



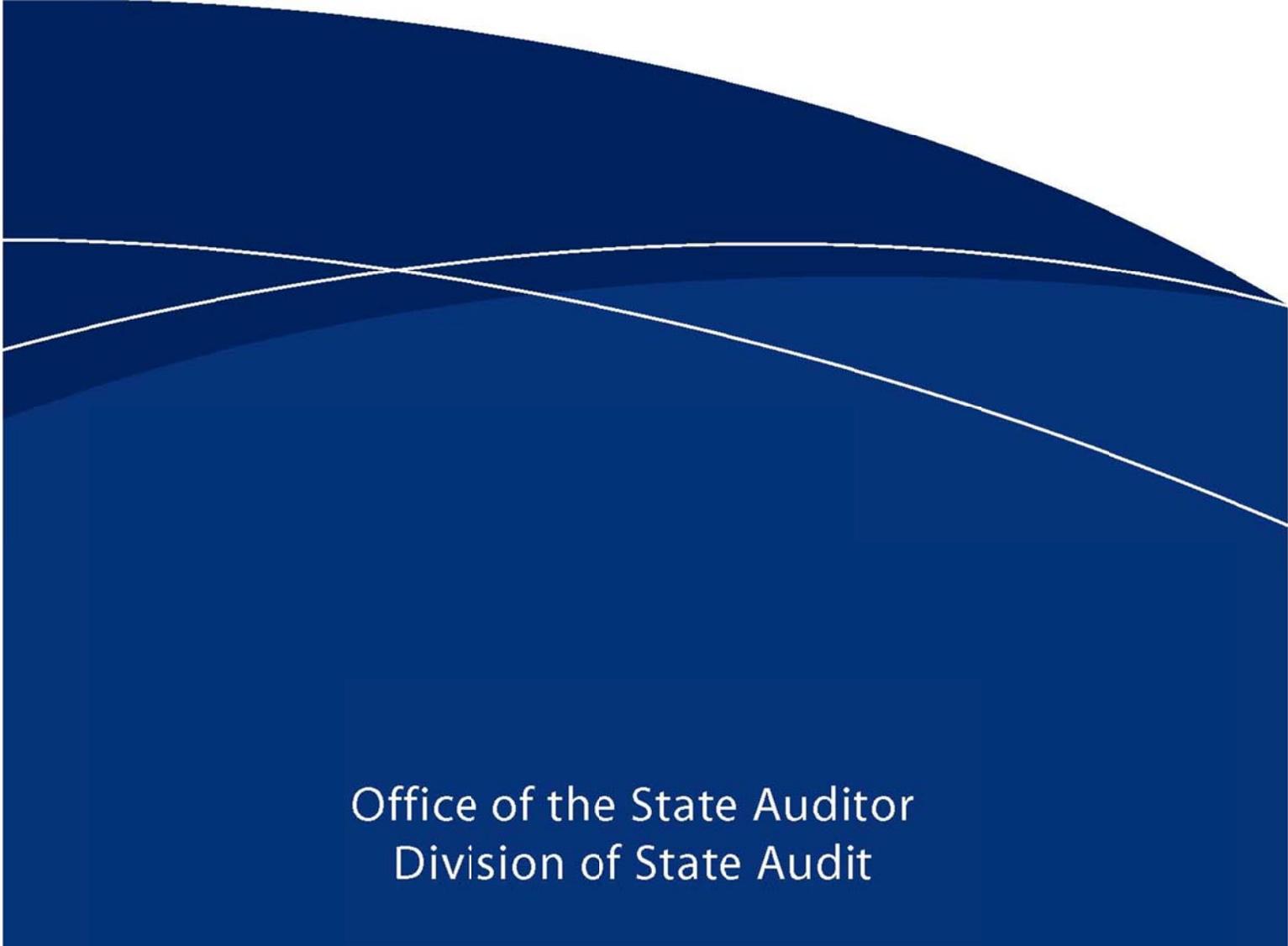
NORTH DAKOTA
BARLEY COUNCIL

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 John Hoeven, Governor
Members of the Legislative Assembly
Members of the North Dakota Barley Council
Steve Edwardson, Executive Administrator

We have audited the special-purpose statements of revenues and expenditures of the North Dakota Barley 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 Barley 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 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 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 Barley 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 Barley 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 Barley 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 conducted 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 Barley 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 26, 2010 on our consideration of the North Dakota Barley 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 Barley 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 26, 2010



STATE OF NORTH DAKOTA
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 Barley Council
Steve Edwardson, Executive Administrator, North Dakota Barley Council

We have audited the special-purpose financial statement of the governmental activities of the North Dakota Barley Council as of and for the two-year period ended June 30, 2010 and have issued our report thereon dated October 26, 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 Barley 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 Barley Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Barley 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 Barley 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 Barley 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of Findings, Recommendations and Management Responses as finding 2010-1.

