

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Tuesday, August 14, 2007
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Bob Skarphol, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Bob Skarphol, Larry Bellew, Merle Boucher, Kari L. Conrad, Jeff Delzer, Bette Grande, Patrick R. Hatlestad, Kenton Onstad, Louis Pinkerton, Blair Thoreson, Francis J. Wald; Senators Randel Christmann, Dwight Cook, Jerry Klein

Members absent: Representatives Ole Aarsvold, RaeAnn G. Kelsch; Senators Judy Lee, Harvey D. Tallackson

Others present: See attached [appendix](#)

LEGISLATIVE COUNCIL SUPPLEMENTARY RULES OF OPERATION AND PROCEDURE

At the request of Chairman Skarphol, the legislative budget analyst and auditor reviewed the [Supplementary Rules of Operation and Procedure of the North Dakota Legislative Council](#) for the 2007-09 biennium.

COMMITTEE DUTIES AND RESPONSIBILITIES

Chairman Skarphol said the Legislative Audit and Fiscal Review Committee's responsibility is to review audit reports and to note fiscal issues of agencies, which may be addressed during the next legislative session. He said the committee is not a policy committee.

At the request of Chairman Skarphol, the Legislative Council staff reviewed a memorandum entitled [Legislative Audit and Fiscal Review Committee - Statutory Duties and Responsibilities for the 2007-08 Interim - Recommendations and Requests Made During Previous Interims](#). The Legislative Audit and Fiscal Review Committee is a statutory committee of the Legislative Council. North Dakota Century Code (NDCC) Section 54-35-02.1 provides that the committee is created to:

- Study and review the financial transactions of the state.
- Assure the collection of revenues and the expenditures of money are in compliance with law, legislative intent, and sound financial practices.

- Provide the Legislative Assembly with formal, objective information on revenue collections and expenditures.

In addition, the committee is assigned the following duties and responsibilities for the 2007-09 biennium:

1. **State Fair Association** - Receive annual audit reports from the State Fair Association pursuant to NDCC Section 4-02.1-18.
2. **Ethyl alcohol and methanol producers** - Receive annual audit reports from any corporation that produces agricultural ethyl alcohol or methanol in this state and which receives a production subsidy from the state pursuant to NDCC Section 10-19.1-152; receive annual audit reports from any limited liability company that produces agricultural ethyl alcohol or methanol in this state which receives a production subsidy from the state pursuant to Section 10-32-156; and receive annual audit reports from any limited partnership that produces agricultural ethyl alcohol or methanol in this state and which receives a production subsidy from the state pursuant to Section 45-10.2-115.
3. **Department of Human Services accounts receivable** - Receive annual reports on the status of accounts receivable for the Department of Human Services and Developmental Center at Westwood Park, Grafton, pursuant to NDCC Sections 25-04-17 and 50-06.3-08.
4. **Low-risk incentive fund** - Receive annual audit reports and economic impact reports from the North Dakota low-risk incentive fund. North Dakota Century Code Section 26.1-50-05 provides for the audit report to be submitted to the Legislative Council, which has assigned the responsibility to this committee.
5. **Stockmen's Association** - Receive a biennial audit report from the North Dakota Stockmen's Association. North Dakota Century Code Section 36-22-09 provides for the audit report to be submitted to the Legislative Council. The Legislative Council assigned the responsibility to this committee.
6. **Job Service North Dakota** - Receive a performance audit report if requested by the

committee for Job Service North Dakota pursuant to NDCC Section 52-02-18.

