

***NORTH DAKOTA STATE BOARD OF REGISTRATION
FOR PROFESSIONAL ENGINEERS AND LAND SURVEYORS***

AUDIT REPORT

JUNE 30, 2017

NORTH DAKOTA STATE BOARD OF REGISTRATION FOR
PROFESSIONAL ENGINEERS AND LAND SURVEYORS
June 30, 2017

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North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
June 30, 2017

BOARD OF DIRECTORS

Robert Fode	Chairperson
Jim Fristad	Vice Chairperson
Rolly Ackerman	Secretary
Kevin Nelson	Board Member
Roger Kluck	Board Member
Candie L. Robinson	Executive Director

INDEPENDENT AUDITOR'S REPORT

Governing Board
North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the North Dakota State Board of Registration for Professional Engineers and Land Surveyors, Bismarck, North Dakota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the North Dakota State Board of Registration for Professional Engineers and Land Surveyors as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 16 through 17 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 operational, 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 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing 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 report for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2019, on our consideration of the North Dakota State Board of Registration for Professional Engineers and Land Surveyors' internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota State Board of Registration for Professional Engineers and Land Surveyors' internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
April 5, 2019

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Statement of Net Position
June 30, 2017

	Governmental Activities
<hr/>	
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 1,855,380
Investments	1,600,000
Interest Receivable	2,099
Prepaid Expenditures	3,600
Capital Assets:	
Office Furniture and Equipment	152,402
Less: Accumulated Depreciation	<u>(109,647)</u>
Net Capital Assets	<u>42,755</u>
TOTAL ASSETS	3,503,834
LIABILITIES	
Current Liabilities:	
Accounts Payable	8,256
Payroll Taxes Payable	4,304
Retirement Payable	<u>715</u>
Total Current Liabilities	13,275
Long-Term Liabilities:	
Due Beyond One Year:	
Compensated Absences	<u>15,631</u>
Total Liabilities	<u>28,906</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Dues Revenue	<u>636,550</u>
NET POSITION	
Net Investment in Capital Assets	42,755
Restricted for:	
Legal Service	1,000,000
Unrestricted	<u>1,795,623</u>
Total Net Position	<u>\$ 2,838,378</u>

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Statement of Activities
For the year ended June 30, 2017

				Net (Expense) Revenue & Changes in Net Position
	Program Revenues			Primary Government
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Functions/Programs</u>				
Primary Government				
<u>Governmental Activities</u>				
Licensing and Regulation	\$ 539,929	\$ 984,302	\$ -	\$ 444,373
Total Governmental Activities	<u>\$ 539,929</u>	<u>\$ 984,302</u>	<u>\$ -</u>	<u>444,373</u>
		General Revenues:		
		Interest Income		<u>8,990</u>
		Total General Revenues		8,990
		Loss on Disposition of Asset		<u>(4,366)</u>
		Change in Net Position		448,997
		Net Position - Beginning of Year		<u>2,389,381</u>
		Net Position - End of Year		<u>\$ 2,838,378</u>

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Balance Sheet - Governmental Fund
June 30, 2017

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 1,855,380
Investments	1,600,000
Interest Receivable	2,099
Prepaid Expenditures	<u>3,600</u>
TOTAL ASSETS	<u>\$ 3,461,079</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 8,256
Payroll Taxes Payable	4,304
Retirement Payable	<u>715</u>
Total Liabilities	<u>13,275</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Dues Revenue	<u>636,550</u>
Fund Balances:	
Nonspendable:	
Prepaid Expenditures	3,600
Committed for:	
Legal Service	1,000,000
Unassigned	<u>1,807,654</u>
Total Fund Balances	<u>2,811,254</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,461,079</u>
Total fund balances - governmental funds	\$ 2,811,254
Amounts reported for governmental activities in the statement of net position 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 \$152,402, and the accumulated depreciation is \$109,647.	42,755
Some liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Compensated Absences Payable	<u>(15,631)</u>
Net position of governmental activities	<u>\$ 2,838,378</u>

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
For the year ended June 30, 2017

