



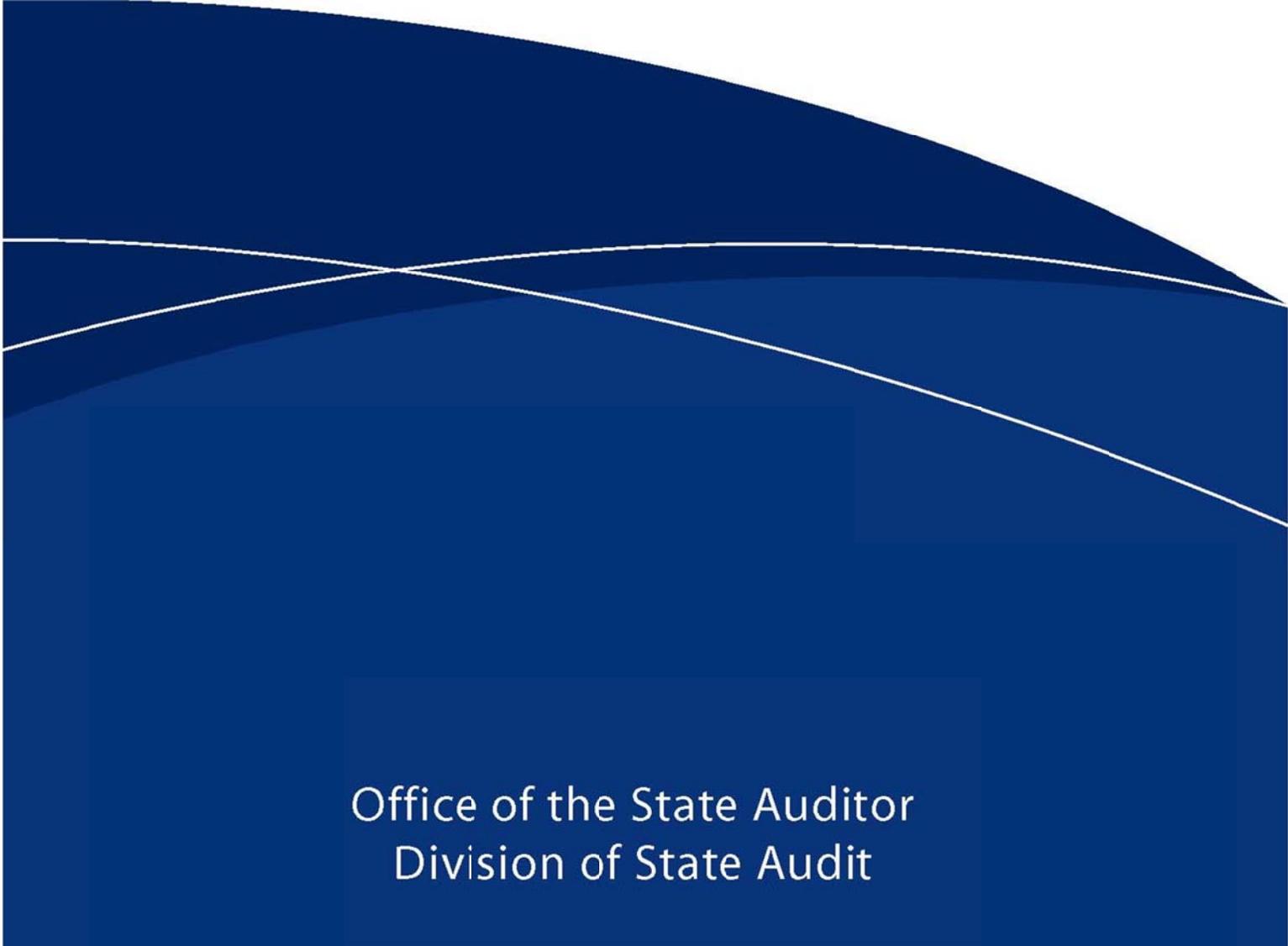
NORTH DAKOTA  
POTATO COUNCIL

Grand Forks, ND

**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*

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Honorable Jack Dalrymple, Governor  
Members of the Legislative Assembly  
Members of the North Dakota Potato Council  
Diane Peycke, Executive Director

We have audited the special-purpose statements of revenues and expenditures of the North Dakota Potato 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 Potato Council. Our responsibility is to express an opinion on the special-purpose financial statements based on our audit.

