

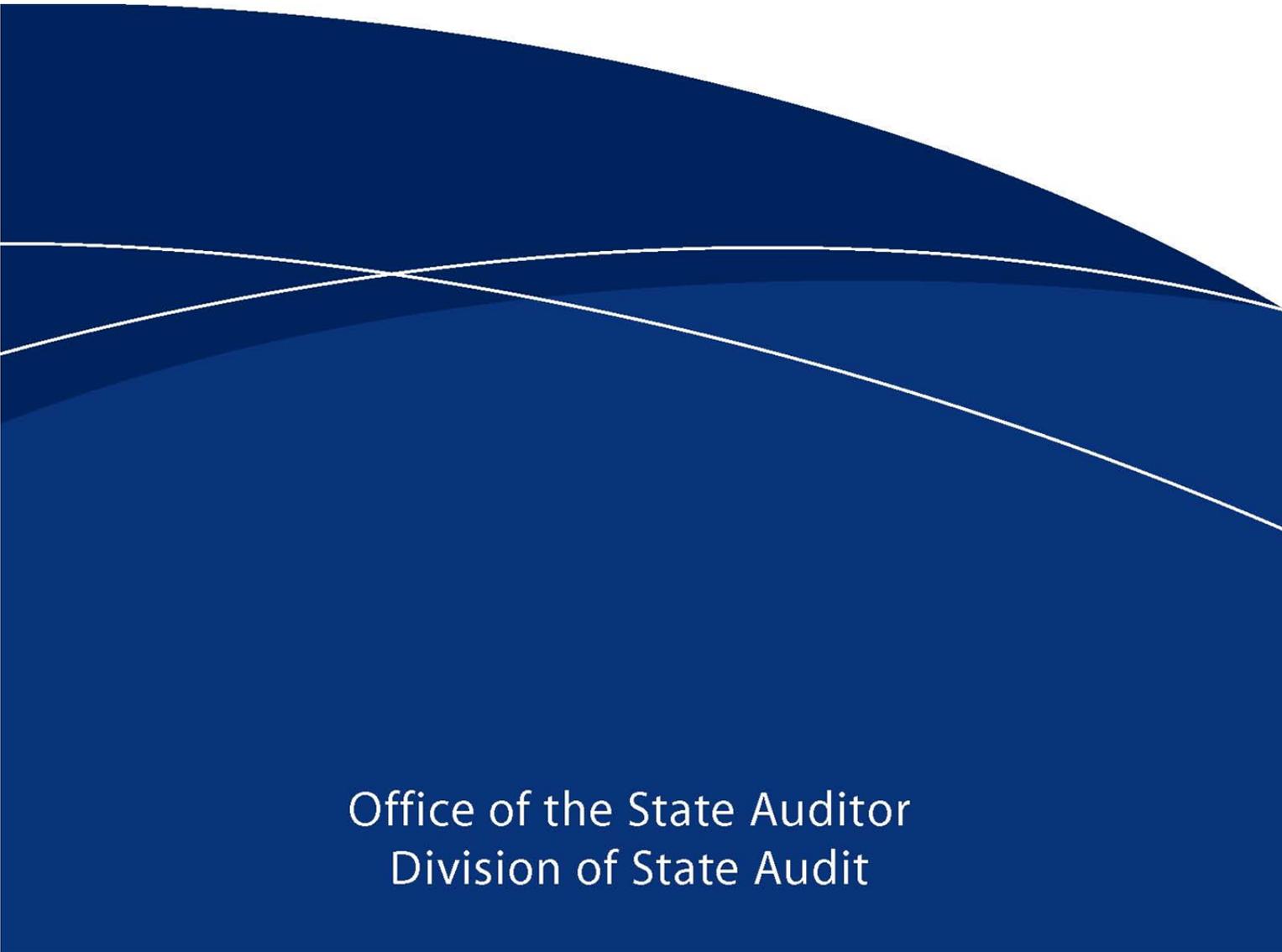
NORTH DAKOTA DRY BEAN COUNCIL

Frazee, Minnesota

Audit Report

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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Contents

