

## NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Minutes of the

**LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE**

Wednesday, October 3, 2018  
Roughrider Room, State Capitol  
Bismarck, North Dakota

Senator Jerry Klein, Chairman, called the meeting to order at 9:30 a.m.

**Members present:** Senators Jerry Klein, Judy Lee, Richard Marcellais; Representatives Bert Anderson, Mary Johnson, Keith Kempenich, Gary Kreidt, Andrew G. Maragos, Mike Nathe, Chet Pollert, Wayne A. Trottier

**Members absent:** Senator Dwight Cook; Representatives Patrick Hatlestad, Marvin E. Nelson

**Others present:** Representative Corey Mock, Grand Forks, member of the Legislative Management  
See [Appendix A](#) for additional persons present.

**It was moved by Representative Kreidt, seconded by Representative Maragos, and carried on a voice vote that the minutes of the June 27, 2018, meeting be approved as distributed.**

**DEPARTMENT OF HUMAN SERVICES ACCOUNTS RECEIVABLES**

Chairman Klein called on Ms. Donna Aukland, Assistant Chief Financial Officer, Field Services, Department of Human Services, who presented information ([Appendix B](#)) on the status of accounts receivables pursuant to North Dakota Century Code Sections 25-04-17 and 50-06.3-08. Ms. Aukland said the total amount of accounts receivable written off by the Department of Human Services for fiscal year 2018 was \$12,053,741, of which \$1,118,273 relates to the human service centers, \$10,879,095 relates to the State Hospital, and \$56,373 relates to the Life Skills and Transition Center.

In response to a question from Representative Kreidt, Ms. Aukland said the department carries accounts receivable balances as long as possible.

In response to a question from Representative Johnson, Ms. Aukland said the collection agency will attempt to obtain a legal judgment on an uncollected account. She said accounts typically are returned to the department after 6 or 7 years.

Senator Lee submitted information ([Appendix C](#)) regarding accounts receivables. She said there are problems in the state with families not paying for amounts owed to long-term care facilities.

In response to a question from Representative Trottier, Ms. Aukland said although an individual committed to the State Hospital may be eligible for Medicaid, Medicaid rules do not allow the State Hospital to bill Medicaid for any costs relating to the individual's stay at the State Hospital. She said the State Hospital is not allowed to bill Medicaid for services an individual may receive at a regional hospital while a patient at the State Hospital.

**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 State Electrical Board Bismarck, North Dakota Audited Financial Statements for the Years Ended June 30, 2017 and 2016](#). Ms. Piatz reviewed the auditor's responses to the committee guidelines and said the report includes two audit findings relating to financial statement material weakness and financial statement preparation deficiency.

In response to a question from Representative Kempenich, Mr. James Schmidt, Executive Director, State Electrical Board, said the board's reserves have been increasing in recent years because of increases in construction in the state due to energy development activities. He said the board has not increased its licensing fees since approximately 2004.

Chairman Klein suggested the board review ways to address its large reserve balance.

In response to a question from Representative Pollert, Mr. Schmidt said the board has been reviewing ways to address the workforce shortage in the state.

Chairman Klein called on Ms. Robyn Hoffmann, Audit Manager, State Auditor's office, who presented a report entitled [Lake Region State College Devils Lake, North Dakota Audit Report For the Biennium Ended June 30, 2017.](#) Ms. Hoffmann reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Hoffmann presented a report entitled [Williston State College Williston, North Dakota Audit Report For the Biennium Ended June 30, 2017.](#) She reviewed the auditor's responses to the committee guidelines and said the report includes six prior period audit findings not implemented relating to lack of controls surrounding cash and revenues, lack of controls surrounding payroll, lack of controls surrounding expenditures, lack of controls surrounding purchase card expenditures, inadequate controls over non-cash adjustments, and lack of supporting documentation; and includes three audit findings relating to noncompliance with procurement rules, lack of blanket bond coverage, and inadequate controls surrounding equipment.

Representative Nathe said the audit identified prior period recommendations that have not been implemented in over 5 years. He suggested penalties be imposed on agencies that do not address prior period audit recommendations.

Ms. Hoffmann presented a report entitled [University of North Dakota Grand Forks, North Dakota Audit Report For the Biennium Ended June 30, 2017.](#) She reviewed the auditor's responses to the committee guidelines and said the report includes three audit findings relating to construction management at-risk for the collaboration energy complex, improper training rates with the University of North Dakota Aerospace Foundation, and netting transactions with the University of North Dakota Aerospace Foundation.

Ms. Hoffmann presented a report entitled [North Dakota State University Fargo, North Dakota Audit Report For the Biennium Ended June 30, 2017.](#) She reviewed the auditor's responses to the committee guidelines and said the report includes audit findings relating to inadequate journal entry approval for the Agricultural Experiment Station and Extension Service, noncompliance with procurement rules, and inadequate controls over disclosed conflicts of interest.

