

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Tuesday and Wednesday, June 4-5, 2002
Roughrider Room, State Capitol
Bismarck, North Dakota

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

Members present: Senators Ken Solberg, Randel Christmann, Dwight Cook, Duaine C. Espegard, Jerome Kelsh, Jerry Klein; Representatives Ole Aarsvold, Rex R. Byerly, Jeff Delzer, Andrew G. Maragos, Bob Skarphol, Mike Timm, Francis J. Wald

Members absent: Senator Kenneth Kroeplin; Representatives RaeAnn G. Kelsch, Doug Lemieux, Lonny Winrich

Others present: See attached appendix

It was moved by Representative Wald, seconded by Representative Maragos, and carried on a voice vote that the minutes of the November 26, 2001, meeting of the Legislative Audit and Fiscal Review Committee be approved as distributed.

COMPONENT UNITS OF STATE INSTITUTIONS

Chairman Solberg called on Mr. Ed Nagel, State Auditor's office, who discussed the reporting status of component units of state institutions. Mr. Nagel said after completion of the North Dakota State University (NDSU) audit, the State Auditor's office determined additional information was needed to define the relationship between the university and the NDSU Research and Technology Park, Inc. He said during the process of acquiring the additional information, it became apparent that guidelines, policies, or procedures should be implemented to clarify the financial reporting status of such entities. Mr. Nagel distributed a memorandum entitled *Component Unit Determination Process Guidelines*, which was prepared jointly by the State Auditor's office and the North Dakota University System. A copy of the memorandum is on file in the Legislative Council office. The memorandum includes four guidelines to be followed to provide for the proper financial reporting of potential North Dakota University System component units, summarized as follows:

1. The North Dakota University System will evaluate any proposed component unit to ensure compliance with generally accepted accounting principles relating to reporting and disclosure. The University System must

submit to the State Auditor's office the campus's decision regarding proper reporting and disclosure, substantiating documentation, a memorandum outlining the intended financial statement treatment of the component unit, articles of incorporation, corporate bylaws, Internal Revenue Service Form 990, and a listing of board members.

2. The State Auditor's office will review the information provided by the University System to determine the entity's proper reporting status. If necessary, the State Auditor will consult with the Attorney General's office. Representatives of the State Auditor's office and the North Dakota University System will meet to discuss any differences in the determination of the proper reporting status.
3. The component unit, once established, may contract with a public accounting firm to perform an annual financial audit, a copy of which must be submitted to the State Auditor's office. If necessary to determine the relationship between the component unit and the university, the State Auditor's office shall have access to the board minutes of the component unit as they relate to business conducted between the component unit and the college. In addition, the component unit will contract with an independent auditor to provide written confirmation that minutes provided to the State Auditor's office include all information required to be disclosed in the university audit report relating to transactions or relationships between the component unit and the college or university.
4. Information contained in the board minutes reviewed by the State Auditor's office will be subject to North Dakota Century Code (NDCC) Section 54-10-22.1 regarding confidentiality. Any information in the board minutes that does not relate to transactions or relationships between the university and the component unit will not be included in the working papers of the State Auditor's office and therefore will not be available for public inspection.

In response to a question from Representative Skarphol, Ms. Laura Glatt, Vice Chancellor for Administrative Affairs, North Dakota University System, said the State Board of Higher Education reviews and approves proposed agreements relating to the establishment of any component unit such as the NDSU Research and Technology Park, Inc. Ms. Glatt said the proposed agreements are also reviewed by University System legal staff to ensure that the establishment of such an entity will not result in any state liability.

Chairman Solberg called on Mr. Richard Rayl, Vice President of Finance and Operations, North Dakota State University, to explain the circumstances surrounding the establishment of the NDSU Research and Technology Park, Inc. Mr. Rayl said NDSU received approval from the State Board of Higher Education to lease 40 acres of university land to the Research and Technology Park, Inc., for a period of 70 years. He said the State Board of Higher Education required that a majority of the board members of the technology park be from outside the university. He said construction of buildings in the technology park was financed with Municipal Industrial Development Act (MIDA) bonds issued by the city of Fargo. He said NDSU is not obligated to repay the bonds. He said NDSU's only obligation is related to the leasing of space in one of the technology park buildings. He said the university is obligated in the lease only to the extent of legislative appropriations.

Chairman Solberg called on Mr. Robert Gallager, Vice President for Operations, University of North Dakota, who discussed the status of component units at the University of North Dakota. Mr. Gallager said the University of North Dakota has a technology and research park but does not have a separate foundation for the support of the park. He said the University of North Dakota has entered into leases to provide land for the construction of the new Engelstad Arena and for hotel development adjacent to the university. He said the University of North Dakota is at no risk regarding the operational success of these entities.

