

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

The Legislative Audit and Fiscal Review Committee is a statutorily created committee of the Legislative Management. Pursuant to North Dakota Century Code Section 54-35-02.1, the committee is created as a division of the Budget Section and its members are appointed by the Legislative Management. The committee's purposes are to:

- Study and review the state's financial transactions to assure the collection of state revenues and the expenditure of state money is in compliance with law, legislative intent, and sound financial practices.
- Provide the Legislative Assembly with objective information on revenue collections and expenditures to improve the fiscal structure and transactions of the state.

Pursuant to Section 54-35-02.2, the committee is charged with studying and reviewing audit reports submitted by the State Auditor on a quarterly basis during the interim. The committee is authorized to make such audits, examinations, or studies of the fiscal transactions or governmental operations of state departments, agencies, or institutions as it may deem necessary.

Committee members were Senators Jerry Klein (Chairman), David A. Clemens, Joan Heckaman, Jordan Kannianen, and Judy Lee and Representatives Mary Adams, Cole Christensen, Mary Johnson, Keith Kempenich, Gary Kreidt, Scott Louser, Jeffery J. Magrum, Mike Nathe, Emily O'Brien, Jim Schmidt, and Wayne A. Trottier.

During the 2021-22 interim, the State Auditor's office (SAO) and independent accounting firms presented 55 operational audits conducted using performance audit standards and 73 financial or information technology application audit reports. An additional 18 audit reports were filed with the committee but not formally presented. The committee's policy is to hear only audit reports relating to major agencies and audit reports containing major recommendations. However, other audit reports are presented at the request of any committee member. At the end of this report is a listing of audit reports accepted by the committee.

The committee was assigned the following duties and responsibilities for the 2021-22 interim:

1. Receive the annual audit report for the State Fair Association (Section 4.1-45-17).
2. Receive an electronic copy of the audit report from the North Dakota Stockmen's Association at least once every 2 years. (Section 4.1-72-08 provides for the financial statements and the report to be submitted to the Legislative Council. The Legislative Management assigned this responsibility to the committee.)
3. Receive annual audit report from any corporation or limited partnership that produces agricultural ethyl alcohol or methanol in this state and which receives a production subsidy from the state (Sections 10-19.1-152 and 45-10.2-115).
4. Receive annual reports on the writeoffs of accounts receivable at the Department of Human Services and Life Skills and Transition Center (Sections 50-06.3-08 and 25-04-17).
5. Receive the annual audited financial statements and economic impact reports from the North Dakota low-risk incentive fund. (Section 26.1-50-05 provides for the financial statements and the report to be submitted to the Legislative Council. The Legislative Management assigned this responsibility to the committee.)
6. Receive the performance audit report of Job Service North Dakota upon the request of the committee (Section 52-02-18).
7. Determine necessary performance audits. (Section 54-10-01 provides the State Auditor is to perform or provide for performance audits of state agencies, or the agencies' blended component units or discreetly presented component units, as determined necessary by the State Auditor or the committee, and provides for the committee to approve the State Auditor's hiring of a consultant to assist with conducting a performance audit.)
8. Determine the frequency of audits or reviews of state agencies (Section 54-10-01).
9. Determine necessary performance audits by the State Auditor (Section 54-10-01).
10. Determine when the State Auditor is to perform audits of political subdivisions (Section 54-10-13).
11. Direct the State Auditor to audit or review the financial records and accounts of any political subdivision (Section 54-10-15).
12. Study and review audit reports submitted by the State Auditor and make recommendations to the Legislative Assembly to reduce a state agency, department, or institution's appropriation if the state agency, department, or institution has failed to correct audit findings (Section 54-35-02.2).

13. Receive reports from the State Auditor regarding contracts to conduct prescription drug coverage performance audits, performance audit results, and audit reports issued (Section 6 of House Bill No. 1004 (2021)).

GUIDELINES FOR AUDITS OF STATE AGENCIES

The committee received information on and reviewed guidelines developed by prior Legislative Audit and Fiscal Review Committees relating to state agency and institution audits performed by SAO and independent certified public accountants. For audit periods covering fiscal years since June 30, 2006, auditors of state agencies and institutions are requested to address the following six audit questions:

1. What type of opinion was issued on the financial statements?
2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?
3. Was internal control adequate and functioning effectively?
4. Were there any indications of lack of efficiency in financial operations and management of the agency?
5. Has action been taken on findings and recommendations included in prior audit reports?
6. Was a management letter issued? If so, provide a summary, including any recommendations and the management responses.

