to manage temporary industrial water use permits issued for surface water resources to assess compliance with laws, rules, regulations, policies, and procedures.
15. Develop violation enforcement policies and procedures on identification, imposition and collection of penalties. In addition, reallocate violation responsibilities to the Hydrologist responsible for the area in which the violation occurred.
16. Provided information on penalties assessed from 2010 through 2012.
17. Consider more use of technology, and standardize and document procedures on identification of use violations.

The committee learned the performance audit determined the Water Appropriations Division executes reporting and monitoring practices to adhere to laws, regulations, and policies. However, the practices are not formally documented and are primarily manual in nature, which may result in inconsistent application of policies and procedures.

The State Auditor's office requested and the committee approved additional funding to expand the performance audit of the State Water Commission's regulation of industrial water use in the state to include the water permitting process and to authorize an additional \$50,000 to be spent for hiring a consultant to assist with the audit.

Water Appropriations Division - Phase 2

During the 2013-14 interim, the committee received Phase 2 of the performance audit report for the Water Appropriations Division of the office of the State Engineer. The State Auditor contracted with KPMG, LLP, Certified Public Accountants to perform an assessment of the industrial water use permitting process used by the Water Appropriations Division. The audit period for which information was reviewed was January 2010 through June 2012.

The water permitting process is a complex, science-based process, and many of the state's groundwater aquifers are at advanced stages of development. The decision on pending water permit applications from aquifers can take 10 to 15 years of monitoring the aquifer's water-level response to pumping, water use monitoring, and climate data monitoring.

The performance audit included compliance operational efficiency findings and recommendations. The compliance findings and major recommendations include:

1. Conditional permit application process.
 - a. Ensure compliance with all applicable laws, regulations, and policies.
 - b. Consider implementing database system notifications.
2. Temporary permit application process.
 - a. Ensure compliance with all applicable laws, regulations, and policies.
 - b. Document policies and procedures on the temporary permit application process.
3. Formal inspection protocols.
 - a. Conduct inspections to ensure compliance pursuant to NDCC Sections 61-04-09 and 61-04-14.
 - b. Assess whether current resource levels are sufficient for operational requirements.
 - c. Develop a notification tool within the database to assist with conditional permits expiring.

The operational efficiency findings and major recommendations include:

1. Fee structure for conditional permits has remained constant since 1991.
 - a. Explore alternative fee structures including annual permit fee, annual use fee, inspection fee, and alternative fee tiers.
 - b. Consider alternative variables on which to base the fee structure.
 - c. Conduct a workload analysis of the permit application process to determine costs.
 - d. Request an amendment to NDCC Section 61-04-04 regarding a potential fee change.
2. No fee is required for temporary permit applications.
 - a. Assess time, resource, and cost impact of temporary permit applications on the conditional permit application population.
 - b. Develop a fee structure for temporary permit applications.
3. Application process is manual.
 - a. Develop and implement an online application intake tool.
4. No formal policies and procedures for processing temporary applications.
 - a. Develop formal policies and procedures to reflect current practices for processing temporary permit applications.
5. Lack of formal communication management protocols.
 - a. Develop an online status reporting tool.
 - b. Update the current application instructions on the permitting process.
 - c. Provide information on water sources and associated processing time and permit availability.
 - d. Develop and publish information on temporary application process and permit requirements.
 - e. Establish formal communication procedures for interacting with applicants.

6. Inconsistencies within the document management system.
 - a. Develop policies and procedures for uploading files to include scanning at defined intervals in the process.
 - b. Define a structure to govern the electronic storage of records in the database.
7. Bifurcated conditional permit application process.
 - a. Assess the allocation of responsibilities on the efficiency of the permitting process.
 - b. Determine if the resource capacity exists to perform process components within the Water Appropriations Division.
 - c. Establish a dedicated mailbox for permit application documentation.

The committee learned the audit included a review of five states with similar water rights and laws. In addition, the committee learned the agency is in the process of drafting administrative rules to establish permitting fees and the committee reviewed the current fee structure.

The committee accepted the performance audit of the Water Appropriations Division of the State Engineer's office.

