



Financial Statements  
June 30, 2011 and 2010

# Office of the State Auditor

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**OFFICE OF THE STATE AUDITOR  
Bismarck, North Dakota**

**TABLE OF CONTENTS  
June 30, 2011 and 2010**

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	<u>Page No.</u>
<b>FINANCIAL SECTION:</b>	
<b>Independent Auditor's Report</b>	1
<b>Management's Discussion and Analysis</b>	3
<b>Basic Financial Statements</b>	
Agency-wide Financial Statements	
Statement of Net Assets	8
Statement of Activities	9
Governmental Fund Financial Statements	
Balance Sheet	11
Statement of Revenues, Expenditures, and Changes in Fund Balances	13
Notes to the Financial Statements	15
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General and Special Revenue Funds	23
<b>Other Reports</b>	
Independent Auditor's Specific Comments Requested by the Legislative Audit and Fiscal Review Committee	24
Independent Auditor's Report on Compliance and Other Matters and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27



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## Independent Auditor's Report

Governor of North Dakota  
The Legislative Assembly

Office of the State Auditor  
Bismarck, North Dakota

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Auditor, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility the Office of the State Auditor's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Office of the State Auditor are intended to present the financial position and the change in net assets of only that portion of the government-type activities, each major fund, and the aggregate remaining fund information of the State of North Dakota that is attributable to the transactions of the Office of the State Auditor. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Auditor as of June 30, 2011 and 2010, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, the Office of the State Auditor has adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions as of July 1, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011 on our consideration of the Office of the State Auditor'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information in accordance with standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Eide Bailly LLP*

Bismarck, North Dakota  
November 4, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Office of the State Auditor's (Office) financial report presents a discussion and analysis of the Office's financial performance, providing an overview of the activities for the biennium ended June 30, 2011. Please read it with the Office's financial statements, which follow this section.

### ***FINANCIAL HIGHLIGHTS***

#### **Agency-wide:**

The liabilities of the Office exceeded its assets (reported as net assets) at June 30, 2011 and 2010 by \$103,458 and \$56,231, respectively. The June 30, 2011 net assets decrease \$47,227 from the previous fiscal year-end and the June 30, 2010 net assets increased \$57,033 from the previous fiscal year-end.

#### **Fund Level:**

At the close of fiscal years 2011 and 2010, the Office's governmental funds reported combined ending fund balances of \$274,903 and \$306,501, respectively. The June 30, 2011 fund balance decreased \$31,598 over the previous fiscal year-end and the June 30, 2010 fund balance increased \$80,319 over the previous fiscal year-end.

#### **Long-term Debt:**

The Office's long-term debt (compensated absences due in more than one year) at June 30, 2011 and 2010 was \$364,456 and \$349,653, respectively. The June 30, 2011 and 2010 balances increased \$14,803 and \$23,708, respectively, from the previous fiscal year-end.

More detailed information regarding these activities and funds is included in the notes to the financial statements.

### ***OVERVIEW OF THE FINANCIAL STATEMENTS***

This discussion and analysis is an introduction to the Office's basic financial statements, which consists of three components: 1) agency-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

#### **Agency-wide Statements**

The agency-wide financial statements provide a broad view of the Office's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Office's financial position, which assists in assessing the Office's economic condition at the end of each fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Office's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets are an indicator of whether the Office's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Office's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Both statements report governmental activities. The activities in this section are primarily supported by general fund appropriations, charges for services, and intergovernmental revenue.

The agency-wide financial statements can be found immediately following this discussion and analysis.

### **Fund Financial Statements**

A fund is a fiscal and accounting entity with a self-balancing set of accounts the Office uses to track specific sources of funding and spending for a particular purpose. The Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The basic fund financial statements begin immediately after the agency-wide statements and provide more detail about the major individual funds. The Office's funds are all governmental funds.

*Governmental funds* – all of the Office's basic services are reported in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the agency-wide financial statements. However, unlike the agency-wide financial statements, the governmental fund financial statements focus on the near-term inflows and outflows of spendable resources. They also focus on the balances left at year-end that are available for future spending. Such information may be useful in evaluating whether there are more or less financial resources that can be spent in the near future to finance the Office's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of governmental funds is narrower than agency-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the agency-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities.

Governmental funds include the general fund and special revenue funds. The Office has four governmental funds, of which three are considered major individual funds. Those three are the General Fund, Federal Fund, and the Operating Fund. Each of these major funds are presented in a separate column in the governmental fund balance sheet, and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The remaining governmental fund (Conference Fund) is shown in a separate column on the basic fund statements.

