

SUMMARY OF MAJOR ITEMS IN AUDIT REPORTS TO BE PRESENTED AT THE NOVEMBER 6, 2019, MEETING

This memorandum provides a summary of major items in audit reports to be presented at the Wednesday, November 6, 2019, Legislative Audit and Fiscal Review Committee meeting.

OFFICE OF ADMINISTRATIVE HEARINGS (JUNE 30, 2019 AND 2018)

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- There were no findings contained in this audit.

Audit cost as reported by the State Auditor's office:

Office of Administrative Hearings	
State Auditor's office ¹	\$10,332.50
State Auditor's office hours ²	166.00
Hourly rate	\$62.24
Agency costs ³	\$6,137.00

¹This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.

²Staff hours incurred to complete the audit.

³This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.

Observations/potential questions relating to the audit report:

- Fiscal year 2019 expenditures exceeded revenues by \$165,381 as shown on page 4 of the report. Is this trend anticipated to continue in the future? Does the agency have sufficient reserves to cover operating shortfalls?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**AERONAUTICS COMMISSION
(JUNE 30, 2019 AND 2018)**

Audit purpose: To determine financial transactions including expenditures of the Aeronautics Commission were made in accordance with law and appropriation requirements.

Findings:

- No exceptions or defaults were identified.

Other information:

- The statement of revenues and expenditures on page 4 reports that the Aeronautics Commission collected revenues of \$5,137,202 and had expenditures of \$10,605,625 during the 2017-19 biennium.

Audit cost as reported by the State Auditor's office:

Aeronautics Commission	
State Auditor's office ¹	\$12,595.00
State Auditor's office hours ²	195.50
Hourly rate	\$64.43
Agency costs ³	\$4,021.00

¹This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.

²Staff hours incurred to complete the audit.

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Observations/potential questions relating to the audit report:

- On the statement of revenues and expenditures on page 4:
 - Why has aircraft excise tax revenue increased by 127 percent from fiscal year 2018 to fiscal year 2019?
 - Why have consulting and engineering services expenditures increased by 411 percent from fiscal year 2018 to fiscal year 2019?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**NORTH DAKOTA LOTTERY
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

The transactions of the North Dakota Lottery were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- There were no audit findings identified in the audit report. There were no prior audit findings related to the financial statements of the North Dakota Lottery.

Audit cost as reported by the State Auditor's office:

North Dakota Lottery	
State Auditor's office ¹	\$33,660.00
State Auditor's office hours ²	464.00
Hourly rate	\$72.54
Agency costs ³	\$0.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.	
² Staff hours incurred to complete the audit.	
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Observations/potential questions relating to the audit report:

- Section 54-10-01(2) requires the State Auditor to charge for the cost of an audit to all agencies that receive and expend money from other than the general fund. Lottery expenditures are paid from the lottery operating fund. Why was the North Dakota Lottery not charged for the cost of the audit?

**NORTH DAKOTA RACING COMMISSION
(JUNE 30, 2019 AND 2018)**

Audit purpose: To determine financial transactions including expenditures of the North Dakota Racing Commission were made in accordance with law and appropriation requirements.

Findings:

- No exceptions or defaults were identified.

Other information:

- The statement of revenues and expenditures on page 4 reports that the Racing Commission collected revenues of \$2,703,663 and had expenditures of \$2,689,852 during the 2017-19 biennium.

Audit cost as reported by the State Auditor's office:

Racing Commission	
State Auditor's office ¹	\$7,745.00
State Auditor's office hours ²	115.00
Hourly rate	\$67.35
Agency costs ³	\$6,499.00

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Observations/potential questions relating to the audit report:

- Why doesn't the statement of appropriations on page 5, include the continuing appropriations of the agency so it ties to the expenditures reported in the statement of revenues and expenditures on page 4?
- Why did revenue decrease 24.6 percent from fiscal year 2018 to fiscal year 2019, as shown on page 4?
- What taxes specifically make up the racing taxes line on the statement of revenues and expenditures on page 4?
- What is the available balance in the breeders fund, promotion fund, and purse fund?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**DEPARTMENT OF LABOR AND HUMAN RIGHTS
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine if Department of Labor and Human Rights financial transactions, including expenditures, were made in accordance with law and appropriation requirements.

Findings:

- There were no audit findings identified in the audit report. There were no prior audit findings for the Department of Labor and Human Rights.

Audit cost as reported by the State Auditor's office:

- Audit costs have not been reported.

Observations/potential questions relating to the audit report:

- What was the purpose of the \$10,073 of advertising expense in 2018, as shown on page 4?
- What was the purpose of the \$16,718 of professional services expenses in 2019, as shown on page 4?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

INSURANCE COMMISSIONER (JUNE 30, 2019 AND 2018)

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- No findings were identified.

Other background information and results:

- The report highlights insurance premium tax distributions to fire departments. The Insurance Department collects an insurance premium tax every year on the gross amount of premiums, assessments, and fees that insurance companies received from North Dakota policyholders during the year. For fire insurance, the tax rate is 1.75 percent of the premiums paid. In December of each year the Insurance Department pays the fire insurance tax revenues to certified city fire districts, certified rural fire departments, or certified fire protection districts. The total amount allocated each year is limited to the amount appropriated by the Legislative Assembly for this purpose, with excess collections deposited in the general fund. The report indicates that during the biennium ended June 30, 2019, \$3,648,941, or over 20 percent of the amount collected, was deposited in the general fund rather than being allocated to the fire districts where the funds could be utilized to update or improve fire equipment, buildings, and services in the community. North Dakota taxpayers' property insurance premiums are affected by a rating given to communities in the state by the Insurance Services Office (ISO), a private company. The Insurance Services Office collects information on municipal fire-protection efforts in communities throughout the United States to determine the ratings.

