

NORTH DAKOTA CORN UTILIZATION COUNCIL

Fargo, 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

Honorable Jack Dalrymple, Governor
Members of the Legislative Assembly
Members of the North Dakota Corn Utilization Council
Tom Lilja, Executive Director, North Dakota Corn Utilization Council

We have audited the special-purpose statements of revenues and expenditures of the North Dakota Corn Utilization 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 Corn Utilization 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 Corn Utilization 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 Corn Utilization 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 present fairly, in all material respects, the revenues and expenditures of the North Dakota Corn Utilization 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 Corn Utilization 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 17, 2010 on our consideration of the North Dakota Corn Utilization 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 other legislators and management of the North Dakota Corn Utilization 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 17, 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

Honorable Jack Dalrymple, Governor
Members of the Legislative Assembly
Members of the North Dakota Corn Utilization Council
Tom Lilja, Executive Director, North Dakota Corn Utilization Council

We have audited the special-purpose financial statement of the governmental activities of the North Dakota Corn Utilization Council as of and for the two-year period ended June 30, 2010 and have issued our report thereon dated December 17, 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 Corn Utilization 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 Corn Utilization Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Corn Utilization 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 Corn Utilization 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 Corn Utilization 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 Corn Utilization Council in a letter dated December 17, 2010.

This report is intended solely for the information and use of the North Dakota Corn Utilization Council, Legislative Audit and Fiscal Review Committee, and other 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 17, 2010

Financial Statements

Comparative Statement of Revenues and Expenditures (Budgetary Basis)

North Dakota Corn Utilization Council

<u>Revenues:</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Corn Assessments (net of refunds of \$67,435 and \$80,996)	\$ 1,646,305	\$ 2,134,114
Interest & Investment Earnings	13,552	18,813
Miscellaneous General Revenue	147	2,543
Total Revenues	<u>\$ 1,660,004</u>	<u>\$ 2,155,471</u>
<u>Expenditures:</u>		
Salaries and Benefits	\$ 147,468	\$ 117,982
Operating Expenses	484,862	451,945
Grant Expenditures	1,058,214	759,057
Total Expenditures	<u>\$ 1,690,544</u>	<u>\$ 1,328,984</u>
Revenue Over/(Under) Expenditures	<u>\$ (30,540)</u>	<u>\$ 826,487</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 Corn Utilization 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 established with the authority to contract and cooperate with any person for market maintenance and expansion, utilization research, transportation, and education; accept donations of funds, property, services or other assistance from any source; and provide educational and informational materials. This is accomplished through the levying of an assessment on all varieties of corn grown in the state, except sweet corn and popcorn, or sold to a designated handler. The amount of the levy is one-quarter of one percent of the value of a bushel.

The Council has a close working relationship with the North Dakota Corn Growers Association (Association). This relationship is further explained in Note 2 to the financial statements. The special-purpose financial statements include 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 270, the Corn Council 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 Association is a related party of the Council. The Council contracts with the Association for promotional activities and administrative services. The Executive Director of the Council is also the Executive Director of the Association. The Association employs one administrative who shares her time between the Council and the Association. The Council reimburses the Association for their portion of the salary per the contract.

The Council and the Association have an agreed upon a policy in which the Association's Board of Directors will be the designated advisory board of the Council.

For fiscal year 2009, the Council paid \$22,175 for administrative services, \$10,735 for membership dues for the Association directly from assessments received from producers, and \$4,457 was paid for other activities including promotional services and office supplies to the Association.

For fiscal year 2010, the Council paid \$42,804 for administrative services.

NOTE 3 – OTHER SIGNIFICANT ITEMS

The Council has cash and investment reserves of \$2,708,014 and \$2,635,953 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 19 and 24 months of expenditures, respectively.

Supplementary Information

Detailed Comparative Schedule of Revenues and Expenditures (Budgetary Basis)

<u>Revenues:</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Corn Assessments (net of refunds of \$67,435 and \$80,996)	\$ 1,646,305	\$ 2,134,114
Interest & Investment Earnings	13,552	18,813
Miscellaneous General Revenue	147	2,543
Total Revenues	<u>\$ 1,660,004</u>	<u>\$ 2,155,471</u>
<u>Expenditures:</u>		
Grant Expenditures	\$ 1,058,214	\$ 759,057
Salaries and Benefits	147,469	117,982
Travel	146,449	112,061
Operating Fees and Services	125,742	143,513
Professional Development	113,497	99,544
Rentals/Leases - Bldg/Land	19,766	19,418
Fees - Professional Services	17,005	4,017
IT Contractual Services and Repairs	10,226	10,850
Printing	9,633	12,194
Postage	9,043	6,634
Office Supplies	6,264	3,505
Bldg, Grounds, Vehicle Supply	6,099	6,644
Miscellaneous Supplies	5,907	14,712
IT-Communications	5,090	5,194
Repairs	3,442	1,289
Supply/Material-Professional	3,088	3,135
Utilities	1,316	1,611
Insurance	750	829
Other Equip under \$5,000	674	
Supplies - IT Software	521	216
Office Equip & Furniture-Under	350	
IT Equip under \$5,000		6,578
Total Expenditures	<u>\$ 1,690,544</u>	<u>\$ 1,328,984</u>
Revenue Over/(Under) Expenditures	<u>\$ (30,540)</u>	<u>\$ 826,487</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 three informal recommendations. Those recommendations address the personal use of state vehicles, receipt reconciliation and support & timing of refunds. Management of the Council agreed with and either has or plans on implementing the 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.