Ms. Hoffmann presented a report entitled [Mayville State University Mayville, North Dakota Audit Report For the Biennium Ended June 30, 2017.](#) She reviewed the auditor's responses to the committee guidelines and said the report includes two audit findings relating to review of allowance for doubtful accounts and noncompliance with procurement rules.

Ms. Hoffmann presented a report entitled [Dakota College At Bottineau Bottineau, North Dakota Audit Report For the Biennium Ended June 30, 2017.](#) She reviewed the auditor's responses to the committee guidelines and said the report includes two audit findings relating to inadequate journal entry approval and noncompliance with procurement rules.

Chairman Klein called on Mr. Joshua C. Gallion, State Auditor, who presented a report entitled [Department of Career and Technical Education Bismarck, North Dakota Audit Report For the Biennium Ended June 30, 2017.](#) Mr. Gallion reviewed the auditor's responses to the committee guidelines and said the report includes five audit findings relating to improper coding of expenditures, overspent general fund spending authority, improper and unsupported payments to school districts, lack of review of access privileges, and lack of reconciliation between accounting systems.

In response to a question from Representative Maragos, Mr. Gallion said the findings identify an agency oversight issue.

Representative Maragos suggested the State Auditor's office establish a system to ensure agencies implement the recommendations.

Chairman Klein called on Ms. Kristi Morlock, State Auditor's office, who presented a report entitled [Department of Corrections and Rehabilitation Bismarck, North Dakota Audit Report For the Biennium Ended June 30, 2017.](#) Ms. Morlock reviewed the auditor's responses to the committee guidelines and said the report includes one audit finding relating to lack of authorization to deposit revenue into an operating fund.

Chairman Klein called on Mr. Kevin Scherbenske, State Auditor's office, who presented a report entitled [Office of the State Tax Commissioner Bismarck, North Dakota Audit Report For the Biennium Ended June 30, 2017](#). Mr. Scherbenske reviewed the auditor's responses to the committee guidelines and said the report includes one audit finding relating to approval of GenTax system access privileges.

Mr. Scherbenske presented a report entitled [Department of Transportation Bismarck, North Dakota Audit Report For the Biennium Ended June 30, 2017](#). He reviewed the auditor's responses to the committee guidelines and said the report includes one audit finding relating to state title and registration system fee overrides control weakness.

In response to a question from Representative Pollert, Mr. Shannon Sauer, Chief Financial Officer, Department of Transportation, said optimization of snow and ice control is being reviewed as part of the department's 2019-21 biennium budget proposal.

Representative Pollert suggested the department communicate with legislators regarding changes included in the budget request relating to snow and ice control.

Mr. Scherbenske presented a report entitled [North Dakota Insurance Department Bismarck, North Dakota Audit Report For the 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.

Ms. Morlock presented a report entitled [Public Service Commission Bismarck, North Dakota Audit Report For the Biennium Ended June 30, 2017](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

Ms. Hoffmann presented a report entitled [North Dakota Veterans Home Lisbon, North Dakota Audit Report For the Biennium Ended June 30, 2017](#). She reviewed the auditor's responses to the committee guidelines and said the report does not include any findings or recommendations.

### **COMMITTEE DISCUSSION AND STAFF DIRECTIVES**

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

**It was moved by Representative Maragos, seconded by Senator Lee, and carried on a roll call vote that, pursuant to Section 54-35-02.2, the committee accept the following reports reviewed by the committee at its June 27, 2018, meeting:**

- 1. Governor's office travel and use of state resources performance audit (May 18, 2018).**
- 2. Veterans' Home performance audit (February 10, 2018).**
- 3. Department of Veterans' Affairs performance audit (March 28, 2018).**
- 4. Administrative Committee on Veterans' Affairs oversight structure performance audit (March 28, 2018).**
- 5. Emergency preparedness at Bismarck State College performance audit report (March 23, 2018).**
- 6. Emergency preparedness at North Dakota State College of Science performance audit report (March 19, 2018).**
- 7. Emergency preparedness at North Dakota State University performance audit report (January 11, 2018).**
- 8. Emergency preparedness at Williston State College performance audit report (February 5, 2018).**
- 9. Department of Trust Lands audit followup report relating to the Energy Infrastructure and Impact Office, trust assets and department resources, and the Unclaimed Property Division (May 25, 2018).**
- 10. North Dakota University System institutions tuition waivers and student stipends audit followup report (March 23, 2018).**
- 11. Beginning farmer revolving loan fund (December 31, 2017 and 2016).**
- 12. Community water facility loan fund (December 31, 2017 and 2016).**
- 13. Guaranteed student loan program (September 30, 2017 and 2016).**
- 14. Public Finance Authority (December 31, 2017 and 2016).**
- 15. Bank of North Dakota (June 30, 2017).**

