

Office of the State Auditor

Division of State Audit

North Dakota Dry Pea and Lentil Council Bismarck, North Dakota

Special Purpose Audit Report for the
Two Year Period Ended June 30, 2008
Client Code 613

Robert R. Peterson
State Auditor



December 5, 2008

Honorable John Hoeven, Governor
Members of the Legislative Assembly
Shannon Berndt, Administrator
North Dakota Dry Pea and Lentil Council

Transmitted herewith is the special purpose financial statement audit of the North Dakota Dry Pea and Lentil Council for the two year period ended June 30, 2008. The Office of the State Auditor has prepared this audit report in compliance with North Dakota Century Code section 4-24-10.

The special purpose financial statement has been prepared as required primarily to provide information to the Senate and House agriculture committees. If committee members have any questions they are encouraged to call Ron Tolstad Jr., CPA, Audit Manager, at (701) 328-2243.

The Office of the State Auditor would like to thank the North Dakota Dry Pea and Lentil Council for the cooperation we received during our audit.

Sincerely,

Robert R. Peterson
State Auditor

**North Dakota Dry Pea and Lentil Council
Bismarck, North Dakota**

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INDEPENDENT AUDITOR'S REPORT

Honorable John Hoeven, Governor
Members of the Legislative Assembly
Shannon Berndt, Administrator
North Dakota Dry Pea and Lentil Council

We have audited the special-purpose statement of revenues and expenditures of the North Dakota Dry Pea and Lentil Council for the two year period ended June 30, 2008. These financial statements are the responsibility of the management of the North Dakota Dry Pea and Lentil Council. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, this financial statement is 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 Pea and Lentil 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 were prepared to provide state decision makers, including the Senate and House Agriculture Committees, with a comprehensive overview of the North Dakota Dry Pea and Lentil 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 financial statements. These 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 present fairly, in all material respects, the revenues and expenditures of the North Dakota Dry Pea and Lentil Council for the two year period ended June 30, 2008, in conformity with the basis of accounting described in Note 1 to the 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 Statement 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 Pea and Lentil Council. The Detailed Comparative Statement of Revenues and Expenditures has been subjected to the auditing procedures applied in the audit of the special-purpose financial statement and in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2008 on our consideration of the North Dakota Dry Pea and Lentil 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 Pea and Lentil 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, 2008

**North Dakota Dry Pea and Lentil Council
Bismarck, North Dakota**

**STATEMENT OF REVENUES AND EXPENDITURES (Budgetary Basis)
For The Two Year Period Ended June 30, 2008**

	Fiscal Years	
	<u>2008-2007</u>	<u>2006-2005</u>
REVENUES:		
Assessments (net of refunds of \$109,068 and \$19,917)	\$ 1,842,885	\$ 995,223
Interest on Investments	11,677	2,073
Total Revenues	<u>\$ 1,854,562</u>	<u>\$ 997,296</u>
EXPENDITURES:		
Salaries and Benefits	\$ 8,794	\$ 6,954
Operating Expenses	27,654	31,274
Grant Expenditures	1,106,053	803,903
Total Expenditures	<u>\$1,142,501</u>	<u>\$ 842,131</u>
Revenue Over/(Under) Expenditures	<u>\$ 712,061</u>	<u>\$ 155,165</u>

See Notes to the Special-Purpose Financial Statement.

**North Dakota Dry Pea and Lentil Council
Bismarck, North Dakota**

**NOTES TO THE FINANCIAL STATEMENTS
For The Two Year Period Ended June 30, 2008**

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

For financial reporting purposes, the North Dakota Dry Pea and Lentil Council includes all funds, programs, and activities over which it is financially accountable. The North Dakota Dry Pea and Lentil Council does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Dry Pea and Lentil Council is part of the state of North Dakota as a reporting entity. The financial statements report all expenditure activity in the administration program.