	<u>General Fund</u>
REVENUES	
Renewal Fees	\$ 805,924
CPC Fees	115,978
Endorsement Fees	62,400
Interest Income	<u>8,990</u>
TOTAL REVENUES	993,292
EXPENDITURES	
Current:	
Salaries and Wages	176,182
Employee Benefits	38,329
Rent	23,100
Telephone	8,287
Travel and Meetings	44,366
Office Expense	91,512
Printing	2,164
NCEES and CLEAR Dues	6,870
Legal and Investigations	47,267
Rulemaking	4,400
ND Orientation Exam Development	1,799
Capital Outlay	1,121
Education Programs	13,615
Online Renewal Expense	42,804
Website Development	<u>12,308</u>
TOTAL EXPENDITURES	<u>514,124</u>
NET CHANGE IN FUND BALANCES	479,168
Fund Balances - July 1, 2016	<u>2,332,086</u>
FUND BALANCES - JUNE 30, 2017	<u><u>\$ 2,811,254</u></u>

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the year ended June 30, 2017

Net change in fund balances - total governmental funds	\$ 479,168
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which purchases exceed depreciation.

Depreciation expense of capital assets reported	\$ (23,699)	
Gain/(Loss) on Disposition of Assets	<u>(4,366)</u>	
		(28,065)

Some expenses reported in the statement of activities do not require use of current financial resources and are not reported as expenditures in governmental funds.

Net change in compensated absences	<u>(2,106)</u>
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Change in net position of governmental activities	<u>\$ 448,997</u>
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North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Notes to the Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity

The North Dakota State Board of Registration for Professional Engineers and Land Surveyors is charged with responsibility of examining, registering, policing, and enforcing the code of ethics as it applies to those practicing the professions within North Dakota. The Board is composed of five members, four of whom are Professional Engineers and one member is a Professional Land Surveyor. Board members are nominated by the North Dakota Society of Professional Engineers for the engineering positions and the surveyor position is nominated by the North Dakota Society of Professional Land Surveyors. The Governor selects one of the nominees for appointment to the Board. Board members serve for a term of five years with the term expirations being staggered so only one position on the Board is up for reappointment in any given year.

Reporting Entity

Generally accepted accounting principles require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities which should be presented with the North Dakota State Board of Registration for Professional Engineers and Land Surveyors as a reporting entity.

Basis of Presentation

Government-Wide Statements: The statement of net position and the statement of activities display information about the primary government (the Board). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Board's governmental activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Board's funds, including fiduciary funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds. The Board has only one governmental fund:

General Fund - The general fund is the principal operating fund of the Board. It is used to account for all financial resources of the Board.

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Notes to the Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; generally, when they are both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The revenues that are determined to be susceptible to accrual are fees, fines and interest. Deferred revenues arise when resources are received by the government before it has legal claim to them. In subsequent periods, when the government has a legal claim to the resources, the deferred revenue is reclassified to the appropriate revenue accounts.

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

When both restricted and unrestricted resources are available for use, it is the Board’s policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposit and money market accounts, and highly liquid investments with original maturities of three months or less.

State statutes authorize the Board to invest in (a) bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress; (b) securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above; (c) certificates of deposit fully insured by the Federal Deposit Insurance Corporation or the state; or (d) obligations of the Board.

Investments

Investments consist of certificates of deposit carried at cost with a term of more than three months. The certificates of deposit had interest rates of 0.25 – 0.45 percent and terms of six months to one year in 2017.

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Notes to the Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation

Capital assets are reported at cost less accumulated depreciation. Capital assets are defined by the Board as assets with an initial, individual cost of \$1,000 or more and over one year of useful life are capitalized and reported in the government-wide financial statements. Depreciation is computed on a straight-line basis over the estimated useful life of the assets, generally five years for equipment and ten years for furniture.

Compensated Absences

Annual and sick leave are part of permanent employees' compensation. In general, accrued annual leave cannot exceed 240 hours at year-end while sick leave is not limited. Employees earn annual leave at a variable rate based on years of employment, within a range from a minimum of one working day, to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or retirement. Employees earn sick leave at a rate of one working day per month. Employees with at least 10 years of service, upon termination, will be entitled to a one-time lump sum buyout equal to 10% of the employees' unused accrued sick leave.

The government-wide financial statements present the cost of compensated absences as a liability. The governmental fund financial statements recognize compensated absences when the liability is incurred and payable from available expendable resources.