16. College SAVE (December 31, 2017 and 2016).
17. College SAVE supplementary information (December 31, 2017).
18. Public Employees Retirement System (June 30, 2017 and 2016).
19. Public Employees Retirement System--Schedule of Employer Allocations and Pension Amounts by Employer (June 30, 2017).
20. Public Employees Retirement System--Schedule of Employer Allocations and Other Post Employment Benefits Amounts by Employer (June 30, 2017).
21. Retirement and Investment Office (June 30, 2017 and 2016).
22. Retirement and Investment Office--Teachers' Fund for Retirement--Schedule of Employer Allocations and Pension Amounts by Employer (June 30, 2017).
23. Private Investigation and Security Board (December 31, 2016 and 2015).
24. North Dakota Comprehensive Annual Financial Report (June 30, 2017).
25. North Dakota University System Annual Financial Report (June 30, 2017).
26. Bismarck State College (June 30, 2017 and 2016).
27. North Dakota State College of Science (June 30, 2017 and 2016).
28. Dickinson State University (June 30, 2017 and 2016).
29. Minot State University (June 30, 2017 and 2016).
30. Valley City State University (June 30, 2017 and 2016).
31. Department of Human Services (June 30, 2017 and 2016).
32. Judicial branch (June 30, 2017 and 2016).
33. Governor's office (June 30, 2017 and 2016).
34. Office of Administrative Hearings (June 30, 2017 and 2016).
35. State Department of Health (June 30, 2017 and 2016).
36. Department of Commerce (June 30, 2017 and 2016).
37. Aeronautics Commission (June 30, 2017 and 2016).
38. North Dakota Lottery (June 30, 2017 and 2016).
39. Parks and Recreation Department (June 30, 2017 and 2016).
40. North Dakota Racing Commission (June 30, 2017 and 2016).
41. Department of Labor and Human Rights (June 30, 2017 and 2016).
42. Department of Agriculture (June 30, 2017 and 2016).
43. North Dakota Council on the Arts (June 30, 2017 and 2016).
44. Industrial Commission (June 30, 2017 and 2016).
45. Department of Public Instruction (June 30, 2017 and 2016).
46. State Treasurer's office (June 30, 2017 and 2016).
47. State Water Commission (June 30, 2017 and 2016).
48. Reports available but not selected for presentation:
  - a. State Board of Architecture (June 30, 2017 and 2016).
  - b. State Board of Law Examiners (June 30, 2017 and 2016).
  - c. State Board of Plumbing (June 30, 2017 and 2016).
  - d. Board of Dietetic Practice (September 30, 2017 and 2016).
  - e. Peace Officer Standards and Training Board (December 31, 2016 and 2015).
  - f. Board of Massage (June 30, 2017 and 2016).
  - g. State Board of Funeral Service (June 30, 2016 and 2015).

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

**It was moved by Senator Lee, seconded by Senator Marcellais, 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. State Electrical Board (June 30, 2017 and 2016).**
- 2. Lake Region State College (June 30, 2017 and 2016).**
- 3. Williston State College (June 30, 2017 and 2016).**
- 4. University of North Dakota (June 30, 2017 and 2016).**
- 5. North Dakota State University (June 30, 2017 and 2016).**
- 6. Mayville State University (June 30, 2017 and 2016).**
- 7. Dakota College at Bottineau (June 30, 2017 and 2016).**
- 8. Reports available but not selected for presentation:**
  - a. State Board of Respiratory Care (June 30, 2017 and 2016).**
  - b. State Board of Clinical Laboratory Practice (June 30, 2017 and 2016).**

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

**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. Department of Career and Technical Education (June 30, 2017 and 2016).**
- 2. Department of Corrections and Rehabilitation (June 30, 2017 and 2016).**
- 3. Tax Department (June 30, 2017 and 2016).**
- 4. Department of Transportation (June 30, 2017 and 2016).**
- 5. Insurance Department (June 30, 2017 and 2016).**
- 6. Public Service Commission (June 30, 2017 and 2016).**
- 7. Veterans' Home (June 30, 2017 and 2016).**

Senators Klein and Marcellais and Representatives Anderson, Johnson, Kempenich, Maragos, Nathe, Pollert, and Trottier voted "aye." No negative votes were cast.

**It was moved by Representative Pollert, seconded by Representative Johnson, and carried on a voice vote that the Chairman and the Legislative Council staff prepare a report and present the report to the Legislative Management.**

**It was moved by Representative Maragos, seconded by Representative Johnson, and carried on a voice vote that the meeting be adjourned.**

No further business appearing, Chairman Klein adjourned the meeting at 11:45 a.m.

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Michael C. Johnson  
Fiscal Analyst

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Allen H. Knudson  
Legislative Budget Analyst and Auditor

ATTACH:3