



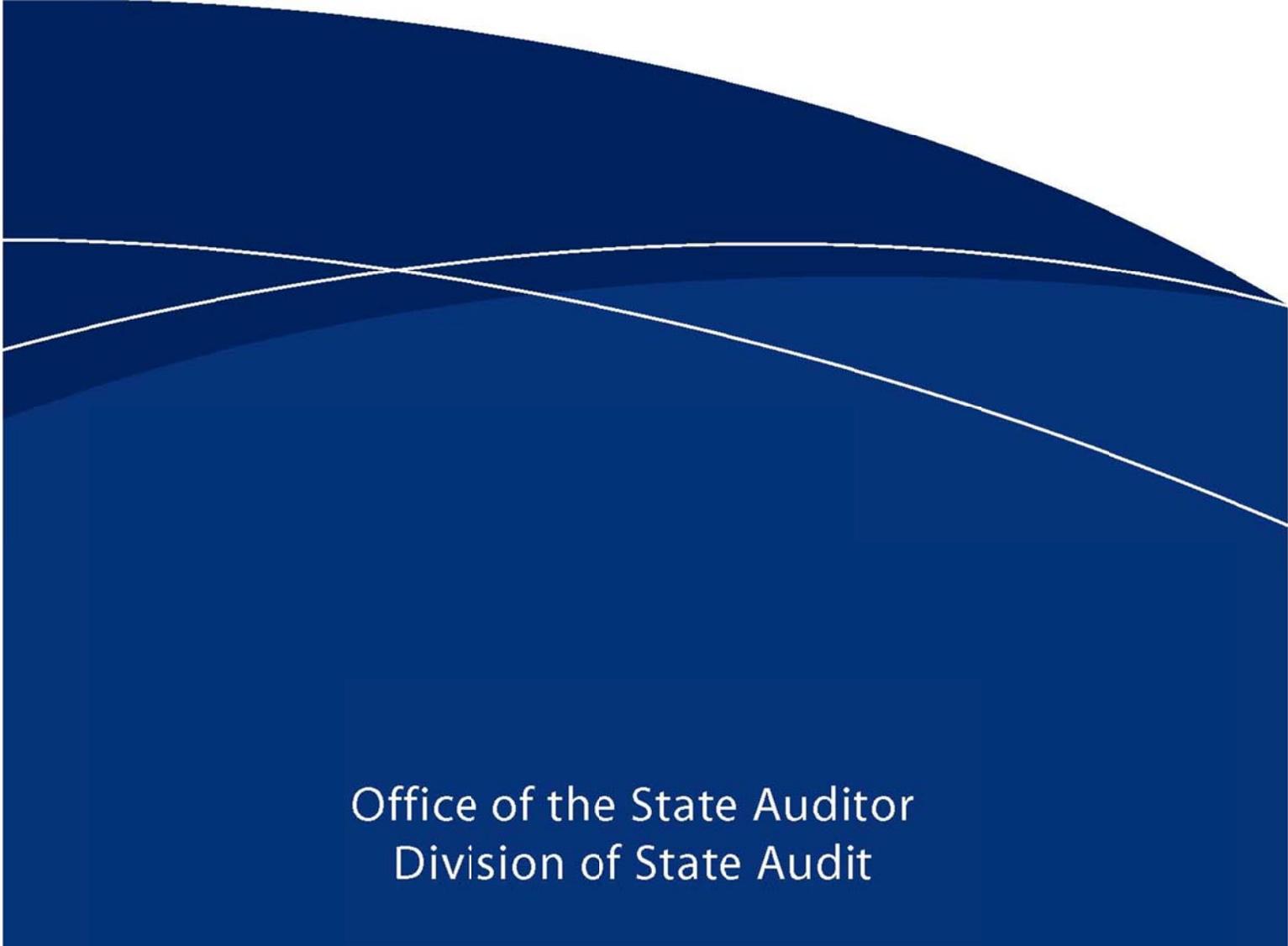
NORTH DAKOTA
DRY BEAN COUNCIL

Frazee, MN

Audit Report

For the Two-Year Period Ended
June 30, 2010

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Independent Auditor's Report

Honorable John Hoeven, Governor
Members of the Legislative Assembly
Members of the North Dakota Dry Bean Council
Tim Courneya, Executive Administrator