In response to questions from Representatives Wald and Skarphol, Mr. Gallager said that at some future time, ownership of the Engelstad Arena will transfer to the University of North Dakota. He said if necessary, endowment funds could be used to support the operation of the facility. He said the arena appears to be self-supporting and additional funds will probably not be necessary to support its operations.

Chairman Solberg called on Ms. Sandi Tabor, Chief Deputy Attorney General, Attorney General's office, for comments regarding the guidelines proposed by the State Auditor's office and the North Dakota University System. Ms. Tabor said the Attorney General's office has reviewed the proposed guidelines and has no objections to the proposed guidelines developed by the State Auditor's office and the University System.

Representative Delzer said he is concerned that through the leasing of state land to private entities, the University System may become involved in business detrimental to the state of North Dakota. Representative Maragos said he is concerned that agreements entered into by the University System with private entities could expose the state to liability. Mr. Rayl said the University System has been charged with the responsibility to be entrepreneurial. He said along with being entrepreneurial, there may be some risks. He said, however, that the Legislative Assembly needs to trust that the University System has taken every possible step to minimize those risks and is equally concerned about the well-being of the state of North Dakota.

Representative Maragos said that proposed leases of state land by the University System should be reviewed by a third party to ensure that risks to the state are minimized. Mr. Rayl said the State Auditor's office reviews lease agreements in the course of its audits and, when appropriate, provides financial statement disclosures regarding the relationship between the University System and component units. He said these procedures provide some safeguard that agreements have been properly entered into and disclosed.

Chairman Solberg recognized Mr. Curly Haugland who provided comments regarding the appropriateness of partnerships entered into between public and private entities. Mr. Haugland said the Constitution of North Dakota was not intended to allow the state to do business as a private enterprise. He said some relationships between public and private entities allow private entities to use the assets, credit, and name of the state of North Dakota for their own benefit. He said, in his opinion, some partnerships between public and private entities may allow public entities to circumvent the legislative approval process.

Senator Solberg said the committee should consider the guidelines proposed by the State Auditor's office and the North Dakota University System.

Representative Timm asked what penalties will be imposed upon an institution that does not follow the proposed guidelines. Mr. Jim W. Smith, Legislative Budget Analyst and Auditor, Legislative Council, said the committee's authority, as provided in NDCC Section 54-35-02.2, is broad and requires state agencies and the State Auditor's office to comply with committee requests for information or assistance relating to fiscal transactions and governmental operations. He said it would be appropriate for the committee to indicate its support for the proposed guidelines and state agencies will be expected to comply with the guidelines to the same extent they are required to comply with other committee requests for information or assistance.

In response to a question from Representative Maragos, Mr. Nagel said the proposed guidelines will not change the statutory authority or responsibilities of the State Auditor's office. He said the State Auditor's

office plans to follow the proposed guidelines. He said the guidelines will be helpful in the future by making it clear to all parties the steps that should be followed in the establishment of any such entities.

It was moved by Representative Wald, seconded by Representative Aarsvold, and carried on a roll call vote that the committee support the following guidelines relating to the financial reporting status of component units of state institutions and encourage the State Auditor's office and the University System to follow the guidelines in the establishment of any component units of state institutions:

1. The North Dakota University System will evaluate any proposed component unit to ensure compliance with generally accepted accounting principles relating to reporting and disclosure. The University System must submit to the State Auditor's office the campus's decision regarding proper reporting and disclosure, substantiating documentation, a memorandum outlining the intended financial statement treatment of the component unit, articles of incorporation, corporate bylaws, Internal Revenue Service Form 990, and a listing of board members.
2. The State Auditor's office will review the information provided by the University System to determine the entity's proper reporting status. If necessary, the State Auditor will consult with the Attorney General's office. Representatives of the State Auditor's office and the North Dakota University System will meet to discuss any differences in the determination of the proper reporting status.
3. The component unit, once established, may contract with a public accounting firm to perform an annual financial audit, a copy of which must be submitted to the State Auditor's office. If necessary to determine the relationship between the component unit and the university, the State Auditor's office shall have access to the board minutes of the component unit as they relate to business conducted between the component unit and the college. In addition, the component unit will contract with an independent auditor to provide written confirmation that minutes provided to the State Auditor's office include all information required to be disclosed in the university audit report relating to transactions or relationships between the component unit and the college or university.
4. Information contained in the board minutes reviewed by the State Auditor's

office will be subject to NDCC Section 54-10-22.1 regarding confidentiality. Any information in the board minutes that does not relate to transactions or relationships between the university and the component unit will not be included in the working papers of the State Auditor's office and therefore will not be available for public inspection.

Senators Solberg, Christmann, Cook, Espgaard, and Klein and Representatives Aarsvold, Maragos, Timm, and Wald voted "aye." Representatives Byerly, Delzer, and Skarphol voted "nay."

