

Dakota College at Bottineau  
BOTTINEAU, NORTH DAKOTA

**Audit Report**

For the Biennium Ended  
June 30, 2011

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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## *Transmittal Letter*

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January 4, 2012

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
North Dakota State Board of Higher Education  
Dr. David Fuller, President, Dakota College at Bottineau

We are pleased to submit this audit of the Dakota College at Bottineau for the biennium ended June 30, 2011. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Mary Feltman, CPA. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to President Fuller and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## *Introduction*

A referendum in 1894 stated that a school of forestry should be located in Bottineau, North Dakota, to provide, in addition to forestry, comprehensive junior college curricula. Additional one and two-year programs were continually developed, expanding the educational base. The North Dakota Century Code identified the role of Dakota College at Bottineau as offering programs in agriculture, forestry, and horticulture. This, in turn, encouraged the institution to specialize and expand upon its offerings in the natural resources.

The relationship between the School of Forestry and the North Dakota State University was first established in 1968 when the Board of Higher Education approved the "administrative attachment" of the two institutions. The School of Forestry became known as North Dakota State University-Bottineau Branch and Institute of Forestry at that time. In 1987, the name was again modified to North Dakota State University-Bottineau.

In April of 1996, the North Dakota State Board of Higher Education affiliated the college with Minot State University. The name of the school was changed to Minot State University-Bottineau Campus at that time. In August 2009, while still maintaining the affiliation with Minot State University, the name was again changed to Dakota College at Bottineau.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's response are noted below.

## *Responses to LAFRC Audit Questions*

### *1. What type of opinion was issued on the financial statements?*

The financial statements for the Dakota College at Bottineau included in this report were taken from the Annual Financial Report of the North Dakota University System; however, the related note disclosures are not included in accordance with generally accepted accounting standards, so an opinion is not applicable. An unqualified opinion was issued on the annual financial report of the North Dakota University System.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

### *3. Was internal control adequate and functioning effectively?*

Yes.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

The Dakota College at Bottineau has implemented the recommendation included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

No.

**LAFRC Audit Communications**

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no management conflicts of interest noted, no contingent liabilities were identified or significant unusual transactions, however there was a significant change in accounting policy. As of June 30, 2011, Dakota College at Bottineau began reporting the receipt and disbursement of student financial aid on the Statement of Cash Flows as Direct Lending Receipts and Direct Lending Disbursements. Prior to June 30, 2011 these amounts were not included on the Statement of Cash Flows.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimates used by Dakota College at Bottineau include the useful lives of capital assets and allowance for uncollectible receivables. Estimated useful lives are used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

*13. Identify any management consultations with other accountants about auditing and accounting matters.*

None.

*14. Identify any high-risk information technology systems critical to operations based on the auditor's 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 the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and Student Administration are high-risk information technology systems critical to Dakota College at Bottineau. No exceptions related to the operations of an information technology system were noted.

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

The objectives of this audit of the Dakota College at Bottineau for the biennium ended June 30, 2011 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Dakota College at Bottineau's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Dakota College at Bottineau and are they in compliance with these laws?
3. Are there areas of the Dakota College at Bottineau's operations where we can help to improve efficiency or effectiveness?

## ***Audit Scope***

This audit of the Dakota College at Bottineau is for the biennium ended June 30, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared condensed financial statements from the fiscal years 2011 and 2010 annual financial reports of the North Dakota University System and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Dakota College at Bottineau's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## ***Discussion and Analysis***

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The accompanying financial statements have been prepared to present the Dakota College at Bottineau's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium June 30, 2011, operations of the Dakota College at Bottineau were primarily supported by appropriations from the state's general fund and student tuition and fees.

### ***Financial Summary***

Assets at Dakota College at Bottineau increased \$1.1 million from \$6,716,698 in fiscal year 2010 to \$7,817,405 in fiscal year 2011. \$500,000 was due to increase in state appropriations, mainly due to timing and \$600,000 was due to an increase in capital assets. Capital assets additions included improvements to the greenhouse and classroom, heating plant, and student center. Liabilities remained fairly constant.