## Notes to the Financial Statements

The Notes provide additional information that is essential to a full understanding of the data provided in the agency-wide and the fund financial statements. The Notes to the Financial Statements can be found immediately following the statement of revenues, expenditures, and changes in fund balances.

## Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section consists of a budgetary comparison schedule, which includes reconciliations between budgetary inflows and outflows and GAAP revenues and expenditures, as presented in the governmental fund statement of revenues, expenditures, and changes in fund balances.

## **FINANCIAL ANALYSIS OF THE OFFICE AS A WHOLE**

As noted previously, net assets may serve over time as a useful indicator of an Office's financial position. The Office's net assets totaled \$(103,458), \$(56,231), and \$(113,264) at the end of fiscal years 2011, 2010, and 2009, respectively.

	<b>Net Assets</b>		
	Governmental Activities		
	2011	2010	2009
Current and Other Assets	\$ 847,777	\$ 1,189,896	\$ 687,595
Capital Assets	1,800	1,800	1,943
Total Assets	<u>\$ 849,577</u>	<u>\$ 1,191,696</u>	<u>\$ 689,538</u>
Long-Term Liabilities Outstanding	\$ 364,456	\$ 349,653	\$ 325,945
Other Liabilities	588,579	898,274	476,857
Total Liabilities	<u>\$ 953,035</u>	<u>\$ 1,247,927</u>	<u>\$ 802,802</u>
Net Assets			
Invested in Capital Assets	\$ 1,800	\$ 1,800	\$ 1,943
Restricted for Local Govt. Audits	232,657	266,879	174,412
Unrestricted	(337,915)	(324,910)	(289,619)
Total Net Assets	<u>\$ (103,458)</u>	<u>\$ (56,231)</u>	<u>\$ (113,264)</u>

The Office's invested in capital assets represents a copy machine which is fully depreciated.

The following condensed financial information was derived from the agency-wide Statement of Activities and reflects how the Office's net assets changed during each fiscal year:

	<b>Changes in Net Assets</b>		
	Governmental Activities		
	2011	2010	2009
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$ 1,370,623	\$ 1,072,217	\$ 1,090,536
Operating Grants	400,532	385,601	363,442
<b>Total Revenues</b>	<b>\$ 1,771,155</b>	<b>\$ 1,457,818</b>	<b>\$ 1,453,978</b>
<b>Expenses:</b>			
Administration	\$ 197,634	\$ 173,888	\$ 164,084
State Agency Audits	3,166,093	3,189,978	2,720,174
Mineral Royalty Audits	402,009	387,832	365,649
Local Government Audits	574,671	518,054	472,606
Conferences	11,400	11,400	9,421
<b>Total Expenses</b>	<b>\$ 4,351,807</b>	<b>\$ 4,281,152</b>	<b>\$ 3,731,934</b>
Increase (Decrease) in Net Assets Before Transfers	\$ (2,580,652)	\$ (2,823,334)	\$ (2,277,956)
Transfers	2,533,425	2,880,367	2,207,225
<b>Increase (Decrease) in Net Assets</b>	<b>\$ (47,227)</b>	<b>\$ 57,033</b>	<b>\$ (70,731)</b>
Net Assets - Beginning	(56,231)	(113,264)	(42,533)
Net Assets - Ending	<b>\$ (103,458)</b>	<b>\$ (56,231)</b>	<b>\$ (113,264)</b>

Revenues increased in fiscal year 2011 over fiscal year 2010 due to a significant increase in charges for services in the State Agency Audit Division. Expenditures increased significantly in the State Agency Audit Division in fiscal year 2010 over fiscal year 2009 due to a statewide security audit performed by an outside vendor and the purchase of electronic workpaper software in fiscal year 2010.

## **FINANCIAL ANALYSIS OF THE OFFICE'S FUNDS**

### **Governmental Funds**

At June 30, 2011 and 2010, the Office reported combined fund balances of \$274,903 and \$306,501, respectively. The June 30, 2011 fund balance decreased \$31,598 over the previous fiscal year-end as Local Government Audit Division expenditures exceeded revenue. This was due to increased salary expenditures and a decrease in revenue from the prior year. The June 30, 2010 fund balance increased \$80,319 over the previous fiscal year-end due to a significant increase in Local Government Audit Division revenue over the previous fiscal year.

