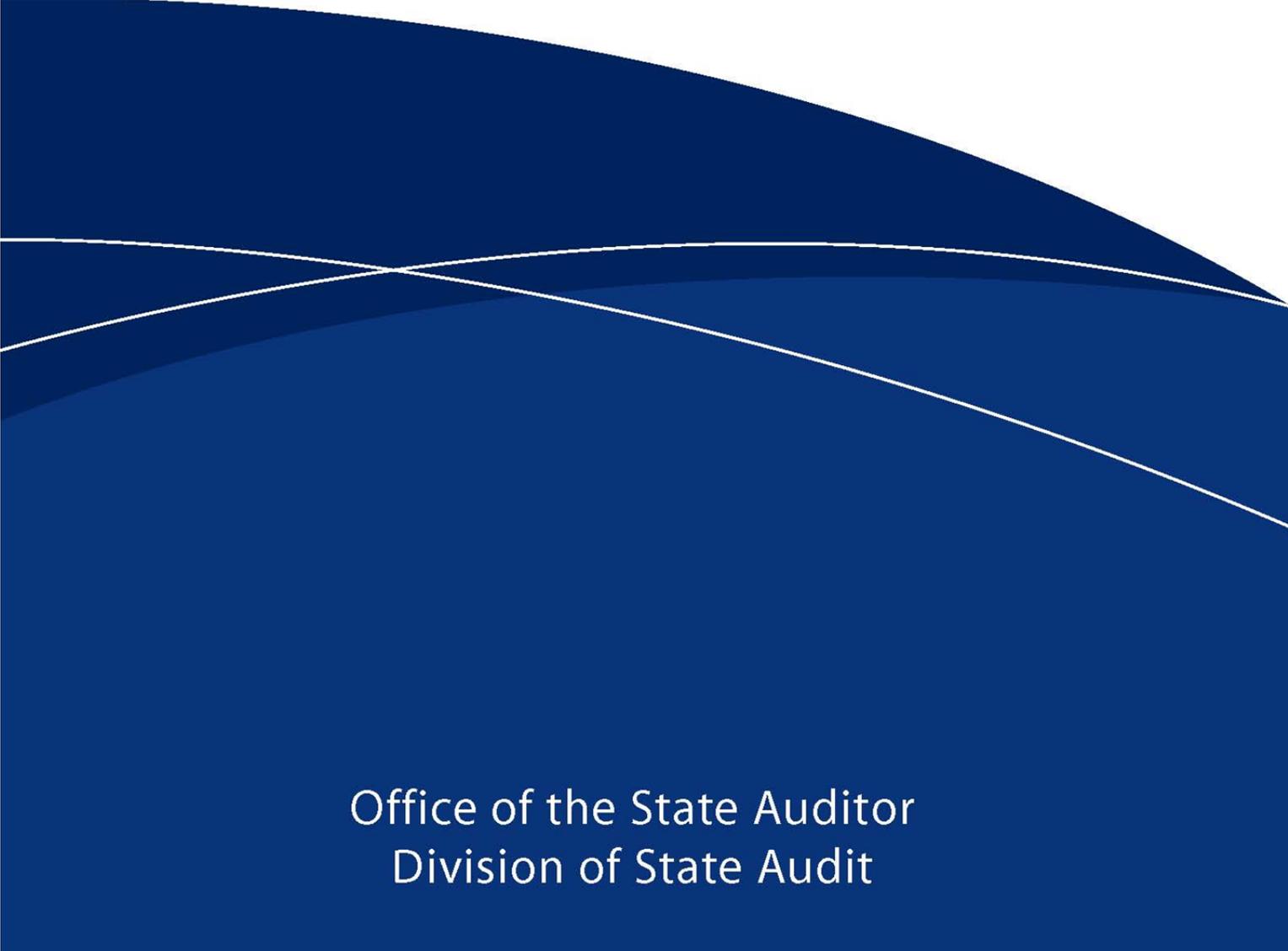


North Dakota
Department of Health
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2011

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

Transmittal Letter

March 27, 2012

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Dr. Terry Dwelle, State Health Officer, North Dakota Department of Health

We are pleased to submit this audit of the North Dakota Department of Health for the biennium ended June 30, 2011. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Delan Hellman. Fred Ehrhardt, CPA, was the audit supervisor and Cindi Pederson, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Dr. Dwelle and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Department of Health is dedicated to ensuring that North Dakota is a healthy place to live and that each person has an equal opportunity to enjoy good health. The Department of Health is committed to the promotion of healthy lifestyles, the protection and enhancement of health and the environment, and the provision of quality health-care services for the people of North Dakota.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's response are noted below.

Responses to LAFRC Audit Questions

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

Financial statements were not prepared by the North Dakota Department of Health in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

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?

The North Dakota Department of Health has implemented the recommendation included in the prior audit report.