Audit cost as reported by the State Auditor's office:

Insurance Commissioner	
State Auditor's office ¹	\$34,552.50
State Auditor's office hours ²	496.50
Hourly rate	\$69.59
Agency costs ³	\$8,635.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Observations/potential questions relating to the audit report:

- The 2019 Legislative Assembly increased the appropriation for payments to North Dakota fire departments by \$3.8 million and included a section of legislative intent that fire departments utilize the increased payments to improve their ISO ratings. Does this address the non-audit-related concerns raised in the report?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**DEPARTMENT OF COMMERCE
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- **Circumventing procurement guidelines** - The Department of Commerce circumvented procurement requirements related to the "Be Legendary" logo. In July 2018, the department entered a contract with a Minnesota-based business for \$9,500 to update the official North Dakota logo and develop digital and other mediums, including a new nd.gov website. The department later entered two temporary employment contracts to allow the work from the original contract to continue to avoid certain procurement requirements. The total of these contracts was \$87,163.
- **Violation of appropriation law** - The Department of Commerce improperly charged \$853,908 related to the enhanced use lease grant program for the 2017-19 biennium in the 2019-21 biennium. The 2017 Legislative Assembly provided a one-time appropriation of \$3 million to the department for the enhanced use lease grant program, of which \$1 million was from the general fund and \$2 million was from the strategic investment and improvements fund (SIIF). In December 2017, the department entered a grant agreement with Grand Forks County.

Grand Forks County submitted reimbursement requests for the work completed but the final payment to the county exceeded the reimbursement request by \$458,801, resulting in an advance payment prohibited by the grant agreement.

An additional \$395,107 for the program related to July 2019 expenditures was improperly charged to appropriations for the 2017-19 biennium.

The department did not request an exemption from the 2019 Legislative Assembly to continue funding for the program from the 2017-19 biennium to the 2019-21 biennium. Therefore, the total of \$853,908 should have been canceled at the end of the 2017-19 biennium and retained in the originating funding sources--the general fund and SIIF.

- **Noncompliance with contract requirements** - The Department of Commerce did not monitor contract deliverables of an entrepreneurial contract, resulting in \$123,750 being paid to unapproved subcontractors. An additional \$23,448 was not supported by progress reports.
- **Lack of internal control surrounding appropriations** - The Department of Commerce's internal control procedures are not effective to ensure expenditures are charged to the proper biennial appropriations authorized by the Legislative Assembly, as seen in the violation of appropriation law audit finding.

Other information:

- **Enhanced use lease grants program** - The 2013 Legislative Assembly established the enhanced use lease grant program and provided a one-time appropriation of \$2.5 million from SIIF to the Department of Commerce for the department to develop the program and award grants. The department was to award grants for constructing infrastructure required for an enhanced use lease private sector business development project located on or adjacent to the Grand Forks Air Force Base, contingent upon certification from the department verifying both a signed enhanced use lease agreement and a commitment by a private sector business to locate in the development. In February 2015, Grand Sky Development Company, a wholly owned subsidiary of Infinity Development Partners LLC, entered an agreement on behalf of Grand Forks County with the Grand Forks Air Force Base to form the Grand Forks Business Park. Grand Sky provides Grand Forks Air Force Base lease tenants with the ability to test unmanned aircraft system (UAS) and beyond visual line of sight UAS flights in partnership with the Northern Plains UAS Test Site.

The following is a summary of funding for the enhanced use lease grant program:

Biennium	General Fund	Other Funds	Total
2013-15 ¹		\$2,500,000	\$2,500,000
2015-17 ^{1,2}		7,500,000	7,500,000
2017-19 ^{1,3}	\$1,000,000	2,000,000	3,000,000
2019-21	3,000,000		3,000,000
Total	\$4,000,000	\$12,000,000	\$16,000,000

¹Other funds appropriated for the enhanced use lease grant program was from SIIF.

²Of the \$7.5 million provided for the enhanced use lease grant program during the 2015-17 biennium, \$3.1 million was contingent on the construction and agreement of a first private sector single-tenant or multitenant building on the property.

The remaining \$4.4 million was contingent on agreement of a second private sector single-tenant or multitenant building on the property or after an agreement is reached with any data-intensive tenant for data connectivity and redundancy infrastructure requirements or for data services. The contingencies were met.

³Section 10 of Senate Bill No. 2018 (2017) required grants available during the 2017-19 biennium be awarded for initiatives related to the UAS industry in North Dakota, including for the purposes of infrastructure, research, development, the creation of software, and the purchase of equipment benefitting UAS. The Department of Commerce must require grant recipients to provide matching funds in the form of cash, property, or in-kind consideration, totaling \$1 million for the grants awarded under this program.

Audit cost as reported by the State Auditor's office:

Department of Commerce	
State Auditor's office ¹	\$94,495.00
State Auditor's office hours ²	1,356.50
Hourly rate	\$69.66
Agency costs ³	\$2,418.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Observations/potential questions relating to the audit report:

- On the statement of revenues and expenditures on page 11, salaries and benefits decreased from \$6,515,640 in fiscal year 2018 to \$5,232,756 in fiscal year 2019, a decrease of \$1,282,884 or 24.5 percent. It appears this decrease may be a result of the Department of Commerce's reduction in force enacted at the end of fiscal year 2018. Did the State Auditor's office review transactions related to leave payouts for individuals subject to the reduction in force to test for accuracy and appropriateness of the payouts?
- On the statement of revenues and expenditures on page 11, operating fees were \$6,611,292 in fiscal year 2018 and \$8,168,633 in fiscal year 2019, the second largest expense category. What expenditures are included in the operating fees category and how do they differ from expenses included in the professional fees and services category?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**MILL AND ELEVATOR ASSOCIATION
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the agency's financial statements.

Other information:

- **Audit adjustment** - As shown on page 40, the Mill and Elevator Association had an audit adjustment of \$1,691,083 related to the proper classification of notes payable, but the adjustment did not affect the opinion.
- **Line of credit** - As shown on page 18, the Mill and Elevator Association has a \$60 million line of credit with the Bank of North Dakota, of which the Mill has accessed \$25 million. The interest rate was 3.5955 percent as of June 30, 2019.
- **Loan note** - As shown on page 18, the Mill and Elevator Association borrowed \$20 million from the Bank of North Dakota in fiscal year 2019, for 5 years at an interest rate of 3.97 percent.
- **Transfers to the general fund** - During the 2017-19 biennium, the Mill and Elevator Association was required to transfer 75 percent of its profits to the general fund, a one-time increase of 25 percent. The Mill transferred \$17,677,472, including \$10,109,147 in fiscal year 2018 and \$7,568,325 in fiscal year 2019.