7. **Performance audits** - The State Auditor is to conduct or provide for performance audits of state agencies as determined necessary by the State Auditor or this committee, and the State Auditor must obtain approval from this committee prior to hiring a consultant to assist with conducting a performance audit pursuant to NDCC Section 54-10-01.
8. **Frequency of audits** - Determine the frequency of audits or reviews of state agencies pursuant to NDCC Section 54-10-01.
9. **Political subdivisions** - Determine if the State Auditor is to perform audits of political subdivisions on a more frequent basis than once every two years pursuant to NDCC Section 54-10-13 and direct the State Auditor to audit or review the accounts of any political subdivision pursuant to NDCC Section 54-10-15.
10. **Study and review audit reports** - Pursuant to NDCC Section 54-35-02.2, the committee is charged with the following responsibilities:
 - a. To study and review audit reports selected by the committee from those submitted by the State Auditor.
 - b. To confer with the State Auditor regarding the audit reports reviewed by the committee.
 - c. As necessary, to confer with representatives of state departments, agencies, and institutions audited in order to obtain information regarding fiscal transactions and governmental operations.
11. **Workforce Safety and Insurance** - Receive annual reports from the director of Workforce Safety and Insurance and the chairman of the Workforce Safety and Insurance Board of Directors pursuant to NDCC Section 65-02-03.3 and receive reports from the director of Workforce Safety and Insurance, the chairman of Workforce Safety and Insurance Board of Directors, and the auditor regarding the biennial performance review of Workforce Safety and Insurance pursuant to Section 65-02-30.

It was moved by Senator Cook, seconded by Senator Christmann, and carried on a roll call vote that the committee adopt the following action plan to fulfill its statutory duties:

1. **Receive audit reports prepared by the State Auditor's office and independent auditors.**
2. **Receive performance audit reports as determined necessary by the State Auditor or this committee.**
3. **Receive the biennial performance review of Workforce Safety and Insurance.**

4. **Direct the Legislative Council staff to send correspondence, as deemed necessary, to each agency that has not complied with previous audit recommendations requesting the agency to appear before the Legislative Audit and Fiscal Review Committee to explain the reason for noncompliance with audit recommendations or steps taken to address recommendations.**
5. **Receive annual reports on the status of accounts receivable for the Department of Human Services and Developmental Center at Westwood Park, Grafton.**
6. **Receive annual audit reports from any corporation, limited partnership, or limited liability company that produces ethyl alcohol or methanol in this state and which receives a production subsidy from the state.**
7. **Develop recommendations and related bill drafts.**
8. **Prepare the final report for submission to the Legislative Council.**

Representatives Skarphol, Bellew, Conrad, Hatlestad, Onstad, Pinkerton, and Wald and Senators Christmann, Cook, and Klein voted "aye." No negative votes were cast.

AUDIT PROCESS FOR STATE AGENCIES

Chairman Skarphol called on Mr. Gordy Smith, State Auditor's office, who reviewed a document entitled *The Audit Process for State Agencies*. A copy of the information presented is on file in the Legislative Council office. Mr. G. Smith said the purpose of the financial statement audit is to express an opinion on whether the financial statements are presented fairly in all material respects. He said the audited entity's management is responsible for the financial statements.

Mr. G. Smith said Statement on Auditing Standards (SAS) No. 112 entitled *Communicating Internal Control Related Matters Identified in an Audit* will be implemented for years ending after December 31, 2006. He said SAS No. 112 will increase the number of findings and the types of findings presented in financial statement audits reports. He said many recommendations that were previously "informal" will become "formal" recommendations.

In response to a question from Chairman Skarphol, Mr. G. Smith said the State Auditor's office is divided into sections based on the type of auditing services provided by each section. He said the State Auditor's office performs political subdivision, mineral management system, state agency, performance, and information technology audits.

Mr. G. Smith said it is anticipated that the performance audit of the University of North Dakota School of Medicine and Health Sciences will be completed by the end of October 2007. He said the State Auditor's office has contracted with ManTech

International Corporation to test security of state computer systems. He said it is anticipated that the security tests will be completed in August or September 2007.

In response to a question from Representative Boucher, Mr. G. Smith said the State Auditor's office gives priority to complete those performance audits directed by law. He said the State Auditor's office does not charge a fee for conducting its portion of the performance audits, but an agency may be required to pay for any outside consultant.