Revenues consisted primarily of state appropriations. Other revenues during the audited period included student tuition and fees, auxiliary enterprises and federal grants and contracts. These all remained fairly constant for the Dakota College at Bottineau, except state appropriations of capital assets increased \$700,000. This was primarily for the heating plant boiler replacement project. Total revenues were \$8,952,431 for the year ended June 30, 2011 as compared to \$8,080,079 for the year ended June 30, 2010.

Total expenditures for the Dakota College at Bottineau were \$7,779,735 for the year ended June 30, 2011 as compared to \$7,208,046 for the prior year. The increase in total expenditures for the audited period reflects primarily salaries and wages (which also account for 58% of total expenditures in both years). All other expenditures remained fairly constant.

### ***Analysis of Significant Changes in Operations***

DCB began offering an A.A.S. and certificate in paramedic technology and a program certificate in college studies.

DCB terminated the water quality management program and the A.A.S. in environmental technology.

DCB has the following new academic joint ventures for fiscal year 2010-2011:

- Memorandum of understanding with VCSU to deliver DCB's medical transcription program.
- Memorandum of understanding with VCSU to deliver DCB coursework on the Valley City Campus (Bridges Program).
- Memorandum of understanding with Minot State University to deliver DCB coursework on the MSU Campus (Passport Program).
- Memorandum of understanding with the North Dakota Emergency Education Consortium (NDEEC) to deliver DCB's paramedic (EMT) program.
- Educational affiliation agreement with Carrington Health Center to provide DCB medical assistant students with clinical experience.

- Educational affiliation agreement with Lisbon Area Health Services to provide DCB medical assistant students with clinical experience.

***Analysis of Significant Variances - Budgeted and Actual Expenditures***

Dakota College at Bottineau did not have any significant variances for the general fund expenses as reflected on the statement of appropriations.

# Financial Statements

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## Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>ASSETS</b>		
Cash & cash equivalents	\$ 1,471,307	\$ 1,012,895
Investments	51,994	69,591
Accounts receivable, net	189,842	137,573
Due from state general fund		62,607
Grants & contracts receivables, net	295,426	280,005
Inventories	145,777	161,035
Notes receivable, net	272,060	290,840
Other assets	36,823	14,102
Capital assets, net	5,354,176	4,688,050
<b>Total assets</b>	<u>\$ 7,817,405</u>	<u>\$ 6,716,698</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 142,011	\$ 140,040
Accrued payroll	185,647	171,450
Deferred revenue	42,425	11,096
Deposits		63,878
Other liabilities	495	956
Due to others	339,562	298,390
<b>Total liabilities</b>	<u>\$ 710,140</u>	<u>\$ 685,810</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 5,190,218	\$ 4,463,558
Restricted for:		
Expendable:		
Scholarships and fellowships	10,072	5,314
Instructional department uses	437,811	446,645
Loans	269,229	272,948
Debt service	51,203	68,501
Unrestricted	1,148,730	690,201
<b>Total net assets</b>	<u>\$ 7,107,263</u>	<u>\$ 5,947,167</u>

## Statement of Revenues and Expenditures

	June 30, 2011	June 30, 2010
<b>OPERATING REVENUES</b>		
Student tuition and fees	\$ 1,332,322	\$ 1,357,682
Federal grants and contracts	373,828	333,306
State and local grants and contracts	256,811	229,479
Nongovernmental grants and contracts	72,798	336,000
Sales and services of educational departments	122,761	148,095
Auxiliary enterprises	1,298,254	1,165,643
Other	5,710	5,511
<b>Total operating revenues</b>	<u>\$ 3,462,484</u>	<u>\$ 3,575,716</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	\$ 4,527,186	\$ 4,208,046
Operating expenses	2,011,309	1,992,741
Data processing	156,032	113,344
Depreciation	258,546	242,801
Scholarships and fellowships	549,509	503,134
Cost of sales and services	264,106	271,728
<b>Total operating expenses</b>	<u>\$ 7,766,688</u>	<u>\$ 7,331,794</u>
<b>Operating loss</b>	<u>\$ (4,304,204)</u>	<u>\$ (3,756,078)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 3,013,733	\$ 2,910,051
Federal grants and contracts	1,293,223	1,081,407
Gifts	178,296	201,959
Investments income	18,258	19,035
Interest on capital asset-related debt	(13,047)	(14,115)
Other non operating revenue	4,727	
<b>Net nonoperating revenues</b>	<u>\$ 4,495,190</u>	<u>\$ 4,198,337</u>
<b>Income before capital grants, gifts, and transfers</b>	<u>\$ 190,986</u>	<u>\$ 442,259</u>
State appropriations-capital assets	\$ 981,710	\$ 291,911
<b>Total other revenue</b>	<u>\$ 981,710</u>	<u>\$ 291,911</u>
<b>Increase in net assets</b>	<u>\$ 1,172,696</u>	<u>\$ 734,170</u>
<b>NET ASSETS</b>		
Net Assets-beginning of the year, as restated	\$ 5,934,567	\$ 5,212,997
Net Assets-end of the year	<u>\$ 7,107,263</u>	<u>\$ 5,947,167</u>