Game and Fish Department Performance Audit

The committee received the performance audit report of the Game and Fish Department. The performance audit was conducted by the State Auditor's office pursuant to authority within NDCC Chapter 54-10. The objective of the audit was to provide an assessment of the private land open to sportsman (PLOTS) program to determine if it is operating effectively and to conduct an assessment of the Game and Fish Department to determine if it is in compliance with laws, rules, and policies related to human resources and the use of resources. The audit period for which information was reviewed was July 2010 through April 2013.

A five member Game and Fish Board of Control was established in 1909 to provide enforcement of game laws in North Dakota. In 1930 voters approved a measure for the Commissioner of Game and Fish to take over the duties of the board. This created the Game and Fish Department which was a continuation of efforts to preserve fish and game species in the state. Since then, various changes to laws have occurred clarifying the department's responsibilities related to fish and game. The mission of the department is "to protect, conserve and enhance fish and wildlife populations and their habitat for sustained public consumptive and nonconsumptive use." The Director of the department is appointed by the Governor. The department's budget for the 2011-13 biennium was approximately \$65.5 million with 157 full-time equivalent (FTE) positions authorized. The budget included a \$300,000 general fund appropriation to be provided to the Agriculture Commissioner for the State Board of Animal Health and the Wildlife Services program. Other than this general fund appropriation, license and other fee income, federal funds, and other sources, provide funding for the department.

The department has the authority to establish private land habitat and access improvement programs. The department administers the private land program which is the largest program within the department. Two major components of the program include PLOTS and the depredation assistance program. The PLOTS program provides financial and technical assistance to private landowners for habitat protection, enhancement, and development. Administration of the program includes entering into rental agreements with landowners to allow public access for hunting. Payments provided to landowners, the payment type, and the length of the agreements differs as a result of different types of agreements and uses for the land.

The committee learned major findings of the performance audit include:

- The department's PLOTS program goal of one million acres is not a reasonable goal for the program. The goal was originally established in 2003, and since, there have been significant changes affecting PLOTS and no changes have been made to the original goal.
- The department was in noncompliance with procurement requirements.
- The department had not established appropriate agreements for services being received.
- The department had not properly inventoried and was unaware of the location of a number of guns used in its volunteer hunter education program.

The performance audit includes 44 recommendations in five areas including the private land program, procurement and contracting, use of funds, human resource-related issues, and other areas.

Fourteen recommendations relate to the private land program, which provide that the Game and Fish Department:

1. Obtain input from stakeholders of PLOTS to identify expectations of the program and use this information to establish an appropriate goal to measure the effectiveness of the program.
2. Establish adequate policies and procedures to improve the operations and effectiveness of PLOTS.
3. Comply with policies and procedures regarding PLOTS.
4. Ensure compliance with terms and conditions included in PLOTS agreements.
5. Ensure the operations of the PLOTS program are adequately monitored.
6. Ensure PLOTS agreements are signed by both parties prior to the agreement's effective date.
7. Make improvements regarding district priority incentive areas.
8. Make improvements regarding ownership of land included in PLOTS agreements.
9. Ensure adequate information is readily available to hunters regarding PLOTS.
10. Ensure the information made available to landowners regarding PLOTS is up-to-date and user-friendly.
11. Establish adequate policies and procedures to improve the operations and effectiveness of the depredation assistance program.
12. Comply with policies and procedures regarding the depredation assistance program.
13. Establish a monitoring process for the depredation assistance program.
14. Meet with the Risk Management Division of the Office of Management and Budget (OMB) to address the risks associated with providing state-owned property to private individuals as part of the depredation assistance program.

Five recommendations relate to procurement and contracting which provide that the Game and Fish Department:

1. Comply with procurement laws, rules, and policies.
2. Meet with representatives of the State Procurement Office to:
 - a. Receive guidance on determining the required procurement process to use for goods being purchased for apparent public improvement purposes.
 - b. Review various relationships and agreements, including memorandums of understanding and cooperative agreements, to determine the appropriate procurement requirements.
3. Comply with requirements of the P-Card Manual and ensure only the authorized person is allowed to use the P-Card.
4. Make improvements with contracts and agreements entered for services.
5. Make improvements with contract administration.