AUDITS OF STATE AGENCIES, BOARDS, AND COMMISSIONS

Mr. Ron Tolstad, State Auditor's office, presented the audit report of the Game and Fish Department for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains three recommendations for operational improvement relating to expanding the private land open to sportsmen (PLOTS) program, license lottery refund procedures, and deer donation program.

In response to a question from Representative Delzer, Mr. Paul Schadewald, Division Chief, Administrative Services Division, Game and Fish Department, said the department maintains approximately \$3 million to \$4 million in cash for current operations of the department. He said cash reserves are primarily invested in certificates of deposit. He said the department determines the size and term of the certificates of deposit.

In response to a question from Senator Christmann, Mr. Tolstad said the State Auditor's office did not review during the audit process the impact the PLOTS program has on private hunting businesses or landowners.

Mr. Paul Welk, State Auditor's office, presented the audit report for the Highway Patrol for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains four internal control findings relating to computer access controls, purchasing card (P-Card) controls, maintaining adequate support for journal vouchers, and payroll controls. He said the Office of Management and Budget is responsible for computer access controls. He said the Office of Management and Budget redefined these roles during the audit period so a recommendation was not made to the Highway Patrol. He said the report contains three findings of noncompliance with legislative intent relating to collecting and coding of fees, inadequate blanket bond insurance coverage, and maintenance of fixed asset records. He said the report contains six recommendations for operational improvement relating to implementation and use of the P-Card, maintenance of clearing accounts, timing of federal reimbursement requests, implementing procedures to ensure allowable federal fund expenditures are not charged to the general fund, grant "closing"

procedures, and fixed asset procedures. He said three prior audit recommendations were not implemented relating to implementation of the P-Card, maintenance of clearing accounts, and spending federal funds awarded to the department.

In response to a question from Representative Wald, Mr. Welk said Section 14 of 2005 Senate Bill No. 2043 (NDCC Section 26.1-21-10) required all agencies and political subdivisions to assess their needs and apply for blanket bond insurance coverage once each biennium. He said prior to the new law, agencies blanket bond insurance coverage simply rolled forward if no changes were requested by the agency or political subdivision. He said the Highway Patrol did not submit the required application to the Insurance Department, and as a result, its blanket bond insurance coverage lapsed on January 1, 2006. He said the intent of the new law was to encourage agencies to review coverage amounts on a regular basis.

In response to a question from Representative Conrad, Mr. Tolstad said vendors pay on average approximately 2 percent of the purchase price to the financial institution responsible for processing the P-Card transactions. He said General Electric Commercial Finance is the financial institution that is responsible for processing North Dakota state government P-Card transactions. He said the state of North Dakota receives a rebate from General Electric Commercial Finance annually based upon several factors, including the dollar amount of transactions and timing of payments.

In response to a question from Representative Onstad, Mr. Welk said state agencies have the responsibility for implementing policies in response to audit recommendations. He said the State Auditor's office frequently works with state agencies to ensure that the policies being implemented will fully address findings included in the audit report.

Mr. Tolstad presented the audit report for the North Dakota lottery for the years ended June 30, 2006 and 2005. He said the report contains an unqualified opinion and includes one finding of noncompliance with legislative intent relating to inadequate blanket bond insurance coverage pursuant to Section 14 of 2005 Senate Bill No. 2043. He said the North Dakota lottery is a division of the Attorney General's office and because of that is covered by the Attorney General's blanket bond insurance coverage. He said due to not being aware of the new law, the Attorney General's blanket bond insurance coverage lapsed on January 1, 2006, until reissued on September 21, 2006. He said due to the dwindling fund balance in the state bonding fund, the coverage was limited to \$2 million. Prior to January 1, 2006, he said, the Attorney General's office was covered by a \$2.5 million blanket bond. He said the State Auditor's office believes that the \$2 million blanket bond insurance coverage granted to the Attorney General's office and the North Dakota lottery is not adequate.

Representative Wald said the blanket bond covers losses from fraud. Because the North Dakota lottery has strong internal controls, he said, \$2 million of coverage should be adequate.