### **General Fund Budgetary Highlights**

The Office has a biennial appropriated budget. The differences between the original budget and the final budget were the result of: House Bill 1015 of the 61st Legislative Assembly which appropriated money for statewide salary equity adjustments (increased the Office's salaries and wages line item by \$100,000); and an approved Emergency Commission request which transferred \$24,000 from the operating line to the capital assets line for the purchase of electronic workpaper software.

There were no expenditures in excess of budgeted amounts in any of the appropriation line items.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets:* at the end of the fiscal years 2011 and 2010, the capital assets consist of a copy machine with a depreciated value of \$1,800.

*Long-term Debt:* at the end of fiscal years 2011 and 2010, the Office had \$364,456 and \$349,653, respectively, of long-term debt (due in more than one year), which consists of the liability for compensated absences which is payable in future years. More detailed information regarding the Office's long-term obligations are presented in the notes to the financial statements.

### **CONTACTING THE OFFICE OF THE STATE AUDITOR**

This financial report is designed to provide citizens and taxpayers with a general overview of the Office of the State Auditor's finances and to demonstrate the Office's accountability for the money it receives. Questions about this report or additional financial information should be addressed to the Office of the State Auditor, 600 E. Boulevard Ave. - Dept. 117, Bismarck, ND 58505.

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**OFFICE OF THE STATE AUDITOR**  
**Bismarck, North Dakota**

**STATEMENT OF NET ASSETS**  
**June 30, 2011 and 2010**

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	Governmental Activities	
	2011	2010
<b>ASSETS</b>		
Cash	\$ 166,356	\$ 211,843
Interest Receivable	26	44
Due from Local Governments	159,731	149,478
Due from Federal Government	101,513	192,612
Due from Other State Agencies	104,489	328,785
Due from State General Fund	315,662	307,134
Equipment - Net	1,800	1,800
Total Assets	<u>\$ 849,577</u>	<u>\$ 1,191,696</u>
<b>LIABILITIES</b>		
Accrued Payroll	\$ 338,534	\$ 364,545
Accounts Payable	44,066	20,772
Due to Other State Agencies	15,909	8,191
Due to State General Fund	174,365	489,887
Compensated Absences:		
Due within one year	15,705	14,879
Due in more than one year	364,456	349,653
Total Liabilities	<u>\$ 953,035</u>	<u>\$ 1,247,927</u>
<b>NET ASSETS</b>		
Invested in Capital Assets	\$ 1,800	\$ 1,800
Restricted for Local Government Audits	232,657	266,879
Unrestricted	(337,915)	(324,910)
Total Net Assets	<u>\$ (103,458)</u>	<u>\$ (56,231)</u>

**OFFICE OF THE STATE AUDITOR**  
**Bismarck, North Dakota**

**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants	Revenue and Change in Net Assets
				Governmental Activities
Governmental Activities:				
Administration	\$ 197,634			\$ (197,634)
State Agency Audits	3,166,093	\$ 817,887		(2,348,206)
Mineral Royalty Audits	402,009		\$ 400,532	(1,477)
Local Government Audits	574,671	541,336		(33,335)
Conferences	11,400	11,400		
<b>Total</b>	<b>\$ 4,351,807</b>	<b>\$ 1,370,623</b>	<b>\$ 400,532</b>	<b>\$ (2,580,652)</b>
General Revenues:				
Transfers				\$ 2,533,425
Change in Net Assets				\$ (47,227)
Net Assets, Beginning of Year				(56,231)
Net Assets, End of Year				<u>\$ (103,458)</u>

**OFFICE OF THE STATE AUDITOR  
Bismarck, North Dakota**

**STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants	Governmental Activities
Governmental Activities:				
Administration	\$ 173,888			\$ (173,888)
State Agency Audits	3,189,978	\$ 464,959		(2,725,019)
Mineral Royalty Audits	387,832		\$ 385,601	(2,231)
Local Government Audits	518,054	595,858		77,804
Conferences	11,400	11,400		
<b>Total</b>	<u><u>\$ 4,281,152</u></u>	<u><u>\$ 1,072,217</u></u>	<u><u>\$ 385,601</u></u>	<u><u>\$ (2,823,334)</u></u>
General Revenues:				
Transfers				<u>\$ 2,880,367</u>
Change in Net Assets				\$ 57,033
Net Assets, Beginning of Year				<u>(113,264)</u>
Net Assets, End of Year				<u><u>\$ (56,231)</u></u>