Eight recommendations relate to the use of funds which provide that the Game and Fish Department:

1. Ensure an appropriate grant program is established when the department is to provide public funds for sponsorships and similar payments.
2. Ensure payments to employees comply with applicable laws, rules, and policies.
3. Obtain legal advice to determine whether a game warden's district constitutes normal place of employment pursuant to NDCC Section 44-08-04 and establish in policy when game wardens are considered to be in travel status.
4. Document the working arrangements for temporary and seasonal employees upfront.
5. Comply with OMB Policy 217 regarding when employees are permitted to participate in meals provided by the department.
6. Acquire and maintain adequate supporting documentation for expenditures.
7. Make improvements with the use of public funds.
8. Ensure employees who are responsible for approving payments for travel expenses or other expenditures of public funds comply with NDCC Section 44-08-05.1 and determine before approving the payments that the

expenditures were for lawful and official purposes, actually due to the individuals, and that the payments contain no false claims.

Seven recommendations relate to human resources, which provide that the Game and Fish Department:

1. Comply with NDAC requirements regarding annual and sick leave and ensure temporary employees are not granted such leave.
2. Ensure a consistent and reasonable screening process is used to evaluate job applicants.
3. Ensure compliance with records management requirements and ensure applicable documentation regarding the hiring process is maintained for the required time period.
4. Comply with NDCC Chapter 37-19.1, relating to veterans' preference requirements in the hiring process.
5. Ensure compliance with Session Laws requirements regarding salary increases.
6. Comply with NDAC Section 4-07-05-03 and ensure individuals employed, promoted, reinstated, or transferred meet at least the minimum qualifications of the job class.
7. Make improvements to the department's performance evaluation process.

Ten recommendations relate to other areas, which provide that the Game and Fish Department:

1. Adequately safeguard sensitive information obtained and maintained by the department.
2. Establish formal policies and procedures regarding the volunteer education instructor program.
3. Establish formal policies and procedures regarding guns used for hunter education.
4. Periodically check the state's sex offender registry for all volunteer instructors.
5. Ensure only allowable costs are charged to federal grant programs.
6. Establish formal requirements to promote and increase the safety of employees operating off-highway vehicles, snowmobiles, and watercraft.
7. Establish policies and procedures regarding promotional items.
8. Make improvements with the policies and procedures regarding clothing provided to employees.
9. Make improvements with inventory processes.
10. Make improvements to policies and procedures regarding confiscated and seized items.

The committee accepted the performance audit of the Game and Fish Department.

Game and Fish Department Update

Later in the interim, the committee received an update from the Game and Fish Department on the status of implementing the performance audit recommendations. The committee learned 80 percent of the 44 recommendations had been implemented when the audit was presented in July 2014. Since then, the following additional recommendations were implemented:

- Working with the OMB to provide training sessions for all supervisors on fiscal management, procurement, human resource management, and risk management.
- Developing a database that will help manage the status and compliance of all department contracts.
- Establishing procedures for all supervisors to use when approving employee reimbursements.
- Collecting all the remaining guns on the inventory list and creating a sign-out sheet that will be used to disburse guns for the hunters' safety education program.
- Providing background checks on over 900 aquatic and hunters' safety education volunteers including criminal history and Game and Fish Department violations. In addition, a list of the department's volunteers was compared to the Attorney General's sex offender registry and the comparison provided no matches.
- Completing a review of all reimbursable vouchers submitted by employees relating to in-state and out-of-state travel.
- Implementing a sponsorship application and reporting form to help ensure public funds for sponsorships and similar payments are provided only for appropriate grant programs.

- Suspending its policy providing uniforms to employees after the State Auditor's office determined certain clothing items provided by the department did not constitute a uniform. The suspension did not include its law enforcement-related employees.

Future Performance Audits

The committee discussed future performance audits by the State Auditor. The committee learned the State Auditor had not begun the performance audit on the use of tuition waivers and student stipends at the University System institutions as requested by the committee in March 2012. The committee directed the State Auditor to conduct the performance audit of the use of tuition waivers and student stipends at University institutions. In addition, the committee requested the State Auditor to conduct a performance audit of the Department of Trust Lands' operations and financial-related activities.