We conducted our audit 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 misstatements. 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 statements presentation. We believe that our audit provides 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 Potato 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 Potato 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 Potato 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 audit was 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 Potato 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 December 22, 2010 on our consideration of the North Dakota Potato Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Potato Council and is not intended to be and should not be used by anyone other than these specified parties.



Robert R. Peterson  
State Auditor

December 22, 2010

# ***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***

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Honorable Jack Dalrymple, Governor  
Members of the Legislative Assembly  
Members of the North Dakota Potato Council  
Diane Peycke, Executive Director

We have audited the special-purpose financial statements of the governmental activities of the North Dakota Potato Council as of and for the two-year period ended June 30, 2010 and have issued our report thereon dated December 22, 2010. Our report was modified to indicate the statements of revenue and expenses were prepared in accordance with NDCC section 4-24-10 and are 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 Potato Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Potato Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Potato 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 Potato 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. However, we identified one deficiency in internal control over financial reporting, described in the accompanying schedule of Prior Recommendations Not Implemented that we consider to be a significant deficiency in internal control over financial reporting (Prior Audit Finding 08-1). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We also noted certain matters that we reported to management of the North Dakota Potato Council in a letter dated December 22, 2010.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the North Dakota Potato Council's special-purpose financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of special-purpose financial statements 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*.

This report is intended solely for the information and use of the North Dakota Potato 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

December 22, 2010

## *Financial Statements*

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### **Comparative Statement of Revenues and Expenditures (Budgetary Basis)**

<u>REVENUES:</u>	<u>FY 2010</u>	<u>FY 2009</u>
Potato Assessments (net of refunds of \$4,933 and \$38,049)	\$ 515,158	\$ 510,591
Interest on Investments	3,610	2,979
Total Revenues	<u>\$ 518,767</u>	<u>\$ 513,570</u>
 <u>EXPENDITURES:</u>		
Contract Payments	\$ 502,650	\$ 439,150
Grants Expenditures		500
Operating Expenditures	2,961	7,510
Total Expenditures	<u>\$ 505,611</u>	<u>\$ 447,160</u>
 Revenue Over Expenditures	 <u>\$ 13,156</u>	 <u>\$ 66,410</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 Potato Council. A summary of the significant accounting policies follows:

### **A. Reporting Entity**

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

The North Dakota Potato Council is composed of one participating producer elected from each of the five districts established in chapter 4.1-10-02 of the NDCC, and the chairman is elected annually from among the members. An assessment of 3 cents per hundredweight is imposed on all potatoes grown in the state or sold to a designated handler. All moneys levied and collected by the North Dakota Potato Council are to be deposited in an account designated "Spud Fund" at the State Treasurer and used for carrying out Council objectives.

Diane Peycke, Executive Director, performs the administrative duties and the record-keeping requirements of the North Dakota Potato Council under contract. This related party is further explained in Note 2 to the special-purpose financial statements. The special-purpose financial statements include only activities of the North Dakota Potato Council, which is one department that has one division. The North Dakota Potato 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 220, the Spud 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 statements 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 North Dakota Potato Council's operations. All revenues and expenditures are included regardless of the nature of the activities.

#### **NOTE 2 – RELATED PARTIES**

The Northern Plains Potato Growers Association (NPPGA) located in East Grand Forks, Minnesota, is a related party of the North Dakota Potato Council. The NPPGA is under contract with the Council to provide promotion, advertising, research, and development of Irish potatoes grown in North Dakota. The amount paid under contract was \$425,000 and \$488,500 for each fiscal year ended June 30, 2010 and 2009 respectively.

The Executive Director of the Council, who performs all the administrative duties of the Council, is under contract with the Council as an independent contractor, not as a state employee. Under the contract, the Executive Director was paid \$14,150 for each fiscal year 2010-2009. The Executive Director also performs the administrative duties for the NPPGA and for a region of the Minnesota Potato Council.

**NOTE 3 – OTHER SIGNIFICANT ITEMS**

The North Dakota Potato Council's cash and investments at June 30, 2010 were \$110,519 and \$175,000 and at June 30, 2009 were \$202,450 and \$75,000, respectively. Based on the average monthly expenditures for fiscal year 2010 and 2009 of \$39,699, this amount represents approximately 7.2 and 7 months of expenditures, respectively.