SCHOLARSHIPS, ENDOWMENTS, AND PREMIUMS ACCEPTED BY INSTITUTIONS OF HIGHER EDUCATION AS PART OF BID PROPOSALS

Chairman Solberg called on Mr. Gordy Smith, State Auditor's office, who presented information relating to the State Auditor's review of scholarships, endowments, and premiums that have been accepted by institutions of higher education as part of bid proposals. A copy of the information distributed is on file in the Legislative Council office. Mr. Smith said the information presented includes only scholarships, endowments, and premiums that were provided to institutions of higher education as part of a bid, not scholarships, endowments, and premiums provided indirectly by vendors. He said the information provided by the institutions of higher education note 12 instances when a vendor provided a scholarship, endowment, or premium to an institution of higher education as part of a bid proposal. The information indicates such instances occurred at six of the University System's 11 campuses.

In response to a question from Representative Skarphol, Mr. Smith said institutions were concerned that if alumni association records were compared to vendor lists, vendors may perceive that a situation of favoritism exists if a contract was awarded to a vendor that also provided a contribution to a university's alumni association.

Representative Aarsvold said the information regarding scholarships, endowments, and premiums received as part of bid proposals is useful information, but he has more concern with indirect contributions that may have impacted the awarding of bids.

In response to a question from Representative Skarphol, Mr. Rayl said that NDSU accepts very few gifts. Most gifts go directly to the NDSU Development Foundation. He said contracts are awarded based only on what is stated in the bid proposal. He said contributions to the Development Foundation do not affect the awarding of bids by the institution.

POTATO COUNCIL AUDIT REPORT

Chairman Solberg called on Mr. John Grettum, State Auditor's office, who presented the audit report for the Potato Council for the years ended June 30, 2000 and 1999.

Chairman Solberg called on Ms. Diane Peycke, Executive Director, Potato Council, to respond to committee questions.

In response to a question from Senator Espeguard, Ms. Peycke said the Potato Council has two contracts--one with her for executive director services and one with the Red River Valley Potato Growers Association for marketing, promotion, and research.

In response to a question from Senator Solberg, Ms. Peycke said all recommendations included in the audit report have been addressed.

Representative Delzer asked if the Red River Valley Potato Growers Association is audited by the state of North Dakota. Ms. Peycke said the Red River Valley Potato Growers Association is audited by an independent public accounting firm, not by the State Auditor's office. She said, however, that a copy of the audit report is provided to the State Auditor's office during the course of its audit of the Potato Council.

In response to a request from Representative Delzer, Mr. Grettum said the State Auditor's office will provide the committee with a list of other commodity groups in North Dakota that operate in a manner similar to that of the Potato Council when revenues collected by the commodity group are not directly used by the commodity group for promotional purposes but are passed to another entity which carries out the promotion function.

It was moved by Representative Skarphol, seconded by Representative Delzer, and carried on a voice vote that the Legislative Audit and Fiscal Review Committee request that the State Auditor's office present a copy of the most recent audit report of the Red River Valley Potato Growers Association to the committee.

The committee recessed for lunch from 12:10 p.m. to 1:05 p.m.

DEPARTMENT OF HUMAN SERVICES REPORTS

Chairman Solberg called on Ms. Linda Wright, Director, Aging Services Division, Department of Human Services, who presented information relating to the department's efforts to implement recommendations included in the performance audit of the service payments for elderly and disabled (SPED) and expanded SPED programs. A copy of the information presented is on file in the Legislative Council office. Ms. Wright said the department has completely implemented 3 of the 13 recommendations and is in the process of implementing the other 10 recommendations.

Representative Skarphol said Recommendation 2-5 relates to the Medicaid management information system (MMIS). He asked the department to comment on the status of the system. Mr. David Zentner, Director, Medical Services Division, Department of Human Services, said the MMIS was implemented in 1978. He said the department has spent considerable resources maintaining the system to keep it operational, but the system needs to be replaced. He said federal funds requiring a 10 percent state match are available to replace the system.

In response to a question from Representative Skarphol, Ms. Carol K. Olson, Executive Director, Department of Human Services, said the enterprise resource planning (ERP) initiative relates to the state's human resources and accounting systems and she is not aware of any intention to integrate the department's need for a new Medicaid payment system with the development of the ERP system.

In response to a question from Senator Christmann, Mr. Roger Hertz, Director, Division of Information Technology, Department of Human Services, said the planning phase of the MMIS system replacement, which could begin during the 2003-05 biennium, will require funding of approximately \$1 million. He said after completion of the planning phase, replacement of the system will cost approximately \$20 million, \$2 million of which will be from the general fund.

In response to a question from Representative Skarphol, Mr. Zentner said the department has received a federal grant to review the Medicaid payment system. He said the findings of the review may be available later this year.

Chairman Solberg called on Mr. Gene Hysjulien, Director, Disability Services Division, Department of Human Services, who presented information relating to the revenues and expenditures of the Vocational Rehabilitation Division. A copy of the information presented is on file in the Legislative Council office.