INFORMATION TECHNOLOGY AUDITS

North Dakota Network and Security Audit

The committee received the North Dakota network and security audit report. The State Auditor contracted with ManTech Security and Mission Assurance to conduct the audit. The audit focused on three tasks--external vulnerability assessment, internal vulnerability assessment, and penetration testing.

The external vulnerability assessment identified 11 unique vulnerability findings, including 3 high-risk, 7 medium-risk, and 1 low-risk. The findings are classified into two categories--misconfigured systems or applications and operating systems or software applications that were missing critical security patches.

The internal vulnerability assessment identified 27 unique vulnerability findings, including 24 high-risk and 3 medium-risk. The findings are classified into two categories--misconfigured systems or applications and operating systems or software applications that were missing critical security patches.

The application vulnerability assessment identified one medium-risk vulnerability finding with the NDGOV State Portal, and two medium-risk vulnerability findings with the criminal justice information sharing (CJIS) application.

During the security assessment of nonconsolidated information technology services, the physical security measures varied greatly between the agencies depending on the specific mission of the agency assessed. The physical security of the agencies is considered to be adequate to very good.

During the penetration test, the test team was able to access either user- or system-level access during five of nine executed scenarios. The test team did not succeed in achieving system access on the remaining four scenarios.

The network and security audit resulted in the following general recommendations:

- Continue to mature a structured patch management program - Multiple systems were found to be missing critical operating system and application security patches. A baseline should be established to document deployed operating systems and application software installed on each system in the environment. Application software that is not mission-critical should be removed. Regular review should be completed to ensure all operating systems and application security patches are deployed in a timely manner. Additional priority should be placed on the timelines for deploying patches to systems and applications that are publicly accessible from the Internet.
- Internal segregation of critical servers and development systems - Segregate servers deemed to be hosting critical data or services from the internal network by hosting these servers on a separate sub-net strictly controlled by access lists. Development servers should also be completely isolated on a separate sub-net with no access to other state resources.
- Require use of encrypted protocols for remote management - Large numbers of systems on the state's internal network were noted using unencrypted protocols for remote access and management of systems. Security best practices recommend the use of encrypted protocols for remote access and management and utilize only secure protocols and where possible implement Internet Protocol (IP)-based access restrictions.
- Restrict access to protocols for remote management from the Internet - IP-based access controls should be put in place to restrict access to known and trusted IP addresses that have a legitimate need to connect to remote access services.
- Develop a formal vulnerability scanning program - Nonconsolidated services - Agencies with nonconsolidated information technology services should institute regular vulnerability scanning of all systems on a quarterly or bimonthly basis to ensure compliance with system patching requirements. Systems with vulnerabilities should

be documented and evaluated, and a determination made as to the validity of the vulnerability. Corrective action should be required and implemented. Scans should be run with administrative privileges to ensure all vulnerabilities with locally installed software can be discovered and documented.

The committee learned the findings from the network and security audit are typical of organizations with an enterprise the size of North Dakota.

The committee accepted the North Dakota network and security audit report.

Judicial Branch Odyssey Case Management Information System Audit

The committee received the judicial branch's Odyssey Case Management Information System audit report. The audit was conducted by the State Auditor. The audit objective was to determine if:

- Security is designed to provide access based on a demonstrated need to view, add, change, or delete data.
- Data is consistent, valid, and complete.
- The accounts receivable process is properly managed.

The committee learned the Odyssey Case Management System's security is designed to provide access based on a demonstrated need to view, add, change, or delete data. The committee learned system data appears to be consistent, valid, and complete. The committee learned, with the exception of the audit recommendations, the accounts receivable process is properly managed. The audit includes three recommendations including the allowance for uncollectible accounts being incorrectly calculated, unauthorized write-offs, and a lack of reconciliation procedures.

The committee accepted the judicial branch's Odyssey Case Management Information System audit report.

ConnectND Human Capital Management Information System Audit

The committee received the ConnectND Human Capital Management Information System audit report. The audit was conducted by the State Auditor. The audit objective was to determine if:

- The pay classification system is enforced and managed by ConnectND Human Capital Management.
- Payroll withholdings and deductions are handled timely and accurately.
- Leave balances are maintained correctly by the system.
- Security roles are designed to provide access based on a demonstrated need to view, add, change, or delete data.