In response to a question from Representative Wald, the legislative budget analyst and auditor said the Insurance Commissioner could be invited to a future meeting to provide the committee with additional information regarding blanket bond insurance coverage necessary for the North Dakota lottery and the intent of 2005 Senate Bill No. 2043.

Mr. Welk presented the audit report for the Secretary of State for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report does not contain any findings or recommendations.

Mr. John Grettum, State Auditor's office, presented the audit report for the Department of Veterans Affairs for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said one prior audit recommendation relating to proper completion of loan receivables summary closing packages was not implemented.

Mr. Grettum presented the audit report for the Seed Department for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said one prior audit recommendation relating to conflicting references in the North Dakota Century Code was not implemented. He said the 2007-08 Legislative Council interim Agriculture Committee has been assigned the responsibility to study provisions of the North Dakota Century Code which relate to agriculture for the purpose of clarifying unclear or inconsistent provisions.

In response to a question from Representative Wald, Mr. Ken Bertsch, Seed Commissioner, Seed Department, said the line item in the financial statements for medical, dental, and optical expenditures relates to testing supplies of a technical nature. He said the costs incurred by the Seed Department are assigned or "coded" to line items available within the PeopleSoft system.

Mr. Welk presented the audit report for the Protection and Advocacy Project for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report does not contain any findings or recommendations.

Mr. Grettum presented the audit report for the Potato Council for the years ended June 30, 2006 and 2005. He said the report contains an unqualified opinion and includes two internal control findings relating to failure to prepare closing packages on a timely basis and late contract payments.

In response to a question from Senator Cook, Mr. Grettum said because the Potato Council has only one employee, proper segregation of accounting duties has not been maintained. The State Auditor's office felt it was not feasible for the Potato Council to hire additional employees, he said, thus no

recommendation was made regarding segregation of duties.

Mr. Welk presented the audit report for the State Historical Society for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the audit report includes two internal control findings relating to segregation of accounting duties and state P-Card control weaknesses. He said the recommendation relating to P-Card controls was a prior audit recommendation. He said the report includes one recommendation for operational improvement relating to the department's web site and online information.

In response to a question from Representative Grande, Mr. Welk said the State Auditor's office found instances where the State Historical Society did not properly attach receipts to P-Card monthly statements. He said the receipts may have been reviewed for approval by the appropriate agency personnel but then lost at a later time.

In response to a question from Representative Wald, Mr. Merl Paaverud, Superintendent, State Historical Society, said there is extensive use of the department's web site for genealogy research. He said the State Historical Society employs three full-time equivalent reference specialists dedicated to research. He said these reference specialists provide the public with genealogy research.

In response to a question from Representative Pinkerton, Mr. Paaverud said the State Historical Society does charge the public for copying and mailing costs incurred while providing research assistance. He said there is no fee for conducting the research.

In response to a question from Representative Delzer, Mr. Welk said costs for professional services increased by \$791,796, from \$226,083 to \$1,017,879 during fiscal year 2006, as compared to the previous year primarily due to the Heritage Center archives and the Chateau de Mores Interpretive Center expansion projects. Mr. Dave Skalsky, State Historical Society, said he would provide Representative Delzer with additional information regarding costs incurred for professional services.

Mr. Welk presented the audit report for the Indian Affairs Commission for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains one finding of noncompliance with legislative intent relating to conducting employee performance reviews, which was also a prior audit recommendation.

Mr. Grettum presented the audit report for the University System office for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report does not contain any findings or recommendations.

STATE OF NORTH DAKOTA SINGLE AUDIT REPORT (FEDERAL FUNDS)

Mr. G. Smith presented the statewide single audit report for the years ended June 30, 2006 and 2005. He said the statewide single audit is the state's audit of all federal funds received by state agencies and institutions during fiscal years 2006 and 2005. He reviewed the different sections of the report which include selected statistical data, independent auditor's reports, schedule of expenditures of federal awards, schedule of findings and questioned costs, and a summary schedule of prior audit findings. He said the report contains 40 internal control and compliance findings and questioned costs.

