

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Tuesday, July 25, 2017
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Jerry Klein, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Jerry Klein, Dwight Cook, Judy Lee; Representatives Bert Anderson, Patrick Hatlestad, Keith Kempenich, Gary Kreidt, Andrew G. Maragos, Mike Nathe, Marvin E. Nelson, Chet Pollert, Wayne A. Trottier

Members absent: Senator Richard Marcellais; Representative Mary Johnson

Others present: See [Appendix A](#)

It was moved by Representative Maragos, seconded by Senator Cook, and carried on a voice vote that the minutes of the March 6, 2017, meeting be approved as distributed.

The Legislative Budget Analyst and Auditor reviewed the [Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management](#).

COMMITTEE DUTIES AND RESPONSIBILITIES

At the request of Chairman Klein, the Legislative Council staff reviewed a memorandum entitled [Legislative Audit and Fiscal Review Committee - Statutory Duties and Responsibilities for the 2017-19 Biennium](#). He said the Legislative Management by statute appoints a Legislative Audit and Fiscal Review Committee. Pursuant to North Dakota Century Code Section 54-35-02.1, the committee is created:

- For the purpose of studying and reviewing the financial transactions of the state.
- To assure the collection of revenues and the expenditure of money is in compliance with law, legislative intent, and sound financial practices.
- To provide the Legislative Assembly with formal, objective information on revenue collections and expenditures as a basis for legislative action to improve the fiscal structure and transactions of the state.

In addition, the committee is assigned the following duties and responsibilities for the 2017-19 biennium:

1. **State Fair Association** - Receive annual audit reports from the State Fair Association pursuant to Section 4.1-45-17.
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 Section 10-19.1-152, 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' (DHS) accounts receivable** - Receive annual reports on the status of accounts receivable for DHS and the Life Skills and Transition Center, pursuant to 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. Section 26.1-50-05 provides for the audit report to be submitted to the Legislative Council. The Legislative Management has assigned the responsibility to this committee.
5. **North Dakota Stockmen's Association** - Receive a biennial audit report from the North Dakota Stockmen's Association. Section 4.1-72-08 provides for the audit report to be submitted electronically to the Legislative Council. The Legislative Management assigned the responsibility to this committee.
6. **Job Service North Dakota** - Receive a performance audit report, upon the request of the committee, for Job Service North Dakota pursuant to 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 Section 54-10-01.
8. **Frequency of audits** - Determine the frequency of audits or reviews of state agencies pursuant to 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 2 years pursuant to Section 54-10-13 and direct the State Auditor to audit or review the accounts of any political subdivision pursuant to Section 54-10-15.
10. **Study and review audit reports** - Pursuant to 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.

The Legislative Council staff presented the following proposed action plan for the committee's consideration:

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 performance audit followup reports of audits conducted in previous bienniums.
4. Receive information technology audit reports, including an Information Technology Department system audit report and a North Dakota network and security audit report.
5. Request a performance audit be conducted, as deemed necessary by this committee, for Job Service North Dakota pursuant to Section 52-02-18.
6. 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 committee to explain the reason for noncompliance with audit recommendations or steps taken to address recommendations.
7. Receive annual reports on the status of accounts receivable for DHS and the Life Skills and Transition Center.
8. 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.
9. Develop recommendations and related bill drafts.
10. Prepare the final report for submission to the Legislative Management.

AUDIT PROCESS FOR STATE AGENCIES

Chairman Klein called on Mr. Ronald I. Tolstad, Jr., Administrative Manager and Technical Specialist, State Auditor's office, who reviewed a document entitled *Overview of Auditing for the State of North Dakota Including the Office of the State Auditor's External Quality Control Report* ([Appendix B](#)). He said the State Auditor's office does not have statutory authority to audit all state agencies. He said agencies that are not audited by the State Auditor are audited by certified public accountant (CPA) firms. He said other state agencies are also audited by CPA firms at the request of the State Auditor when the State Auditor does not have sufficient resources to audit the entity. He said CPA firms are required to follow *Guidelines to Independent Certified Public Accountants Performing Financial Statement Audits of State Agencies*, and audits performed by CPA firms are paid by the state agency being audited.

Mr. Tolstad said the State Auditor's office is subject to a peer review every 3 years. He said audit organizations can receive a rating of pass, pass with deficiency, or fail. He said, for the period of April 1, 2016, through March 31, 2017, the State Auditor's office received a peer review rating of pass. The State Auditor's office is also audited every 2 years by an independent CPA firm that is contracted through the Legislative Council.

Mr. Tolstad presented information ([Appendix C](#)) regarding a one-page summary report the State Auditor's office plans to develop for future operational audits of state agencies. He said the summary will include highlights on the objective of the audit, including areas of internal control reviewed, findings relating to legislative intent, suggested areas of operational improvement, and key financial information.