The North Dakota Dry Pea and Lentil Council was established by North Dakota Century Code (NDCC), chapter 4-10.7, and is vested with the powers and has the duty to contract and cooperate with any person or with any governmental department of agency for research, education, publicity, promotion, and transportation. The North Dakota Dry Pea and Lentil Council may also formulate the general policies and program of markets and industries for the utilization of dry peas and lentils grown within the state.

B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. These activities are funded from fund 227 (the North Dakota Dry Pea and Lentil Council operating fund). The 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 statement 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 30 days after fiscal year end. Expenditures are recorded when goods or services are received. Exceptions include: principal 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 North Dakota Dry Pea and Lentil Council's operations. All revenues and expenditures are included regardless of the nature of the activities (proprietary fund types are included with governmental fund types when applicable).

Note 2 - Other Significant Items

The North Dakota Dry Pea and Lentil Council has cash and investment reserves of \$886,918. Based on the average monthly expenditures for fiscal year 2008, this amount represents approximately 16 months of expenditures.

North Dakota Century Code section 4-10.7-09 states that the Dry Pea and Lentil Council shall levy an assessment upon all dry peas and lentils grown in the state or sold to a first purchaser an assessment at the rate of one percent of the net value of dry peas and lentils.

**North Dakota Dry Pea and Lentil Council
Bismarck, North Dakota**

**SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT
AND FISCAL REVIEW COMMITTEE
For The Two Year Period Ended June 30, 2008**

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

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

The special-purpose financial statements are present fairly, in all material respects, the revenues and expenditures on the basis of accounting described in Note 1 to the financial statements but the statements were not intended to be a presentation in conformity with generally accepted accounting principles.

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?*

No. See the significant deficiencies included in this report under "Findings, Recommendations, and Management Response."

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?*

There were no prior year findings.

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

No.

LAFRC Audit Communications

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

There were no significant changes in accounting policies, and no management conflicts of interest, contingent liabilities, or significant unusual transactions 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.*

There were no significant accounting estimates.

3. *Identify any significant audit adjustments.*

There were no significant audit adjustments.

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.*

We did not have any disagreements with management that were significant to the financial statements.

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

We did not experience any serious difficulties in performing the audit.

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.*

We are not aware of any management consultations with other accountants.

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.*

ConnectND Finance and Human Resource Management System (HRMS) are the most high-risk information technology systems critical to the operations of the state.

**Independent Auditor's 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
Shannon Berndt, Administrator
North Dakota Dry Pea and Lentil Council

We have audited the financial statement of the governmental activities of the North Dakota Dry Pea and Lentil Council as of and for the two years ended June 30, 2008 and have issued our report thereon dated December 22, 2008. Our report was modified to indicate the statement of revenue and expenses was 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 Dry Pea and Lentil Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Dry Pea and Lentil Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Dry Pea and Lentil Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and management responses as items 08-1, 08-2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Dry Pea and Lentil Council's financial statements are 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 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*.

The North Dakota Dry Pea and Lentil Council's response to the findings identified in our audit are described in the accompanying schedule of findings, recommendations, and management responses. We did not audit the North Dakota Dry Pea and Lentil Council's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the North Dakota Dry Pea and Lentil Council, Legislative Audit and Fiscal Review Committee, 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, 2008

**North Dakota Dry Pea and Lentil Council
Bismarck, North Dakota**

**Findings, Recommendations, and Agency's Response
For The Two Year Period Ended June 30, 2008**

Finding 08-1: PeopleSoft Access

An individual at the North Dakota Dry Pea and Lentil Council has access in PeopleSoft that allows them to perform both data entry and approval in the Accounts Payable Module. There is also a former employee who still has access to enter transactions into the Accounts Payable Module and is also able to approve vouchers.

The individual is capable of processing transactions in the Accounts Payable Module that are automatically approved based on their approver role which results in improper segregation of duties and increases the risk unauthorized transactions could go undetected.