Revenue Recognition

Revenue is recorded for licenses, permits, and other miscellaneous fees. Licenses and permits are issued every two years. Revenue is recognized when earned. Deferred revenue represents one-half of revenue collected for the licenses and permits which is then earned in the next period.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by Board legislation or external restrictions by creditors, grantors, or laws or regulations of other governments. When the Board incurs an expense for which it may use either restricted or unrestricted net position, it uses restricted net position first.

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Notes to the Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the Board. Those committed amounts cannot be used for any other purpose unless the Board removed the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the Board’s “intent” to be used for special purposes, but are neither restricted nor committed. The Board members have the authority to assign amounts to be used for specific purposes.

Unassigned – This fund balance is the residual classification for the General Fund.

The non-spendable fund balance is comprised of \$3,600 of prepaid expenditures. The Board committed \$1,000,000 through Board approval to be used for legal services.

When both restricted and unrestricted resources are available for use, the Board’s preference is to first use restricted resources, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

NOTE 2 – DEPOSITS

In accordance with North Dakota statutes, the Board maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Notes to the Financial Statements
June 30, 2017

NOTE 2 – DEPOSITS (CONTINUED)

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the state of North Dakota, its boards, agencies, or instrumentalities, or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing entity, and bonds issued by any other state of the United States or such other securities approved by the banking board.

As of June 30, 2017, the Board's carrying balance was \$3,455,380. The bank balance of these deposits at June 30, 2017 was \$3,472,835. Of the bank balances, the full amount of \$3,472,835 was covered by Federal Depository Insurance and CDARS. The Board monitors the balances to ensure deposits are covered by FDIC. The Board participates in the CDARS program, which allows it to place its funds into certificates of deposit issued by other banks in the CDARS network in order to obtain complete FDIC protection. There was no formal review by the Board during the year.

The Board has not adopted a deposit policy limiting the Board's deposits with any one depositor.

NOTE 3 – CAPITAL ASSETS

Capital assets consist of the following as of June 30, 2017:

	<u>Office Furniture and Equipment</u>
Balance, July 1, 2016	\$ 172,063
Dispositions	<u>(19,661)</u>
Balance, June 30, 2017	<u>\$ 152,402</u>
Accumulated Depreciation, July 1, 2016	\$ 101,243
Additions	23,699
Dispositions	<u>(15,295)</u>
Accumuated Depreciation, June 30, 2017	<u>\$ 109,647</u>
Net Book Value, June 30, 2017	<u>\$ 42,755</u>

Depreciation expense for the year ended June 30, 2017 was \$23,699.

NOTE 4 – OPERATING LEASE

Office space is being leased from BTSOS dba Riverside Office Building at 723 Memorial Highway, Bismarck, ND. The lease expense for the year ended June 30, 2017 was \$23,100 with a monthly rent payment of \$1,925. Future lease payments are \$24,900 for the year ending June 30, 2018 and 2019.

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Notes to the Financial Statements
June 30, 2017

NOTE 5 – EMPLOYEE BENEFITS

Beginning in 2000, the Board approved contributions to the employees' personal Roth-IRA. Under this plan, the employees receive the Roth-IRA contribution as a gross wage, with the net pay then being deposited into a Roth-IRA account in the employee's name. The net amount of the quarterly contribution to the employee's Roth-IRA plan shall be equal to six percent net of the employee's annualized salary on a quarterly basis. For purposes of this section, "net" shall mean the gross amount less the employee and employer share of Social Security and Medicare taxes. The amount of the Roth-IRA contributions for the years ended June 30, 2017, 2016, 2015, and 2014 were \$8,579, \$8,980, \$7,445, and \$9,526, respectively.

NOTE 6 – RISK MANAGEMENT

The Board 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 Board is covered by the Risk Management Fund of North Dakota. The Risk Management Fund will pay money damages for 1) an injury caused by the negligence or wrongful act or omission of a State employee acting within the employee's scope of employment which the employee would be personally liable to pay a claimant under state law and 2) an injury caused from some condition or use of tangible property under circumstances in which the State, if it were a private person, would be liable to the claimant. Coverage includes claims for damages resulting from an occurrence, accident, wrongful act, error or omission or claim made because of bodily injury, personal injury, property damage, professional liability, or public officials' professional liability or any combination thereof. The Board makes an annual payment for this insurance coverage. The coverage the Risk Management Fund may pay is limited to a total of \$250,000 per person and \$1,000,000 per occurrence. The Risk Management Fund will not be held liable or indemnify a State employee held liable for punitive or exemplary damages.

The Board 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.