Audit cost as reported by the State Auditor's office:

Mill and Elevator Association	
State Auditor's office ¹	\$34,764.00
State Auditor's office hours ²	488.50
Hourly rate	\$71.16
Agency costs ³	\$21,886.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Observations/potential questions relating to the audit report:

- None.

INDUSTRIAL COMMISSION (JUNE 30, 2018 AND 2017)

Audit purpose: The purpose of this audit was to determine if the Industrial Commission is adequately monitoring abandoned wells.

The agency's risk-based data management system was tested, and the State Auditor's office determined the Industrial Commission adequately reviews well files and monitors operators.

Findings:

- No findings were discovered and no deficiencies were identified related to internal controls.

Other background information and results:

- The report highlights reasons oil wells are abandoned. During testing, the State Auditor's office found three main reasons for a well to be abandoned, which include repairs to the well, a lack of oil production from the well, and a transfer to another operator.
- Prior audit finding - The audits for the period June 30, 2015 and 2014, and for the period June 30, 2017 and 2016, identified a finding related to the untimely approval of meeting minutes. The agency addressed the finding and implemented the recommendations for the June 30, 2018, audit.

Audit cost as reported by the State Auditor's office:

Industrial Commission	
State Auditor's office ¹	\$24,763.00
State Auditor's office hours ²	359.00
Hourly rate	\$68.98
Agency costs ³	\$6,131.00

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Observations/potential questions relating to the audit report:

- Why was abandoned well monitoring selected for the audit?
- Why is the audit only for 1 year, when the previous audits were for 2-year periods?
- The audit report is unclear about what was included in the audit. Did the audit only include abandoned wells or did it also include the entire Industrial Commission?
- Why do the expenditures reported on page 8 exclude only the State Building Authority, but both the State Building Authority and Public Finance Authority are included on page 9? Both entities prepare separate financial statements.
- Is the difference between the expenditures on pages 8 and 9 related only to the exclusion of the State Building Authority?
- The previous audit examined compliance with legislative intent. Why was that omitted from this audit?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**PUBLIC SERVICE COMMISSION
(JUNE 30, 2019 AND 2018)**

Audit purpose: To determine financial transactions including expenditures of the Public Service Commission were made in accordance with law and appropriation requirements.

Findings:

- The Public Service Commission did not have blanket bond coverage starting on January 1, 2018, through May 31, 2019. The Public Service Commission was not aware of the blanket bond coverage lapse. Proper controls were not in place to ensure renewal of blanket bond coverage was completed.

Other information:

- The Public Service Commission collected \$8,042,168 in revenue from January 1, 2018, until May 31, 2019. Blanket bond coverage is determined based on revenue collected by the Public Service Commission in addition to cash and investments.

Audit cost as reported by the State Auditor's office: Not reported as of 10/16/2019

Public Service Commission	
State Auditor's office ¹	\$21,242.50
State Auditor's office hours ²	313.00
Hourly rate	\$67.87
Agency costs ³	\$942.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Observations/potential questions relating to the audit report:

- The statement of revenues and expenditures on page 5 appears to include expenditures relating to continuing appropriations while the statement of appropriations on page 6 does not. What is the source of revenues for the continuing appropriations and for what purpose were the expenditures?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

SCHOOL FOR THE DEAF (JUNE 30, 2019 AND 2018)

Audit purpose: To determine financial transactions including expenditures of the School for the Deaf were made in accordance with law and appropriation requirements.

Findings:

- **Noncompliance with state procurement guidelines** - The School for the Deaf did not comply with the *North Dakota State Procurement Manual*. Three of 17 transactions tested were not properly procured, resulting in an 18 percent error rate. The School for the Deaf failed to obtain bids or a request for proposal and did not maintain proper documentation.

Other information:

- The School for the Deaf collected revenues of \$2.36 million related to the sale of meals, rents, miscellaneous revenue, and transfers during the 2017-19 biennium. The School for the Deaf received a 2017-19 biennial appropriation of \$10.92 million, of which \$7.7 million was from the general fund and \$3.22 million was from special funds. The School for the Deaf reported total biennial expenditures of \$9.34 million and unspent authority of \$1.58 million, of which \$209,905 was from the general fund. The School for the Deaf returned \$790 to the general fund and continued \$209,115 of general fund authority, related to unspent higher education interpreter grants, into the 2019-21 biennium. In addition, the School for the Deaf was allowed to continue \$116,912 of special fund capital construction carryover.

Audit cost as reported by the State Auditor's office:

School for the Deaf	
State Auditor's office ¹	\$9,757.50
State Auditor's office hours ²	151.50
Hourly rate	\$64.41
Agency costs ³	\$0.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Observations/potential questions relating to the audit report:

- What is the value of the three transactions not properly procured? How does the total compare to the total transactions tested?
- Why did revenue from the rental of rooms and buildings increase from \$77,016 in fiscal year 2018 to \$123,426 in fiscal year 2019?
- Why did repairs and maintenance expenditures increase from \$62,680 in fiscal year 2018 to \$508,576 in fiscal year 2019?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

STATE LIBRARY (JUNE 30, 2019 AND 2018)

Audit purpose: To determine financial transactions including expenditures of the State Library were made in accordance with law and appropriation requirements.

Findings:

- **Noncompliance with appropriation laws** - The State Library violated state law for appropriation authorized by the Legislative Assembly in the 2017 Session Laws by inconsistently charging similar costs between the operating expenses line and the grants line. This resulted in \$79,766 of costs charged to grants that should have been charged to operating expenses. If these costs had been charged correctly, the State Library would have exceeded the appropriation in the operating expenses line by \$16,111. Money allocated for certain line items (such as grants) cannot be used for other purposes (such as operating expenses) without approval from the Emergency Commission to move the appropriation between line items.
- **Noncompliance with appropriation laws for grants to public libraries** - The State Library violated state law for appropriation authorized by the Legislative Assembly in the 2017 Session Laws related to state aid to public libraries. For the biennium, the State Library exceeded the amount appropriated by \$19,092.
- **Improper distribution of state aid to public libraries** - The State Library made the incorrect eligibility determination for 3 of 97 public libraries that received state aid in fiscal year 2018. Two public libraries were not eligible to receive state aid; however, both received state aid totaling \$12,458. Additionally, a third public library did not receive \$19,038 initially, even though it met the criteria for state aid. Later, when the State Library paid the third library its \$19,038, it charged the expense to the operating expenses line item rather than the grants line item.
- **Lack of city/county auditor certified applications** - The State Library used an incorrect taxable valuation to calculate a public library's incentive for local funding. The State Library has been filling in certain fields of the state financial aid applications for public libraries. Some of the information is obtained from the North Dakota Tax Department instead of having the public libraries complete the applications and have the information certified by the auditors of the city or county operating the library, as required by law.