Recommendation 08-01:

We recommend the North Dakota Dry Pea and Lentil Council periodically review PeopleSoft Access listing to ensure that:

- A. Proper segregation of duties exists between the functions of data entry and transaction approval.
- B. Access for individuals no longer employed at the North Dakota Dry Pea and Lentil Council is promptly removed upon termination.

Agency Response:

The North Dakota Dry Pea & Lentil Council agrees with recommendation 08-01. The North Dakota Dry Pea & Lentil Council has already begun the process of registering two employees for data entry and transaction approval to allow for the proper segregation of duties. The individual that is no longer employed at the North Dakota Dry Pea & Lentil Council will be removed from having access to PeopleSoft.

Finding 08-2: Fraud Risk Assessment / Code of Ethics / Code of Business Conduct

Within the North Dakota Dry Pea and Lentil Council no system exists or is being implemented to identify possible instances of fraud or fraudulent activities in its financial and operational areas. The North Dakota Dry Pea and Lentil Council does not have necessary control activities designed or documented to ensure significant fraud exposures are identified and mitigated. This system of control activities would also need to be adequately tested.

The North Dakota Dry Pea and Lentil Council also does not have a code of ethics or code of business conduct policy in place.

The lack of a code of ethics, code of business conduct, and fraud risk assessment makes it possible for fraud and fraudulent activities to occur and not be identified or stopped and management's ethical values may not be effectively communicated throughout the department.

Recommendation 08-02:

We recommend the North Dakota Dry Pea and Lentil Council:

- A. Establish and perform a fraud risk assessment on a comprehensive and recurring basis. We recommend that the North Dakota Dry Pea and Lentil Council design and document the necessary control activities to ensure that each significant fraud exposure identified during the risk assessment process has been adequately mitigated.
- B. Develop a code of ethics and code of business conduct and ensure that employees adhere to the policy.

Agency Response:

The North Dakota Dry Pea & Lentil Council agrees with Finding 08-2 (Risk Assessment/Code of Ethics/Code of Business Conduct). The North Dakota Dry Pea & Lentil Council will design and document the necessary control activities to ensure that each significant fraud exposure identified during the risk assessment process has been adequately mitigated. The North Dakota Dry Pea & Lentil Council will develop a code of ethics and code of business conduct.

**North Dakota Dry Pea and Lentil Council
Bismarck, North Dakota**

**Detailed Comparative Statement of Revenues and Expenditures
For The Two Year Period Ended June 30, 2008**

	Fiscal Years	
	2008-2007	2006-2005
REVENUES:		
Assessments (net of refunds of \$109,068 and \$19,917)	\$1,842,885	\$995,223
Interest on Investments	11,377	2,073
Total Revenues	<u>\$1,854,562</u>	<u>\$997,296</u>
EXPENDITURES:		
Salaries and Benefits	\$8,794	\$6,954
Travel	15,890	15,204
Postage	835	1,122
Professional Services	9,501	12,974
Office Supplies	36	84
Printing	226	257
Other Operating Fees and Services	1,166	1,633
Grants	1,106,053	803,903
Total Expenditures	<u>\$ 1,142,501</u>	<u>\$842,131</u>
Revenue Over/(Under) Expenditures	<u>\$712,061</u>	<u>\$155,165</u>

December 5, 2008

To: The North Dakota Dry Pea and Lentil Council

The Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the governmental activities of the North Dakota Dry Pea and Lentil Council for the two year period ended June 30, 2008, and have issued our report thereon dated December 5, 2008. 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 North Dakota Dry Pea and Lentil 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 2007 and 2008. 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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management 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 December 5, 2008. Professional standards require that we provide you with a list of those representations. Attachment 1 titled "Management Representations" lists the representations made by management.

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.

This information is intended solely for the use of the North Dakota Dry Pea and Lentil Council and management of the North Dakota Dry Pea and Lentil Council and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

RonTolstad, CPA
Audit Manager