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

Yes, a management letter was issued and is included on page 16 of this report, along with management's response.

LAFRC Audit Communications

7. *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, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *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.*

The North Dakota Department of Health's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *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.

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

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *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, Human Resource Management System (HRMS), WIC Net System, Inventory Control System, and Program Reporting System (PRS) are high-risk information technology systems critical to the North Dakota Department of Health.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Department of Health for the biennium ended June 30, 2011 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Department of Health's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the North Dakota Department of Health and are they in compliance with these laws?
3. Are there areas of the North Dakota Department of Health's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota Department of Health is for the biennium ended June 30, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota Department of Health has operations in the following locations. Each location was included in the audit scope:

- The central office located in the State Capitol building.
- The following divisions are at 2635 East Main – Bismarck, ND:
 - Laboratory Services (Chemistry and Microbiology)
 - Medical Examiner
- The following divisions are at 918 East Divide – Bismarck, ND:
 - Environmental Health Section Chief's Office
 - Division of Air Quality
 - Division of Municipal Facilities
 - Division of Waste Management
 - Division of Water Quality
 - Emergency Preparedness and Response Section

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.

- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed North Dakota Department of Health's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Discussion and Analysis

The accompanying financial statements have been prepared to present the North Dakota Department of Health's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2011, operations of the North Dakota Department of Health were primarily supported by federal funding. This is supplemented by appropriations from the state's general fund and fees credited to the agency's operating fund.

Financial Summary

Revenues consisted primarily of federal funds. Other revenues during the audited period included tobacco settlement funds, as well as various rebates, licenses, permits, fines, and fees. These all remained fairly constant for the North Dakota Department of Health, decreasing only slightly. Total revenues and transfers in were \$65,258,567 for the year ended June 30, 2011 as compared to \$66,372,954 for the year ended June 30, 2010.

Expenditures consisted primarily of grants, salaries, and WIC (women, infants, and children program) payments. All expenditures remained fairly constant for the North Dakota Department of Health, increasing slightly. Total expenditures for the North Dakota Department of Health were \$81,593,307 for the year ended June 30, 2011 as compared to \$78,724,180 for the prior year.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The North Dakota Department of Health had five significant variances between the final budgeted and actual amounts for the biennium ended June 30, 2011.

The unexpended appropriation authority in the Operating Expense line item was due to \$19.2 million that was appropriated for the Protect ND program to purchase vaccines and give them to local health units. The local health units ended up buying the vaccines directly so this funding was not utilized.

The unexpended appropriation in the Grants line was mainly due to the Arsenic Design and Action program receiving unexpected federal stimulus funds that were then spent under the Federal Stimulus Funds – 2009 line instead of under the Grants line. This caused there to be approximately \$8 million of unexpended appropriation left in this line. The remaining unexpended appropriation in this line was due to the North Dakota Department of Health not receiving anticipated federal revenue.

The unexpended appropriation for the Tobacco Prevention and Control line was mainly due to an anticipated \$2.9 million contract with the Tobacco and Prevention Executive Committee that did not materialize. In addition, there was approximately \$500,000 of unexpended appropriation due to the agency not receiving anticipated federal funding.

The remaining unexpended funds in the WIC Food Payments line was due to the original appropriation including projected increases in food prices. The food prices did not increase as much as projected during the biennium which caused there to be unexpended appropriation in this line.

The unexpended appropriation in the Federal Stimulus Funds – 2009 line was mainly due to unexpended Arsenic Design and Action program funding that was carried forward to be used during the next biennium. The remaining unexpended appropriation in this line was due to the North Dakota Department of Health not receiving anticipated federal revenue.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$53,620,263	\$54,826,279
WIC/Medication Rebates	2,485,863	2,742,957
Air Pollution Construction Permits	1,498,692	1,670,225
Other Licenses, Permits, and Fees	1,025,028	949,897
Water Sample Analysis Fees	934,753	621,963
Vital Records – Service Fees	512,985	546,989
Fines	191,608	74,164
Health Facilities Licensing Fees	111,740	111,940
Other Revenue	128,570	359,226
Transfer from Tobacco Settlement Fund	1,973,610	2,081,687
Other Transfers In	2,775,455	2,387,627
Total Revenues and Other Sources	<u>\$65,258,567</u>	<u>\$66,372,954</u>
<u>Expenditures and Other Uses:</u>		
Grants	\$30,479,315	\$30,936,220
Salaries and Benefits	22,570,115	21,818,017
Food Supplies (WIC)	8,887,807	9,179,512
Fees – Professional Services	5,504,765	4,955,315
IT – Services/Processing/Equipment	3,053,194	1,901,263
Lab/Emergency Supplies	2,814,424	1,532,785
Travel	1,020,075	1,054,023
Rent of Building Space	787,738	765,300
Medicine and Drugs	672,437	1,109,041
Equipment	607,706	648,641
Supplies/Materials - Professional	544,310	552,762
Repairs	525,873	417,627
Bond Payments	309,040	336,165
Other Expenditures	1,745,202	1,567,628
Transfers Out	2,071,306	1,949,881
Total Expenditures and Other Uses	<u>\$81,593,307</u>	<u>\$78,724,180</u>