In addition, auditors are asked to communicate to the committee eight issues which identify:

1. Significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.
2. Significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditors' conclusions regarding the reasonableness of those estimates.
3. Significant audit adjustments.
4. Disagreements with management, whether resolved to the auditors' satisfaction, relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.
5. Serious difficulties encountered in performing the audit.
6. Major issues discussed with management prior to retention.
7. Management consultations with other accountants about auditing and accounting matters.
8. High-risk information technology systems critical to operations based on the auditors' overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by auditors are directly related to the operations of an information technology system.

In addition, SAO developed and the committee began receiving a 1-page summary report for operational audits of state agencies. The summary report highlights the objective of the audit, including areas of internal control reviewed, findings relating to legislative intent, suggested areas of operational improvement, and key financial information.

The committee received information and testimony from the State Auditor and private accounting firms regarding suggested changes to guidelines for audits of state agencies, which include guidelines for financial statement audits and guidelines for operational audits using performance auditing standards. The committee approved, for audit periods on or after June 30, 2022, except for audits currently under contract:

1. Auditors conducting financial statement audits of state agencies replace the six audit-related questions/responses and eight audit-related communications within the audit report with a separate audit summary that identifies the purpose of the audit, the type of audit opinion, findings and recommendations, status of prior recommendations, explanations of significant audit adjustments and misstatements, disagreements with management or difficulties encountered during the audit, other audit report highlights, and the cost of the audit compared to the prior audit.
2. The State Auditor conducting operational audits using performance auditing standards of state agencies discontinue including the six audit-related questions/responses and eight audit-related communications in the audit report and expand the audit summary to identify the areas reviewed and testing conducted even if there are no related findings or recommendations.

At each committee meeting, the committee received Legislative Council audit summaries identifying the audit findings and other pertinent information related to the audit reports.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Section 54-10-01 requires the State Auditor to provide for the audit of the state's general purpose financial statements and to conduct a review of the material included in the *State of North Dakota Annual Comprehensive Financial Report*. The report contains the audited financial statements for state agencies and institutions. The committee received and accepted the *State of North Dakota Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020*, and the *State of North Dakota Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2021*. An unmodified opinion was issued on the financial statements.

NORTH DAKOTA UNIVERSITY SYSTEM ANNUAL FINANCIAL REPORT

The committee received the North Dakota University System's annual financial report for the fiscal year ended June 30, 2020. An unmodified opinion was issued on the financial statements. As of June 30, 2020, the University System had total assets of \$2.3 billion and total liabilities of \$837.9 million, resulting in total net assets of \$1.37 billion. The total net assets increased \$30 million during fiscal year 2020.

The committee received the University System's annual financial report for the fiscal year ended June 30, 2021. An unmodified opinion was issued on the financial statements. As of June 30, 2021, the University System had total assets of \$2.6 billion and total liabilities of \$1.1 billion, resulting in total net assets of \$1.5 billion. The total net assets increased \$100 million during fiscal year 2021.

PERFORMANCE AUDITS AND EVALUATIONS

The committee did not receive any performance audits conducted by SAO pursuant to authority within Chapter 54-10.

ATTORNEY GENERAL LEASED FACILITY INVESTIGATIVE REPORT

At the request of the Budget Section, the committee received background information regarding certain lease agreements entered by the Attorney General's office. The committee received information from representatives of the Attorney General, the Office of Management and Budget, Parkway Property Management, and the State Auditor. The committee was informed the Attorney General leased a new facility which included the cost to remodel the facility for its use, which incurred cost overruns. The committee asked the State Auditor to work with the Attorney General to gather and review documentation and other information related to the lease agreement and the remodeling and construction of facilities leased by the Attorney General located at 1720 Burlington Drive, Bismarck. The committee toured the facility and met with division directors from the Bureau of Criminal Investigation, Consumer Protection and Antitrust Division, and North Dakota Lottery. The committee received the State Auditor's investigative report, which indicated a violation of law relating to the expenditure of funds may have occurred. Major findings of the report included:

- Division directors were not involved in lease negotiations, leading to numerous changes throughout the remodeling process, which added to overall project cost;
- A number of invoices had minimal detail, leading to questionable contractor costs and possible double-billing for some expenses;
- Services may have been completed by a contractor without a contracting license; and
- The possibility of recovering deleted Attorney General emails.

