National State Auditors Association

Office of the State Auditor
State of North Dakota
Report on the System of Quality Control
and Letter of Comments
For the period May 1, 2007
Through April 30, 2008

449 Lewis Hargett Circle ■ Suite 290 ■ Lexington, KY 40503 ■ (859) 276-1147 ■ www.nasact.org

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National State Auditors Association

June 13, 2008

Mr. Robert R. Peterson
State Auditor
State Capitol Building
600 East Boulevard
Bismarck, North Dakota 58505

Dear Mr. Peterson:

We have reviewed the system of quality control of North Dakota Office of the State Auditor in effect for the period May 1, 2007 to April 30, 2008. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of North Dakota Office of the State Auditor in effect for the period May 1, 2007 to April 30, 2008 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

As is customary in a peer review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.

Charles L. Davis
Team Leader
National State Auditors Association
External Peer Review Team

Steven E. Sossei
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June 13, 2008

Mr. Robert R. Peterson
State Auditor
State Capitol Building
600 East Boulevard
Bismarck, North Dakota 58505

Dear Mr. Peterson:

We have reviewed the system of quality control of North Dakota Office of the State Auditor in effect for the period May 1, 2007 to April 30, 2008 and have issued our report thereon dated June 13, 2008. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

Field Work Standards for Financial Audits

Comment – GAGAS and AICPA standards require that an auditor's report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion. Sufficient appropriate audit evidence includes, among other things, evidence that the audit documentation has been reviewed; that the entity's financial statements, including disclosures, have been prepared; and that management has asserted that it has taken responsibility for them. However, our review disclosed instances in which audit reports were dated prior to substantial completion of management review of audit documentation; instances in which attorney and management representations were obtained as of the report date and, therefore, did not include the period from the report date to the report release date; and instances in which reviews of subsequent events were not performed to the report release date.

Recommendation – The North Dakota Office of State Auditor should ensure that audit reports are dated and evidence obtained in accordance with GAGAS and AICPA standards.

North Dakota Office of State Auditor's Response - The office concurs with the finding and will take steps to ensure we use the appropriate audit report dates on all audits.

Comment - The Single Audit requires auditors to obtain a sufficient understanding of internal control as it relates to major federal programs. Control risk is to be assessed at low and controls must then be tested. For some of the engagements reviewed from the Division of Local Government Audit, control risk was not assessed at low for the classes of transactions or account balances related to major federal programs. In addition, the audit documentation did not contain documentation of the test of controls for some applicable common requirements.

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Recommendation – We recommend the North Dakota Office of the State Auditor discuss the importance of assessing control risk at low for classes of transactions or account balances related to major federal programs. The North Dakota Office of the State Auditor also should ensure the auditors document the test of controls performed for all applicable requirements.

North Dakota Office of State Auditor's Response - The office concurs with the finding. The Division of Local Government Audit will place a renewed emphasis on documenting and testing internal controls relating to Federal Funds to support a low control risk assessment.

Comment – SAS 56 requires that when an analytical procedure is used as the principal substantive test of a significant financial statement assertion, the documentation should contain an expectation, where that expectation is not otherwise readily determinable from the documentation of the work performed, and factors considered in its development.

For the engagements reviewed from the Division of Local Government Audit, expectations were not always clearly stated along with the factors considered in its development.

Recommendation – We recommend the North Dakota Office of the State Auditor discuss the importance of documenting the expectation along with the factors considered in its development when performing analytical procedures.

North Dakota Office of State Auditor's Response - The office concurs with the finding. The Division of Local Government Audit has reviewed the documentation requirements contained in SAS 56 and will implement procedures to ensure compliance.

In the attached correspondence dated June 25, 2008, the North Dakota Office of the State Auditor provided its response to the letter of comments recommendations.

Respectfully submitted,

Charlene L Daniels
Team Leader
National State Auditors Association
External Peer Review Team

Steven E. Sowell
Concurring Reviewer
National State Auditors Association
External Peer Review Team

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June 25, 2008

Charlene Daniels
Assistant Director
Office of the State Auditor
105 Sea Hero Road, Suite 2
Frankfort, KY 40601

Dear Ms. Daniels:

Thank you once again for taking the time out of your busy schedule to be the team leader on our NSAA External Peer Review. Through your leadership and knowledge it was a positive experience for my office. Following you will find our responses to the items included in our "comments letter."

Auditor's report date comment:

> The office concurs with the finding and will take steps to ensure we use the appropriate audit report dates on all audits.

Single Audit comment:

> The office concurs with the finding. The Division of Local Government Audit will place a renewed emphasis on documenting and testing internal controls relating to Federal Funds to support a low control risk assessment.

Analytical procedures documentation comment:

> The office concurs with the finding. The Division of Local Government Audit has reviewed the documentation requirements contained in SAS 56 and will implement procedures to ensure compliance.

Please don't hesitate to call if we can be of assistance to you or your office.

Sincerely,

Robert R. Peterson
State Auditor