Internal control:

- In addition to the deficiencies included in the findings above, the State Auditor noted other matters involving internal control that were reported to management of the State Library in a management letter dated September 10, 2019. The management letter included one informal recommendation relating to proper support for federal expenditures. The State Auditor recommends the State Library ensure proper support for federal expenditures including written agreements for professional services and honoraria.

Audit cost as reported by the State Auditor's office:

- Audit costs have not been reported.

Observations/potential questions relating to the audit report:

- Expenditures reported on the statement of revenues and expenditures on page 8 total \$7,681,183 for fiscal years 2018 and 2019. However, expenditures reported on the statement of appropriations on page 9 total \$7,676,345, or \$4,838 less than the statement of revenues and expenditures. Why are the expenditures different on the two reports?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

NORTH DAKOTA VISION SERVICES - SCHOOL FOR THE BLIND (JUNE 30, 2019 AND 2018)

Audit purpose: To determine financial transactions including expenditures of the North Dakota Vision Services - School for the Blind were made in accordance with law and appropriation requirements.

Findings:

- No exceptions or defaults were identified.

Internal control:

- The State Auditor did not identify any deficiencies in internal control that were significant within the context of their audit objectives and the audit work performed. However, the State Auditor noted other matters involving internal control that were reported to management of the School for the Blind in a management letter dated September 11, 2019. The management letter included one informal recommendation relating to the reconciliation of the state's accounting software and other accounting software used by the School for the Blind. The State Auditor recommends the School for the Blind perform and maintain documentation of a timely reconciliation between the state's accounting software, ConnectND, and their PeachTree software. Management of the School for the Blind agreed with this recommendation.

Other information:

- **Financial statement reconciliation** - On the *Statement of Revenues and Expenditures* on page 4 of the report, the School for the Blind reported expenditures totaling \$2,679,603 and \$2,597,763 for fiscal years ending June 30, 2018 and 2019, respectively, for total expenditures of \$5,277,366 during the 2017-19 biennium. The School for the Blind reported total expenditures of \$5,260,865 for the 2017-19 biennium on the *Statement of Appropriations* on page 5 of the report, \$16,501 less than reported on the *Statement of Revenues and Expenditures*. The difference relates to expenditures, pursuant to a continuing appropriation from the vision aids and appliances fund, totaling \$16,501 during the 2017-19 biennium.
- The School for the Blind collected revenues of \$389,064 related to leases, admissions, Braille services, donations, and the sale of concessions during the 2017-19 biennium. The School for the Blind received a 2017-19 biennial appropriation of \$5.6 million, of which \$4.39 million was from the general fund and \$1.21 million was from special funds. The School for the Blind reported total biennial expenditures of \$5.26 million and unspent authority of \$348,028, of which \$120 was returned to the general fund.

Audit cost as reported by the State Auditor's office:

North Dakota Vision Services - School for the Blind	
State Auditor's office ¹	\$9,895.00
State Auditor's office hours ²	153.00
Hourly rate	\$64.67
Agency costs ³	\$2,810.00

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Observations/potential questions relating to the audit report:

- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**NORTH DAKOTA COUNCIL ON THE ARTS
(JUNE 30, 2019)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- There were no audit findings.

Audit cost as reported by the State Auditor's office:

- Audit costs have not been reported.

Observations/potential questions relating to the audit report:

- The expenditures table on page 4 does not tie to the expenditures reported on page 5 under the statement of appropriations. It appears the difference relates to continuing appropriations expenditures relating to the cultural endowment fund. How much were those expenditures and for what purpose?
- On the statement of revenues and expenditures on page 4:
 - What is the source of revenues from the sale of publications and ornaments?
 - What was the purpose of the \$44,164 of professional fees and services expenditures in fiscal year 2019?
 - What was the purpose of the \$38,298 of professional development expenditures in fiscal year 2018?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**NORTH DAKOTA BEEF COMMISSION
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to form an opinion on the North Dakota Beef Commission financial statements.

The agency's transactions related to the operating fund were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- **Preparation of financial statements** (Prior audit finding) - The Beef Commission does not have adequate staff knowledgeable of generally accepted accounting principles to prepare the agency financial statements and accompanying note disclosures, resulting in the State Auditor's office assisting in the preparation of the Beef Commission's financial statements.

Audit cost as reported by the State Auditor's office:

North Dakota Beef Commission	
State Auditor's office ¹	\$0.00
State Auditor's office hours ²	Not reported
Hourly rate	Not reported
Agency costs ³	\$5,186.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit. ² Staff hours incurred to complete the audit. ³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Observations/potential questions relating to the audit report:

- On page 9, reference is made to a \$450,000 investment. Where is the investment held and what is the interest rate on the investment?
- On pages 24 and 25, what special project do expenditures of \$60,000 in 2018 and \$75,000 in 2019 relate to?

**NORTH DAKOTA SOYBEAN COUNCIL
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to form an opinion on the North Dakota Soybean Council operating fund financial statements.

The agency's transactions related to the operating fund were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- **Preparation of financial statements** (Prior audit finding) - The Soybean Council does not have adequate staff knowledgeable of generally accepted accounting principles to prepare the agency financial statements and accompanying note disclosures, resulting in the State Auditor's office assisting in the preparation of the Soybean Council's financial statements.
- **Noncompliance surrounding procurement** - The Soybean Council was not in compliance with multiple state procurement level 2 small purchases, including a contract for renting a venue (\$31,763), a contract for revising, editing, and redesigning the review process for board staff and the executive director (\$10,000), and a contract for expo media production services (\$12,584).