The committee learned the ConnectND Human Capital Management pay classification system is properly enforced and managed. The committee learned the payroll withholdings and deductions are handled timely and accurately. The committee learned the leave balances are properly maintained by the system, and with the exception of the audit recommendation, the security is designed to provide access based on a demonstrated need to view, add, change, or delete data. The audit included one recommendation regarding an individual given unnecessary access.

The committee accepted the North Dakota network and security audit report.

OTHER REPORTS

Department of Human Services Accounts Receivable Write-offs

Pursuant to NDCC Sections 25-04-17 and 50-06.3-08, the Department of Human Services is required to present a report to the committee regarding accounts receivable write-offs at the State Hospital, Life Skills and Transition Center, and human service centers as of June 30 of each fiscal year. The department's report for fiscal year 2013 was received and accepted by the committee. Accounts receivable write-offs as of June 30, 2013, were \$5,843,330 at the State Hospital, \$26,343 at the Life Skills and Transition Center, and \$1,003,516 at the human service centers.

University System Improvements to Financial Reporting

The committee received a report from a representative of the University System regarding its progress toward addressing previous audit findings and recommendations from the University System's annual financial report. The committee learned actions to address the audit findings and recommendations included additional training for controllers and internal control functions, additional meetings with the State Auditor's office, standardizing processes across universities, creating a formal mentoring program, updating accounting manuals, transferring each university's internal audit functions to the University System office, and adding a University System Chief Compliance Officer position and a new Chief Auditor.

The committee learned the University System office will also be appointing an interdisciplinary team to develop a multiyear internal control and risk assessment implementation plan, identifying additional staff needs across the campuses and in the University System office, implementing an electronic workflow to review and modify processes for internal control and risk assessment, enforcing a policy requiring 40 hours of continuing professional education annually for all auditors, appropriately budgeting for training, and creating five-year peer reviews of internal audits by external certified public accountants.

Bank of North Dakota Financial Reporting Standards

The committee received a report from a representative of the Bank of North Dakota regarding two separate accounting standards that the Bank of North Dakota uses to report operating results. The committee learned rating services, regulators, and other banks rely on the financial statements prepared using Financial Accounting Standards Board (FASB) standards while the state's CAFR is prepared using Governmental Accounting Standards Board (GASB) standards. The committee learned significant differences in reported earnings would result in the future for financial reporting under FASB compared to financial reporting under GASB. The key difference is that under FASB gains or losses in investments are reported only on the balance sheet as an adjustment to equity, while under GASB the same gains or losses are reported on the income statement. As a result, in a time of rising interest rates, the Bank's income reported in accordance with GASB could be substantially less than the Bank's income reported in accordance with FASB.

State Auditor's Office Peer Review

The committee received a report on the peer review of the State Auditor's office performed by the National State Auditors Association for the period March 1, 2013, through March 31, 2014. Auditing standards require a peer review every three years. Audit organizations can receive a rating of pass, pass with deficiency, or fail. The committee learned the State Auditor's office received a peer review rating of pass.

Electronic Viewing of Audit Reports

The committee received a report from a representative of the State Auditor's office on the potential for electronic viewing of audit reports provided to the committee. The committee supported a presentation at its July 2014 meeting using only an electronic viewing format to determine if future audits could be provided using electronic viewing. The Chairman will work with the Legislative Council staff and the State Auditor's office to determine which agency reports will be provided using an electronic viewing format for future meetings.

OTHER INFORMATION

The committee received other information and reports, including information and reports relating to:

- Water Permitting Process in North Dakota and Texas.
- Tobacco Prevention and Control Executive Committee Measure No. 3 funding compliance report.
- Examination report of the Bank of North Dakota from the Department of Financial Institutions.