## Statement of Cash Flows

	June 30, 2011	June 30, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 1,323,413	\$ 1,304,656
Grants and contracts	675,416	864,904
Payments to suppliers	(2,343,486)	(2,439,875)
Payments to employees	(4,494,543)	(4,176,219)
Payments for scholarships and fellowships	(549,509)	(503,134)
Loans issued to students	(36,867)	(79,866)
Collection of loans to students	48,668	52,807
Auxiliary enterprise charges	1,294,521	1,161,905
Sales and service of educational departments	111,301	173,693
Cash paid on deposits	(55,684)	(5,998)
Other receipts (payments)	(12,128)	10,217
<b>Net cash used by operating activities</b>	<b>\$ (4,038,898)</b>	<b>\$ (3,636,910)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	\$ 3,013,733	\$ 2,910,052
Grants and gifts received for other than capital purposes	1,471,519	1,283,366
Direct lending receipts	2,255,090	
Direct lending disbursements	(2,255,090)	
Agency fund cash increase (decrease)	(12,589)	18,938
<b>Net cash flows provided by noncapital financing activities</b>	<b>\$ 4,472,663</b>	<b>\$ 4,212,356</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	\$ 1,044,317	\$ 254,097
Purchases of capital assets	(963,577)	(291,305)
Principal paid on capital debt and lease	(79,064)	(70,379)
Receipts (deposits) with capital debt payment trustees	17,597	(7,093)
Interest paid on capital debt and lease	(13,047)	(14,115)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>\$ 6,226</b>	<b>\$ (128,795)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	\$ 18,421	\$ 19,081
<b>Net cash provided by investing activities</b>	<b>\$ 18,421</b>	<b>\$ 19,081</b>
<b>Net increase in cash</b>	<b>\$ 458,412</b>	<b>\$ 465,732</b>
CASH - BEGINNING OF YEAR	1,012,895	547,163
CASH - END OF YEAR	<b>\$ 1,471,307</b>	<b>\$ 1,012,895</b>

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**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO**

**NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Operating loss	\$ (4,304,204)	\$ (3,756,078)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	258,546	242,801
Other nonoperating expense (income)	4,267	(428)
Change in assets and liabilities:		
Accounts receivable adjusted for interest receivable	(50,700)	(46,313)
Grant & contract receivables	(28,021)	(33,881)
Inventories	15,258	(23,188)
Notes receivable	18,780	(6,489)
Other assets	(22,105)	5,133
Accounts payable and accrued liabilities adjusted for interest payable	60,990	(47,348)
Accrued payroll	14,658	13,349
Compensated absences	17,985	18,478
Deferred revenue	31,329	3,052
Deposits	(55,681)	(5,998)
<b>Net cash used by operating activities</b>	<u>\$ (4,038,898)</u>	<u>\$ (3,636,910)</u>

**SUPPLEMENTAL DISCLOSURE ON NONCASH TRANSACTIONS**

Assets acquired through capital leases	<u>\$ 18,528</u>	<u>\$ 6,850</u>
<b>Total non-cash transactions</b>	<u>\$ 18,528</u>	<u>\$ 6,850</u>