Representative Byerly said he is concerned that vocational rehabilitation services are not being provided in proportion to the needs of each region of the state. In response to his comment, Mr. Hysjulien said he will provide to the committee information relating to the number of persons served statewide by each vocational rehabilitation program operated by the department and the number of persons served by the Vocational Rehabilitation Division in each region of the state. Chairman Solberg requested the information be mailed to each member of the Legislative Audit and Fiscal Review Committee.

STATE AGENCY AND INSTITUTION AUDIT REPORTS

Chairman Solberg called on Mr. Grettum who presented audit reports of the North Dakota University System. Mr. Grettum presented the financial statement audit for the North Dakota University System for

the fiscal year ended June 30, 2001. He said the report contains an unqualified opinion and two findings and recommendations.

In response to a question from Senator Espgaard, Mr. Grettum said the NDSU Research and Technology Park, Inc., will be a discretely presented component unit in the fiscal year 2002 University System audit report. He said financial information for a discretely presented component unit is presented separately and is not blended with the financial information for the institution.

Mr. Grettum also presented fiscal year 2001 and 2000 audit reports for Bismarck State College, Dickinson State University, Lake Region State College, Mayville State University, Minot State University, Minot State University - Bottineau, State College of Science, North Dakota State University, University of North Dakota, Valley City State University, and Williston State College.

Representative Wald asked if the State Auditor's office reviews the methods used by colleges and universities to track student credit hours, especially in those cases when students are taking courses from more than one state institution. Mr. Grettum said the State Auditor's office reviews transactions in the various special funds maintained by each institution but does not audit the method used to track credit hours. Ms. Glatt said the University System has implemented a new enrollment reporting system, which maintains detailed records of duplicated and unduplicated enrollment.

Mr. Grettum presented the audit report for the NDSU Main Research Station sheep farm as of April 26, 2002. Mr. Grettum said this is a special audit conducted at the request of NDSU to review the internal controls at the Main Research Station sheep farm. He said the report contains three internal control recommendations and four instances of noncompliance with legislative intent and University System policies.

Chairman Solberg called on Dr. Pat Jensen, Vice President and Dean of Agricultural Affairs, North Dakota State University, to comment on the audit report. Dr. Jensen thanked the State Auditor's office for conducting the audit. She said NDSU considers the auditor's recommendations fair and will take steps to implement the recommendations.

Chairman Solberg called on Dr. Don Kirby, Interim Chair of Animal and Range Sciences, North Dakota State University, for comments relating to the audit report. Dr. Kirby said the NDSU sheep flock is used primarily for research initiatives. He said policies are being put in place to address the internal control recommendations included in the State Auditor's report.

Mr. Nagel presented the audit report for the Children's Services Coordinating Committee for the years ended June 30, 2001 and 2000. Mr. Nagel said the report contains two instances of noncompliance with

legislative intent and one prior recommendation which was not implemented.

Chairman Solberg called on Ms. Karla Mittleider, Administrative Assistant, Children's Services Coordinating Committee, to respond to committee questions.

In response to questions from Representative Wald and Senator Christmann, Ms. Mittleider said the Children's Services Coordinating Committee received Emergency Commission approval to increase the operating expenses line item by \$7,000 during the 1999-2001 biennium. She said the \$7,000 was used to pay travel costs for seven people to attend two annual meetings of the Robert Wood Johnson Foundation. She said attendance at the annual meetings was a condition of a grant received by North Dakota to provide outreach activities relating to the Healthy Steps program. She said the state received \$669,000 for the three-year grant period.

Representative Skarphol said the audit report indicates that for the 1999-2001 biennium, the agency overexpended its grant authority by approximately \$668,000. He asked Ms. Mittleider to explain the overexpenditure. Ms. Mittleider said the overexpenditure related to several grant claims which were processed after the end of the 1999-2001 biennium but which related to costs incurred during the 1999-2001 biennium. She said the State Auditor properly applied those costs to the 1999-2001 biennium resulting in the overexpenditure. She said the Children's Services Coordinating Committee has adopted a refinancing manual which includes timelines for the filing of refinancing claims by local Children's Services Coordinating Committees. She said this manual will allow the claims to be applied to the appropriate biennium and will allow for more accurate estimates of revenues and expenditures. She said as a result of the 1999-2001 overexpenditure, grant expenditures during the 2001-03 biennium will be approximately \$668,000 less than appropriated.

Mr. Grettum presented the audit report for the Veterans Home for the years ended June 30, 2001 and 2000. He said the report contains an unqualified opinion and five findings and recommendations.

Mr. Nagel presented the audit report for the Industrial Commission for the years ended June 30, 2001 and 2000. He said the report contains two internal control findings and one finding of noncompliance with legislative intent.