**OFFICE OF THE STATE AUDITOR**  
Bismarck, North Dakota

**BALANCE SHEET**  
Governmental Funds  
June 30, 2011

	General	Federal	Operating Fund	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash			\$ 166,356		\$ 166,356
Interest Receivable			26		26
Due from Local Governments			159,731		159,731
Due from Federal Government		\$ 101,513			101,513
Due from Other State Agencies	\$ 104,489				104,489
Due from State General Fund	315,662				315,662
<b>Total Assets</b>	<b>\$ 420,151</b>	<b>\$ 101,513</b>	<b>\$ 326,113</b>	<b>\$ -</b>	<b>\$ 847,777</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accrued Payroll	\$ 262,267	\$ 31,232	\$ 45,035		\$ 338,534
Accounts Payable	42,650		1,416		44,066
Due to Other State Agencies	10,745	405	4,759		15,909
Due to State General Fund	104,489	69,876			174,365
<b>Total Liabilities</b>	<b>\$ 420,151</b>	<b>\$ 101,513</b>	<b>\$ 51,210</b>	<b>\$ -</b>	<b>\$ 572,874</b>
<b>Fund Balances:</b>					
Committed			\$ 274,903		\$ 274,903
<b>Total Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 274,903</b>	<b>\$ -</b>	<b>\$ 274,903</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 420,151</b>	<b>\$ 101,513</b>	<b>\$ 326,113</b>	<b>\$ -</b>	<b>\$ 847,777</b>

**Total Fund Balances - Governmental Funds** **\$ 274,903**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$10,450 and the accumulated depreciation is \$8,650. 1,800

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Those liabilities consist of compensated absences of \$380,161. (380,161)

**Net Assets of Governmental Activities** **\$ (103,458)**

**OFFICE OF THE STATE AUDITOR  
Bismarck, North Dakota**

**BALANCE SHEET  
Governmental Funds  
June 30, 2010**

	General	Federal	Operating Fund	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash			\$ 207,093	\$ 4,750	\$ 211,843
Interest Receivable			44		44
Due from Local Governments			149,478		149,478
Due from Federal Government		\$ 192,612			192,612
Due from Other State Agencies	\$ 327,335			1,450	328,785
Due from State General Fund	307,134				307,134
<b>Total Assets</b>	<b>\$ 634,469</b>	<b>\$ 192,612</b>	<b>\$ 356,615</b>	<b>\$ 6,200</b>	<b>\$ 1,189,896</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accrued Payroll	\$ 287,741	\$ 29,380	\$ 47,424		\$ 364,545
Accounts Payable	13,124	275	1,173	\$ 6,200	20,772
Due to Other State Agencies	6,269	405	1,517		8,191
Due to State General Fund	327,335	162,552			489,887
<b>Total Liabilities</b>	<b>\$ 634,469</b>	<b>\$ 192,612</b>	<b>\$ 50,114</b>	<b>\$ 6,200</b>	<b>\$ 883,395</b>
<b>Fund Balances:</b>					
Committed			\$ 306,501		\$ 306,501
<b>Total Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 306,501</b>	<b>\$ -</b>	<b>\$ 306,501</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 634,469</b>	<b>\$ 192,612</b>	<b>\$ 356,615</b>	<b>\$ 6,200</b>	<b>\$ 1,189,896</b>

**Total Fund Balances - Governmental Funds** **\$ 306,501**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$10,450 and the accumulated depreciation is \$8,650. 1,800

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Those liabilities consist of compensated absences of \$364,532. (364,532)

**Net Assets of Governmental Activities** **\$ (56,231)**

**OFFICE OF THE STATE AUDITOR  
Bismarck, North Dakota**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Governmental Funds  
For the Year Ended June 30, 2011**