In response to a question from Representative Boucher, Mr. G. Smith said the federal government provides written guidelines to state agencies regarding the use of federal funds. He said state agencies may benefit from continuing education regarding administration of federal funds.

In response to a question from Representative Skarphol, Mr. G. Smith said the statewide single audit is required by federal law. He said agencies are required to prepare a corrective action plan for the audit findings. He said the corrective action plans are reviewed by the federal government.

Chairman Skarphol said the committee may want to further review the audit recommendations in the statewide single audit report at a future meeting.

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

INTERNAL CONTROL AND COMPLIANCE REPORTS

Mr. Grettum presented the State Auditor's office internal control and compliance report on the audit of the general purpose financial statements included in the June 30, 2006, annual financial report for the North Dakota University System. He reviewed the auditor's responses to the committee guidelines and said seven prior audit recommendations were not implemented. He said the prior audit recommendations relate to:

- Reconciling cash per bank to cash per ledger on a monthly basis;
- Proper use of account codes, funds, fund groups, and functions that are available on ConnectND to comply with Generally Accepted Accounting Principles;
- Implementing and enforcing antifraud policies and procedures;
- Documenting approval by an authorized person for all transactions that affect the general ledger;
- Preparing timely reconciliations and accurate financial information relating to payroll;
- Segregating accounting duties and maintaining an audit trail for payroll changes; and
- Developing a comprehensive payroll manual outlining payroll policies and procedures.

Mr. Grettum said the report identifies five current audit recommendations relating to:

- Developing policies and procedures to audit funds distributed to the centers of excellence;
- Developing policies and procedures that ensure all component units prepare their financial statements in accordance with Generally Accepted Accounting Principles and receive annual financial statement audits;
- Adjusting the schedule of estimated useful lives to more accurately reflect the number of years capital assets are used;
- Reconciling accounts receivables and preparing an accurate calculation of doubtful accounts; and
- Improving year-end procedures surrounding the recognition of grants and contracts receivables.

In response to a question from Senator Christmann, Mr. Grettum said the audit report did not include any findings regarding "continued" payments made to terminated employees.

Mr. Tolstad presented the State Auditor's office report on the internal control, compliance, and other matters of the state of North Dakota Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. He said the report indicates that the State Auditor's office has audited the general purpose financial statements for the state of North Dakota for the year ended June 30, 2006. He said the report identifies four internal control weaknesses relating to timely reconciliation of cash accounts, general ledger transaction approval procedures, accounts payable transaction approval controls, and reporting of federal fund balances.

NORTH DAKOTA UNIVERSITY SYSTEM ANNUAL FINANCIAL REPORT

Ms. Tamara Barber, Bismarck State College, presented the annual financial report for the North Dakota University System for the fiscal year ended June 30, 2006. She said an unqualified opinion was issued on the financial statements. As of June 30, 2006, she said, the North Dakota University System had total assets of \$1,009.3 million and total liabilities of \$334.9 million, resulting in a net assets total of \$674.4 million. She said total net assets increased \$23.2 million during fiscal year 2006.

Ms. Barber said the annual degree credit headcount for the fall of 2005 was 42,082, a 1 percent decrease over the previous fall enrollment. She said total operating revenues of the North Dakota University System increased 8 percent from fiscal year 2005 as a result of increases in tuition, room and board rates, and increased grant and contract awards. She said during the 2005-06 academic year, the campuses raised tuition rates in a range of 5.9 percent to 9.5 percent.

In response to a question from Representative Skarphol, Ms. Barber said the North Dakota University

system receives a larger share of revenues from student fees than most other states.

In response to a question from Representative Boucher, Ms. Barber said not all students who take online courses are located off campus. She said because of convenience and other reasons some on-campus students elect to take some courses online.

In response to a question from Representative Pinkerton, Ms. Laura Glatt, North Dakota University System, said out-of-state tuition rates without a special designation, such as reciprocity, generally pay 267 percent of the resident tuition rate. She said the largest number of out-of-state students attending North Dakota colleges come from Minnesota. She said the reciprocity agreement with Minnesota provides for Minnesota students to pay the higher of the Minnesota or North Dakota tuition rates. She said a schedule of state tuition rates would be provided to Representative Pinkerton.