<i>Independent Auditor's Report</i>	1
<i>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Special-Purpose Financial Statement Performed in Accordance with Government Auditing Standards</i>	3
<i>Special-Purpose Financial Statement</i>	5
<i>Comparative Statement of Revenues and Expenditures</i>	5
<i>Notes to the Special-Purpose Financial Statement</i>	6
<i>Supplementary Information</i>	9
<i>Responses to LAFRC Audit Questions</i>	9
<i>LAFRC Audit Communications</i>	10
<i>Governance Communication</i>	11

Independent Auditor's Report

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Dry Bean Council

Tim Courneya, North Dakota Dry Bean Council Administrator

We have audited the special-purpose financial statement of revenues and expenditures of the North Dakota Dry Bean Council for the two-year period ended June 30, 2012. The special-purpose financial statement is the responsibility of the North Dakota Dry Bean Council's management. Our responsibility is to express an opinion on the special-purpose financial statement based on our audit.

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. 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 statement. 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.

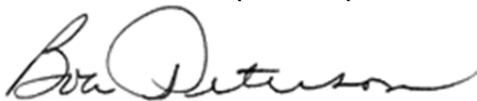
As discussed in Note 1, this special-purpose financial statement of the North Dakota Dry Bean Council is intended to present the revenues and expenditures of only that portion of the governmental activities of the state of North Dakota that is attributable to the transactions of the North Dakota Dry Bean 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 statement is prepared to provide state decision makers, including the Senate and House Agriculture Committees, with a comprehensive overview of the North Dakota Dry Bean 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 statement is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statement referred to above presents fairly, in all material respects, the revenues and expenditures of the North Dakota Dry Bean Council for the two-year period ended June 30, 2012, in conformity with the basis of accounting described in Note 1 to the special-purpose financial statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2012 on our consideration of the North Dakota Dry Bean Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Dry Bean 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 16, 2012



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 on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of a
Special-Purpose Financial Statement Performed
in Accordance with Government Auditing Standards***

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Dry Bean Council

Tim Courneya, North Dakota Dry Bean Council Administrator

We have audited the special-purpose financial statement of the governmental activities of the North Dakota Dry Bean Council as of and for the two-year period ended June 30, 2012 and have issued our report thereon dated October 16, 2012. Our report was modified to indicate the statement of revenue and expenses was prepared in accordance with NDCC section 4-24-10 and are 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

Management of the North Dakota Dry Bean Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the North Dakota Dry Bean Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statement, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Dry Bean Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Dry Bean 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 Dry Bean Council's financial statement 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 identify one deficiency in internal control over financial reporting that we consider to be material weaknesses, as defined above. The material weakness is that there is no segregation of duties. However, no recommendation will be made, as it is not feasible to obtain proper segregation of duties due to the size of this entity.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Dry Bean Council's special-purpose financial statements are 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 did, however, note another matter that we reported to management of the North Dakota Dry Bean Council in a letter dated October 16, 2012.

This report is intended solely for the information and use of the North Dakota Dry Bean 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 16, 2012

Special-Purpose Financial Statement

Comparative Statement of Revenues and Expenditures

<u>REVENUES:</u>	<u>FY12</u>	<u>FY11</u>
Bean Assessments (net of refunds of \$57,008 and \$93,698)	\$ 660,453	\$ 1,054,840
Interest on Investments	4,988	9,769
Total Revenues	<u>\$ 665,441</u>	<u>\$ 1,064,609</u>
<u>EXPENDITURES:</u>		
Management and Consulting Services	\$ 631,980	\$ 901,076
Audit		2,156
In State Meeting Compensation	2,025	5,130
Travel	5,896	3,631
Insurance	601	868
Total Expenditures	<u>\$ 640,502</u>	<u>\$ 912,861</u>
Revenue Over Expenditures	<u>\$ 24,939</u>	<u>\$ 151,748</u>

See Notes to the Special-Purpose Financial Statement.