	General	Federal	Operating Fund	Other Governmental Funds	Total
<b>REVENUES</b>					
Intergovernmental		\$ 400,532			\$ 400,532
Charges for Services	\$ 817,618		\$ 540,583		1,358,201
Conference Registration Fees				\$ 11,400	11,400
Miscellaneous	269		753		1,022
<b>Total Revenues</b>	<b>\$ 817,887</b>	<b>\$ 400,532</b>	<b>\$ 541,336</b>	<b>\$ 11,400</b>	<b>\$ 1,771,155</b>
<b>EXPENDITURES</b>					
Current:					
Administration	\$ 197,634				\$ 197,634
State Audits	3,153,678				3,153,678
Mineral Royalty Audits		\$ 400,532			400,532
Local Government Audits			\$ 572,934		572,934
Conference Expenses				\$ 11,400	11,400
<b>Total Expenditures</b>	<b>\$ 3,351,312</b>	<b>\$ 400,532</b>	<b>\$ 572,934</b>	<b>\$ 11,400</b>	<b>\$ 4,336,178</b>
Revenues over (under) expenditures	\$ (2,533,425)		\$ (31,598)		\$ (2,565,023)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	\$ 3,351,312				3,351,312
Transfers Out	(817,887)				(817,887)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 2,533,425</b>				<b>\$ 2,533,425</b>
Net Change in Fund Balances			\$ (31,598)		\$ (31,598)
Fund Balances - Beginning of Year			306,501		306,501
Fund Balances - End of Year			<b>\$ 274,903</b>		<b>\$ 274,903</b>

**Net Change in Fund Balances - Total Governmental Funds** **\$ (31,598)**

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of an increase in compensated absences. \$ (15,629)

**Change in Net Assets of Governmental Activities** **\$ (47,227)**

**OFFICE OF THE STATE AUDITOR  
Bismarck, North Dakota**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Governmental Funds  
For the Year Ended June 30, 2010**

	General	Federal	Operating Fund	Other Governmental Funds	Total
<b>REVENUES</b>					
Intergovernmental		\$ 385,601			\$ 385,601
Charges for Services	\$ 464,674		\$ 595,263		1,059,937
Conference Registration Fees				\$ 11,400	11,400
Miscellaneous	285		595		880
<b>Total Revenues</b>	<b>\$ 464,959</b>	<b>\$ 385,601</b>	<b>\$ 595,858</b>	<b>\$ 11,400</b>	<b>\$ 1,457,818</b>
<b>EXPENDITURES</b>					
Current:					
Administration	\$ 173,888				\$ 173,888
State Audits	3,171,438				3,171,438
Mineral Royalty Audits		\$ 385,601			385,601
Local Government Audits			\$ 515,539		515,539
Conference Expenses				\$ 11,400	11,400
<b>Total Expenditures</b>	<b>\$ 3,345,326</b>	<b>\$ 385,601</b>	<b>\$ 515,539</b>	<b>\$ 11,400</b>	<b>\$ 4,257,866</b>
Revenues over (under) expenditures	\$ (2,880,367)		\$ 80,319		\$ (2,800,048)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	\$ 3,345,326				3,345,326
Transfers Out	(464,959)				(464,959)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 2,880,367</b>				<b>\$ 2,880,367</b>
Net Change in Fund Balances			\$ 80,319		\$ 80,319
Fund Balances - Beginning of Year			226,182		226,182
Fund Balances - End of Year			<b>\$ 306,501</b>		<b>\$ 306,501</b>
<b>Net Change in Fund Balances - Total Governmental Funds</b>					<b>\$ 80,319</b>
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of:					
Increase in compensated absences					(23,143)
Depreciation expense					(143)
<b>Change in Net Assets of Governmental Activities</b>					<b>\$ 57,033</b>

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**OFFICE OF THE STATE AUDITOR  
Bismarck, North Dakota**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***A. FINANCIAL STATEMENTS AND REPORTING ENTITY***

The accompanying financial statements of the Office of the State Auditor have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For financial reporting purposes, the Office of the State Auditor has included all funds and has considered all potential component units for which the Office of the State Auditor is financially accountable, and other organizations for which the nature and significance of their relationship with the Office of the State Auditor are such that exclusion would cause the Office of the State Auditor's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Office of the State Auditor to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Office of the State Auditor.

Based upon these criteria, there are no component units to be included within the Office of the State Auditor as a reporting entity and the Office of the State Auditor is an agency within the State of North Dakota as a reporting entity.

***B. AGENCY-WIDE AND FUND FINANCIAL STATEMENTS***

**AGENCY-WIDE FINANCIAL STATEMENTS**

The Statement of Net Assets and Statement of Activities report information on all activities of the Office of the State Auditor. Governmental activities generally are financed through intergovernmental revenues and other non-exchange revenues.

The Statement of Net Assets presents the reporting entity's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**Invested in capital assets** consists of a capital asset, net of accumulated depreciation.

**Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Net assets restricted by enabling legislation are subject to change by a majority vote of the Legislative Assembly.

**Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function.

## FUND FINANCIAL STATEMENTS

Major individual governmental funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

### ***C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION***

#### MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The agency-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

The Office of the State Auditor follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.