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.*

There were two audit adjustments made regarding coding: one was a reclassification of a payment to the North Dakota State University in fiscal year 2009 for \$200,000 from operating fees and services to grant expenditures and the other was reclassification of corn assessments for \$31,673 from miscellaneous general revenue to corn assessments in fiscal year 2009.

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.*

ConnectND Finance and Human Resource Management System (HRMS) are the high-risk information technology systems critical to the North Dakota Corn Utilization Council.



STATE OF NORTH DAKOTA
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600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Governance Communication

December 17, 2010

To: The North Dakota Corn Utilization Council

The Legislative Audit and Fiscal Review Committee

We have audited the special purpose financial statements of the governmental activities of the North Dakota Corn Utilization Council for the two year period ended June 30, 2010, and have issued our report thereon dated December 17, 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 Corn Utilization 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 December 16, 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 Corn Utilization Council.

The following presents our informal recommendations.

LAWS AND REGULATIONS

Personal Use of State Fleet Vehicle

The Executive Director was using the state fleet van assigned to the Corn Council for personal use.

NDCC 39-01-03 states that no vehicle owned by the state can be driven for private use by a state employee.

Recommendation:

No recommendation will be made because the Council implemented this recommendation in October 2010.

REVENUES

Reconciling Receipts

Receipts are not being reconciled to the state treasurer receipt by someone independent of preparation.

An independent review of receipts entered online is a fundamental principle of an effective internal control system and helps ensure the accuracy and reliability of the financial statements.

Recommendation:

We recommend that the Administrative Assistant reconcile receipts to the state treasurer receipt after completed by the Accounting Specialist.

North Dakota Corn Utilization Council Response:

The North Dakota Corn Council agrees and implemented the reconciliation request soon after the audit and will continue to do so. The ND Corn Council will be using the lock box system provided by the Bank of North Dakota effective March 2011.

Support and Timing of Refunds

During our test of refunds, we noted the following:

- 4 out of 40 (10%) producers requesting refunds were not submitting a written request for a refund application, but instead were using a photocopy of one they had received in the past;
- 3 out of 40 (7.5%) of the refunds had written request that was beyond the 60 days window allowed for a written refund request;
- 8 out of 40 (20%) of the refunds tested that a discrepancy on how the elevator calculated the tax. These 8 items the tax was calculated before any service charges were deducted. The remaining refunds (32) were calculated after the service charges were deducted.

NDCC 4.1-04-13 states that to receive a refund of any assessment paid, a producer shall submit a written request for a refund application within sixty days after the date of the assessment or final settlement.

NDCC 4.1-04-10 states that an assessment at the rate of one-quarter of one percent of the value of a bushel must be imposed upon all corn purchased by the first designated handler in the state.

Recommendation:

We recommend that:

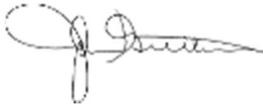
- all refunds have the proper written request before they are paid;
- all refunds be paid only if they are requested within the 60 day window and;
- the Council determine if the tax should be assessed on the gross or net amount of the sale of the corn.

North Dakota Corn Utilization Council Response:

The North Dakota Corn Utilization Council agrees. At the December 2010 meeting the board adopted a motion that requests for refunds must be received via U.S. mail with legible signature on original paper. The board will not accept electronic requests for refunds. Refunds were not allowed if they were not received within sixty days of the assessment or final settlement for the quarter ending 6/30/2010. The 60 day window will be adhered to in the future. The board of directors shall instruct all elevators to assess the check-off tax on net bushels, after any service charge or discount has been deducted. After reviewing the difference this would make to the bottom line of the Councils budget which was very minute, it was determined that this would be the appropriate way to assess the tax.

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

Very truly yours,

A handwritten signature in black ink, appearing to read "John Grettum", with a long horizontal flourish extending to the right.

John Grettum, CPA
Audit Manager

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