## *Supplementary Information*

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### **Detailed Comparative Schedule of Revenues and Expenditures (Budgetary Basis)**

<u>REVENUES:</u>	<u>FY 2010</u>	<u>FY 2009</u>
Potato Assessments (net of refunds of \$4,933 and \$38,049)	\$ 515,158	\$ 510,591
Interest on Investments	3,610	2,979
Total Revenues	<u>\$ 518,767</u>	<u>\$ 513,570</u>
<u>EXPENDITURES:</u>		
Operating Fees and Services	\$ 502,650	\$ 439,150
Fees - Professional Services		4,978
Grants		500
IT - Communications	589	959
Insurance	780	780
Travel	1,379	718
Postage	214	70
Office Supplies		5
Total Expenditures	<u>\$ 505,611</u>	<u>\$ 447,160</u>
Revenue Over Expenditures	<u>\$ 13,156</u>	<u>\$ 66,410</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?*

An unqualified opinion was issued on the fiscal year 2009 and 2010 special purpose financial statements of the North Dakota Potato Council.

*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?*

Other than our finding addressing “No Control/Fraud Risk Assessment” (page 12) we determined internal control was adequate.

*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?*

Other than our finding addressing “No Control/Fraud Risk Assessment” (page 12) the North Dakota Potato Council has implemented all previous audit recommendations.

*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 13 of this report contains our informal recommendations.

## 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 noted.

3. *Identify any significant audit adjustments.*

None made.

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.*

No high-risk information technology systems were identified.

## Prior Recommendation Not Implemented

### **No Control/Fraud Risk Assessment (Prior Audit Finding 08-1)**

**RECOMMENDATION:** We recommend that the North Dakota Potato Council, with the assistance of the Office of Management and Budget:

- Establish and perform a control risk assessment including a fraud risk assessment on a recurring basis; and
- Design and document the necessary control activities to ensure that each of the significant control risks and fraud exposures identified during the risk assessment process has been adequately mitigated.
- Continually monitor control activities to ensure they are functioning properly.

**STATUS: Not Implemented.**

No control/fraud risk assessment was performed during the audit period.

**RESPONSE:**

Agree. The ND Potato Council will work with the Office of Management and Budget on the Control/Fraud Risk Assessment within the next year or two.



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

## Governance Communication

December 22, 2010

To: The North Dakota Potato Council  
  
The Legislative Audit and Fiscal Review Committee

We have audited the special purpose financial statements of the governmental activities of the North Dakota Potato Council for the two year period ended June 30, 2010, and have issued our report thereon dated December 22, 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 Potato 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.

However, the following adjustments were made in order to make the financial statement presentation more clearly to users of the financial statements.

712180 Grants	\$ 500.00
443005 Donations	\$ 500.00
473030 Misc General Revenue	\$ 38.39
442040 Interest on Investments	\$ 38.39
521030 In State – Vehicle Mileage	\$ 312.75
611005 Conference Expenses	\$ 312.75

### **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 December 22, 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 Potato Council.

The following presents our informal recommendations.

## **INTERNAL CONTROLS**

### **No Code of Conduct**

The North Dakota Potato Council has not adopted a code of conduct.

#### Informal Recommendation 10-1:

We recommend the North Dakota Potato Council adopt a code of ethics or code of business conduct. At a minimum, the following issues should be addressed:

1. Honest and ethical conduct
2. Full, fair, accurate, timely, and understandable disclosure in reports and documents
3. Compliance with applicable laws
4. The prompt internal reporting of violations of the code
5. Description of what constitutes fraudulent behavior
6. Accountability for adherence to the code and consequences for breaching it

#### *North Dakota Potato Council Response:*

Agree. The ND Potato Council will check with peers and adopt a code of ethics or code of business conduct within the next year or two.

### **Late Deposits**

We noted that five of the ten deposits we tested included checks that were not deposited on a timely basis.

#### Informal Recommendation 10-2:

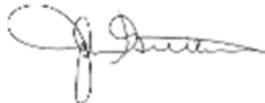
We recommend that the Potato Council take appropriate action to ensure that deposits are made on a timely basis. At a minimum this means that deposits must be made on a weekly basis or when total funds to be deposited reach \$5,000 or greater, whichever occurs first.

#### *North Dakota Potato Council Response:*

Agree. The ND Potato Council will work to make sure deposits are made on a timely basis.

This information is intended solely for the use of the North Dakota Potato Council and management of the North Dakota Potato Council 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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Division of State Audit

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