In response to a question from the Legislative Budget Analyst and Auditor, Mr. Tolstad said the new summary would only be for operational audit reports. He said financial audit reports would continue addressing the 14 questions outlined in the committee audit guidelines.

Chairman Klein said the committee will need to review the suggested changes before adopting a new process for the operational audit reports.

In response to a question from Representative Nathe, Mr. Tolstad said the State Auditor's office will provide the committee, later this interim, a report listing all of the financial, operational, and performance audits the State Auditor's office anticipates for the 2019-20 interim, including the actual cost of each agency's most recent audit and the anticipated cost of the agency's next audit.

In response to a question from Representative Pollert, Mr. Paul Welk, Audit Manager, State Auditor's office, said the billing for operational audits is based on a 3-year average of the costs, plus an inflator. He said the statewide single audit is billed based on the actual hours worked.

UNIVERSITY SYSTEM - PURCHASING CARD PROGRAM PERFORMANCE AUDIT

At the request of Chairman Klein, Mr. Craig Hashbarger, Audit Manager, State Auditor's office, presented a performance audit report entitled [Purchasing Card Program Used by the North Dakota University System](#). He said the purchasing card (P-Card) program was implemented by state agencies in 2009. He said all 11 institutions and the University System office have a P-Card program and include purchasing cards as a method for purchases. The University System P-Card expenditures and rebates for calendar years 2011 through 2015 were as follows:

University System	2011	2012	2013	2014	2015
Total P-Card program expenditures	\$32,523,284	\$35,381,846	\$36,241,928	\$42,546,333	\$43,382,048
Rebates from total P-Card program expenditures	\$403,876	\$465,744	\$485,606	\$682,026	\$699,293

Mr. Hashbarger said the University System was in the process of developing a systemwide P-Card program policy when the State Auditor's office began conducting its audit. He said a goal of the audit was to include recommendations that would provide guidance to assist the University System with implementing a high-quality P-Card program policy according to best practices and state laws. He said the performance audit was conducted to evaluate certain aspects of the University System's P-Card program, including P-Card policies and utilization of P-Cards to maximize financial benefits. He said the State Auditor's office determined the following:

- P-Card policies were inconsistent among the institutions; and
- P-Cards were not being fully utilized.

Mr. Hashbarger said the audit includes 13 recommendations, which provides the University System:

1. Establish a uniform University System-wide policy for the administration of P-Cards.
2. Review and update cardholder applications to ensure elements are consistent with University System-wide policy.
3. Establish a formalized cardholder training program, which includes information on the P-Card program, and requires completion of the program prior to issuance of a card.
4. Establish formalized and documented training for reviewers to ensure role is properly executed.
5. Require P-Cards to only be used by the cardholder named on the card, and ensure written policies prohibit sharing of cards.
6. Establish a policy that defines P-Card violations, identifies consequences and severity of penalties for a violation, and ensures proper procedures are developed to document a violation.
7. Assign cardholders to a three-digit merchant carrier code group based on identified purchasing needs.
8. Establish a formalized process for communicating with the P-Card administrator to deactivate individual cards in a timely manner upon employee termination.
9. Require a direct supervisor or responsible official familiar with the departmental budget and expenditures to review P-Card transactions and provide for the P-Card administrator or designated official in the accounting office to audit or "spot-check" the statements and transactions on a test basis.
10. Establish a University System-wide process to consistently enter cardholder data.

11. Establish a framework for monitoring and providing feedback to employees using a P-Card regarding utilization of the P-Card for specific circumstances.
12. Remove restrictions for P-Card use of purchases that would otherwise be allowable.
13. Increase purchasing limits for employees authorized to make large-dollar purchases either on a permanent or temporary basis, and consider the use of other payment options for large-dollar purchases.

COMMENTS BY UNIVERSITY SYSTEM REPRESENTATIVES

At the request of Chairman Klein, Ms. Tammy Dolan, Chief Financial Officer, North Dakota University System, provided comments regarding the performance audit report of the University System's P-Card program. She said the University System agrees with all the recommendations in the audit report. She said the University System has been in the process of developing a University System-wide P-Card program policy as part of its data inconsistencies project identified by the 2015 Legislative Assembly. She said the University System has formed a working group that includes representatives from the institutions and from the Office of Management and Budget (OMB), with guidance from the State Auditor's office, to develop a University System-wide P-Card program policy. She said the group anticipates developing a policy that includes best practices and is consistent with P-Card policies of other state agencies.

In response to a question from Representative Pollert, Ms. Dolan said OMB monitors spending on P-Cards. She said rebates on P-Card expenditures are received by OMB and distributed to the respective higher education institution. She said each institution may use the P-Card rebates that are received from OMB for other institutional operating expenses.