Statement of Appropriations

For The Biennium Ended June 30, 2011

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 44,861,868	\$ 803,540	\$ 45,665,408	\$ 42,236,883	\$ 3,428,525
Operating Expenses	44,635,794	1,140,000	45,775,794	26,570,760	19,205,034
Capital Improvements	1,813,268	200,000	2,013,268	1,593,820	419,448
Grants	63,831,510	3,638,233	67,469,743	55,528,571	11,941,172
Tobacco Prevention and Control	9,079,685	1,060	9,080,745	5,308,174	3,772,571
WIC Food Payments	25,063,375		25,063,375	17,915,331	7,148,044
Community Health Trust Fund	2,405,371		2,405,371		2,405,371
Federal Stimulus Funds - 2009	13,247,325	7,989,608	21,236,933	10,676,695	10,560,238
Totals	<u>\$204,938,196</u>	<u>\$13,772,441</u>	<u>\$218,710,637</u>	<u>\$159,830,234</u>	<u>\$ 58,880,403</u>
Expenditures by Source:					
General Fund	\$ 27,081,665	\$ 652,600	\$ 27,734,265	\$ 24,739,222	\$ 2,995,043
Other Funds	177,856,531	13,119,841	190,976,372	135,091,012	55,885,360
Totals	<u>\$204,938,196</u>	<u>\$13,772,441</u>	<u>\$218,710,637</u>	<u>\$159,830,234</u>	<u>\$ 58,880,403</u>

Appropriation Adjustments:

The \$803,540 increase to the Salaries and Benefits line consisted of the following adjustments:

- \$480,000 - Approved by the Emergency Commission to accept federal funds for the H1N1 pandemic influenza preparedness and related vaccination campaign.
- \$2,600 - Authorized by House Bill 1015 of the 2009 Session Laws, section 10, increased general fund spending authority for the state student internship program.
- \$320,940 - Authorized by House Bill 1015 of the 2009 Session Laws, section 18, for market equity increases.

The \$1,140,000 increase to the Operating Expenses line consisted of the following adjustments:

- \$640,000 - Approved by the Emergency Commission to accept federal funds for the H1N1 pandemic influenza preparedness and related vaccination campaign.

- \$500,000 - Authorized by House Bill 1004 of the 2011 Session Laws, section 5, for defraying expenses associated with possible litigation and other administrative proceedings involving the United States Environmental Protection Agency for the period beginning May 5, 2011 and ending June 30, 2013.

The \$200,000 increase to the Capital Improvements line consisted of the following adjustment:

- \$200,000 - Approved by the Emergency Commission to accept federal funds for the H1N1 pandemic influenza preparedness and related vaccination campaign.

The \$3,638,233 increase to the Grants line consisted of the following adjustments:

- \$3,600,000 - Approved by the Emergency Commission to accept federal funds for the H1N1 pandemic influenza preparedness and related vaccination campaign.
- \$38,233 - Authorized by Senate Bill 2004 of the 2009 Session Laws, section 9, which allowed any unexpended funds from House Bill 1004, section 3, of the 2007 Legislative Session to be carried over to the 2009-2011 biennium to be used for the colorectal cancer screening initiative.

The \$1,060 increase to the Tobacco Prevention and Control line consisted of the following adjustment:

- \$1,060 - Authorized by House Bill 1015 of the 2009 Session Laws, section 18, for market equity increases.

The \$7,989,608 increase to the Federal Stimulus Funds - 2009 line consisted of the following adjustments:

- \$7,076,990 – Approved by the Emergency Commission to accept federal funds provided by the American Recovery and Reinvestment Act (ARRA) from the Environmental Protection Agency for the arsenic trioxide superfund (\$6,800,000), from the Department of Health and Human Services, Centers for Medicare and Medicaid for an ambulatory surgical center (\$18,685), from the Centers for Disease Control and Prevention for healthcare associated infections (\$201,830), and from the Health Resources and Services Administration for state primary care offices (\$56,475).
- \$364,148 – Approved by the Emergency Commission to accept federal funds provided by the ARRA from the Center for Disease Control to develop and implement policies to encourage healthy behaviors related to eating that impact population groups, rather than individuals.
- \$548,470 - Approved by the Emergency Commission to accept federal funds provided by the ARRA from the Center for Disease Control and Prevention for Immunization Services to enhance interoperability between North Dakota Immunization Information System (NDIIS) and Private Provider Electronic Health Records (HER); to enhance the NDIIS registry to improve data quality; and to add capabilities to the NDIIS to increase the number of children and adults vaccinated against vaccine-preventable diseases.

