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March 7, 2022

Kelly Woessner
City Auditor
25 N Main St.
Parshall, ND 58770

Dear Ms. Woessner:

This letter is to inform you of the petition audit of the City of Parshall for the year ended December 31, 2021. We will audit the financial statements of the governmental activities, the business type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information that collectively comprise the basic financial statements of the City of Parshall as of and for the year ended December 31, 2021.

This audit is being conducted pursuant to a petition under North Dakota Century Code (NDCC) 54-10-15, which is as follows:

Audits of political subdivisions by order of governor or the legislative audit and fiscal review committee, upon petition, or upon request of the state court administrator.

The state auditor, by duly appointed deputy auditors or other authorized agents, shall audit or review the books, records, and financial accounts of any political subdivision when ordered by the governor or the legislative audit and fiscal review committee, requested by the governing board, or upon petition of at least thirty-five percent of the qualified electors of any political subdivision enumerated in section 54-10-14 voting for the office of governor at the preceding general election or, **in the case of school districts, upon petition of at least thirty-five percent of the qualified electors voting at the preceding school board election**, or upon the request of the state court administrator with respect to clerk of district court services provided by a county in accordance with chapter 27-05.2. Fees for the audits must be paid in accordance with the provisions of section 54-10-14.

We have also been engaged to report on supplementary information other than RSI that accompanies City of Parshall's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

- Budgetary Comparison Schedules

Audit Objectives

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with the modified cash basis of accounting, which is an other comprehensive basis of accounting, and to report on the fairness of the supplementary information referred to above when considered in relation to the financial statements as a whole.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and will include tests of the accounting records of City of Parshall and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of City of Parshall's financial statements. Our report will be addressed to the city commission of the City of Parshall. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or may withdraw from this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by Government Auditing Standards. The report on internal control and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control on compliance, and (2) that the report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that City of Parshall is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards may not satisfy the relevant legal, regulatory, or contractual requirements.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will assist with preparation of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and that you have reviewed and provided the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any non-audit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles, for the preparation and fair presentation of the financial statements in conformity with the modified cash basis of accounting, which is an other comprehensive basis of accounting, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of

the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence. Since most of our audit documentation becomes public information, you are also responsible for notifying us of any confidential information you provide us so that we can properly safeguard such confidential information.

It is the policy of the State Auditor to use the State's Secure File Transfer System (<https://secure.intranetapps.nd.gov/itd/filetransfer/login.htm>) when sending or receiving audit client computer files. If you need assistance with this system, please notify us. Computer files should not be e-mailed to auditors.

Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, Grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws, regulations, contracts, agreements, and Grants and for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that we report.

You are responsible for the preparation of the supplementary information in conformity with the modified cash basis of accounting, which is an other comprehensive basis of accounting. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with the modified cash basis of accounting, which is an other comprehensive basis of accounting; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with the modified cash basis of accounting, which is an other comprehensive basis of accounting; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Professional standards require us to be independent with respect to City of Parshall in the performance of our services. Any discussions that you have with personnel of our office regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

Other Services

We will also assist in preparing the financial statements and related notes of City of Parshall in conformity with the modified cash basis of accounting based on information provided by you. These non-audit services do not constitute an audit under Government Auditing Standards and such services will not be conducted in accordance with Government Auditing Standards. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Audit Procedures-General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedure-Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risk of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedure-Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of City of Parshall's compliance with the provisions of applicable laws, regulations, contracts, agreements, and Grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing, as well as prepare any requested supporting schedules.

GAAS require that we communicate certain additional matters related to the conduct of our audit to those charged with governance. Such matters include (1) our responsibilities under auditing standards generally accepted in the United States of America; (2) an overview of the planned scope and timing of the audit; (3) significant findings from the audit, including, among others: (a) the initial selection of and changes in significant accounting policies and their application; (b) the process used by management in formulating particularly sensitive accounting estimates and the basis for our conclusions regarding the reasonableness of those estimates; (c) significant difficulties that we encountered in dealing with management related to the performance of the audit; (d) audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on your financial reporting process and uncorrected misstatements of the financial statements that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole; (e) any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or our report; (j) management representations; (g) our views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters; (h) major issues that were discussed with management in connection with the retention of our services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards, and if applicable, events or conditions indicating there could be a substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time; and (4) other matters as considered necessary or required to be communicated under professional standards.

If you intend to publish or otherwise reproduce the financial statements and make reference to our office, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

The audit documentation for this engagement is the property of the Office of the State Auditor. Once an audit is complete most of our audit documentation is public information. This audit documentation is therefore subject to inspection in our office with prior authorization by the State Auditor, Director, or Audit Managers. Any confidential information or data in our work papers will be safeguarded from public disclosure. Management is responsible for informing us of any confidentiality provisions related to documentation provided to the State Auditor's Office.

We expect to begin our audit in March 2022 and to issue our reports upon completion. Heath Erickson, CPA will be the audit manager and is responsible for supervising the engagement.

Our fee for these services will be at our standard hourly rates plus travel and other out-of-pocket costs. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report or any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Copies of our latest peer review reports may be found online at <https://www.nd.gov/auditor/about-us/peer-review-reports>

We believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know.

Very truly yours,



Heath Erickson, CPA
Audit Manager
Division of Local Government Audit