NORTH DAKOTA STATE UNIVERSITY - PARKING AND TRANSPORTATION SERVICES DEPARTMENT PERFORMANCE AUDIT

At the request of Chairman Klein, Mr. Hashbarger presented a performance audit report entitled [NDSU Parking and Transportation Services Department](#). He said the North Dakota State University (NDSU) Parking and Transportation Services department is a unit of the NDSU Facilities Management department and is responsible for the effective and efficient operations of parking lots on the NDSU campus. The functions of the department include:

- Selling and issuing parking permits for students, staff, faculty, and others;
- Operating pay lots;
- Providing parking enforcement;
- Providing oversight of lot reconstruction and maintenance;
- Providing oversight of lot assignments;
- Providing oversight of parking and traffic signage;
- Serving as a liaison for campus mass transit; and
- Serving as a liaison with local government boards involving municipal parking issues.

Mr. Hashbarger said the performance audit was conducted to determine if the NDSU's Parking and Transportation Services department is being operated in accordance with applicable best practices. He said the NDSU Parking and Transportation Services department is a member of the International Parking Institute. He said the institute administers an Accredited Parking Organization program, which the institute describes as a designation for parking organizations that have achieved a comprehensive standard of excellence. He said a member organization must demonstrate accomplishment of established criteria to earn this accreditation. He said the State Auditor's office used 13 of the 25 accreditation criteria from the Accredited Parking Organization program to evaluate the NDSU Parking and Transportation Services department policies, procedures, and transactions for the period July 1, 2015, through October 31, 2016. He said the State Auditor's office concluded there were several areas the NDSU Parking and Transportation Services department was operating in accordance with the selected criteria. He said the audit did identify several opportunities for improvement.

Mr. Hashbarger said the audit includes the following eight recommendations:

1. Provide for the Campus Space and Facilities Committee to meet and annually review the department's financial data.
2. Develop and document short-term and long-term goals at the department level.
3. Develop appropriate annual and long-term operating budgets and periodically compare the year-to-date results to identify potential errors or other issues that need to be addressed.

4. Review and update the NDSU Parking and Transportation Services department's written policy descriptions and continue to update them periodically pursuant to NDSU policy.
5. Develop a process for tracking and monitoring training and continuing education for departmental employees.
6. Adopt formal statements of the department's mission, objectives, and values, including objectives relating to campus safety and security.
7. Implement a process for periodic reconciliation of revenues between the department's parking management software and the department's financial statements.
8. Comply with University System Procedure 1901.2.1 relating to storage or transmission of data classified as private.

COMMENTS BY NORTH DAKOTA STATE UNIVERSITY REPRESENTATIVES

At the request of Chairman Klein, Mr. Michael Ellingson, Director, Facilities Management, North Dakota State University, provided comments regarding the performance audit of the NDSU's Parking and Transportation Services department. He said the NDSU Facilities Management division is in the process of implementing a number of the recommendations included in the report. He said the division has joined the International Parking Institute to improve the parking and transportation services at NDSU.

COMMENTS BY THE STATE AUDITOR

Mr. Joshua C. Gallion, State Auditor, provided comments regarding the audit process for future audits. He said recommendations provided in the audit reports are intended to initiate dialog and discussions, generate ideas, and lead to operational improvements. He said the State Auditor's office is committed to maintaining and generating positive relationships with its clients, including other state agencies and other government entities. He said a common goal of these partnerships should be to ensure services are effective and responsive to people's needs. He said two goals of future performance audits will include:

- Limiting the scope of agency performance audits to the most significant areas; and
- Conducting performance audits of broader issues, which may include issues affecting multiple agencies.

PROPOSED PERFORMANCE AUDIT OF VETERANS' HOME

Mr. Gallion said the State Auditor's office has begun conducting a performance audit of the Veterans' Home. The last performance audit conducted on the Veterans' Home was in June 2002. He said there have been changes at the Veterans' Home since the last performance audit, including a new director and a new facility.

In response to a question from Representative Pollert, Mr. Gallion said the last performance audit of the Department of Veterans' Affairs was in 2004.

Representative Pollert suggested expanding the performance audit to include the Department of Veterans' Affairs.

Representative Maragos expressed support for the performance audit. He provided comments regarding the need to understand the intended purposes of why the facility was established and how to ensure that the facility is operating effectively.

Senator Lee expressed support for the performance audit. She suggested the State Auditor's office also review the budget allotment process as part of its performance audit to determine whether the Veterans' Home should receive an exemption similar to DHS. She said the facility provides basic care and skilled care services.

It was moved by Representative Pollert, seconded by Representative Kempenich, and carried on a roll call vote that the State Auditor's office broaden its performance audit of the Veterans' Home to include the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs, and that the specific objectives of the performance audit be determined by the State Auditor's office. Senators Klein, Cook, and Lee and Representatives Anderson, Hatlestad, Kempenich, Maragos, Nathe, Pollert, and Trottier voted "aye." Representative Nelson voted "nay."