**AUDIT REPORTS ACCEPTED BY THE LEGISLATIVE AUDIT AND
FISCAL REVIEW COMMITTEE DURING THE 2013-14 INTERIM**

Agency	Audit Report Date	Meeting Date Accepted
Abstracters' Board of Examiners	August 31, 2012 and 2011	July 16, 2014
Accountancy, State Board of	June 30, 2013	July 16, 2014
Accountancy, State Board of	June 30, 2012 and 2011	July 29, 2013
Addiction Counseling Examiners, Board of	June 30, 2013 and 2012	October 2, 2014
Adjutant General	June 30, 2012 and 2011	July 29, 2013
Administrative Hearings, Office of	June 30, 2013 and 2012	July 16, 2014
Aeronautics Commission, North Dakota	June 30, 2013 and 2012	October 2, 2014
Ag PACE fund	June 30, 2013 and 2012	January 21, 2014
Agriculture, Department of	June 30, 2013 and 2012	October 2, 2014
Architecture and Landscape Architecture, State Board of	June 30, 2013 and 2012	July 16, 2014
Attorney General	June 30, 2012 and 2011	July 29, 2013
Bank of North Dakota	December 31, 2013 and 2012	July 16, 2014
Bank of North Dakota	December 31, 2012 and 2011	July 29, 2013
Barley Council, North Dakota	June 30, 2012 and 2011	January 21, 2014
Beef Commission, North Dakota	June 30, 2012 and 2011	January 21, 2014
Beginning farmer revolving loan fund	December 31, 2013 and 2012	July 16, 2014
Beginning farmer revolving loan fund	December 31, 2012 and 2011	July 29, 2013
Bismarck State College	June 30, 2013 and 2012	October 2, 2014
Building Authority, State	June 30, 2013 and 2012	January 21, 2014
Career and Technical Education, Department of	June 30, 2013 and 2012	July 16, 2014
Chiropractic Examiners, State Board of	December 31, 2013	July 16, 2014
College SAVE	December 31, 2013 and 2012	July 16, 2014
College SAVE	December 31, 2012 and 2011	July 29, 2013
Commerce, Department of	June 30, 2013 and 2012	October 2, 2014
Commission on Legal Counsel for Indigents	June 30, 2013 and 2012	July 16, 2014
Community water facility loan fund	December 31, 2013 and 2012	July 16, 2014
Community water facility loan fund	December 31, 2012 and 2011	July 29, 2013
ConnectND Human Capital Management Information System Audit	June 30, 2013	October 2, 2014
Corn Utilization Council, North Dakota	June 30, 2012 and 2011	July 29, 2013
Corrections and Rehabilitation, Department of	June 30, 2013 and 2012	October 2, 2014
Cosmetology, State Board of	June 30, 2012	July 29, 2013
Cosmetology, State Board of	June 30, 2013	October 2, 2014
Council on the Arts, North Dakota	June 30, 2013 and 2012	October 2, 2014
Counselor Examiners, Board of	June 30, 2012 and 2011	July 29, 2013
Dairy Promotion Commission, North Dakota	June 30, 2012 and 2011	July 29, 2013
Dakota College at Bottineau	June 30, 2013 and 2012	October 2, 2014
Dickinson State University	June 30, 2013 and 2012	July 16, 2014
Dietetic Practice, Board of	September 30, 2013 and 2012	July 16, 2014
Dry Bean Council, North Dakota	June 30, 2012 and 2011	July 29, 2013
Dry Pea and Lentil Council, North Dakota	June 30, 2012 and 2011	July 29, 2013
Education Standards and Practices Board	June 30, 2011	January 21, 2014
Ethanol Council, North Dakota	June 30, 2012 and 2011	July 29, 2013
Examiners for Nursing Home Administrators, State Board of	June 30, 2012 and 2011	July 29, 2013
Examiners on Audiology and Speech-Language Pathology, Board of	June 30, 2012 and 2011	July 29, 2013
Financial Institutions, Department of	June 30, 2012 and 2011	July 29, 2013
Firefighter's Association, North Dakota	December 31, 2011 and 2010	July 29, 2013
Firefighter's Association, North Dakota	December 31, 2012 and 2011	October 2, 2014
Game and Fish Department	June 30, 2012 and 2011	July 29, 2013
Game and Fish Department performance audit	April 9, 2014	July 16, 2014
Governor's office	June 30, 2013 and 2012	July 16, 2014
Guaranteed student loan program, North Dakota	September 30, 2012 and 2011	July 29, 2013
Guaranteed student loan program, North Dakota	September 30, 2013 and 2012	July 16, 2014
Health, State Department of	June 30, 2013 and 2012	October 2, 2014
Highway Patrol	June 30, 2012 and 2011	July 29, 2013
Historical Society, State	June 30, 2012 and 2011	January 21, 2014
Housing Finance Agency	June 30, 2013 and 2012	January 21, 2014
Housing Finance Agency	June 30, 2012 and 2011	July 29, 2013
Housing incentive fund	June 30, 2013 and 2012	January 21, 2014
Housing incentive fund	June 30, 2012	July 29, 2013
Human Services, Department of	June 30, 2013 and 2012	July 16, 2014
Indian Affairs Commission	June 30, 2012 and 2011	July 29, 2013