In response to a question from Representative Grande, Ms. Glatt said total "headcount" includes all students taking a course at a particular college. For funding purposes, she said, the North Dakota University System uses "full-time equivalency," which is based on credit-hour production. She said under the "full-time equivalency" method, every full-time student is the equivalent of a student taking 15 credit-hours. She said five students taking a single three-credit-hour course would be counted as one full-time equivalent student.

In response to a question from Senator Cook, Ms. Glatt said high school students taking college level courses are included when determining full-time equivalency numbers.

In response to a question from Representative Wald, Ms. Glatt said approximately 10 Minnesota students attend North Dakota schools to every 8 North Dakota students attending Minnesota schools. She said North Dakota is also a "net importer" of students from states participating in the Western Interstate Commission on Higher Education Compact. She said data is not available regarding states outside of the compact.

In response to a question from Representative Boucher, Ms. Glatt said the percentage of students taking courses online is increasing. She said students typically pay a premium for the convenience of taking a course online. She said this premium is used to pay additional technology costs associated with providing online courses.

In response to a question from Representative Wald, Ms. Glatt said North Dakota University System institutions will not release grade transcripts to students who have an outstanding accounts receivable balance. She said grade transcripts could be released if the student's accounts receivable balance incorrectly does not show a balance due.

In response to a question from Representative Pinkerton, Ms. Glatt said some North Dakota University System institutions maintain separate accounting spreadsheets in addition to the PeopleSoft

system in order to generate reports that cannot be generated with the PeopleSoft system. She said there are some instances where institutions maintain accounting spreadsheets in order to provide verification of the totals generated with the PeopleSoft system. She said use of the duplicate spreadsheets will continue to decrease as the institutions become more comfortable with the PeopleSoft applications.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Ms. Jill Schafer, Office of Management and Budget, presented the Comprehensive Annual Financial Report for the state of North Dakota for the fiscal year ended June 30, 2006. Ms. Schafer reviewed the information contained in the report and a supplemental report entitled *Interim 2005-2007 Biennium Budget and Actual Detail*. Copies of both reports are on file in the Legislative Council office.

NORTH DAKOTA STOCKMEN'S ASSOCIATION AUDIT

Chairman Skarphol called on Ms. Lynnell Rude, Mahlum and Goodhart PC, Certified Public Accountants, who presented the audit report of the North Dakota Stockmen's Association for the years ended December 31, 2006 and 2005. She said the report contains an unqualified opinion and does not include any findings or recommendations.

AUDITS OF STATE AGENCIES, BOARDS, AND COMMISSIONS

Chairman Skarphol called on Mr. John Mongeon, Brady, Martz & Associates PC, who presented the audit report for the Bank of North Dakota for the years ended December 31, 2006 and 2005. Mr. Mongeon reviewed the auditor's responses to the committee guidelines and said the audit report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Mongeon presented the audit report for the beginning farmer revolving loan fund for the years ended December 31, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Mongeon presented the audit report for the community water facility loan fund for the years ended December 31, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Mongeon presented the audit report for the developmentally disabled facility loan program for the years ended December 31, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Mongeon presented the audit report for the guaranteed student loan program for the years ended September 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Mongeon presented the audit report for the Public Employees Retirement System for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Mongeon said the actuary for the North Dakota Public Employees Retirement System has determined that the fund's unfunded actuarial accrued liability is approximately \$166 million and \$125 million, as of June 30, 2006 and 2005, respectively. He said the actuary for the Highway Patrolmen's retirement system has determined that the fund's unfunded actuarial accrued liability is approximately \$6 million and \$5 million, as of June 30, 2006 and 2005, respectively. He said the actuary has determined that the current statutory contribution rates are insufficient to meet the actuarially determined requirements for the fiscal years.