UNIVERSITY SYSTEM OFFICE - PERFORMANCE AUDIT FOLLOWUP

Chairman Klein called on Mr. Don LaFleur, Information Audit Manager, Systems Audit Section, and Performance Audit Manager, State Auditor's office, who presented a report entitled [Performance Audit Follow-up Report Status of Recommendations University System Office](#). He said the report provides information on the status of the

recommendations provided in the performance audit report dated February 4, 2013. He said the objective of the performance audit was to determine if the University System office is adequately staffed to perform its function.

Mr. LaFleur said of the 15 recommendations provided in the report, 5 of the recommendations have been fully implemented, 3 recommendations have been partially implemented, and 3 recommendations have not been implemented. He said 4 of the original recommendations were determined to be redundant, and therefore, the State Auditor's office chose to exclude those from this report. He reviewed the status of the remaining 11 recommendations.

GAME AND FISH DEPARTMENT - PERFORMANCE AUDIT FOLLOWUP

Mr. LaFleur presented a report entitled [Performance Audit Follow-up Status of Recommendations Game and Fish Department](#). He said the report provides information on the status of the recommendations provided in the performance audit report dated April 9, 2014. He said the objectives of the performance audit were to determine if the private land open to sportsmen program is operating effectively, and if the Game and Fish Department is in compliance with laws, rules, and policies related to human resources and use of resources.

Mr. LaFleur said of the 44 recommendations provided in the performance audit report, 36 have been fully implemented, and 8 recommendations have been partially implemented. He reviewed the status of the 44 recommendations.

Mr. Terry Steinwand, Director, Game and Fish Department, provided comments regarding the performance audit followup report. He expressed support for the collaborative effort between the department and the State Auditor's office on the followup report.

FEES CHARGED AT NORTH DAKOTA STATE UNIVERSITY AND UNIVERSITY OF NORTH DAKOTA - PERFORMANCE AUDIT FOLLOWUP

Mr. LaFleur presented a report entitled [Performance Audit Follow-up Status of Recommendations Fees Charged at NDSU and UND](#). He said the report provides information on the status of the recommendations provided in the performance audit report dated June 5, 2012. The original objective of the performance audit was to review fees at NDSU and the University of North Dakota for the period July 1, 2007, through December 31, 2010, to determine whether fees are appropriately established and used by the two universities.

Mr. LaFleur said the State Auditor's office took a different approach for this audit followup. He said the original performance audit report identified 24 recommendations. He said because the State Board of Higher Education approved modifications to its tuition model, the followup audit report focuses on three recommendations made to the board relating to the fee process, program fee requirements, and course fee requirements.

Ms. Dolan provided comments regarding the performance audit followup report. She said the State Board of Higher Education has taken actions to address the recommendations as part of a new tuition model. She said the board approved a new tuition model in October 2016. She said each institution is working on implementation plans regarding how they anticipate implementing the new model. She said the new tuition model is anticipated to be implemented at each institution by the fall of 2019.

INTERNAL CONTROL AND COMPLIANCE REPORT

Chairman Klein called on Mr. Tolstad, who presented a report entitled [Comprehensive Annual Financial Report State of North Dakota Governance Communication Including the Report on Internal Control, Compliance, and Other Matters for the Year Ended June 30, 2016](#). He said the State Auditor's office has audited the general purpose financial statements for the state of North Dakota for the year ended June 30, 2016. He reviewed the auditor's responses to the committee guidelines and said the report contains an unmodified opinion, and the report identified one internal control weakness and one significant change in accounting policy. He said the internal control weakness related to improper reconciliation of the motor vehicle clearing account. He said the significant accounting policy change relates to Government Accounting Standards Board (GASB) Statement No. 72, which resulted in the University System increasing its net position by \$9.5 million.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Ms. Rachel Kmetz, Accounting Manager, Office of Management and Budget, presented a report entitled [State of North Dakota Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016](#). She reviewed the information contained in the report and a supplemental report entitled [State of North Dakota Interim 2015-2017 Biennium Budget and Actual Detail \(Budgetary Basis\) for the Fiscal Year Ended June 30, 2016](#). Copies of both reports are on file in the Legislative Council office.

INTERNAL CONTROL AND COMPLIANCE REPORT

Chairman Klein called on Mr. Edwin J. Nagel, Jr., Director, State Auditor's office, who presented a report entitled [North Dakota University System Governance Communication Including the Report on Internal Control, Compliance, and Other Matters for the Year Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said there were seven audit recommendations, which included three prior audit recommendations that were not implemented.

Mr. Nagel said the three prior audit recommendations not implemented relate to:

- Requiring a comprehensive fraud and control risk assessment by each institution.
- Governance and internal controls of foundation audits, including review of affiliated organization operating agreements.
- Background checks of all employees, including student employees prior to providing PeopleSoft access.