Major revenues that are determined to be susceptible to accrual include federal grants and audit fees. All revenues are determined to be available if collected within one year of fiscal year-end. Revenues earned under the terms of reimbursement agreements with other governments are recorded at the time the related expenditures are made if other eligibility requirements have been met.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due and payable.

## FINANCIAL STATEMENT PRESENTATION

The Office of the State Auditor reports the following major governmental funds:

The general fund is the principal operating fund of the agency. It is used to account for all financial resources that are not accounted for in other funds. Included are transactions involving administration and state agency audits.

The federal fund accounts for all the financial resources from the federal government, which finances the Mineral Royalty Audit Division.

The operating fund accounts for all activities of the Local Government Audit Division.

### ***D. GENERAL BUDGETARY POLICIES AND PROCEDURES***

The Office of the State Auditor operates through a biennial appropriation provided by the State Legislature. The Office prepares a biennial budget, which is included in the Governor's budget presented to the Legislative Assembly at the beginning of each legislative session. The Legislative Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override.

Once passed and signed, the appropriation bill becomes the department's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, referendum, or allotment action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate an intent to reject the money. Unexpended appropriations lapse at the end of each biennium.

The biennial budget is prepared primarily on a cash basis. Encumbrance accounting is not used. The legal level of budgetary control is at the funding source and expenditure line item level. Revenues are not formally budgeted and expenditures are not budgeted by fund. The agency appropriation is defined through the use of specific expenditure line items.

### ***E. CASH***

Cash consists of money on deposit with the State Treasurer.

### ***F. RECEIVABLES***

Receivables include amounts "due from other state agencies" (state agency audits) and "due from local governments" (local government audits) for audits performed during the year.

### ***G. DUE FROM FEDERAL GOVERNMENT***

The Office of the State Auditor has a contract with the United States Department of the Interior - Minerals Management Service for audit and related investigations of federal oil and gas leases located in the state of North Dakota. It is the Office of the State Auditor's policy to recognize federal revenue as allowable expenditures are incurred. Due from federal government represents amounts receivable for reimbursable expenditures incurred by June 30.

## **H. TRANSFERS**

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. "Transfers In" consists of transfers from the state's general fund and "Transfers Out" consists of transfers to the state's general fund.

## **I. CAPITAL ASSETS**

Capital assets are valued at historical cost. Capital assets with an original cost of \$5,000 or more and an estimated useful life in excess of one year are capitalized and reported in the applicable governmental column in the agency-wide financial statements. Capital asset costs include the purchase price, plus the costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Capital assets in governmental funds are recorded as expenditures in the funds used to acquire them in the governmental fund financial statements. Capital assets, along with accumulated depreciation and depreciation expense, are reported in the applicable governmental activities column in the agency-wide financial statements.

Capital assets are depreciated using the straight-line method over their estimated useful lives of 3-10 years.

## **J. LEASE COMMITMENTS**

The Office of the State Auditor leases office space. Leases are classified according to FASB 13. The leases all have funding clauses; however, these clauses have no effect on classifying these leases for accounting purposes. Leases which represent acquisitions are classified as capital leases, and the related assets and liabilities recorded in the general purpose financial statements at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease.

## **K. COMPENSATED ABSENCES**

### Annual Leave

State employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at each year-end, as set by the agency. The amount of annual leave earned ranges between one and two days per month, and is fixed by the employing unit per section 54-06-14 of the North Dakota Century Code. Employees are paid for unused annual leave upon termination or retirement.

The governmental fund financial statements recognize annual leave when the liability is incurred and payable from available expendable resources. The agency-wide financial statements present the cost of accumulated annual leave as a liability.

## Sick Leave

The North Dakota Century Code, section 54-06-14, states employees accrue sick leave at the rate of one to a maximum of one and one-half working days per month of employment without limitation on the amount that can be accumulated. Employees of the Office accrue sick leave at a rate of one day per month. Employees vest at 10 years of creditable service at which time the state is liable for 10 percent of the employee's accumulated unused sick leave. The governmental fund financial statements recognize sick leave as it is incurred. The agency-wide financial statements present the estimated cost of sick leave as a liability after an employee has been employed by the state for six consecutive years.

## **L. REVENUES AND EXPENDITURES/EXPENSES**

In the agency-wide Statement of Activities, revenues and expenses are segregated by activity, then further by function for governmental activities. Additionally, revenues are classified between program and general revenues. Program revenues include: 1) charges to customers for services; and 2) operating grants.