Representative Wald said the audit report indicates that the Industrial Commission did not submit a biennial report as required by law. He asked if it is necessary for the Industrial Commission to continue preparing a biennial report, or if the North Dakota Century Code should be amended to remove that responsibility from the Industrial Commission. Ms. Karlene Fine, Executive Director and Secretary, Industrial Commission, said the Industrial Commission may consider introducing legislation to eliminate the biennial report requirement. She said similar

information is included on the agency web site and the information on the web site is generally more current than that included in the biennial report.

Mr. Nagel presented the audit report for the Department of Corrections and Rehabilitation for the years ended June 30, 2001 and 2000. He said the report includes one finding of noncompliance with legislative intent.

Chairman Solberg called on Mr. Dave Krabbenhoft, Fiscal Director, Department of Corrections and Rehabilitation, to respond to committee questions. Mr. Krabbenhoft said the audit finding indicates land lease proceeds required by law to be deposited in the State Penitentiary land fund were instead deposited in the Roughrider Industries operating fund and used to manage the lands under its control. He said in order to continue to fund the operations of the management of the leased lands, the funds could be deposited in the State Penitentiary land fund and that money appropriated to Roughrider Industries for land maintenance costs or NDCC Section 54-23.3-04 could be changed to allow the proceeds to be deposited directly into the Roughrider Industries operating fund.

Mr. Nagel presented the audit report for the Department of Transportation for the years ended June 30, 2001 and 2000. He said the report contains no findings of noncompliance with legislative intent.

STATE OF NORTH DAKOTA COMPREHENSIVE ANNUAL FINANCIAL REPORT

Chairman Solberg called on Ms. Eileen Holwegner, Office of Management and Budget, who presented the *Comprehensive Annual Financial Report* for the state of North Dakota for the fiscal year ended June 30, 2001. Ms. Holwegner reviewed the information contained in the report and a supplemental report entitled *1999-2001 Biennium Budget and Actual Detail*. Copies of both reports were distributed to committee members and are on file in the Legislative Council office.

Mr. Nagel presented the State Auditor's office report on the State of North Dakota general purpose financial statement audit for the fiscal year ended June 30, 2001. 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, 2001, and the audit disclosed no instances of noncompliance that are required to be reported under government auditing standards.

The committee recessed at 4:50 p.m., Tuesday, June 4, 2002, and reconvened at 9:00 a.m., Wednesday, June 5, 2002.

STATE AGENCY AND INSTITUTION AUDIT REPORTS

Chairman Solberg called on Mr. Nagel who presented the audit report for the State Treasurer for the years ended June 30, 2001 and 2000. He said the audit report contains no findings of noncompliance with legislative intent.

Mr. Nagel presented the audit report for the Tax Commissioner for the years ended June 30, 2001 and 2000. He said the report includes one finding of noncompliance with legislative intent.

Mr. Nagel presented the audit report for the Insurance Department for the years ended June 30, 2001 and 2000. He said the report includes two findings of noncompliance with legislative intent.

Mr. Nagel presented the audit report for the Public Service Commission for the years ended June 30, 2001 and 2000. He said the report contains no findings of noncompliance with legislative intent.

Mr. Nagel presented the audit report for the judicial branch for the years ended June 30, 2001 and 2000. He said the report contains no findings of noncompliance with legislative intent.

Mr. Nagel presented the report on the National State Auditors Association external quality control review of the State Auditor's office for the period March 1, 2001, through February 28, 2002. The report indicates that, in the opinion of the National State Auditors Association external quality control review team, the system of quality control in place in the State Auditor's office has been suitably designed and was complied with during the period reviewed. A copy of the report is on file in the Legislative Council office.

Chairman Solberg called on Mr. Don LaFleur, State Auditor's office, who presented the Information Technology Department general controls audit report for the period July 1, 2000, through June 30, 2001. He said the report contains one current recommendation relating to access to the system management facility data sets and four prior recommendations which have not been completely implemented.

Chairman Solberg called on Mr. Dan Sipes, Associate Director of Administrative Services, Information Technology Department, to explain the agency's response to the audit recommendation. Mr. Sipes said the agency agrees with the concept behind the auditor's recommendation. He said the Information Technology Department has limited access to system management facility data set to a select group of individuals who require this access to perform their job duties.

Chairman Solberg encouraged the Information Technology Department to consider the auditor's recommendations and take steps to strengthen the department's controls. He invited the department to report to the committee at its next meeting regarding the department's progress in addressing the auditor's

recommendation relating to access to system management facility data sets.

Representative Skarphol asked what methods are in place to ensure that money appropriated for information technology projects is being spent as intended by the Legislative Assembly. Mr. LaFleur said agencies prepare information technology plans and submit those plans to the Information Technology Department. He said the Information Technology Department monitors agency progress relating to large information technology projects. He said agency compliance with information technology plans is not audited by the State Auditor's office. Mr. Nagel said the State Auditor's office would require additional staff and funding to audit agency compliance with information technology plans.