Mr. Nagel said the report identifies four current audit recommendations relating to:

- Preparation of monthly bank reconciliations.
- Compliance with University System policies regarding fraud awareness training.
- Reporting termination benefits pursuant to GASB Statement No. 47.
- Proper use of service organization control reports.

He said there was one significant accounting policy change relating to GASB Statement No. 72, which resulted in the University System increasing its net position by \$9.4 million.

UNIVERSITY SYSTEM ANNUAL FINANCIAL REPORT

Ms. Robin Putnam, Director of Financial Reporting, North Dakota University System, presented a report entitled [North Dakota University System Annual Financial Report Fiscal Year Ended June 30, 2016](#). She said the report for the University System includes the 11 public universities, the University System office, Core Technology Services, and 10 foundations which are required by government accounting standards to be included as component units of the University System. An unmodified opinion was issued on the business-type activities and a qualified opinion was issued on the aggregate discretely presented component units, because the financial data for Dickinson State University Foundation was not included with the aggregate discretely presented component units in the University System's financial statements. As of June 30, 2016, she said, the University System had total net assets of \$1.354 billion.

Ms. Putnam said the annual degree credit headcount for the fall of 2015 was 47,513. She said total operating revenues of the University System increased 3 percent from fiscal year 2015 as a result of increases in tuition and fees, auxiliary enterprises, and sales and services of educational departments.

AUDITS OF STATE AGENCIES, BOARDS, AND COMMISSIONS

Chairman Klein called on Ms. Mindy Piatz, Brady, Martz & Associates, PC, Certified Public Accountants, who presented a report entitled [North Dakota Housing Incentive Fund Bismarck, North Dakota Audited Financial Statements for the Years Ended June 30, 2016 and 2015](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Piatz presented a report entitled [North Dakota Housing Finance Agency Bismarck, North Dakota Audited Financial Statements for the Years Ended June 30, 2016 and 2015](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Chairman Klein called on Mr. Ryan Monson, Brady, Martz & Associates, PC, Certified Public Accountants, who presented a report entitled [North Dakota Department of Trust Lands Bismarck, North Dakota Audited Financial Statements for the Year Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report includes one internal control finding relating to an adjusting entry to correct trust fund balances.

Ms. Piatz presented a report entitled [Job Service North Dakota Financial Report for the Year Ending June 30, 2016](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Chairman Klein called on Mr. Jason Ostroski, CliftonLarsonAllen LLP, Certified Public Accountants, who presented a report entitled [North Dakota Retirement and Investment Office Financial Statements Year Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Ostroski presented a report entitled [North Dakota Retirement and Investment Office - North Dakota Teachers' Fund for Retirement Bismarck, North Dakota Schedules of Employer Allocations and Pension Amounts by Employer June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report contains an unmodified opinion. He said the report does not include any findings or recommendations.

Mr. Ostroski presented a report entitled [North Dakota Public Employees Retirement System Financial Statements Years Ended June 30, 2016 and 2015](#). He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Ostroski presented a report entitled [North Dakota Public Employees Retirement System Schedules of Employer Allocations and Pension Amounts by Employer Year Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report contains an unmodified opinion. He said the report does not include any findings or recommendations.

Chairman Klein called on Mr. Darrell Lingle, Eide Bailly LLP, Certified Public Accountants, who presented the audit report for the [Bank of North Dakota Financial Statements December 31, 2016 and 2015 and Statement of Appropriated Expenditures Biennium Ended June 30, 2017](#). He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Chairman Klein called on Ms. Katie Williams, Eide Bailly LLP, Certified Public Accountants, who presented a report entitled [Financial Statements June 30, 2016 and 2015 Ag PACE Fund](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements June 30, 2016 and 2015 PACE Fund](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements December 31, 2016 and 2015 Beginning Farmer Revolving Loan Fund](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements December 31, 2016 and 2015 Community Water Facility Loan Fund](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements June 30, 2016 Infrastructure Revolving Loan Fund](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements June 30, 2016 and 2015 Medical Facility Infrastructure Loan Fund](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements September 30, 2016 and 2015 North Dakota Guaranteed Student Loan Program](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements June 30, 2016 Addiction Counselor Internship Loan Program](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements December 31, 2016 and 2015 North Dakota Public Finance Authority \(A Component Unit of the State of North Dakota\)](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements June 30, 2016 and 2015 North Dakota Student Loan Trust](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements June 30, 2016 and 2015 Rebuilders Loan Program](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements June 30, 2016 and 2015 North Dakota Development Fund, Inc.](#) She reviewed the auditor's responses to the committee guidelines and said the report includes one internal control finding relating to preparation of financial statements.