Notes to the Special-Purpose Financial Statement

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The responsibility for the special-purpose financial statement, the internal control structure, and compliance with laws and regulations belongs to management of the North Dakota Dry Bean 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 created by the 1977 Legislature with the intended purpose that the production, development, marketing, and promotion of dry beans in North Dakota is important to the general welfare of the people of North Dakota. This accomplishment required the establishment of the North Dakota Dry Bean Council for that purpose and with the objectives of contributing to the stabilization and improvement of the agriculture economy of the state.

The Council is composed of one participating grower elected from each of the six districts established in chapter 4.1-06-02 of the NDCC. An assessment of 10 cents per hundredweight is imposed on all dry beans grown in the state and sold to a designated handler. All moneys levied and collected by the North Dakota Dry Bean Council are to be deposited in an account designated "Dry Bean Fund" at the State Treasurer and used for carrying out Council objectives.

The Northharvest Bean Growers Association performs the administrative duties and the record-keeping requirements of the Council under contract. This related party is further explained in Note 2 to the special-purpose financial statement. The special-purpose financial statement includes 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 statement includes all activities of the reporting entity as defined above. These activities are funded from fund 241, the Dry Bean 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 statement 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. 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.
- B. Certain transfers are sometimes recorded as revenues and expenditures on the state's accounting system.
- C. 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. 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 Northharvest Bean Growers Association (Association) is a related party of the Council. The Council contracts with the Association for management and consulting services. For fiscal years 2012 and 2011 the Council paid the Association \$631,480 and \$900,576, respectively, for services. The Association pays salaries and benefits for the Administrator and Secretary of the Council and the Association owns all fixed assets.

NOTE 3 – OTHER SIGNIFICANT ITEMS

The Council has cash and investment reserves of \$987,508 and \$1,037,890 at June 30, 2012 and June 30, 2011, respectively. Based on the average monthly expenditures for fiscal year 2012 and 2011, this amount represents approximately 19 and 14 months of expenditures, respectively.

Supplementary Information

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 special-purpose financial statement?*

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?*

There were no recommendations 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. The Governance Communication on page 14 of this report contains one informal recommendation related to the use of a lockbox for collections. Management of the Council agreed to consider implementing the recommendation related to lockbox usage.

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 noted.

3. *Identify any significant audit adjustments.*

None.

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 special-purpose financial statement.*

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.*

None.

Governance Communication

October 16, 2012

To: The North Dakota Dry Bean Council

The Legislative Audit and Fiscal Review Committee

We have audited the special-purpose financial statement of the governmental activities of the North Dakota Dry Bean Council for the two-year period ended June 30, 2012, and have issued our report thereon dated October 16, 2012. 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 Dry Bean Council are described in Note 1 to the special-purpose financial statement. No new accounting policies were adopted and the application of existing policies was not changed during two-year period. We noted no transactions entered into by the governmental unit during the two-year period for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the special-purpose financial statement 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 and corrected by management were material, either individually or in the aggregate, to the special-purpose financial statement 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 special-purpose financial statement 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 16, 2012.

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 special-purpose financial statement or a determination of the type of auditor’s opinion that may be expressed on that statement, 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.

The following presents our informal recommendation.

Lockbox

Because of its small size, it is not feasible for the North Dakota Dry Bean Council to have adequate segregation of duties surrounding the cash receipting process. There is an increased potential for fraud to occur when duties surrounding cash collections are not properly segregated.

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring, and verification methods are necessary to ensure objectives are effectively achieved.

Recommendation:

We recommend the North Dakota Dry Bean Council consider using a lockbox service for their quarterly assessments to strengthen controls over the cash collection function and thereby reduce the risk of loss.

North Dakota Dry Bean Council Response:

We fully understand and the North Dakota Dry Bean Council will consider using a lockbox service for their cash assessments that accompany the quarterly assessment report submitted by the Designated Handler.

This information is intended solely for the use of the North Dakota Dry Bean Council, management of the North Dakota Dry Bean Council and the Legislative Audit and Fiscal Review Committee 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 cursive script, appearing to read "Mary Feltman".

Mary Feltman, CPA
Auditor In-Charge

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