Industrial Commission	June 30, 2013 and 2012	October 2, 2014
Information Technology Department	June 30, 2012 and 2011	July 29, 2013
Information Technology security audit vulnerability assessment and penetration testing	March 14, 2014	July 16, 2014
Insurance Commissioner	June 30, 2013 and 2012	October 2, 2014
Job Service North Dakota	June 30, 2013 and 2012	January 21, 2014
Job Service North Dakota	June 30, 2012 and 2011	July 29, 2013
Judicial branch	June 30, 2013 and 2012	July 16, 2014
Judicial branch Odyssey Management Information System Audit	March 21, 2014	October 2, 2014
Labor and Human Rights, Department of	June 30, 2013 and 2012	October 2, 2014
Lake Region State College	June 30, 2013 and 2012	October 2, 2014
Law Examiners, State Board of	June 30, 2013 and 2012	July 16, 2014
Legislative Assembly	June 30, 2013 and 2012	January 21, 2014
Legislative Council	June 30, 2013 and 2012	January 21, 2014
Lottery, North Dakota	June 30, 2013 and 2012	July 16, 2014
Lottery, North Dakota	June 30, 2012 and 2011	July 29, 2013
Management and Budget, Office of	June 30, 2013 and 2012	July 16, 2014
Massage, Board of	June 30, 2013 and 2012	July 16, 2014
Mayville State University	June 30, 2013 and 2012	July 16, 2014
Medical Examiners, State Board of	June 30, 2011 and 2010	July 29, 2013
Medical Examiners, State Board of	December 31, 2012 and 2011	October 2, 2014
Milk Marketing Board	June 30, 2012 and 2011	July 29, 2013
Mill and Elevator Association	June 30, 2012 and 2011	January 21, 2014
Minot State University	June 30, 2013 and 2012	October 2, 2014
North Dakota Development Fund, Inc.	June 30, 2013 and 2012	January 21, 2014
North Dakota Development Fund, Inc.	June 30, 2012 and 2011	July 29, 2013
North Dakota State University	June 30, 2013 and 2012	October 2, 2014
North Dakota University System annual Financial Report	June 30, 2012	July 29, 2013
North Dakota University System annual Financial Report	June 30, 2013	October 2, 2014
North Dakota University System Office	June 30, 2012, and 2011	January 21, 2014
North Dakota University System Office Performance Audit	February 4, 2013	March 12, 2013
Oilseed Council, North Dakota	June 30, 2012 and 2011	July 16, 2014
Oilseed Council, North Dakota	June 30, 2012 and 2011	July 29, 2013
Optometry, North Dakota State Board of	June 30, 2012, 2011, 2010 and 2009	July 29, 2013
PACE fund	June 30, 2013 and 2012	January 21, 2014
Parks and Recreation Department	June 30, 2013 and 2012	July 16, 2014
Permitting Process of the Water Appropriations Division of the State Water Commission, Part II Performance Audit	April 23, 2013	July 29, 2013
Physical Therapy, Board of	June 30, 2012 and 2011	July 29, 2013
Plumbing, State Board of	June 30, 2013 and 2012	July 16, 2014
Podiatric Medicine, Board of	December 31, 2013	July 16, 2014
Podiatry Examiners, Board of	December 31, 2012, 2011 and 2010	July 29, 2013
Potato Council, North Dakota	June 30, 2012 and 2011	January 21, 2014
Private Investigative and Security Board	December 31, 2012 and 2011	July 16, 2014
Protection and Advocacy Project	June 30, 2012 and 2011	July 29, 2013
Psychologist Examiners, State Board of	June 30, 2013 and 2012	July 16, 2014
Public Employees Retirement System	June 30, 2013 and 2012	January 21, 2014
Public Employees Retirement System	June 30, 2012 and 2011	July 29, 2013
Public Finance Authority	December 31, 2013 and 2012	July 16, 2014
Public Finance Authority	December 31, 2012 and 2011	July 29, 2013
Public Instruction, Department of	June 30, 2013 and 2012	July 16, 2014
Public Service Commission	June 30, 2013 and 2012	July 16, 2014
Racing Commission, North Dakota	June 30, 2013 and 2012	October 2, 2014
Real Estate Commission, State	June 30, 2013	July 16, 2014
Real Estate Commission, State	June 30, 2012	July 29, 2013
Rebuilders loan program	June 30, 2013 and 2012	January 21, 2014
Rebuilders loan program	December 31, 2012 and 2011	July 29, 2013
Reflexology, North Dakota Board of	June 30, 2013	July 16, 2014
Registration for Professional Engineers and Land Surveyors, State Board of	June 30, 2013	July 16, 2014
Registration for Professional Soil Classifiers, State Board of	June 30, 2013	July 16, 2014
Respiratory Care, State Board of	January 31, 2011 and 2010	July 29, 2013
Respiratory Care, State Board of	January 31, 2013 and 2012	July 16, 2014
Retirement and Investment Office, State	June 30, 2013 and 2012	January 21, 2014
Retirement and Investment Office, State	June 30, 2012 and 2011	January 21, 2014
Secretary of State	June 30, 2012 and 2011	July 29, 2013
Securities Commissioner	June 30, 2012 and 2011	July 29, 2013