Ms. Williams presented a report entitled [Financial Statements June 30, 2016 and 2015 Workforce Safety & Insurance.](#) She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Williams presented a report entitled [Financial Statements September 30, 2016 and 2015 North Dakota State Fair Association.](#) She reviewed the auditor's responses to the committee guidelines and said the report includes a qualified opinion for a scope limitation relating to the asset quality of the foundation's note receivables.

Chairman Klein called on Mr. Tim Porter, Chief Financial Officer, Bank of North Dakota, to present information ([Appendix D](#)) regarding reports entitled [College SAVE Picture the Future \(A Private Purpose Trust Fund of the State of North Dakota\) Financial Statements December 31, 2016 and 2015 and Supplementary Information December 31, 2016 \(With Independent Auditor's Report Thereon\)](#), and a letter ([Appendix E](#)) from Thomas & Thomas LLP regarding the report. He said the Bank of North Dakota acts as trustee for the College SAVE plan. He said Ascensus Broker Dealer Services, Inc. is the plan manager and The Vanguard Group, Inc. is the investment manager. He said the College SAVE audit was conducted by Thomas & Thomas LLC, Certified Public Accountants. He said the report contains an unqualified opinion and does not include any findings or recommendations.

INFORMATION TECHNOLOGY DEPARTMENT - SERVICE ORGANIZATION INFORMATION SYSTEMS AUDIT

Mr. LaFleur presented a report entitled [North Dakota Information Technology Department SOC3-Service Organization Control Report for the period of July 1st 2015 through June 30th 2016.](#) He said the information systems audit identified seven significant audit findings relating to disaster recovery, destruction of expired tapes and hard drives, changing default passwords on privileged accounts, encryption of portable devices, use of privileged accounts for administrative activities, access to data centers, and monitoring job-related training.

AUDITS OF STATE AGENCIES, BOARDS, AND COMMISSIONS

Mr. Welk presented a report entitled [North Dakota Highway Patrol Bismarck, North Dakota Audit Report Two-Year Period Ended June 30, 2016.](#) He reviewed the auditor's responses to the committee guidelines and said the report identified seven internal control findings relating to improper coding of expenditures, improper allocation of payroll, correcting entries not properly supported, improper approvals of expenditures, level of competency not met by accounting staff, lack of reconciliation of fixed asset system to PeopleSoft, and correcting entries not properly approved. He said the report identified one noncompliance finding relating to improper capitalization of assets. The State Auditor's office determined the financial statements can not be considered reliable because of the number of coding errors identified.

Mr. Nagel presented a report entitled [North Dakota Potato Council Grand Forks, North Dakota Audit Report for the Two-Year Period Ended June 30, 2016.](#) He reviewed the auditor's responses to the committee guidelines and said the report identified one internal control finding relating to insufficient fiscal and budget controls.

Mr. Nagel presented a report entitled [North Dakota State Seed Department Fargo, North Dakota Audit Report for the Two-Year Period Ended June 30, 2016.](#) He reviewed the auditor's responses to the committee guidelines and said the report identified two internal control findings relating to inadequate signed code of business conduct, and lack of State Seed Administration Software security access and risk assessment; and two noncompliance findings relating to competition limited through bid specifications, and state procurement guidelines not being followed.

Mr. Nagel presented a report entitled [North Dakota Department of Veterans Affairs Bismarck, North Dakota Audit Report for the Two-Year Period Ended June 30, 2016.](#) He reviewed the auditor's responses to the committee guidelines and said the report identified one noncompliance finding relating to improper pay rate.

Mr. Nagel presented a report entitled [ND Mill and Elevator Association Grand Forks, North Dakota Audit Report for the Year Ended June 30, 2016.](#) He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Nagel presented a report entitled [North Dakota Lottery Bismarck, North Dakota Audit Report for the Years Ended June 30, 2016 and 2015.](#) He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Nagel presented a report entitled [Department of Financial Institutions Bismarck, North Dakota Audit Report for the Two-Year Period Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Gallion presented a report entitled [North Dakota Game and Fish Department Bismarck, North Dakota Audit Report for the Two-Year Period Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Nagel presented a report entitled [North Dakota Protection and Advocacy Project Bismarck, North Dakota Audit Report for the Two-Year Period Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Nagel presented a report entitled [North Dakota Securities Department Bismarck, North Dakota Audit Report Two-Year Period Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Nagel presented a report entitled [State Historical Society Bismarck, North Dakota Audit Report for the Two-Year Period Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report identified one noncompliance finding relating to compliance with bidding thresholds for public improvements pursuant to Section 48-01.2-02.1.

Mr. Nagel presented a report entitled [North Dakota University System Office Bismarck, North Dakota Audit Report for the Two-Year Period Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Gallion presented information ([Appendix F](#)) for a report entitled [State of North Dakota Single Audit Report Fiscal Years Ended June 30, 2016 and 2015](#). He said total federal expenditure awards, at the state level, were \$1.83 billion in 2015 and \$1.89 billion in 2016. He said the statewide single audit included 28 major programs. He said there were 74 audit findings, 15 of which were repeat findings from the prior single audit. He said eight of the findings were considered material noncompliance findings, which did result in an adverse opinion for the Medicaid program; and a qualified opinion for the child care development fund cluster, the children's health insurance program, and the mathematics and science partnership program.