Mr. LaFleur presented the state information technology systems risk assessment as of May 15, 2002. He said the report was prepared for internal use by the State Auditor's office and is being distributed to committee members due to committee interest in information technology systems. He said the risk ratings will be used by the State Auditor's office to direct audit resources toward those applications of most importance to the state.

Senator Solberg asked if copies of the report will be distributed to agencies whose information technology systems are included in the report. Mr. LaFleur said the report will not be distributed to agencies but will be available on the State Auditor's office web site. He said an e-mail message will be sent to agencies to indicate the report is available for their reference.

In response to a request from Representatives Byerly and Skarphol, Mr. LaFleur said the State Auditor's office will provide the committee with information relating to the formula and weighting factors used to develop the risk factor rating for each information technology system. The information requested was distributed to committee members prior to adjournment of the committee. A copy of the information is on file in the Legislative Council office.

Mr. LaFleur presented the followup report on the driver's license system information technology audit. He said the report indicates that nine prior audit recommendations have been fully implemented and one prior audit recommendation has been partially implemented.

INFORMATION TECHNOLOGY DEPARTMENT REPORT

Chairman Solberg called on Mr. Mike Ressler, Director of Operations, Information Technology Department, who presented information relating to the development of a report on performance measures and the status of state information technology projects and plans. The report is required to be presented to the Legislative Audit and Fiscal Review Committee pursuant to Section 9 of 2001 Senate Bill No. 2043

and NDCC Section 54-59-19. A copy of the information presented is on file in the Legislative Council office.

In response to a question from Representative Timm, Mr. Ressler said the Information Technology Department monitors large information technology projects. He said large projects are defined as those costing more than \$250,000 per biennium or \$500,000 during the life of the project. He said prior to starting a large information technology project, an agency must present a cost-benefit analysis to the Information Technology Committee.

STATE AGENCY AND INSTITUTION AUDIT REPORTS

Chairman Solberg called on Ms. Barb Aasen, Eide Bailly LLP, Certified Public Accountants, who presented the audit report for the North Dakota student loan trust for the years ended June 30, 2001 and 2000. She said the report contains an unqualified opinion and does not contain any findings or recommendations.

In response to committee questions, Mr. Ed Sather, Senior Vice President, Bank of North Dakota, said the first general bond resolution for the student loan trust was issued in 1979. He said surplus money has been accumulated relating to the 1979 general bond resolution and the surplus will be available in 2005 when the 1979 issue matures. He said bond issue surpluses are approximately \$60 million.

Ms. Aasen presented the audit report for the guaranteed student loan program for the years ended September 30, 2001 and 2000. She said the report contains an unqualified opinion and does not include any findings or recommendations.

Chairman Solberg called on Ms. Julie Kubisiak, Director, Student Loans of North Dakota, Bank of North Dakota, who responded to committee questions relating to the information technology projects and operations of the guaranteed student loan program.

Ms. Aasen presented the audit report for the Housing Finance Agency for the years ended June 30, 2001 and 2000. She said the report contains an unqualified opinion and does not contain any findings or recommendations.

Ms. Aasen presented the audit report for the State Fair Association for the years ended September 30, 2001 and 2000. She said the report contains an unqualified opinion and contains one finding.

Chairman Solberg called on Mr. Gerald Iverson, Manager, State Fair Association, who responded to committee questions relating to the operations of the State Fair Association and distributed a written response to the audit finding. A copy of the response is on file in the Legislative Council office.

Ms. Aasen presented the report for the Municipal Bond Bank for the year ended December 31, 2001. She said the report contains an unqualified opinion and contains two findings.

Chairman Solberg called on Mr. John Schell, Brady, Martz & Associates, P.C., Certified Public Accountants, who presented the audit report for the Retirement and Investment Office for the years ended June 30, 2001 and 2000. He said the report contains an unqualified opinion and does not contain any findings or recommendations.

Representative Skarphol said he is concerned about the reduction in the value of pension fund assets, as indicated on the combined statement of net assets included in the audit report. He said the audit report indicates that the total value of pension assets invested by the Retirement and Investment Office declined from \$1.32 billion on June 30, 2000, to \$1.26 billion on June 30, 2001.

Chairman Solberg called on Mr. Steve Cochrane, Executive Director/Investment Director, Retirement and Investment Office, to respond to committee questions. Mr. Cochrane said despite the decrease in assets, the pension funds are still actuarially sound. He said the decline in asset value is a result of payouts to beneficiaries and unfavorable market conditions.

In response to questions from Representative Maragos, Mr. Cochrane reviewed the investment and risk mitigation strategies used by the Retirement and Investment Office.