In response to a question from Representative Wald, Mr. Sparb Collins, Executive Director, Public Employees Retirement System, said the Public Employees Retirement System Board determines the asset allocation policy; however, the actual implementation of the policy is done by the State Investment Board.

In response to a question from Representative Grande, Mr. Collins said the 2007 Legislative Assembly approved four additional full-time equivalent positions for the Public Employees Retirement System. He said the additional positions will allow the department to train employees to serve as "backups" for other positions. He said previously internal audit staff of the Public Employees Retirement System was performing accounting duties because of "shortages" and "workloads" in the accounting department.

Mr. Mongeon presented the audit report for the Wheat Commission for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion. He said the audit report contains one finding of noncompliance with legislative intent relating to repayment of travel expenses in excess of state allowable reimbursement rates. He said total accounts payable primarily due to litigation entered into by the Wheat Commission was reduced by \$546,110, from \$3,229,668 to \$2,683,558, as of June 30, 2006, as compared to June 30, 2005.

Mr. Mongeon presented the audit report for the Housing Finance Agency for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Chairman Skarphol called on Mr. Greg Honl, Eide Bailly LLP, Certified Public Accountants, who presented the audit report for the student loan trust for the years ended June 30, 2006 and 2005. Mr. Honl reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion. He said the audit report does not contain any findings or recommendations relating to the financial statements. He said the report contains one finding relating to the federal award program, which was also a prior audit finding. He said the quarterly adjustments for the special allowance payments were occasionally miscalculated. He said the errors were immaterial in amount. He said an independent review should be conducted of the adjustments each quarter prior to submitting the adjustment to the United States Department of Education.

Mr. Honl presented the audit report for the partnership in assisting community expansion (PACE) fund for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the audit report contains an unqualified opinion and does not contain any findings or recommendations.

In response to a question from Representative Pinkerton, Mr. Honl said the audit process included testing loans on a sample basis to verify that the loans qualify under the rules of eligibility for the PACE program.

Mr. Tony Hauck, Eide Bailly LLP, presented the audit report for the Public Finance Authority for the years ended December 31, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion. He said the audit report identifies one internal control weakness relating to segregation of accounting duties. He said the report contains one finding relating to the federal award program. He said the maximum amount allowed for administering and managing the state revolving loan program - clean water was exceeded.

Mr. Hauck presented the audit report for the State Building Authority for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Hauck presented the audit report for the Board of University and School Lands for the years ended June 30, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations. He said the management letter identifies two findings of noncompliance with legislative intent relating to keeping a schedule of all land on which coal exists pursuant to NDCC Section 15-05-07 and publishing notice of abandoned property at least once a week for two consecutive weeks pursuant to Section 47-30.1-18.

**MOTOR POOL RATES -
NORTH DAKOTA UNIVERSITY SYSTEM
AND AGRICULTURAL RESEARCH
AND EXTENSION CENTERS**

Chairman Skarphol called on Ms. Glatt who commented on motor pool rates charged to North Dakota University System institutions and agricultural research and extension centers. Ms. Glatt said State Fleet Services has been very cooperative in addressing concerns regarding motor pool rates with the North Dakota University System. She said the North Dakota University System does not have any current issues regarding motor pool rates. She said representatives of North Dakota State University plan to meet with directors of the agricultural research and extension centers regarding motor pool rates. She said if the agricultural research and extension center directors have any issues or concerns, North Dakota State University will work directly with State Fleet Services to address those issues or concerns.

**COMMITTEE DISCUSSION
AND STAFF DIRECTIVES**

Chairman Skarphol said the next Legislative Audit and Fiscal Review Committee meeting will be held in October or November.