This report is intended solely for the information and use of the North Dakota Barley 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 26, 2010

Financial Statements

Comparative Statement of Revenues and Expenditures (Budgetary Basis)

North Dakota Barley Council

<u>REVENUES:</u>	<u>FY2010</u>	<u>FY2009</u>
Barley Assessments (net of refunds of \$57,866 and \$26,405)	\$ 1,063,138	\$ 605,154
Interest on Investments	15,469	29,180
Miscellaneous Revenue	8,892	3,933
Total Revenues	<u>\$ 1,087,499</u>	<u>\$ 638,267</u>
<u>EXPENDITURES:</u>		
Salaries and Benefits	\$ 173,959	\$ 160,500
Operating Expenses	472,917	489,103
Grant Expenditures	137,323	166,062
Total Expenditures	<u>\$ 784,199</u>	<u>\$ 815,665</u>
Revenue Over (Under) Expenditures	<u>\$ 303,300</u>	<u>\$ (177,398)</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 Barley Council (Council). A summary of the significant accounting policies follows:

A. Reporting Entity

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

The North Dakota Barley Council was created by the 1983 Legislature through passage of the "Barley Industry Promotion Act" pursuant to Chapter 4-10.4 of the North Dakota Century Code (NDCC). Effective July 1, 2009 Chapter 4-10.4 of the NDCC was repealed and replaced by Chapter 4.1-02. Per Chapter 4.1-02 of the NDCC the duties of the North Dakota Barley Council include the funding of research, education programs, market development efforts, and support of state, regional, national, and international entities that promote barley utilization.

The Council is composed of one participating grower elected from each of the five districts established in Chapter 4.1-02 of the NDCC. North Dakota Century Code section 4.1-02-12 states an assessment at the rate of twenty mills per bushel is imposed on all barley grown in the state, delivered into the state, or sold to a first purchaser in the state (prior to July 1, 2009 the assessment was 10 mills per bushel). The assessment does not apply to barley grown by a producer and used by the producer as livestock feed. Per section 4.1-02-13 of the NDCC, the first purchaser shall collect the assessment from the seller by deducting the assessment from the total price of the barley being purchased by the first purchaser. The first purchaser shall keep documents regarding all purchases, sales, and shipments of barley for a period of three years, which may be examined by the North Dakota Barley Council at all reasonable times. No later than thirty days after the conclusion of each calendar quarter, each first purchaser shall file with the Council a report stating the quantity of all barley received, sold, or shipped by the first purchaser. Per section 4.1-02-19 of the NDCC, the Council shall forward all moneys received to the state treasurer for deposit in the barley fund. All moneys in the barley fund are appropriated on a continuing basis.

B. Reporting Structure

The special-purpose financial statements include all activities of the reporting entity as defined above. These activities are funded from fund 231, the Barley 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 North Dakota Barley Council has a close working relationship with North Dakota State University (NDSU), the National Barley Growers Association (NBGA), the US Grains Council (USGC), and the North Dakota Grain Growers Association (NDGGA). For fiscal years 2010 and 2009, the Barley Council paid NDSU \$201,252 and \$125,944, NBGA \$41,136 and \$37,269, USGC \$103,250 and \$87,750, and the NDGGA \$37,000 and \$36,500, respectively.

NOTE 3 – OTHER SIGNIFICANT ITEMS

The North Dakota Barley Council has cash and investment reserves of \$1,151,721 and \$964,517 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 18 and 14 months of expenditures, respectively.

Supplementary Information

Detailed Comparative Schedule of Revenues and Expenditures (Budgetary Basis)

<u>REVENUES:</u>	<u>FY 2010</u>	<u>FY 2009</u>
Barley Assessments (net of refunds of \$57,866 and \$26,405)	\$ 1,063,138	\$ 605,154
Interest on Investments	15,469	29,180
Leases, Rents, and Royalties	6,000	1,500
Miscellaneous Revenue	2,892	2,433
Total Revenues	<u>\$ 1,087,499</u>	<u>\$ 638,267</u>
<u>EXPENDITURES:</u>		
Salaries and Benefits	\$ 173,959	\$ 160,500
Professional Development	202,192	214,415
Grants, Benefits, and Claims	137,323	166,062
Operating Fees and Services	99,784	27,570
Travel	95,638	160,355
Rentals/Leases - Bldg/Land	36,827	39,790
IT-Communications	6,712	6,943
Postage	4,933	5,243
Office Supplies	4,781	3,063
Printing	3,810	3,465
Miscellaneous Supplies	3,309	4,090
Office Equip & Furniture-Under \$5,000	3,168	
Bldg, Grounds, Vehicle Supply	2,993	3,453
IT Contractual Services and Repairs	2,544	5,969
Fees - Professional Services	1,858	6,474
Insurance	1,587	927
Supply/Material-Professional	1,491	1,276
Supplies - IT Software	1,068	1,548
IT Equip under \$5,000	222	4,458
Repairs		64
Total Expenditures	<u>\$ 784,199</u>	<u>\$ 815,665</u>
Revenue Over (Under) Expenditures	<u>\$ 303,300</u>	<u>\$ (177,398)</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?*