Audit cost as reported by the State Auditor's office:

North Dakota Soybean Council	
State Auditor's office ¹	\$36,700.00
State Auditor's office hours ²	523.00
Hourly rate	\$70.17
Agency costs ³	\$5,218.00

¹This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.
²Staff hours incurred to complete the audit.
³This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.

Observations/potential questions relating to the audit report:

- On page 19, reference is made to a \$57,458 severance expense relating to the resignation of the council's chief executive officer.
- On pages 22 through 25, why are there no expenditures in fiscal years 2018 and 2019 related to contracts and grants in process?
- On page 26, why did assessment revenue collected from first purchasers decrease by \$2,927,571, or 26.3 percent, from \$11,135,381 in fiscal year 2018 to \$8,207,810 in fiscal year 2019?

**BISMARCK STATE COLLEGE
(JUNE 30, 2018)**

Audit purpose: The purpose of this audit was to determine:

- That Bismarck State College (BSC) followed requirements to grant tenure to faculty;
- That faculty were working under a current contract, received evaluations, and were compensated as required by their contracts;
- That student grade changes were properly supported and approved; and
- That financial transactions including expenditures were made in accordance with law and appropriation requirements.

The institution's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- **Faculty tenure** - BSC did not properly maintain supporting documentation, including the tenure application, letters of recommendation, and curriculum vitae, for granting tenure after tenure was approved for three applicants during the 2017-18 academic year.
- **Faculty contracts, evaluations, and compensation** - BSC full-time faculty did work under current contracts, received evaluations, and were compensated according to their contracts.
- **Student grades** - BSC student grade changes were properly supported and approved.
- **Procurement** - BSC did not comply with procurement policies. Of 40 transactions tested, 11 were completed without soliciting informal quotes or proposals from more than one vendor.
- **Travel meal reimbursement** - BSC did not comply with meal reimbursement policies. Of the 675 meal reimbursements during the audit period, 182 were made based on system default start and end times of 12:00 a.m. and 11:59 p.m. rather than the actual times the employee was traveling. It is unclear whether these reimbursements were for overnight travel, which would have been allowable.

Audit cost as reported by the State Auditor's office:

Bismarck State College	
State Auditor's office ¹	\$88,757.50
State Auditor's office hours ²	1,251.50
Hourly rate	\$70.92
Agency costs ³	\$6,199.00

¹This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.

²Staff hours incurred to complete the audit.

³This is the billable amount, based on the institution's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the institution for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.

Observations/potential questions relating to the audit report:

- Higher education institution audits included an audit of tenure at certain institutions and immunization compliance at others. How did the State Auditor's office determine the purpose of each North Dakota University System institution audit?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**DAKOTA COLLEGE AT BOTTINEAU
(JUNE 30, 2018)**

Audit purpose: The purpose of this audit was to determine:

- That faculty were working under a current contract, received evaluations, and were compensated as required by their contracts; and
- That financial transactions including expenditures were made in accordance with law and appropriation requirements.

The institution's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- **Faculty contracts, evaluations, and compensation** - Dakota College at Bottineau (DCB) did not ensure all faculty received an evaluation. Also, for faculty who received an evaluation, DCB did not ensure the evaluation was retained in the employee's personnel file.
- **Travel** - Of 25 travel expenses tested, 5 were not in compliance. DCB did not include a list of attendees in four group travel expenses for team meals and reimbursed one lodging expense at more than the state rate.
- **Student waivers** - DCB had insufficient support to substantiate the North Dakota veteran dependent tuition waiver and the resident assistant waiver that were given to students.
- **Purchasing cards** - DCB's use of purchasing cards is inefficient and often involves multiple copies of receipts and requests for payment being made.

Audit cost as reported by the State Auditor's office:

Dakota College at Bottineau	
State Auditor's office ¹	\$57,436.00
State Auditor's office hours ²	889.50
Hourly rate	\$64.57
Agency costs ³	\$4,901.00

¹This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.

²Staff hours incurred to complete the audit.

³This is the billable amount, based on the institution's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the institution for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.

Observations/potential questions relating to the audit report:

- Regarding the purchasing card finding, do employees at Minot State University have a role in approval of purchasing card and travel expenses or is the reimbursement/payment process all handled at DCB?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**DICKINSON STATE UNIVERSITY
(JUNE 30, 2018)**

Audit purpose: The purpose of this audit was to determine:

- That faculty were working under a current contract, received evaluations, and were compensated as required by their contracts; and
- That financial transactions including expenditures were made in accordance with law and appropriation requirements.

The institution's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- **Faculty contracts, evaluations, and compensation** - Dickinson State University (DSU) full-time faculty did work under current contracts, received evaluations, and were compensated according to their contracts. However, not all adjunct faculty are receiving the required student evaluations.
- **Edgewood Hawks Point** - DSU entered an agreement in March 2018 with the DSU Heritage Foundation and Edgewood Hawks Point to grant Edgewood Hawks Point residents access to certain DSU programs, including athletics, theater, music, and multicultural programming. At the time, DSU intended to enter a formal agreement with the foundation and Edgewood at a future date. As of June 30, 2018, DSU had not negotiated an annual contract setting forth the terms under which the residents will access the programs, including the payments DSU and the DSU Heritage Foundation will receive for providing the access.
- **Bookstore** - DSU has contracted with Follett to operate its bookstore. The contract did not include a required provision for a performance review every 2 years on contracts that are longer than 3 years. The contract also differs from the proposal from Follett in how the commissions DSU would receive are calculated. The contract states Follett is to pay DSU an annual commission of 5 percent of any commissionable sales over \$750,000 plus 8 percent of any commissionable sales over \$1 million. However, Follett's proposal included an 8-year proposal that included a DSU commission of 5 percent of any commissionable sales over \$750,000 plus 8 percent of any commissionable sales over \$1 million. The committee that evaluated the proposals believed the commissionable sales over the 8-year period were to be cumulative rather than annual.
- **Blanket bond coverage** - DSU allowed its blanket bond coverage to lapse beginning January 1, 2018.
- **Purchase cards** - Of 30 transactions tested, 8 purchases were made by someone other than the cardholder.
- **Procurement** - Of 12 purchases tested, 4 did not follow bidding requirements.
- **Retainage** - DSU has not been recording a retainage payable for capital projects, leading to understated liabilities in its financial statements.
- **Nepotism and conflict of interest policies** - DSU lacks a policy for identifying, documenting, monitoring, and resolving conflicts of interest and nepotism issues.