Seed Department, State	June 30, 2012 and 2011	July 29, 2013
Social Work Examiners, North Dakota Board of	June 30, 2013 and 2012	October 2, 2014
Soybean Council, North Dakota	June 30, 2013 and 2012	July 16, 2014
State Auditor	June 30, 2013 and 2012	January 21, 2014
State College of Science, North Dakota	June 30, 2013 and 2012	July 16, 2014
State Electrical Board	June 30, 2013 and 2012	October 2, 2014
State Fair Association, North Dakota	September 30, 2012 and 2011	January 21, 2014
State Treasurer's office	June 30, 2013 and 2012	October 2, 2014
Statewide CAFR	June 30, 2012	July 29, 2013
Statewide CAFR	June 30, 2013	July 16, 2014
Statewide single audit	June 30, 2012 and 2011	July 29, 2013
Stockmen's Association, North Dakota	December 31, 2013 and 2012	July 16, 2014
Stockmen's Association, North Dakota	December 31, 2012 and 2011	July 29, 2013
Student loan trust	June 30, 2013 and 2012	January 21, 2014
Student loan trust	June 30, 2012 and 2011	July 29, 2013
Tax Commissioner	June 30, 2013 and 2012	October 2, 2014
Tobacco Prevention and Control Policy, Center for	June 30, 2013 and 2012	July 16, 2014
Transportation, Department of	June 30, 2013 and 2012	October 2, 2014
University and School Lands, Board of	June 30, 2013 and 2012	January 21, 2014
University and School Lands, Board of	June 30, 2012 and 2011	July 29, 2013
University of North Dakota	June 30, 2013 and 2012	October 2, 2014
Valley City State University	June 30, 2013 and 2012	July 16, 2014
Veterans' Affairs, Department of	June 30, 2012 and 2011	July 29, 2013
Veterans' Home	June 30, 2013 and 2012	January 21, 2014
Veteran's Home	June 30, 2013 and 2012	July 16, 2014
Veterinary Medical Examiners, State Board of	June 30, 2012 and 2011	July 29, 2013
Water Appropriation Division of the State Water Commission, performance audit	January 22, 2013	January 24, 2013
Water Commission, State	June 30, 2013 and 2012	October 2, 2014
Water Well Contractors, State Board of	June 30, 2012	July 16, 2014
Wheat Commission, North Dakota	June 30, 2012 and 2011	January 21, 2014
Williston State College	June 30, 2013 and 2012	July 16, 2014
Workforce Safety and Insurance	June 30, 2013 and 2012	January 21, 2014
Workforce Safety and Insurance	June 30, 2012 and 2011	July 29, 2013