No. Support for travel expense payments was not in compliance with Office of Management and Budget policies. For additional information, see the findings, recommendations, and management response section of this report.

- 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.*

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.*

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.*

We increased fiscal year 2010 barley assessment revenue by \$185,032 for a miscellaneous receivable closing package adjustment OMB did not make. In addition, we increased fiscal year 2010 professional development expenditures by \$42,500 for an expenditure made after the accounts payable closing package was submitted.

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 is the most high-risk information technology system critical to the operations of the state. The formal finding is not directly related to the operations of the information technology system

Findings, Recommendations, and Management's Response

SUPPORT FOR TRAVEL EXPENSE PAYMENTS (FINDING 2010-1)

Support for travel expense payments needs to be improved. We noted that two members of the Board of Directors received travel expense reimbursement of over \$95,000 in June 2009 for expenses incurred going back to November 2006. We reviewed these payments and determined that \$6,473 was not adequately supported. Of the \$6,473, we could find no support for \$5,080. Other problems noted were:

- mileage was reimbursed at the incorrect rate;
- lodging was supported by credit card receipts or statements, and not hotel invoices;
- group meals were reimbursed without documentation of the purpose and attendees;
- taxi fares were supported by copies of receipts, not original receipts;
- laundry charges were reimbursed for a three night stay;
- travel expenses were reconstructed by barley staff members onto travel vouchers for two board members, however, none of the travel vouchers were signed by the board members certifying the expenses were incurred for official business; and
- a reimbursement to a third board member for a group meal of \$149 that was supported by the statement "dinner for NDBC stakeholders."

OMB policy 505 (based on NDCC Chapter 44-08-04), reimbursement for meals and lodging, provides the guidelines and rates for claiming reimbursement for meals and lodging, further, it states that receipts are required for each taxi fare in excess of \$10 and for other miscellaneous expense in excess of \$10. OMB policy 513, lodging receipts and payments states that only receipts from bona fide lodging establishments should be accepted for reimbursement by the agency. The receipt must be the official receipt from the lodging establishment and not a charge slip from a credit card system. OMB policy 516, miscellaneous charges on travel vouchers states that whenever a charge is made under the miscellaneous column, it requires detailed explanation and a receipt must be attached if the item is greater than \$10. Further, it states an example of a non-reimbursable expense is laundry.

Recommendation:

We recommend that the North Dakota Barley Council improve procedures surrounding the payment of travel expenses, and proceed as follows:

- Recover the unsupported travel reimbursement payments,
- Require appropriately signed and timely submitted travel reimbursement requests,
- Follow OMB policies when reimbursing travel expenses, and
- Establish criteria for reimbursing group meals to include the purpose of the meal and the names of the participants.

Management Response:

The North Dakota Barley Council will update internal procedures regarding payment of travel expenses. Components include: 1) reimbursement recovery for insufficient documentation; 2) harmonization of internal summary documents with travel expense reimbursement books issued to council directors; 3) review OMB reimbursement policies with Council directors; 4) establishment of criteria for reimbursement of group meals; and 5) establishment of time frames for reimbursement to secure timely submission of expense reports.



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

Governance Communication

October 26, 2010

To: The North Dakota Barley Council

The Legislative Audit and Fiscal Review Committee

We have audited the special purpose financial statements of the governmental activities of the North Dakota Barley Council for the two year period ended June 30, 2010, and have issued our report thereon dated October 26, 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 Barley 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. We included a copy of our known and likely misstatements with the management representation letter dated October 26, 2010.

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 26, 2010.

Management Consultations with Other Independent Accountants

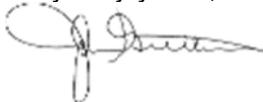
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination 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 Barley Council.

This information is intended solely for the use of the North Dakota Barley Council, the Legislative Audit and Fiscal Review Committee and management of the North Dakota Barley 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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