Prior audit findings:

The findings related to procurement, capital project retainage, and a lack of policy for nepotism and conflicts of interest were also prior audit findings.

Audit cost as reported by the State Auditor's office:

Dickinson State University	
State Auditor's office ¹	\$56,710.50
State Auditor's office hours ²	831.00
Hourly rate	\$68.24
Agency costs ³	\$6,601.00

¹This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.

²Staff hours incurred to complete the audit.

³This is the billable amount, based on the institution's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the institution for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.

Observations/potential questions relating to the audit report:

- Regarding the finding associated with the Edgewood Hawks Point agreement, the report identifies on page 4 a 3 to 4 month time frame between the signing of the initial agreement and the finding of a lack of a formalized agreement, is this just a matter of timing? Has a formalized agreement now been entered between DSU, the foundation, and Edgewood Hawks Point?
- The revenue from the bookstore was identified in the report highlights, but what was the profit/loss from the bookstore under DSU management? Is DSU receiving any rent, utilities, or other payments from Follett?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**MINOT STATE UNIVERSITY
(JUNE 30, 2018)**

Audit purpose: The purpose of this audit was to determine:

- That Minot State University (MiSU) followed immunization requirements;
- That faculty were working under a current contract, received evaluations, and were compensated as required by their contracts; and
- That financial transactions including expenditures were made in accordance with law and appropriation requirements.

The institution's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- **Student immunizations** - MiSU did not consistently comply with immunization policies and procedures. Of nine newly admitted international students from selected countries considered high-risk for tuberculosis, one was not tested for tuberculosis. MiSU also released medical holds on certain students to allow them to register for class and then reinstated the holds on the students' accounts to circumvent North Dakota University System procedure.
- **Faculty contracts, evaluations, and compensation** - MiSU full-time faculty did work under current contracts, received evaluations, and were compensated according to their contracts.
- **Procurement** - MiSU did not comply with procurement policies. Of 18 procurement transactions tested, 7 were considered errors, including not obtaining the proper number of informal quotes, failure to use a formal bid process, and not maintaining proper bid documentation.
- **Capital project bid requirements** - MiSU was unable to provide evidence that certain aspects of the Gordon B. Olson Library Northwest Arts Center and Herb Parker Stadium Air-Supported Seasonal Dome were properly bid.

Audit cost as reported by the State Auditor's office:

Minot State University	
State Auditor's office ¹	\$70,523.19
State Auditor's office hours ²	973.25
Hourly rate	\$72.46
Agency costs ³	\$5,780.00

¹This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.

²Staff hours incurred to complete the audit.

³This is the billable amount, based on the institution's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the institution for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.

Observations/potential questions relating to the audit report:

- Regarding the finding associated with capital project bidding requirements on page 11, were MiSU's issues more related to maintenance of documentation, or did they actually fail to bid certain items?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**UNIVERSITY OF NORTH DAKOTA
(JUNE 30, 2018)**

Audit purpose: The purpose of this audit was to determine:

- Whether faculty are performing job duties, receiving evaluations, and being compensated as required by their contracts;
- Whether the University of North Dakota (UND) is following requirements to grant tenure to faculty;
- Whether UND has the required flexplace documentation to support employees with a remote site work location; and
- Whether there are any exceptions to report relating to statutorily required audit testing.

The institution's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- **Faculty evaluations** - UND did not ensure all faculty were receiving adequate evaluations as required by State Board of Higher Education policy and UND's employee handbook. In testing, 4 of the 31 personnel files tested did not include annual performance evaluations and all 31 were missing some required personnel information.
- **Faculty personnel files** - Faculty members did not have the required personnel information included in their official personnel file, as required by North Dakota Century Code. Also, UND did not have the required flexplace documentation on file to support employees with a remote site work location.
- **Faculty tenure** - UND is in compliance with the requirements for granting tenure to faculty members.

Audit cost as reported by the State Auditor's office:

University of North Dakota	
State Auditor's office ¹	\$90,670.00
State Auditor's office hours ²	1,419.50
Hourly rate	\$63.88
Agency costs ³	\$6,201.00

¹This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.

²Staff hours incurred to complete the audit.

³This is the billable amount, based on the institution's special funds, which the State Auditor's office is required to bill directly, pursuant to Section 54-10-01(2), to the institution for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.

Observations/potential questions relating to the audit report:

- Regarding the finding on page 3 relating to faculty personnel files, for the four faculty that did not have an annual evaluation, how long had it been since their last evaluation? Also, how is the student evaluation information used in the employee performance evaluation?
- Regarding the review of flexplace agreements on page 5, what are the typical job duties of flexplace employees located out of state?
- The statement of net position on page 10 identifies nearly \$27 million due to UND from a component unit. What is the component unit and what does the receivable relate to?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**NORTH DAKOTA UNIVERSITY SYSTEM OFFICE
(JUNE 30, 2018 AND 2017)**

Audit purpose: The purpose of this audit was to determine:

- That the Minnesota-North Dakota reciprocity agreement was properly approved, supported, verified, and recorded on the financial statements, and the reallocation of the revenue to the various institutions was proper; and
- That financial transactions including expenditures were made in accordance with law and appropriation requirements.

The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- **Minnesota-North Dakota reciprocity agreement** - The North Dakota University System office is in compliance with the scope of the agreement with the Minnesota Office of Higher Education.
- **Procurement** - Of 14 core technology services (CTS) purchases tested, 5 did not follow bidding requirements.
- **General ledger transactions** - For 27 out of 32 journal entries tested, CTS did not have a review and approval by an appropriate individual.