We have audited the special-purpose statements of revenues and expenditures of the North Dakota Dry Bean Council for the two-year period ended June 30, 2010. The special-purpose financial statements are the responsibility of the management of the North Dakota Dry Bean Council. Our responsibility is to express an opinion on the special-purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the special-purpose financial statements are intended to present the revenues and expenditures of only that portion of the governmental activities of the state of North Dakota that is attributable to the transactions of the North Dakota Dry Bean Council. They do not purport to, and do not, present fairly the financial position of the state of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

The accompanying special-purpose financial statements are prepared to provide state decision makers, including the Senate and House Agriculture Committees, with a comprehensive overview of the North Dakota Dry Bean Council's operations in accordance with NDCC section 4-24-10. The revenues and expenditures are reported as discussed in the first note to the special-purpose financial statements. The special-purpose financial statements are not intended to be a presentation in conformity with generally accepted accounting principles.

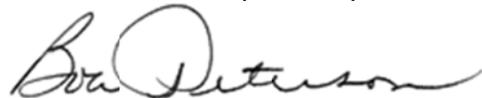
In our opinion, the special-purpose financial statements referred to above presents fairly, in all material respects, the revenues and expenditures of the North Dakota Dry Bean Council for the

two-year period ended June 30, 2010, in conformity with the basis of accounting described in Note 1 to the special-purpose financial statements.

Our audits were made for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The Detailed Comparative Schedule of Revenues and Expenditures subsequent to the notes is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements of the North Dakota Dry Bean Council. The Detailed Comparative Schedule of Revenues and Expenditures has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2010 on our consideration of the North Dakota Dry Bean Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, the Senate and House Agriculture Committees and management of the North Dakota Dry Bean Council and is not intended to be and should not be used by anyone other than these specified parties.



Robert R. Peterson
State Auditor

October 13, 2010



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OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable John Hoeven, Governor
Members of the Legislative Assembly
Members of the North Dakota Dry Bean Council
Tim Courneya, Executive Administrator

We have audited the special-purpose financial statement of the governmental activities of the North Dakota Dry Bean Council as of and for the two-year period ended June 30, 2010 and have issued our report thereon dated October 13, 2010. Our report was modified to indicate the statement of revenue and expenses was prepared in accordance with NDCC section 4-24-10 and is not intended to be a presentation in conformity with generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Dakota Dry Bean Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the special-purpose financial statement, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Dry Bean Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Dry Bean Council's internal control over financial reporting.

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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the North Dakota Dry Bean Council's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Dry Bean Council's special-purpose financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of special-purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted, however, certain matters that we reported to management of the North Dakota Dry Bean Council in a letter dated October 13, 2010.

This report is intended solely for the information and use of the North Dakota Dry Bean Council, Legislative Audit and Fiscal Review Committee, and members of the North Dakota Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Robert R. Peterson
State Auditor

October 13, 2010

Financial Statements

Comparative Statement of Revenues and Expenditures (Budgetary Basis)

North Dakota Dry Bean Council

<u>REVENUES:</u>	<u>FY10</u>	<u>FY09</u>
Bean Assessments (net of refunds of \$87,695 and \$112,573)	\$ 811,735	\$ 950,285
Interest on Investments	14,675	21,894
Total Revenues	<u>\$ 826,410</u>	<u>\$ 972,179</u>
 <u>EXPENDITURES:</u>		
Management and Consulting Services	\$ 974,272	\$ 965,558
Operating Expenses	9,722	9,031
Total Expenditures	<u>\$ 983,994</u>	<u>\$ 974,589</u>
 Revenue Under Expenditures	 <u>\$ (157,584)</u>	 <u>\$ (2,410)</u>

See Notes to the Special-Purpose Financial Statements

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The responsibility for these special-purpose financial statements, the internal control structure and compliance with laws and regulations belongs to the management of the North Dakota Dry Bean Council (Council). A summary of the significant accounting policies follows:

A. Reporting Entity

For financial reporting purposes, the Council includes all funds, programs, and activities over which it is financially accountable. The Council does not have any component units as defined by the Government Accounting Standards Board. The Council is part of the State of North Dakota as a reporting entity.