Expenditures Without Appropriations Of Specific Amounts:

Transfers out of the Abandoned Vehicle Fund have a continuing appropriation authorized by North Dakota Century Code (NDCC) section 39-26-12 (\$328,105 of transfers for this biennium).

The Statewide Conference Fund is nonappropriated in accordance with OMB policy 211 (\$1,232 of expenditures for this biennium).

The Organ/Tissue Transplant Fund has a continuing appropriation authorized by NDCC section 23-01-05.1 (\$26,452 of expenditures for this biennium).

The Environmental Quality Restoration Fund has a continuing appropriation authorized by NDCC section 23-31-02 (\$4,758 of expenditures for this biennium).

Expenditures for the veterinarian's repayment program are tracked in the Department of Health's operating fund, but were funded under the North Dakota University System office. The continuing appropriation for these expenditures is authorized by NDCC section 43-29.1-08 (\$34,224 of expenditures for this biennium).

The Insurance Recoveries Property Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$92,105 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2011, we identified the following areas of the North Dakota Department of Health's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the WIC Net information system.
- Controls surrounding the Inventory Control information system.
- Controls surrounding the Program Reporting System information system.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. 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: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the North Dakota Department of Health in a management letter dated March 27, 2012.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2011, we identified and tested North Dakota Department of Health's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations of \$272,310 from the environment and rangeland protection fund including \$50,000 for a North Dakota Stockmen's Association environmental services program grant (Senate Bill 2004, section 5 of the 2009 Legislative Session).
- Compliance with appropriations of \$2,750,000 from the insurance tax distribution fund including \$2,250,000 for emergency medical services operations grants and \$500,000 to develop emergency medical services, training, and assistance (Senate Bill 2004, section 6 of the 2009 Legislative Session).
- Proper survey program and deposition of any fees collected for health facilities construction or renovation projects (Senate Bill 2046, section 1 of the 2009 Legislative Session).
- Proper administration of the dentist loan repayment program (Senate Bill 2358, sections 1 and 2 of the 2009 Legislative Session).
- Proper use of grants for the establishment of dental practices in small communities (NDCC 43-28.1-10).
- Proper disposition of revenue collected by the counties for consumer protection services and of funds accepted by the North Dakota Department of Health for contract services (NDCC 19-01-07).
- Proper collection of fees for the transfer or assignment of a license to service cesspools, septic tanks, or privies (NDCC 23-19-05).
- Proper administration of the nurse practitioners, physician assistants, and certified nurse midwives loan repayment program (NDCC 43-12.2-01, 43-12.2-03, and 43-12.2-09).
- Proper administration of the physician loan repayment program (NDCC 43-17.2-01, 43-17.2-03, and 43-17.2-09).
- Proper use of the following legally restricted funds:
 - Abandoned Motor Vehicle Disposal Fund
 - Organ/Tissue Transplant Fund
 - Environmental Quality Restoration Fund
 - Environmental Health Practitioner Licensure Fee Administrative Fund
 - North Dakota Health Care Trust Fund
 - Community Health Trust Fund
 - Wastewater Operators Certification Fund
 - Environment and Rangeland Protection Fund
 - Domestic Violence Prevention Fund
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2009 North Dakota Session Laws, chapter 32).
- Adequate blanket bond coverage of employees (NDCC 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.

- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted a certain inconsequential or insignificant instance of non-compliance that we have reported to management of the North Dakota Department of Health in a management letter dated March 27, 2012.

Operations

This audit did not identify areas of North Dakota Department of Health's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Management Letter (Informal Recommendations)

March 27, 2012

Terry Dwelle, MD
State Health Officer
North Dakota Department of Health
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Dr. Dwelle:

We have performed an audit of the North Dakota Department of Health for the biennium ended June 30, 2011, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Department of Health's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

INVENTORY

Informal Recommendation 11-1: We recommend the North Dakota Department of Health ensure the annual physical inventory of fixed assets is taken by individuals who have no custodial or record keeping responsibilities.

ACCOUNTS RECEIVABLE

Informal Recommendation 11-2: We recommend the North Dakota Department of Health implement policies and procedures to ensure Laboratory Services' accounts receivable adjustments are properly authorized and approved.

LEGISLATIVE INTENT

Informal Recommendation 11-3: We recommend the North Dakota Department of Health collect fees in accordance with North Dakota Century Code (NDCC) section 19-01-07 or look into repealing this section of NDCC if it does not pertain to the North Dakota Department of Health.

Management of the North Dakota Department of Health agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in cursive script that reads "Delan Hellman".

Delan Hellman
Auditor in-charge

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or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
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