Audit cost as reported by the State Auditor's office:

North Dakota University System Office	
State Auditor's office ¹	\$51,002.50
State Auditor's office hours ²	796.00
Hourly rate	\$64.07
Agency costs ³	\$833.00
¹ This cost is determined by staff hours and costs. This is the cost to the State Auditor's office for completion of the audit.	
² Staff hours incurred to complete the audit.	
³ This is the billable amount, based on the agency's special funds, which the State Auditor's office is required to bill directly, pursuant to North Dakota Century Code Section 54-10-01(2), to the agency for completion of the audit and which is deposited in the general fund. The State Auditor's office does not benefit from the money collected from billing for audit services from state agencies.	

Observations/potential questions relating to the audit report:

- Regarding the procurement-related finding on page 5 and similar findings at several campuses, who is responsible for training CTS and University System campuses on procurement and other accounting policies and procedures?
- Since 2007, the Legislative Audit and Fiscal Review Committee has requested auditors to include in the audit report responses to 14 specific questions relating to the audit. This audit did not include those questions and responses.

**COLLEGE SAVE
(DECEMBER 31, 2017 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Total assets** - Total assets of the fund were \$457 million and \$470 million as of December 31, 2018 and 2017 respectively.

Audit cost as reported by the State Auditor's office:

The audit was not performed by the State Auditor's office.

Observations/potential questions relating to the audit report:

- What was the cost for this audit?
- The fifth bullet on page 8 identifies an \$18.3 million investment loss reported for December 31, 2018, year end. What was the primary cause of the investment loss? Which types of investments experienced the greatest losses?
- Note 4 on the bottom of page 33 references the Bank of North Dakota, AGS, and Vanguard temporarily limiting their service fees. Why and to what extent are the service fees being limited?

WORKFORCE SAFETY AND INSURANCE (JUNE 30, 2019 AND 2018)

Audit purpose: The purpose of this audit was to form an opinion on the Workforce Safety and Insurance (WSI) financial statements.

The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

Findings:

- There were no audit findings identified in the current audit report. There were no prior audit findings related to the financial statements of WSI.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP for the audit of WSI. The cost of the contracted audit was \$57,000.

Observations/potential questions relating to the audit report:

- On page 39, Note 15, information is provided on WSI's reinsurance policies. In fiscal year 2019, WSI commuted remaining liabilities with Munich Re receiving \$50.5 million of cash but assuming \$40 million of liabilities.
- On page 40, Note 18, information is provided on state agencies that lease space from WSI. Are all agencies charged the same cost per square foot in their leases?

**ADDICTION COUNSELOR INTERNSHIP LOAN PROGRAM
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the program's financial statements.

Other information:

- **Loans outstanding** - One loan totaling \$7,500 was issued during fiscal year 2019. Loans outstanding as of June 30, 2019, totaled \$116,895.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP for the audit of the addiction counselor internship loan program. The cost of the contracted audit was \$5,800.

Observations/potential questions relating to the audit report:

- Information on loans is presented on pages 12 and 13 of the report. Has the program experienced any loan losses?

AGRICULTURE PARTNERSHIP IN ASSISTING COMMUNITY EXPANSION FUND (JUNE 30, 2019 AND 2018)

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Loans outstanding** - The fund supported interest buydowns on 348 outstanding loans as of June 30, 2019. Of the 348 outstanding loans, 76 loans were made during fiscal year 2019.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP for the audit of the agriculture partnership in assisting community expansion (Ag PACE) fund. The cost of the contracted audit was \$5,800.

Observations/potential questions relating to the audit report:

- On page 3, second paragraph under financial highlights. Information is provided on the yield rate and the borrowing rate. What is the average interest rate buydown on loans under this program?
- On page 3, second paragraph from the bottom of the page, the table shows that of the \$2 million appropriated by the 2017 Legislative Assembly for the Ag PACE program for the 2017-19 biennium, the Bank of North Dakota transferred \$1.5 million to the PACE fund.
- As shown on page 7, Ag PACE cash on deposit with the Bank of North Dakota for cash on hand and for buydowns committed totaled \$2.9 million on June 30, 2019. As referred on page 11, in lieu of an administrative fee, the Bank does not pay interest to the Ag PACE fund on its cash deposits with the Bank.

STUDENT LOAN TRUST FUND (JUNE 30, 2019 AND 2018)

Audit purpose: The purpose of this audit was to determine that financial statements are free from material misstatement.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Loans outstanding** - The Bank of North Dakota purchased \$12.7 million of federal student loans from the fund during fiscal year 2018. The fund had approximately \$1.4 million of cash, investments, and current receivables as of June 30, 2019, which is almost entirely restricted as collateral and for future obligations.
- **DEAL student loans** - The Bank of North Dakota offers DEAL student loans at either a fixed rate or a variable rate. As of July 1, 2019, the fixed rate was 4.74 percent and the variable rate was 3.93 percent.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP for the audit of the student loan trust fund. The cost of the contracted audit was \$28,950.

Observations/potential questions relating to the audit report:

- On page 11, what is the purpose of payments to state agency service providers of \$11,000 in 2019 and \$150,000 in 2018 and payments to other service providers of \$28,000 in 2019 and \$36,000 in 2018 as shown under operating activities?
- On page 11, what is the purpose of \$43,000 annual transfer to the Industrial Commission and the \$8.5 million in 2019 and \$7.7 million in 2018 transfer to state agencies shown under non-capital financing activities?

**PARTNERSHIP IN ASSISTING COMMUNITY EXPANSION FUND
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Loans outstanding** - The fund supported interest buydowns on 825 outstanding loans as of June 30, 2019. Of the 825 outstanding loans, 147 loans were made during fiscal year 2019. The fund had a cash balance of \$59.3 million as of June 30, 2019.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP for the audit of the partnership in assisting community expansion (PACE) fund. The cost of the contracted audit was \$5,800.

Observations/potential questions relating to the audit report:

- Although management's discussion on page 4 of the report indicates the Legislative Assembly designated specific appropriations for PACE, flex PACE, and medical PACE, the Legislative Assembly in Senate Bill No. 2014 (2017) only designated the appropriation for PACE?
- As shown on page 15, PACE fund cash deposits at the Bank of North Dakota as of June 30, 2019, were \$59.3 million. As referenced on page 13, in lieu of an administrative fee, the Bank does not pay interest to the PACE fund on cash accounts at the Bank that have not been disbursed to the funding agency.