The Council was created by the 1977 Legislature with the intended purpose that the production, development, marketing and promotion of dry beans in North Dakota is important to the general welfare of the people of North Dakota. This accomplishment required the establishment of the North Dakota Dry Bean Council for that purpose and with the objectives of contributing to the stabilization and improvement of the agriculture economy of the state.

The Council is composed of one participating grower elected from each of the five districts established in chapter 4.1-06-02 of the NDCC. An assessment of 10 cents per hundredweight is imposed on all dry beans grown in the state and sold to a designated handler. All moneys levied and collected by the North Dakota Dry Bean Council are to be deposited in an account designated "Dry Bean Fund" at the State Treasurer and used for carrying out Council objectives.

The Northharvest Bean Growers Association performs the administrative duties and the record-keeping requirements of the Council under contract. This related party is further explained in Note 2 to the special-purpose financial statement. The special-purpose financial statement includes only activities of the Council, which is one department that has one division. The Council is responsible for and is funded under a continuing appropriation.

B. Reporting Structure

The special-purpose financial statements include all activities of the reporting entity as defined above. These activities are funded from fund 241, the Dry Bean Fund. The comparative statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. Basis of Accounting

Revenues and expenditures on the statements of revenues and expenditures are principally reported on the modified accrual basis of accounting which is generally accepted accounting principles (GAAP) for governmental fund types. Because of the unique nature of North Dakota's accounting system and its appropriation laws, there are at times differences between the way expenditures are appropriated and GAAP. These differences are discussed below.

Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount can be determined, available means due and collectible within the current period or soon enough thereafter to be

used to pay liabilities of the current period. Revenues are considered available if they are collected within a year after fiscal year end. Expenditures are recorded when goods or services are received. Exceptions include: principle and interest expenditures which are recorded when due; compensated absences which are recorded when paid; and, claims and judgments.

As stated above, there can be differences between revenues and expenditures reported on the state's accounting system and budget basis and those reported by the Office of Management and Budget in the state's CAFR in accordance with GAAP. Basically there are two types of differences: accounting and statutory.

Accounting differences can include:

- A. Loan receipts and loan disbursements are accounted for as revenues and expenditures on the state's accounting system (and at times are budgeted as expenditures).
- B. Revenue reported on the statement of revenues and expenditures can differ from GAAP revenues because certain receivables are accrued for GAAP purposes while they were not recorded as revenue on the state's accounting system when they are received after the apply back period.
- C. Certain transfers are sometimes recorded as revenues and expenditures on the state's accounting system.
- D. Expenditures recorded on the state's accounting system do not report expenditures relating to capital lease and other financing arrangements.

Statutory differences can occur because of North Dakota Century Code section 54-44.1-11. This section requires the Office of Management and Budget to cancel most unexpended appropriations 30 days after the end of each biennial period. Certain GAAP expenditures are not recorded as budgetary expenditures because the agency does not have the ability to pay the expenditures within 30 days after the end of the biennium. These are relatively rare occurrences, and when significant, will be clearly disclosed.

D. Other GAAP Reporting Differences

GAAP financial statements would include a balance sheet by fund type and account group. Revenues, expenditures, and expenses would also be reported by fund type. In addition a statement of cash flows would have been prepared for proprietary fund type activities. GAAP financial statements would also provide more complete note disclosures. This type of information is available in the state's comprehensive annual financial report and the Office of Management and Budget's combining statements by department.

For this report, revenues and expenditures are reported on a departmental basis to give an overview of the Council's operations. All revenues and expenditures are included regardless of the nature of the activities.

NOTE 2 – RELATED PARTIES

The Northarvest Bean Growers Association (Association) is a related party of the Council. The Council contracts with the Association for management and consulting services. For fiscal years 2010 and 2009 the Council paid the Association \$973,772 and \$965,058, respectively, for services. The Association pays salaries and benefits for the Administrator and Secretary of the Council and the Association owns all fixed assets.

NOTE 3 – OTHER SIGNIFICANT ITEMS

The Council has cash and investment reserves of \$807,648 and \$1,211,079 at June 30, 2010 and June 30, 2009, respectively. Based on the average monthly expenditures for fiscal year 2010 and 2009, this amount represents approximately 10 and 15 months of expenditures, respectively.