Mr. Gallion said the eight recommendations, which were considered material noncompliance include the following:

- DHS submit a quarterly statement of expenditures for the Medicaid assistance program to the federal government within 30 days after the end of each quarter.
- DHS properly design the state's Medicaid program integrity unit sampling plan to identify suspected cases of fraud, and provide adequate coverage of all claims processed.
- DHS implement sufficient edit checks and system functionality for the Medicaid eligibility systems.
- DHS establish a reconciliation process of the federal medical assistance percentage between the federal Medicaid expenditure report and the state's accounting system to ensure the state is complying with federal matching percentages.
- DHS develop proper procedures to document and verify eligibility for the child care development fund cluster.
- DHS adequately document allowable costs to day care providers prior to issuing payment.
- DHS establish sufficient edit checks and system functionality to ensure eligibility determinations for the children's health insurance program are proper.
- The Department of Public Instruction receive proper documentation to identify that required subrecipient monitoring was completed to ensure federal funds were spent in compliance with laws and regulations.

Senator Lee commented regarding the audit. She said the Medicaid management information system implementation project was significantly delayed and may have had an effect on the circumstances that led to many of these recommendations. She said the system includes eligibility determination and disbursement of funds.

In response to a question from Representative Pollert, Ms. Deb McDermott, Chief Financial Officer, Department of Human Services, said the delay with submitting the Centers for Medicare and Medicaid Services quarterly CMS-64 report was because DHS was waiting for the federal government to resolve an issue regarding how to

report an adjustment for enhanced federal medical assistance percentage rate relating to the children's health insurance program. She said other delays were due primarily to the delay in implementing DHS's new eligibility computer system.

In response to a question from Representative Kempenich, Ms. McDermott said the errors listed in the audit report were identified through DHS's quality control pilot process.

In response to a question from Representative Nelson, Ms. McDermott said the errors identified were for both individuals receiving benefits that should not have received the benefits, and for individuals that should have received benefits, but did not.

Mr. Nagel presented a report entitled [Office of the Adjutant General Bismarck, North Dakota Audit Report for the Two-Year Period Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Nagel presented a report entitled [Office of the Attorney General Bismarck, North Dakota Audit Report for the Two-Year Period Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Nagel presented a report entitled [North Dakota Indian Affairs Commission Bismarck, North Dakota Audit Report for the Two-Year Period Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report identified one internal control finding relating to lack of fraud risk assessment; and two noncompliance findings relating to lack of blanket bond coverage, and lack of annual inventory.

Mr. Nagel presented the a report entitled [Information Technology Department Bismarck, North Dakota Audit Report Two-Year Period Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Mr. Welk presented the audit report of the [Office of the Secretary of State Bismarck, North Dakota Audit Report Two-Year Period Ended June 30, 2016](#). He reviewed the auditor's responses to the committee guidelines and said the report identified one internal control finding relating to inadequate process for handling complaints filed against a contractor.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

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

- 1. North Dakota University System's purchasing card program performance audit (August 30, 2016).**
- 2. North Dakota State University's Parking and Transportation Services Department (February 23, 2017).**
- 3. University System office audit followup report (June 15, 2017).**
- 4. Game and Fish Department audit followup report (May 19, 2017).**
- 5. Fees charged at North Dakota State University and University of North Dakota audit followup report (May 1, 2017).**
- 6. North Dakota Comprehensive Annual Financial Report (June 30, 2016).**
- 7. North Dakota University System Annual Financial Report (June 30, 2016).**
- 8. Housing incentive fund (June 30, 2016 and 2015).**
- 9. Housing Finance Agency (June 30, 2016 and 2015).**
- 10. Department of Trust Lands (June 30, 2016).**
- 11. Job Service North Dakota (June 30, 2016).**
- 12. Retirement and Investment Office (June 30, 2016).**
- 13. Retirement and Investment Office--Schedule of Employer Allocations and Pension Amounts by Employer (June 30, 2016).**
- 14. Public Employees Retirement System (June 30, 2016 and 2015).**
- 15. Public Employees Retirement System--Schedule of Employer Allocations and Pension Amounts by Employer (June 30, 2016).**