INFRASTRUCTURE REVOLVING LOAN FUND (JUNE 30, 2019 AND 2018)

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Loans outstanding** - As of June 30, 2019, the fund had approximately \$84.6 million of loans outstanding, including four loans totaling \$32.8 million, which were originated in fiscal year 2019. The fund also had commitments for seven loans totaling approximately \$40 million as of June 30, 2019.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP for the audit of the infrastructure revolving loan fund. The cost of the contracted audit was \$5,800.

Observations/potential questions relating to the audit report:

- House Bill No. 1443 (2015) authorized the transfer of \$50 million from the strategic investment and improvements fund (SIIF) and up to \$100 million from Bank of North Dakota profits. To date, the \$50 million has been transferred from SIIF, but only \$40 million of the \$100 million from the Bank.
- House Bill No. 1014 (2019) authorized the Office of Management and Budget to transfer up to \$40 million from SIIF to the infrastructure revolving loan fund during the 2019-21 biennium, contingent on any oil and gas tax revenues exceeding \$755 million in SIIF during the period August 1, 2017, through July 31, 2019. On August 1, 2019, the fund received transfers of \$25,137,707 from SIIF due to SIIF revenues exceeding \$755 million.

**MEDICAL FACILITY INFRASTRUCTURE LOAN FUND
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Loans outstanding** - As of June 30, 2019, the fund had approximately \$45.6 million of loans outstanding. No new loans were originated in fiscal years 2018 and 2019. The fund had approximately \$5.3 million available for new loans as of June 30, 2019.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP for the audit of the medical facility infrastructure loan fund. The cost of the contracted audit was \$5,800.

Observations/potential questions relating to the audit report:

- North Dakota Century Code Section 6-09-47(6) authorizes the Bank of North Dakota to deduct a service fee for administering the fund. The Bank charges the medical facility infrastructure loan fund an annual administrative fee of 0.5 percent of outstanding loans. As shown on page 5, the administrative fee was \$229,000 in 2019 and \$216,000 in 2018. Since no new loans were made from the fund in 2018 and 2019, are the administrative fees excessive? Would a lower administrative fee be more appropriate?

REBUILDERS LOAN PROGRAM (JUNE 30, 2019 AND 2018)

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Loans outstanding** - As of June 30, 2019, the fund had 1,206 outstanding loans totaling approximately \$26.6 million. In fiscal year 2019, there were 44 delinquent loans and 10 loan charge-offs. Repayments are used first to replenish Bank of North Dakota profits and then the general fund. As of June 30, 2019, payments owed to the Bank totaled \$9.3 million, and payments owed to the general fund total \$15.2 million as shown on page 7.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP for the audit of the rebuilders loan program. The cost of the contracted audit was \$7,150.

Observations/potential questions relating to the audit report:

- None.

SCHOOL CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND (JUNE 30, 2019 AND 2018)

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Loans outstanding** - The Bank of North Dakota originated three loans from the fund totaling \$21.7 million in fiscal year 2019 compared to four loans totaling \$32.3 million in fiscal year 2018. During fiscal year 2019, the fund purchased \$20.4 million of other school construction loans from the Bank. Loans outstanding, as of June 30, 2019, totaled \$195.4 million. The fund had \$34.5 million available for new loans as of June 30, 2019.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Eide Bailly, LLP for the audit of the school construction assistance revolving loan fund. The cost of the contracted audit was \$5,800.

Observations/potential questions relating to the audit report:

- None.

COMPREHENSIVE HEALTH ASSOCIATION OF NORTH DAKOTA (DECEMBER 31, 2018 AND 2017)

The Comprehensive Health Association of North Dakota (CHAND) is regulated by the Insurance Commissioner. The association is a nonprofit corporation with a mission to make health care coverage available to residents of North Dakota who have been denied health insurance or been given restricted coverage because they had health problems or were considered to be in a high-risk category.

Audit purpose: The purpose of this audit was to determine that the financial statements of CHAND are free from material misstatement.

The association's internal controls and compliance were tested and an unmodified opinion was issued on the association's financial statements.

Findings:

- **Internal control over financial reporting** - CHAND receives cash from Noridian Mutual Insurance Company in the month following the month of operations for activity. This creates risk to the reporting of CHAND cash balances as Noridian Mutual Insurance Company is unable to determine in a timely manner the amount of cash received on behalf of CHAND.

Audit cost as reported by the State Auditor's office:

The audit was not performed by the State Auditor's office.

Observations/potential questions relating to the audit report:

- What was the cost for this audit?

HOUSING FINANCE AGENCY (JUNE 30, 2019 AND 2018)

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the agency's financial statements.

Other information:

- **Correction of error** - The Housing Finance Agency corrected an error in its 2018 financial statements related to the reporting of derivatives. The correction decreased deferred outflows by \$1,239 and increased deferred inflows by \$1,239. The correction did not affect the opinion on the financial statements.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Brady, Martz & Associates PC for the audit of the Housing Finance Agency. The cost of the contracted audit was \$44,975.

Observations/potential questions relating to the audit report:

- What was the purpose of the \$150,000 transfer from the Department of Human Services, as shown on page 12?
- Why does the agency have a \$90,000 rebate due to the Internal Revenue Service, as shown on page 50?

**HOUSING INCENTIVE FUND
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- None.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Brady, Martz & Associates PC for the audit of the housing incentive fund. The cost of the contracted audit was \$4,880.

Observations/potential questions relating to the audit report:

- None.

**STATE BUILDING AUTHORITY
(JUNE 30, 2019 AND 2018)**

Audit purpose: The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

Findings:

- No findings were discovered, and an unmodified opinion was issued on the fund's financial statements.

Other information:

- **Projects** - The 2017 Legislative Assembly did not authorize any construction projects for the 2017-19 biennium supported by bonds issued through the State Building Authority.

Audit cost as reported by the State Auditor's office:

The State Auditor's office contracted with Brady, Martz & Associates PC for the audit of the State Building Authority. The cost of the contracted audit was \$12,250.

Observations/potential questions relating to the audit report:

- None.