The Board pays an annual premium to a third-party insurance carrier for employee dishonesty coverage in the amount of \$150,000.

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

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Notes to the Financial Statements
June 30, 2017

NOTE 7 – LONG-TERM LIABILITIES

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Balance 07/01/16	Net Increase	Balance 06/30/17
Compensated Absences *	\$ 13,525	\$ 2,106	\$ 15,631
Total Governmental Activities	<u>\$ 13,525</u>	<u>\$ 2,106</u>	<u>\$ 15,631</u>

* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

NOTE 8 – LEGAL ACTIONS

The North Dakota State Board of Registration for Professional Engineers and Land Surveyors had several legal actions pending as of June 30, 2017. These legal actions are all related and all were combined into one hearing/appeal. For explanation purposes, the legal actions will be called “Apex”. As of June 30, 2017, the Board had taken disciplinary action against several registrants and one company. Apex appealed the Board’s decision to District Court. The District Court overturned the Board’s actions and entered a judgement against us for their legal fees. The Board appealed the case to the North Dakota Supreme Court. In November, 2018 the Supreme Court ruling upheld the Board in all respects, vacated the judgement against the Board, and ordered Apex to pay the Board’s legal costs. A hearing regarding these costs has not been scheduled at this time so it is not yet known, if any, of the Board’s legal fees will be reimbursed.

***REQUIRED
SUPPLEMENTARY INFORMATION***

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Budgetary Comparison Schedule
General Fund
For the year ended June 30, 2017

	Budgeted Amounts			Variance with
	Original	Final	Actual (Budgetary Basis)	Final Budget Favorable (Unfavorable)
REVENUES				
Renewal Fees	\$ 644,800	\$ 644,800	\$ 805,924	\$ 161,124
CPC Fees	96,520	96,520	115,978	19,458
Endorsement Fees	78,000	78,000	62,400	(15,600)
Interest Income	-	-	8,990	8,990
TOTAL REVENUES	819,320	819,320	993,292	173,972
EXPENDITURES				
Current:				
Salaries and Wages	191,019	191,019	176,182	14,837
Employee Benefits	46,363	46,363	38,329	8,034
Rent	23,100	23,100	23,100	-
Telephone	8,000	8,000	8,287	(287)
Travel and Meetings	40,250	43,750	44,366	(616)
Office Expense	73,439	84,439	91,512	(7,073)
Printing	5,000	5,000	2,164	2,836
NCEES and CLEAR Dues	6,870	6,870	6,870	-
Legal and Investigations	144,000	117,500	47,267	70,233
Rulemaking	5,150	5,150	4,400	750
ND Orientation Exam Development	10,000	10,000	1,799	8,201
Online Renewal Fees	22,025	45,025	42,804	2,221
Capital Outlay	15,500	15,500	1,121	14,379
Education Programs	23,500	12,500	13,615	(1,115)
Website Development	28,450	28,450	12,308	16,142
TOTAL EXPENDITURES	642,666	642,666	514,124	128,542
NET CHANGE IN FUND BALANCES	176,654	176,654	479,168	302,514
Fund Balances - July 1, 2016	2,332,086	2,332,086	2,332,086	-
FUND BALANCES - JUNE 30, 2017	\$ 2,508,740	\$ 2,508,740	\$ 2,811,254	\$ 302,514

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Notes to Required Supplementary Information
June 30, 2017

NOTE 1 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Board adopts an annual budget consistent with accounting principles generally accepted in the United States for the general fund. The following procedures are used in establishing the budgetary data reflected in the financial statements:

- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the Executive Director at the revenue and expenditure function/object level.
- The current budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

The actual expenditures were over budget on certain line items but, as a whole, actual expenditures were less than budgeted expenditures and no remedial action is anticipated.

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*

Governing Board
North Dakota State Board of Registration
for Professional Engineers and Land Surveyors
Bismarck, North Dakota

We have audited, in accordance with the 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, the financial statements of the governmental activities and the major fund of the North Dakota State Board of Registration for Professional Engineers and Land Surveyors, Bismarck, North Dakota as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated April 5, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Dakota State Board of Registration for Professional Engineers and Land Surveyors' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota State Board of Registration for Professional Engineers and Land Surveyors' internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota State Board of Registration for Professional Engineers and Land Surveyors' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2017-001 and 2017-002 described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2017-003 described in the accompanying schedule of findings to be a significant deficiency.