Representative Maragos requested that the Retirement and Investment Office present information to the committee at its next meeting regarding the minimum asset value required for the pension funds invested by the Retirement and Investment Office to remain actuarially sound. Chairman Solberg invited Mr. Cochrane to present the requested information to the committee at its next meeting. Mr. Cochrane said he will consult with the agency's actuary and report to the committee as requested.

Chairman Solberg called on Mr. Pat Brown, Brady, Martz & Associates, P.C., Certified Public Accountants, who presented the report for the Public Employees Retirement System for the years ended June 30, 2001 and 2000. He said the report contains an unqualified opinion and does not contain any findings or recommendations.

Chairman Solberg called on Mr. Sparb Collins, Executive Director, Public Employees Retirement System, who responded to committee questions relating to the operations of the Public Employees Retirement System.

Representative Skarphol requested that at the committee's next meeting, the Public Employees Retirement System provide information relating to the minimum asset value required for the Public Employees Retirement System pension funds to remain actuarially sound. Mr. Collins said he will consult with the agency's actuary and report to the committee as requested.

Chairman Solberg called on Mr. Rick Horn, Brady, Martz & Associates, P.C., Certified Public

Accountants, who presented the audit report for the Board of University and School Lands for the years ended June 30, 2001 and 2000. Mr. Horn said the audit report contains an unqualified opinion and does not contain any findings or recommendations.

Chairman Solberg called on Mr. Keith Bayley, Land Department accountant, who responded to committee questions relating to the operations and investments of the Board of University and School Lands.

Mr. Brown presented the audit report for Job Service North Dakota for the years ended June 30, 2001 and 2000. Mr. Brown said the report contains an unqualified opinion and does not contain any findings or recommendations.

Chairman Solberg called on Mr. Rick Awalt, Brady, Martz & Associates, P.C., Certified Public Accountants, who presented the audit report for the Workers Compensation Bureau for the years ended June 30, 2001 and 2000. Mr. Awalt said the report contains an unqualified opinion and does not contain any major findings or recommendations.

Chairman Solberg called on Ms. Tammy Dolan, Vice President for Fiscal and Information Services, Workers Compensation Bureau, who responded to committee questions relating to the investment of workers' compensation fund assets.

Senator Cook requested that the audit report for the Education Standards and Practices Board for the years ended June 30, 2001 and 2000 be presented to the committee at its next meeting.

Representative Maragos requested that the audit report for the Aeronautics Commission for the years ended June 30, 2001 and 2000 be presented to the committee at its next meeting.

Representative Timm requested that the audit report for the Council on the Arts for the years ended June 30, 2001 and 2000 be presented to the committee at its next meeting.

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

Reports presented to the committee:

- North Dakota University System (June 30, 2001)**
- Bismarck State College (June 30, 2001 and 2000)**
- Dickinson State University (June 30, 2001 and 2000)**
- Lake Region State College (June 30, 2001 and 2000)**
- Mayville State University (June 30, 2001 and 2000)**
- Minot State University (June 30, 2001 and 2000)**
- Minot State University - Bottineau (June 30, 2001 and 2000)**