The report identified cost overruns relating to the remodeling and construction associated with the leased facility of \$1,742,210. Of this amount, \$1,342,210 was paid from unspent appropriation authority available during the 2019-21 biennium and from continuing appropriations as follows:

Line Item/Program	Amount
Operating expenses	\$470,187
Law enforcement	197,900
Criminal justice information system	325,876
Lottery	348,247
Total	\$1,342,210

Of the \$1,342,210 paid during the 2019-21 biennium, \$602,185 was from the general fund and \$740,025 was from special funds.

The remaining \$400,000 related to the cost overruns was added to the lease payment to be paid by the Attorney General over the 5-year lease term.

The report identified \$2.4 million as the total cost of the Attorney General's relocation to the new leased facility and included:

Description of Expense	Amount
Facility cost overruns	\$1,742,210
Moving of heating, ventilation, and air conditioning	150,000
Engineer's original plan	5,000
Moving and other costs	496,359
Total	\$2,393,569

Pursuant to Section 54-35-02.2, the committee forwarded the State Auditor's report to the Attorney General for additional investigation and suggested the Attorney General contract with an independent organization to conduct the investigation of the lease agreement and remodeling and construction costs.

OTHER INFORMATION

The committee received information regarding State Auditor fees and the impact to state agencies and other public entities. The State Auditor reported implementing an hourly rate fee structure which results in increased cost to some entities. Section 54-10-01 requires SAO to charge agencies an amount that covers the cost of the audit.

The committee received other information and reports, including an examination report of the Bank of North Dakota by the Department of Financial Institutions pursuant to Section 6-09-29.

AUDIT REPORTS ACCEPTED BY THE LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE DURING THE 2021-22 INTERIM

Agency	Audit Report Date	Meeting Date Accepted
Addiction counselor internship loan program	June 30, 2019 and 2020	August 19, 2021
Addiction counselor internship loan program	June 30, 2020 and 2021	December 8, 2021
Adjutant General	June 30, 2019 and 2020	December 8, 2021
Aeronautics Commission	June 30, 2020 and 2021	March 31, 2022
Ag Experiment Stations and NDSU Extension Service and Northern Crop Institute	June 30, 2020 and 2021	June 29, 2022
Ag PACE fund	June 30, 2019 and 2020	August 19, 2021
Ag PACE fund	June 30, 2020 and 2021	December 8, 2021
Attorney General	June 30, 2019 and 2020	March 31, 2022
Bank of North Dakota	December 31, 2019 and 2018	August 19, 2021
Bank of North Dakota	December 31, 2020 and 2021	June 29, 2022
Beginning farmer revolving loan fund	December 31, 2019 and 2018	August 19, 2021
Beginning farmer revolving loan fund	December 31, 2020	June 29, 2022
Bismarck State College	June 30, 2019 and 2020	August 19, 2021
College SAVE (Bank of North Dakota)	December 31, 2019 and 2020	August 19, 2021
Commission on Legal Counsel for Indigents	June 30, 2020 and 2021	September 27, 2022
Community water facility loan fund	December 31, 2019 and 2018	August 19, 2021
Comprehensive Health Association of North Dakota	December 31, 2018 and 2019	August 19, 2021
COVID-19 partnership in assisting community expansion (PACE) loan program	June 30, 2020 and 2021	December 8, 2021
Dakota College at Bottineau	June 30, 2019 and 2020	December 8, 2021
Department of Agriculture	June 30, 2020 and 2021	September 27, 2022
Department of Career and Technical Education	June 30, 2020 and 2021	September 27, 2022
Department of Commerce	June 30, 2020 and 2021	June 29, 2022
Department of Corrections and Rehabilitation	June 30, 2020 and 2021	June 29, 2022
Department of Environmental Quality	June 30, 2020 and 2021	March 31, 2022
Department of Financial Institutions	June 30, 2019 and 2020	August 19, 2021
Department of Human Services	June 30, 2020 and 2021	September 27, 2022
Department of Labor and Human Rights	June 30, 2020 and 2021	June 29, 2022
Department of Public Instruction	June 30, 2020 and 2021	September 27, 2022
Department of Trust Lands	June 30, 2019 and 2020	August 19, 2021
Department of Trust Lands	June 30, 2020 and 2021	December 8, 2021
Department of Veterans' Affairs	June 30, 2017 and 2018	August 19, 2021
Department of Water Resources	June 30, 2020 and 2021	September 27, 2022
Development Fund, Inc.	June 30, 2019 and 2020	August 19, 2021