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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota State Board of Registration for Professional Engineers and Land Surveyors' financial statements are free from 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2017-004.

North Dakota State Board of Registration for Professional Engineers and Land Surveyors' Responses to Findings

North Dakota State Board of Registration for Professional Engineers and Land Surveyors' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The North Dakota State Board of Registration for Professional Engineers and Land Surveyors' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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 or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
April 5, 2019

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Schedule of Findings
For the Year Ended June 30, 2017

2017-001 Segregation of Duties

Condition – There are limited staff members for the accounting functions. Considering the size of the entity, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – There are a limited number of staff members available for these duties.

Effect – Inadequate segregation of duties could affect the Board's ability to timely detect misstatements in amounts that would be material to the financial statements.

Recommendation – This is not unusual in an organization of your size, but the Board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Board's knowledge of matters relating to the organization's operations.

Management's Response – Based upon current staffing capabilities, internal control and separation of duties is accomplished to the furthest extent possible. Full financial reports are provided to the Board at every meeting and additionally upon request.

2017-002 Journal Entries

Condition – Journal entries were required to adjust general ledger balances to actual as of June 30, 2017.

Criteria – The Board is required to establish internal controls and procedures which allow it to determine that all general ledger accounts are properly reflected according to generally accepted accounting principles.

Cause – Payments for payroll liabilities were not posted correctly. Year-end payables were not accrued by staff in the accounting software.

Effect – The trial balance presented for audit did not reflect an accurate presentation according to generally accepted accounting principles.

Recommendation – Post retirement payments to the liability created in payroll. Implement use of the accounts payable feature in QuickBooks to aid in recording the payables in the proper accounting period.

Management's Response – Management will request assistance to correct posting of payroll liabilities. Efforts will be made to record year-end accounts payable.

North Dakota State Board of Registration for
Professional Engineers and Land Surveyors
Schedule of Findings
For the Year Ended June 30, 2017

2017-003 Preparation of Financial Statements

Condition – The financial statements and related notes are prepared by the Board’s auditors.

Criteria – Complete and accurate presentation of the financial statements in conformity with generally accepted accounting principles is required.

Cause – Ongoing changes in the reporting and disclosure requirements make it difficult to maintain knowledge of current accounting standards with limited time available to the accounting department.

Effect – The Board has elected to have the auditors complete the full disclosure financial statements.

Recommendation – The preparation of financial statements by the Board’s auditors is not unusual in an organization of this size. Management should review the financial statements and related disclosures.

Management’s Response – It is not practical to have financial reports prepared by another accounting firm.

2017-004 Employee IRA Contributions

Condition – Contributions being paid to employee IRA accounts were not subjected to payroll taxes.

Criteria – IRS regulations require all payments to employees to be taxed except for contributions to qualified retirement plans.

Cause – Payments to the IRA accounts were disbursed without going through the payroll provider.

Effect – The payroll reports, including Forms 941, W-3 and W-2s, are not in compliance with the tax laws and required taxes were not paid.

Recommendation – Management must review all retirement contributions to ensure they are taxed appropriately or invest in a qualified retirement plan.

Management’s Response – We will contact the payroll provider and determine what corrections should be made.

Prior Year Findings:

Findings 2017-001, 2017-002, 2017-003 and 2017-004 are repeated from the prior year.

North Dakota State Board of Registration for Professional Engineers and Land Surveyors
Auditor's Specific Comments Requested by the
North Dakota Legislative Audit and Fiscal Review Committee
June 30, 2017

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

Audit Report Communications:

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

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

Noncompliance with payroll laws regarding payments to employees for their retirement accounts.
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 findings and recommendations included in prior audit reports.
6. *Was a management letter issued? If so, provide a summary below, including any recommendations and management responses.*

No.

Audit Committee Communications:

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

There were no significant changes in accounting policies.
No management conflicts of interest were noted.
No contingent liabilities were identified.
There were no significant or 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 North Dakota State Board of Registration for Professional Engineers and Land Surveyors' financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Eliminate duplicate postings of payroll expenses, correct retirement payable and record accounts payable.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

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 addressed by the 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, North Dakota State Board of Registration for Professional Engineers and Land Surveyors, management, and other state officials and legislative committees and is not intended to be and should not be used by anyone other than these specified parties.

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
April 5, 2019