State College of Science (June 30, 2001 and 2000)
 North Dakota State University (June 30, 2001 and 2000)
 North Dakota State University Main Research Station sheep farm (as of April 26, 2002)
 University of North Dakota (June 30, 2001 and 2000)
 Valley City State University (June 30, 2001 and 2000)
 Williston State College (June 30, 2001 and 2000)
 State Treasurer (June 30, 2001 and 2000)
 Tax Commissioner (June 30, 2001 and 2000)
 Insurance Department (June 30, 2001 and 2000)
 Public Service Commission (June 30, 2001 and 2000)
 Judicial branch (June 30, 2001 and 2000)
 Children's Services Coordinating Committee (June 30, 2001 and 2000)
 Veterans Home (June 30, 2001 and 2000)
 Industrial Commission (June 30, 2001 and 2000)
 Department of Corrections and Rehabilitation (June 30, 2001 and 2000)
 Department of Transportation (June 30, 2001 and 2000)
 Potato Council (June 30, 2000 and 1999)
 Information Technology Department general controls audit (for the period of July 1, 2000, through June 30, 2001)
 State Information Technology Systems risk assessment (as of May 15, 2002)
 Followup report on the driver's license system information technology audit
 North Dakota student loan trust (June 30, 2001 and 2000)
 Guarantee student loan program (September 30, 2001 and 2000)
 Housing Finance Agency (June 30, 2001 and 2000)
 State Fair Association (September 30, 2001 and 2000)
 Municipal Bond Bank (December 31, 2001)
 Retirement and Investment Office (June 30, 2001 and 2000)
 Public Employees Retirement System (June 30, 2001 and 2000)
 Board of University and School Lands (June 30, 2001 and 2000)
 Job Service North Dakota (June 30, 2001 and 2000)
 Workers Compensation Bureau (June 30, 2001 and 2000)
 State Board for Vocational and Technical Education (June 30, 2001 and 2000)
 Office of Administrative Hearings (June 30, 2001 and 2000)
 Soybean Council (June 30, 2001 and 2000)
 Beef Commission (June 30, 2001)
 Board of Respiratory Care (January 31, 2001 and 2000)
 Firefighters Association (April 30, 2001)
 Board of Architecture (June 30, 2000 and 1999)
 Board of Psychologist Examiners (June 30, 2001 and 2000)
 Stockmen's Association (December 31, 2001)
 Electrical Board (June 30, 2001 and 2000)
 Real Estate Commission (June 30, 2001 and 2000)
 Board of Athletic Trainers (June 30, 2000 and 1999)
 Board of Public Accountancy (June 30, 2001)
 Examining Committee for Physical Therapists (June 30, 2000 and 1999)
 State Board of Plumbing (June 30, 2001 and 2000)
 Board of Social Work Examiners (June 30, 2001 and 2000)
 Board of Addiction Counseling Examiners (June 30, 2001 and 2000)
 Board of Pharmacy (June 30, 2001 and 2000)
 Abstracters' Board of Examiners (August 31, 2001 and 2000)
 Board of Occupational Therapy Practice (June 30, 2001 and 2000)
 Board of Clinical Laboratory Practice (June 30, 2001 and 2000)
 Board of Dental Examiners (June 30, 2001 and 2000)
 Guaranteed student loan program (September 30, 2000 and 1999)
 Housing Finance Agency (June 30, 2000 and 1999)
 State Fair Association (September 30, 2000 and 1999)
 Retirement and Investment Office (June 30, 2000 and 1999)
 Public Employees Retirement System (June 30, 2000 and 1999)
 Board of University and School Lands (June 30, 2000 and 1999)
 Job Service North Dakota (June 30, 2000 and 1999)
 Workers Compensation Bureau (June 30, 2000 and 1999)
 Reports available but not selected for presentation to the committee:
 Building Authority (June 30, 2000 and 1999)
 Senators Solberg, Christmann, Cook, Espgaard, Kelsh, and Klein and Representatives Aarsvold,

Byerly, Maragos, Skarphol, Timm, and Wald voted "aye." No negative votes were cast.

OTHER REPORTS AND COMMITTEE DISCUSSION

Chairman Solberg called on Mr. Brent Edison, Executive Director and CEO, Workers Compensation Bureau, who presented information on the status of the Workers Compensation Bureau building project. A copy of the information presented is on file in the Legislative Council office. Mr. Edison said the building project is proceeding on schedule and within budget. He said the project is approximately 25 percent complete and all available space is rented.

In response to a question from Representative Byerly, Ms. Dolan said the building was designed to accommodate the addition of a wing or subsequent floors. She said, however, if the building is expanded, additional land may be needed to accommodate parking.

Chairman Solberg called on the Legislative Council staff who presented the audit report for Alchem, Ltd., LLP (a limited liability partnership operating an ethanol production facility in North Dakota) for the years ended December 31, 2001 and 2000. The Legislative Council staff said the report is required to be filed with the committee pursuant to NDCC Section 10-32-156. A copy of the report is on file in the Legislative Council office.

Chairman Solberg said audits of ethanol production facilities should include an analysis of the British thermal units (Btu) expended in producing ethanol compared to the Btu value of the ethanol produced. The legislative budget analyst and auditor said the Legislative Assembly could include such a reporting requirement in the appropriations bill which authorizes the ethanol production subsidy.

Mr. Smith reported on the status of performance audits underway or planned by the State Auditor's office. He said the performance audit of the Veterans Home is nearly complete and a final report will be

available and distributed to committee members within five or six weeks. He said after the completion of the Veterans Home audit, the State Auditor's office plans to begin a performance audit of the Department of Transportation's Motor Vehicle and Drivers License Divisions. He said other possible performance audits include leased building space and the Department of Corrections and Rehabilitation Roughrider Industries.

Representative Wald said the committee may want to consider reviewing the 12 audit guidelines the committee has requested be addressed in all state agency audits performed by the State Auditor's office and independent certified public accountants. He said the audit guidelines may need to be revised or expanded to address issues of concern in the current auditing environment. Mr. Smith said the State Auditor's office will review the guidelines and present recommendations to the committee at its next meeting.

Chairman Solberg said the next meeting of the Legislative Audit and Fiscal Review Committee may be tentatively scheduled for September 2002. Chairman Solberg informed the committee this is the last committee meeting for Mr. Morrisette as he will be leaving the Legislative Council staff on June 14, 2002. Chairman Solberg thanked Mr. Morrisette for his excellent staff work and wished him good luck in his new job.

The meeting was adjourned subject to the call of the chair at 12:40 p.m.

Joe R. Morrisette
Senior Fiscal Analyst

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:1