Agency	Audit Report Date	Meeting Date Accepted
Dickinson State University	June 30, 2019 and 2020	August 19, 2021
Ethics Commission	June 30, 2020 and 2021	March 31, 2022
Governor's office	June 30, 2020 and 2021	June 29, 2022
Guaranteed Student Loan Program	December 31, 2020 and 2021	June 29, 2022
Guaranteed Student Loan Program, North Dakota	September 30, 2017 and December 31, 2018	August 19, 2021
Highway Patrol	June 30, 2019 and 2020	December 8, 2021
Housing Finance Agency	June 30, 2019 and 2020	August 19, 2021
Housing Finance Agency	June 30, 2020 and 2021	December 8, 2021
Housing incentive fund	June 30, 2019 and 2020	August 19, 2021
Housing incentive fund	June 30, 2020 and 2021	December 8, 2021
Indian Affairs Commission	June 30, 2019 and 2020	August 19, 2021
Industrial Commission	June 30, 2019 and 2020	August 19, 2021
Information Technology Department	June 30, 2019 and 2020	August 19, 2021
Infrastructure revolving loan fund	June 30, 2019 and 2020	August 19, 2021
Infrastructure revolving loan fund	June 30, 2020 and 2021	December 8, 2021
Innovation technology loan fund (LIFT) (Bank of North Dakota)	June 30, 2020	August 19, 2021
Insurance Department	June 30, 2020 and 2021	June 29, 2022
Job Service North Dakota	June 30, 2019 and 2020	August 19, 2021
Judicial Branch	June 30, 2020 and 2021	June 29, 2022
Lake Region State College	June 30, 2020 and 2021	September 27, 2022
Legislative Assembly	June 30, 2020 and 2021	December 8, 2021
Legislative Council	June 30, 2020 and 2021	December 8, 2021
Mayville State University	June 30, 2020 and 2021	September 27, 2022
Medical facility infrastructure loan program	June 30, 2019 and 2020	August 19, 2021
Medical facility infrastructure loan program	June 30, 2020 and 2021	December 8, 2021
Mill and Elevator Association	June 30, 2019 and 2020	August 19, 2021
Mill and Elevator Association	June 30, 2020 and 2021	December 8, 2021
Minot State University	June 30, 2019 and 2020	December 8, 2021
North Dakota Milk Marketing Board	June 30, 2019 and 2020	August 19, 2021
North Dakota Annual Comprehensive Financial Report	June 30, 2020 and 2021	March 31, 2022
North Dakota Barley Council	June 30, 2019 and 2020	August 19, 2021
North Dakota Beef Commission	June 30, 2019 and 2020	August 19, 2021
North Dakota Beef Commission	June 30, 2020 and 2021	December 8, 2021
North Dakota Comprehensive Annual Financial Report	June 30, 2019 and 2020	August 19, 2021
North Dakota Council on the Arts	June 30, 2020 and 2021	September 27, 2022
North Dakota Dairy Promotion Commission	June 30, 2019 and 2020	August 19, 2021
North Dakota Dry Bean Council	June 30, 2019 and 2020	August 19, 2021
North Dakota Dry Pea and Lentil Council	June 30, 2019 and 2020	August 19, 2021
North Dakota Ethanol Council	June 30, 2019 and 2020	August 19, 2021
North Dakota Forest Service	June 30, 2020 and 2021	June 29, 2022
North Dakota Lottery	June 30, 2019 and 2020	August 19, 2021
North Dakota Lottery	June 30, 2020 and 2021	June 29, 2022
North Dakota Oilseed Council	June 30, 2019 and 2020	August 19, 2021
North Dakota Potato Council	June 30, 2019 and 2020	August 19, 2021
North Dakota School for the Deaf	June 30, 2020 and 2021	March 31, 2022
North Dakota Soybean Council	June 30, 2019 and 2020	August 19, 2021
North Dakota Soybean Council	June 30, 2020 and 2021	December 8, 2021
North Dakota State College of Science	June 30, 2020 and 2021	September 27, 2022
North Dakota State Fair Association	September 30, 2020	December 8, 2021
North Dakota State University	June 30, 2020 and 2021	September 27, 2022
North Dakota Stockmen's Association	December 31, 2020 and 2021	September 27, 2022
North Dakota University System Annual Financial Report	June 30, 2019 and 2020	August 19, 2021
North Dakota University System Annual Financial Report	June 30, 2021	March 31, 2022
North Dakota University System Office	June 30, 2019 and 2020	December 8, 2021
North Dakota Veterans' Home	June 30, 2020 and 2021	September 27, 2022
North Dakota Wheat Commission	June 30, 2019 and 2020	August 19, 2021
Office of Administrative Hearings	June 30, 2019 and 2020	June 29, 2022
Office of Management and Budget	June 30, 2020 and 2021	September 27, 2022
Office of State Tax Commissioner	June 30, 2020 and 2021	September 27, 2022
PACE fund	June 30, 2019 and 2020	August 19, 2021
Parks and Recreation Department	June 30, 2020 and 2021	September 27, 2022
Protection and Advocacy Project	June 30, 2019 and 2020	August 19, 2021
Public Employees Retirement System	June 30, 2019 and 2020	August 19, 2021