## Statement of Appropriations

### For The Biennium Ended June 30, 2011

Expenses by line item	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenses	
Operating Expenses	\$ 5,862,372	\$ 61,412	\$ 5,923,784	\$ 5,923,784	
Capital Assets	3,189,725	(2,000,000)	1,189,725	1,175,932	\$ 13,793
Capital Assets-Carryover		668	668	668	
Capital Improvements - Off system					
Entrepreneurial Center		700,000	700,000	24,700	675,300
Deferred Maintenance	97,021		97,021	97,021	
<b>Totals</b>	<b>\$ 9,149,118</b>	<b>\$ (1,237,920)</b>	<b>\$ 7,911,198</b>	<b>\$ 7,222,105</b>	<b>\$ 689,093</b>
<b>Expenses by source</b>					
General fund	\$ 7,149,118	\$ 62,080	\$ 7,211,198	\$ 7,197,405	\$ 13,793
Special fund	2,000,000	(1,300,000)	700,000	24,700	675,300
<b>Totals</b>	<b>\$ 9,149,118</b>	<b>\$ (1,237,920)</b>	<b>\$ 7,911,198</b>	<b>\$ 7,222,105</b>	<b>\$ 689,093</b>

#### Appropriation Adjustments:

##### Operating expenses:

The increase of \$61,412 was a transfer from the NDUS for security and emergency preparedness needs pursuant to 2009 SB 2003, section 19.

##### Capital Assets:

The \$2,000,000 decrease was a transfer to the Capital Asset - off system line for the Entrepreneurial Center. Expenditures for this project will not be abstracted through the state but will be spent off system.

##### Capital assets – carryover:

The \$668 adjustment was carryover of the prior biennium's unspent general funds.

##### Capital Improvement – Off system:

Per the institution request, the Budget section reduced the authority for the Entrepreneurial Center from \$2,000,000 to \$700,000.

## *Internal Control*

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In our audit for the biennium ended June 30, 2011, we identified the following areas of the Dakota College at Bottineau's internal control as being the highest risk:

### ***Internal Controls Subjected to Testing:***

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenses.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent. Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control are published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2011, we identified and tested Dakota College at Bottineau's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Determine the North Dakota University System reported to the Appropriations Committees of the sixty-second Legislative Assembly on the use of this one-time funding for the biennium beginning July 1, 2009, and ending June 30, 2011 [09 SB2003, chapter 31, section 7].
- Proper use/approval of clearing account and petty cash/till funds (NDCC 54-06-08.1, Attorney General's letter dated September 11, 1987 and Article X, Section 12, part 1 of ND constitution).
- BND used as credit card processing depository (NDCC 54-06-08.2).
- Deposit and expenses of gifts to a state institution (Article IX, section 1 of the North Dakota Constitution, Attorney General's opinion dated September 13, 1963, NDCC 1-08-02,15-10-12, 15-67-01, 15-67-02, 15-67-04, 15-67-05, and 15-67-07).
- Fixed asset requirements including record keeping, and lease analysis requirements (NDCC 44-04-07, 54-27-21, and 54-27-21.1).
- Expenses including proper voucher approvals (NDCC 44-08-05.1 and Article X, Section 12, subpart 2 of North Dakota Constitution), and being within budgeted amounts (NDCC 54-44.1-09 and Article X, Section 12 of North Dakota Constitution).
- Travel-related expenses are made in accordance with state statute (NDCC 44-08-04, 44-08-04.1, 04.2, 04.3, 04.4, 04.5 and 54-06-09).
- Purchasing including bidding (NDCC 44-08-01, 48-01.2, 54-44.4-01, 05, 06, 54-44.7-02, and 54-44.4-02).
- Conflict of Interest (NDCC 12.1-13-03, 48-01.2-08, and 48-02-12).
- Carryover of unexpended appropriations (NDCC 54-44.1-11).
- Adequate blanket bond coverage (NDCC 26.1-21-08).
- Unclaimed property laws (NDCC 47-30.1-02.1 and 47-30.1-03.1).
- Nepotism (NDCC 44-04-09).
- Bond Revenues and Reserves (NDCC 15-55-03 and 15-55-06).
- Misapplication of entrusted property (NDCC 12.1-23-07).

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

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