Supplementary Information

Detailed Comparative Schedule of Revenues and Expenditures (Budgetary Basis)

<u>REVENUES:</u>	<u>FY10</u>	<u>FY09</u>
Bean Assessments (net of refunds of \$87,695 and \$112,573)	\$ 811,735	\$ 950,285
Interest on Investments	14,675	21,894
Total Revenues	<u>\$ 826,410</u>	<u>\$ 972,179</u>
<u>EXPENDITURES:</u>		
Management and Consulting Services	\$ 974,272	\$ 965,558
Audit		2,053
Salaries and Benefits	4,455	2,700
Travel	4,398	3,409
Insurance	869	869
Total Expenditures	<u>\$ 983,994</u>	<u>\$ 974,589</u>
Revenue Under Expenditures	<u>\$ (157,584)</u>	<u>\$ (2,410)</u>

Responses to LAFRC Audit Questions

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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

Unqualified.

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?

Yes.

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

Yes. The Governance Communication on page 12 of this report contains two informal recommendations. One deals with updating designated handler reports and the other addresses conflicting North Dakota Century Code language.

LAFRC Audit Communications

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

None noted.

2. *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.*

None.

3. *Identify any significant audit adjustments.*

None.

4. *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.

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

None.

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

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

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

None.

8. *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.*

None.



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Governance Communication

October 13, 2019

To: The North Dakota Dry Bean Council

The Legislative Audit and Fiscal Review Committee

We have audited the special purpose financial statements of the governmental activities of the North Dakota Dry Bean Council for the two-year period ended June 30, 2010, and have issued our report thereon dated October 13, 2010. Professional standards require that we provide you with the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota Dry Bean Council are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the two-year period ending June 30, 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 13, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. It should be noted that the retention of the State Auditor is a matter of state law and is not under the control of the North Dakota Dry Bean Council.

The following presents our informal recommendations.

Update Designated Handler Certificates

Not all designated handler certificate applications are up to date. In the test of receipts 2 out of 30 tested needed updating. Certificate #85 did not contain the designated handler place of business or the location of loading and shipping. Certificate #49 did not contain the current name of the designated handler.

NDCC section 4.1-06-11 subparts 2 & 3 states that "the certificate is available upon submission of an application containing the name under which the designated handler is transacting business within the state, the designated handler's place of business, and the location of loading and shipping places of the designated handlers' agents.

- If the designated handler is a corporation, the application must include the corporate name and the names and addresses of the principal officers and agents within this state.
- If the designated handler is a partnership, the application must include the names and addresses of the persons constituting the partnership.
- If the designated handler is a limited liability company, the application must include the name of the limited liability company and the names and addresses of its principal managers and agents within this state.

The designated handler shall notify the council whenever there is a change of information required by this section."

Recommendation:

We recommend that the Dry Bean Council ensure that all Designated Handler information is up to date.

North Dakota Dry Bean Council Response:

The Council does recognize the changes that have occurred in regards to ownership and will update each designated handler file to recognize the change. Each application will also be updated in regards to place of business or the location of loading and shipping.

Assessing Out of State Dry Beans

The Dry Bean Assessment terminology in the century code is conflicting.

NDCC section 4.1-06-01 subpart 4 states "Dry Beans means all varieties of dry beans harvested in this state."

NDCC section 4.1-06-12 subpart 1 states " An assessment at the rate of ten cents per hundredweight must be imposed upon all dry beans grown in this state, delivered into this state, or sold to a designated handler."

Recommendation:

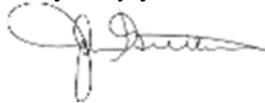
We recommend that the council petition the legislature to clarify the terminology surrounding the assessment of dry beans.

North Dakota Dry Bean Council Response:

The Council will address the assessment of out of state beans and in the manner the designated handlers have been reporting that assessment. Once addressed appropriate action will follow.

This information is intended solely for the use of the North Dakota Dry Bean Council, management of the North Dakota Dry Bean Council and the Legislative Audit and Fiscal Review Committee and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



John Grettum, CPA
Audit Manager

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www.nd.gov/auditor/

or by contacting the
Division of State Audit

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