Agency	Audit Report Date	Meeting Date Accepted
Public Employees Retirement System	June 30, 2020 and 2021	March 31, 2022
Public Employees Retirement System Schedules of Employer Allocations and OPEB Amounts by Employer	June 30, 2021	March 31, 2022
Public Employees Retirement System Schedules of Employer Allocations and Pension Amounts by Employer	June 30, 2021	March 31, 2022
Public Finance Authority	December 31, 2019 and 2020	December 8, 2021
Public Service Commission	June 30, 2020 and 2021	December 8, 2021
Racing Commission	June 30, 2020 and 2021	June 29, 2022
Rebuilders loan program	June 30, 2019 and 2020	August 19, 2021
Rebuilders loan program	June 30, 2020 and 2021	December 8, 2021
Retirement and Investment Office	June 30, 2019 and 2020	August 19, 2021
Retirement and Investment Office	June 30, 2020 and 2021	March 31, 2022
Retirement and Investment Office - North Dakota Teachers' Fund for Retirement Schedules of Employer Allocations and Pension Amounts by Employer	June 30, 2021	March 31, 2022
School construction assistance revolving loan fund	June 30, 2019 and 2020	August 19, 2021
Secretary of State	June 30, 2019 and 2020	August 19, 2021
Securities Commissioner	June 30, 2019 and 2020	August 19, 2021
Small employer loan fund (SELF)	June 30, 2020 and 2021	December 8, 2021
Small employer loan fund (SELF) (Bank of North Dakota)	June 30, 2020	August 19, 2021
State Auditor	June 30, 2020 and 2021	March 31, 2022
State Building Authority	June 30, 2020 and 2021	December 8, 2021
State Historical Society	June 30, 2019 and 2020	August 19, 2021
State Historical Society of North Dakota Foundation	June 30, 2021	December 8, 2021
State Seed Department	June 30, 2019 and 2020	August 19, 2021
State Treasurer's office	June 30, 2020 and 2021	June 29, 2022
Student loan trust	June 30, 2019 and 2020	August 19, 2021
Student loan trust	June 30, 2020 and 2021	December 8, 2021
University of North Dakota	June 30, 2019 and 2020	December 8, 2021
Upper Great Plains Transportation Institute	June 30, 2020 and 2021	June 29, 2022
Valley City State University	June 30, 2020 and 2021	September 27, 2022
Williston State College	June 30, 2020 and 2021	September 27, 2022
Workforce Safety and Insurance	June 30, 2019 and 2020	August 19, 2021
Workforce Safety and Insurance	June 30, 2020 and 2021	December 8, 2021