It was moved by Representative Wald, seconded by Senator Cook, and carried on a roll call vote that, pursuant to NDCC Section 54-35-02.2, the committee accept the following reports presented to the committee:

1. Game and Fish Department (June 30, 2006 and 2005).
2. Highway Patrol (June 30, 2006 and 2005).
3. North Dakota lottery (June 30, 2006 and 2005).
4. Secretary of State (June 30, 2006 and 2005).
5. Department of Veterans Affairs (June 30, 2006 and 2005).
6. Seed Department (June 30, 2006 and 2005).
7. Protection and Advocacy (June 30, 2006 and 2005).
8. Potato Council (June 30, 2006 and 2005).
9. State Historical Society (June 30, 2006 and 2005).
10. Indian Affairs Commission (June 30, 2006 and 2005).
11. University System office (June 30, 2006 and 2005).
12. Statewide single audit (June 30, 2006 and 2005).
13. North Dakota Comprehensive Annual Financial Report (June 30, 2006).
14. North Dakota University System annual financial report (June 30, 2006).
15. North Dakota Stockmen's Association (December 31, 2006 and 2005).
16. Bank of North Dakota (December 31, 2006 and 2005).

17. Beginning farmer revolving loan fund (December 31, 2006 and 2005).
18. Community water facility loan fund (December 31, 2006 and 2005).
19. Developmentally disabled facility loan program (December 31, 2006 and 2005).
20. Guaranteed student loan program (September 30, 2006 and 2005).
21. Public Employees Retirement System (June 30, 2006 and 2005)
22. Wheat Commission (June 30, 2006 and 2005).
23. Housing Finance Agency (June 30, 2006 and 2005).
24. Student loan trust (June 30, 2006 and 2005).
25. PACE fund (June 30, 2006 and 2005).
26. Public Finance Authority (December 31, 2006 and 2005).
27. State Building Authority (June 30, 2006 and 2005).
28. Board of University and School Lands (June 30, 2006 and 2005).

Representatives Skarphol, Bellew, Conrad, Hatlestad, Onstad, Pinkerton, and Wald and Senators Christmann, Cook, and Klein voted "aye." No negative votes were cast.

The legislative budget analyst and auditor explained the staff works with the chairman to select audits to be on the agenda and the other completed audits are listed at the end of the agenda and may be on a future agenda if a member indicates an interest in the audit.

It was moved by Representative Wald, seconded by Senator Cook, and carried on a roll call vote that, pursuant to NDCC Section 54-35-02.2, the committee accept the following reports available but not selected for presentation:

1. Board of Optometry (June 30, 2006 and 2005).
2. Board of Barber Examiners (August 31, 2005 and 2004).
3. Board of Barber Examiners (August 31, 2003 and 2002).
4. Board of Psychologist Examiners (June 30, 2005 and 2004).
5. Board of Pharmacy (June 30, 2006 and 2005).
6. Board of Funeral Service (June 30, 2006 and 2005).
7. Board of Architecture (June 30, 2005 and 2004).
8. Board of Examiners on Audiology and Speech-Language Pathology (June 30, 2005, 2004, 2003, and 2002).
9. Board of Accountancy (June 30, 2006).
10. Real Estate Commission (June 30, 2006).
11. Board of Water Well Contractors (June 30, 2006 and 2005).
12. Board of Massage (June 30, 2005 and 2004).

13. Board of Medical Examiners (December 31, 2005 and 2004).
14. Board of Counselor Examiners (June 30, 2006 and 2005).
15. Board of Registration for Professional Engineers and Land Surveyors (June 30, 2006).
16. Board of Chiropractic Examiners (December 31, 2006).
17. Education Standards and Practices Board (June 30, 2006).
18. Real Estate Appraiser Qualifications and Ethics Board (June 30, 2005, 2004, 2003, and 2002).
19. Board of Cosmetology (June 30, 2006).
20. Board of Reflexology (June 30, 2006).
21. Board of Veterinary Medical Examiners (June 30, 2006 and 2005).

Representatives Skarphol, Bellew, Conrad, Hatlestad, Onstad, Pinkerton, and Wald and Senators Christmann, Cook, and Klein voted "aye." No negative votes were cast.

The meeting was adjourned subject to the call of the chair at 3:45 p.m.

Donald J. Wolf
Senior Fiscal Analyst

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:1