In the governmental fund financial statements, revenues are reported by source.

In the governmental fund financial statements, expenditures are reported by character. "Current" expenditures are subclassified by function.

## **M. NET ASSETS/FUND BALANCE**

The difference between fund assets and liabilities is "Net Assets" on the agency-wide statements and "Fund Balance" on governmental fund statements.

The balance sheet amounts shown as committed fund balances in the operating fund can be used only for expenses relating to political subdivision audits in accordance with North Dakota Century Code. This commitment of fund balance can only be changed by an act of the State Legislature.

## **NOTE 2 – DETAILED NOTES ON ACCOUNT BALANCES**

### **A. DEPOSITS**

Deposits consist of money on deposit with the State Treasurer.

At June 30, 2011 and 2010, the carrying amounts of the Office of the State Auditor's deposits were \$166,356 and \$211,843, respectively; and the bank balances were \$166,356 and \$211,843. These deposits are held at the Bank of North Dakota, and therefore are not subject to credit risk.

**B. CAPITAL ASSETS**

The following is a summary of capital assets for the years ended June 30, 2011 and 2010:

	Balance 7/01/09	Increase	Decrease	Balance 6/30/10
Governmental Activities:				
Equipment	\$ 10,450			\$ 10,450
Less Accumulated Depreciation	(8,507)	\$ (143)		(8,650)
Governmental Activities Capital Assets, Net	<u>\$ 1,943</u>	<u>\$ (143)</u>		<u>\$ 1,800</u>
	Balance 7/01/10	Increase	Decrease	Balance 6/30/11
Governmental Activities:				
Equipment	\$ 10,450			\$ 10,450
Less Accumulated Depreciation	(8,650)			(8,650)
Governmental Activities Capital Assets, Net	<u>\$ 1,800</u>			<u>\$ 1,800</u>

Depreciation expense was charged to the state agency audits program.

**C. OPERATING LEASES**

The Office of the State Auditor leases office space under cancelable operating leases. Total costs for these leases for the years ended June 30, 2011 and 2010 were \$41,059 and \$39,279, respectively.

**D. LONG-TERM DEBT**

A summary of changes in general long-term debt for the years ended June 30, 2011 and 2010 is as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	<u>\$ 341,389</u>	<u>\$ 25,366</u>	<u>\$ 2,223</u>	<u>\$ 364,532</u>	<u>\$ 14,879</u>
	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	<u>\$ 364,532</u>	<u>\$ 32,932</u>	<u>\$ 17,303</u>	<u>\$ 380,161</u>	<u>\$ 15,705</u>

### **NOTE 3 - NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (NDPERS)**

The Office of the State Auditor participates in the North Dakota Public Employees' Retirement System administered by the state of North Dakota. The following is a brief description of the plan.

NDPERS is a cost-sharing, multiple-employer defined benefit pension plan covering substantially all employees of the State of North Dakota. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to either a single payment refund, life-time monthly payments in an amount equal to 50 percent of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were 65 the day before death occurred, or monthly payments in an amount equal to the employee's accrued 100 percent joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25 percent of their final average salary, with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65), equal to 2.00 percent of their final average salary for each year of service. The plan permits early retirement at ages 55-64, with five or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4 percent of the participant's regular compensation be contributed to the plan by the employee. During the 1983-1985 biennium the state implemented the employer pickup provision of the IRS code whereby a portion or all of the required employee contributions are made by the employer. The state is paying the full employee contribution. Employer contributions of 4.12 percent of covered compensation are set by statute. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the state legislature and is the governing authority of NDPERS. The Office of the State Auditor's required and actual contributions to NDPERS for the fiscal years ending June 30, 2011, 2010, and 2009 were \$241,868, \$223,694, and \$210,775, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505, PO Box 1214, Bismarck, ND 58502-1214.

#### **NOTE 4 - RISK MANAGEMENT**

The Office of the State Auditor is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state and its agencies' employees, and the university system. All state agencies participate in the RMF and their fund contribution is determined using a projected cost allocation approach. The statutory liability of the state is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The Office of the State Auditor also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence. The State Bonding Fund currently provides the Office with blanket fidelity bond coverage in the amount of \$350,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Office participates in the North Dakota Worker's Compensation Bureau, an enterprise fund of the state of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the state's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior years and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

#### **NOTE 5 - RELATED PARTIES**

As noted in "Note 1" of these financial statements, the Office of the State Auditor is an agency of the state of North Dakota; therefore other agencies of the state are related parties.