16. Bank of North Dakota (June 30, 2016).
17. Ag PACE fund (June 30, 2016 and 2015).
18. PACE fund (June 30, 2016 and 2015).
19. Beginning farmer revolving loan fund (December 31, 2016 and 2015).
20. Community water facility loan fund (December 31, 2016 and 2015).
21. Infrastructure revolving loan fund (June 30, 2016).
22. Medical facility infrastructure loan program (June 30, 2016 and 2015).
23. Guaranteed student loan program (September 30, 2016 and 2015).
24. Addiction counselor internship loan program (June 30, 2016).
25. Public Finance Authority (December 31, 2016 and 2015).
26. Student loan trust fund (June 30, 2016 and 2015).
27. Rebuilders loan program (June 30, 2016 and 2015).
28. Development Fund, Inc. (June 30, 2016 and 2015).
29. Workforce Safety and Insurance (June 30, 2016 and 2015).
30. State Fair Association (September 30, 2016 and 2015).
31. College SAVE (December 31, 2016 and 2015).
32. College SAVE supplementary information (December 31, 2016).
33. Information Technology Department independent service organization information system audit (July 1, 2015 to June 30, 2016).
34. Highway Patrol (June 30, 2016 and 2015).
35. North Dakota Potato Council (June 30, 2016 and 2015).
36. North Dakota State Seed Department (June 30, 2016 and 2015).
37. Department of Veterans' Affairs (June 30, 2016 and 2015).
38. Mill and Elevator Association (June 30, 2016 and 2015).
39. North Dakota Lottery (June 30, 2016 and 2015).
40. Department of Financial Institutions (June 30, 2016 and 2015).
41. Game and Fish Department (June 30, 2016 and 2015).
42. Protection and Advocacy Project (June 30, 2016 and 2015).
43. Securities Department (June 30, 2016 and 2015).
44. State Historical Society (June 30, 2016 and 2015).
45. North Dakota University System office (June 30, 2016 and 2015).
46. Statewide single audit (June 30, 2016 and 2015).
47. Adjutant General (June 30, 2016 and 2015).
48. Attorney General (June 30, 2016 and 2015).
49. Indian Affairs Commission (June 30, 2016 and 2015).
50. Information Technology Department (June 30, 2016 and 2015).
51. Secretary of State (June 30, 2016 and 2015).

Senators Klein, Cook, and Lee and Representatives Anderson, Hatlestad, Kempenich, Kreidt, Maragos, Nathe, Nelson, Pollert, and Trottier voted "aye." No negative votes were cast.

The Legislative Council staff distributed a memorandum entitled [Summary of Audit Reports Not Selected for Presentation](#).

Representative Kreidt requested the audit report for the State Board of Nursing for the fiscal year ended June 30, 2016, and the audit report for the North Dakota Milk Marketing Board for the fiscal years ended June 30, 2016 and 2015, be presented at the next committee meeting.

Representative Kempenich requested the audit report for the North Dakota Corn Utilization Council for the fiscal years ended June 30, 2016 and 2015, be presented at the next committee meeting.

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

1. **State Board of Accountancy (June 30, 2016 and 2015).**
2. **State Board of Examiners on Audiology and Speech-Language Pathology (June 30, 2016 and 2015).**
3. **State Board of Barber Examiners (August 31, 2016).**
4. **State Board of Clinical Laboratory Practice (June 30, 2015 and 2014).**
5. **State Board of Dental Examiners (June 30, 2015 and 2014).**
6. **State Board of Occupational Therapy Practice (June 30, 2015 and 2014).**
7. **North Dakota Barley Council (June 30, 2016 and 2015).**
8. **North Dakota Beef Commission (June 30, 2016 and 2015).**
9. **North Dakota Dairy Promotion Commission (June 30, 2016 and 2015).**
10. **North Dakota Dry Bean Council (June 30, 2016 and 2015).**
11. **North Dakota Dry Pea and Lentil Council (June 30, 2016 and 2015).**
12. **North Dakota Ethanol Council (June 30, 2016 and 2015).**
13. **North Dakota Oilseed Council (June 30, 2016 and 2015).**
14. **North Dakota Real Estate Commission (June 30, 2016 and 2015).**
15. **North Dakota Soybean Council (June 30, 2016 and 2015).**
16. **North Dakota Wheat Commission (June 30, 2016 and 2015).**

Senators Klein, Cook, and Lee and Representatives Anderson, Hatlestad, Kempenich, Kreidt, Nathe, Nelson, Pollert, and Trottier voted "aye." No negative votes were cast.

The committee discussed the State Auditor's office suggestion to replace the 14 questions and answers section of the operational audit reports with a one-page operational audit report summary. Chairman Klein said the State Auditor's office should continue to include the 14 questions and answers section and may also include the one-page summary for operational audits. With both of these items included in the reports, he said the committee will be able to evaluate the usefulness of each and may consider at a future meeting whether to discontinue all or a portion of the 14 questions and answers.

It was moved by Senator Lee, seconded by Representative Kempenich, and carried on a voice vote that the meeting be adjourned.

No further business appearing, Chairman Klein adjourned the meeting at 3:45 p.m.

Michael C. Johnson
Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:6