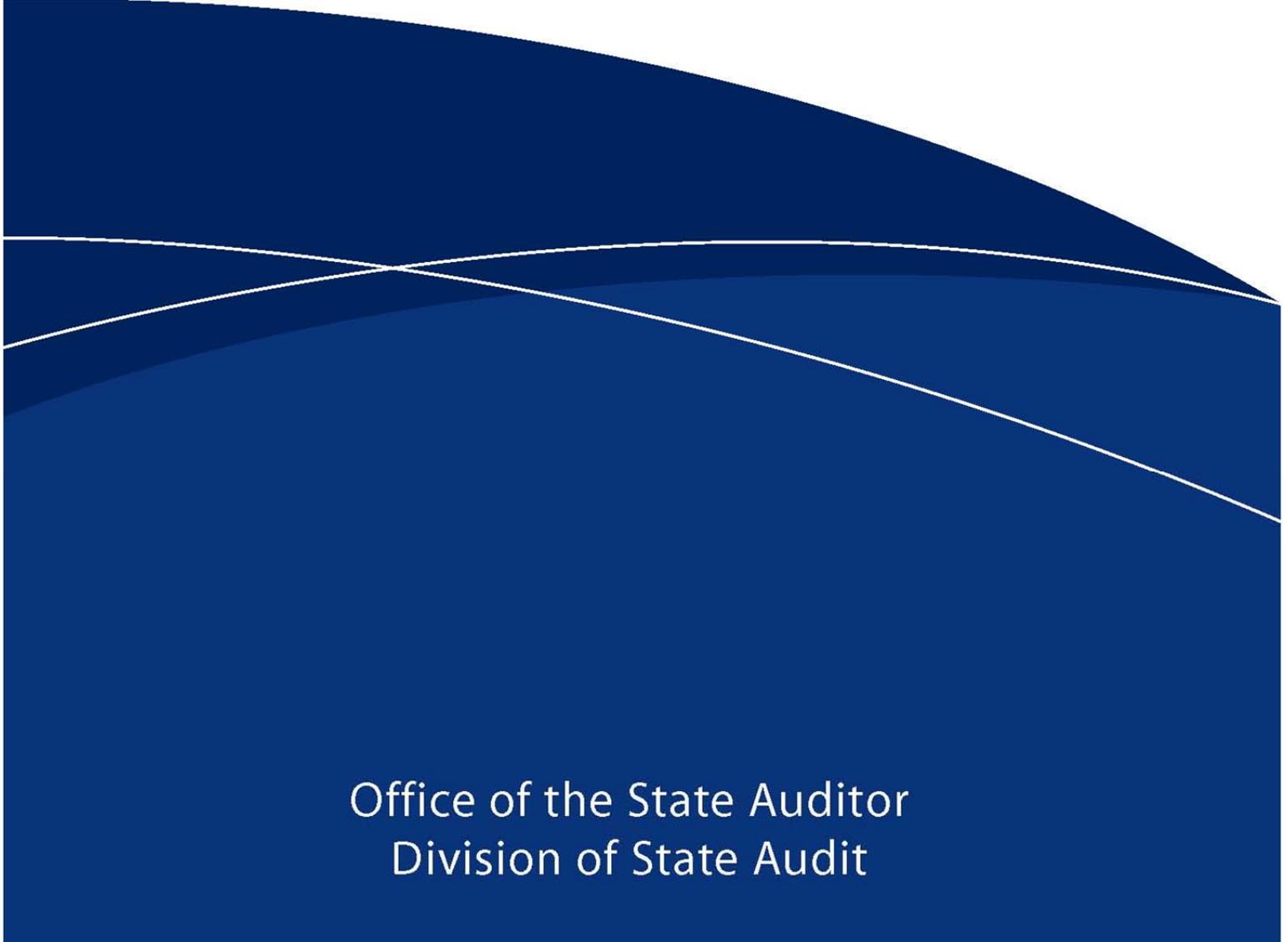


Statewide Single Audit State of North Dakota **Governance Communication**

For the Two-Year Period Ended June 30, 2012

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

March 26, 2013

Legislative Audit and Fiscal Review Committee

Honorable Jack Dalrymple, Governor

Members of the North Dakota Legislative Assembly

Pam Sharp, CPA, Director
Office of Management and Budget

I am pleased to submit our governance communication and responses to the LAFRC audit questions for the statewide single audit of the state of North Dakota. This report relates to the audit of the state's federal awards for the two-year period ended June 30, 2012.

The audit manager for this audit was Cindi Pedersen, CPA, CM. Inquiries or comments relating to this audit may be directed to Ms. Pedersen by calling her at (701) 328-4743. I would like to express my appreciation to Ms. Sharp and her staff for the courtesy, cooperation, and assistance they provided to this office during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Responses to LAFRC Audit Questions

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

An unqualified (clean) opinion was given on the state of North Dakota's schedule of expenditures of federal awards.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes, except for the 39 noncompliance findings noted in the document titled "Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133" included in the statewide single audit report.

3. Was internal control adequate and functioning effectively?

Yes, other than the 43 findings listed as either significant deficiencies or material weaknesses in internal controls in the document titled "Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133" included in the statewide single audit report.

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, except for the findings shown as not implemented or partially implemented in the Summary Schedule of Prior Audit Findings included in the statewide single audit report.

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

A management letter was not issued.

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 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.*

No accounting estimates are used in reporting expenditures of federal funds.

3. *Identify any significant audit adjustments.*

The only significant audit adjustment detected as a result of our audit procedures is discussed in Finding 12-46. This adjustment related to one agency improperly excluding a federal program from the information reported to the Office of Management and Budget for inclusion into the statewide schedule of expenditures of federal awards (\$14.7 million). This audit adjustment was made by the Office of Management and Budget.

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 applicable 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.*

The PeopleSoft ConnectND Finance and Human Resource Management System (HRMS) are the most high-risk information technology systems critical to the operations of the state. There are numerous other high-risk systems which are identified in the agency audit reports.

Governance Communication

Legislative Audit and Fiscal Review Committee
North Dakota Legislative Assembly

We have audited the schedule of expenditures of federal awards of the state of North Dakota for the two-year period ended June 30, 2012, and have issued our report thereon dated March 26, 2013. Professional standards require that we provide you with the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the state of North Dakota are described in Note 2 to the schedule of expenditures of federal awards. No new accounting policies were adopted and the application of existing policies was not changed during the two-year period ended June 30, 2012. We noted no transactions entered into by the State during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected and Corrected 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.

Finding 12-46 results from an audit adjustment to correct an omission made by an agency in reporting expenditures of federal awards to the Office of Management and Budget (\$14.7 million). No other audit adjustments meet the threshold for reporting in this report.

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 of the agencies with federal programs audited as major programs. These representations were made on various dates throughout the audit process.

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. 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 Office of Management and Budget.

This information is intended solely for the use of Legislative Audit and Fiscal Review Committee, the Legislative Assembly, and management of the state of North Dakota and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully yours,

A handwritten signature in cursive script that reads "Cindi Pedersen, CPA".

Cindi Pedersen, CPA, CM
Audit Manager

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

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