#### **NOTE 6 - CHANGE IN ACCOUNTING PRINCIPLE**

As required by generally accepted accounting principles, the Office of the State Auditor implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions" for the year ending June 30, 2011. The change resulted in reporting fund balance as "committed" as the Office's fund balance can only be used for expenses relating to political subdivision audits pursuant to NDCC section 54-10-14 (2).

OFFICE OF THE STATE AUDITOR  
Bismarck, North Dakota

Required Supplementary Information  
BUDGETARY COMPARISON SCHEDULE - GENERAL AND SPECIAL REVENUE FUNDS  
For The Biennium Ended June 30, 2011

	Original Appropriation	Adjustments	Final Appropriation	Actual	Variance Positive (Negative)
<b>Resources:</b>					
General Fund Transfer	\$ 6,662,229	\$ 100,000	\$ 6,762,229	\$ 6,696,639	\$ (65,590)
Federal Fund Revenue	974,678		974,678	773,979	(200,699)
Special Fund Revenue	1,338,124		1,338,124	1,098,197	(239,927)
Amounts Available for Appropriation	<u>\$ 8,975,031</u>	<u>\$ 100,000</u>	<u>\$ 9,075,031</u>	<u>\$ 8,568,815</u>	<u>\$ (506,216)</u>
<b>Charges to Appropriations:</b>					
Salaries and Wages	\$ 7,915,046	\$ 100,000	\$ 8,015,046	\$ 7,692,501	\$ 322,545
Operating Expenses	809,985	(24,000)	785,985	620,188	165,797
Capital Assets	100,000	24,000	124,000	124,000	-
Information Tech Consultants	150,000		150,000	134,555	15,445
Total Charges to Appropriations	<u>\$ 8,975,031</u>	<u>\$ 100,000</u>	<u>\$ 9,075,031</u>	<u>\$ 8,571,244</u>	<u>\$ 503,787</u>

**Explanation of Differences Between Budgetary Inflows and GAAP Revenues and Expenditures**

*Sources/Inflows of Resources*

Actual Amounts (budgetary basis) "total revenue inflows"	\$ 8,568,815
The period of availability for revenue recognition for budget purposes differs from the GAAP basis.	51,151
General fund revenue is not budgeted	1,282,846
Conference revenue is not budgeted	22,800
Total revenues/transfers in as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	<u>\$ 9,925,612</u>

*Uses/Outflows of Resources*

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 8,571,244
Differences - budget to GAAP: Expenditures from the conference fund are not appropriated	22,800
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	<u>\$ 8,594,044</u>



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**Office of the State Auditor  
Independent Auditor's Specific Comments Requested by the  
Legislative Audit and Fiscal Review Committee**

Governor of North Dakota  
The Legislative Assembly

Office of the State Auditor  
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses regarding the June 30, 2011 and 2010, audits of the Office of the State Auditor are as follows:

**Audit Report Communications**

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?

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 prior findings and recommendations.

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

Yes. There were no recommendations included in the management letter.

## **Audit Committee Communications**

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions?

We noted no significant changes in accounting policies, no conflicts of interest, no contingent liabilities, and no significant unusual transactions.

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?

The most sensitive estimate affecting the financial statements was the valuation of the work-in-process receivables. The estimate of the WIP receivables is based on the percentage of the audit completed divided by the total budgeted hours for the audit. The auditor's conclusion regarding the reasonableness of this estimate is based on accuracy of the estimates based on these factors.

The Office of the State Auditor estimates the depreciation of the fixed assets. Management determines the useful life of the assets based on planned use, subtracts the estimated salvage value, and depreciates the remaining cost of the asset over the useful life. The auditor's conclusion of the reasonableness of the useful lives is based on the past history of similar assets used by the organization.

3. Identify any significant audit adjustments?

None

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to the 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.

None

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 assessed by auditors are directly related to the operations of an information technology system.

None

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

*Eide Bailly LLP*

Bismarck, North Dakota  
November 4, 2011



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**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***

Governor of North Dakota  
The Legislative Assembly

Office of the State Auditor  
Bismarck, North Dakota

We have audited the financial statements of the Office of the State Auditor as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated November 4, 2011. We conducted our audits 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 Office of the State Auditor is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Office of the State Auditor's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Office of the State Auditor'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency'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 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 Office of the State Auditor's 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits 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*.

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

*Eide Bailly LLP*

Bismarck, North Dakota  
November 4, 2011