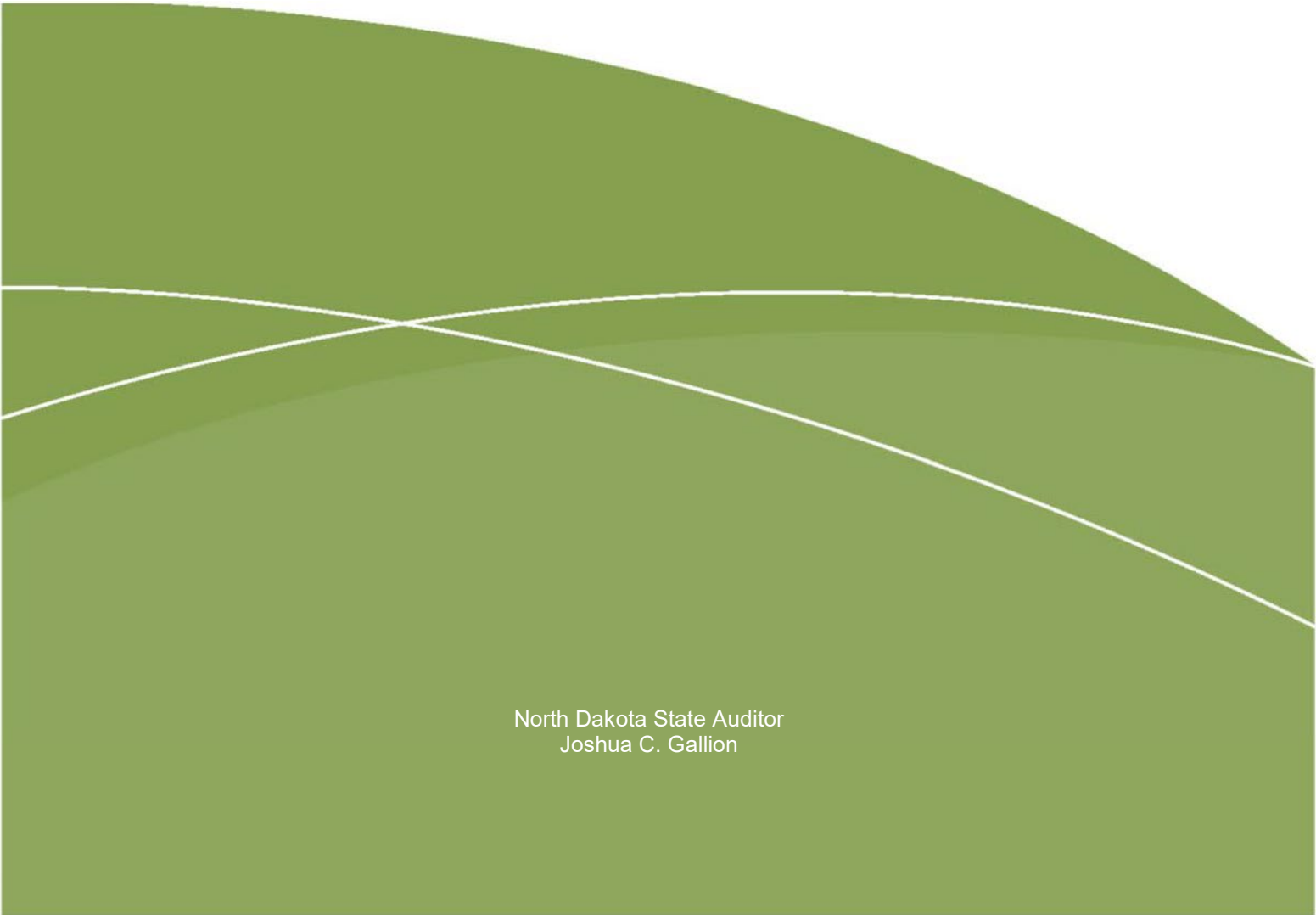


North Dakota Office of the State Auditor

Lake Region Law Enforcement Center Devils Lake, North Dakota

Audit Report for the Year Ended December 31, 2018



North Dakota State Auditor
Joshua C. Gallion

LAKE REGION LAW ENFORCEMENT CENTER

Table of Contents

For the Year Ended December 31, 2018

Law Enforcement Officials and Audit Personnel.....	1
Independent Auditor’s Report	2
Basic Financial Statements	
Statement of Net Position	4
Statement of Activities	5
Balance Sheet - Governmental Funds.....	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position.....	7
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	9
Statement of Net Position – Proprietary Fund	10
Statement of Revenues, Expenditures, and Changes in Fund Balances - Proprietary Fund	11
Statement of Cash Flows – Proprietary Fund.....	12
Statement of Fiduciary Assets and Liabilities - Agency Funds.....	13
Notes to the Financial Statements.....	14
Required Supplementary Information	
Budgetary Comparison Schedules	21
Notes to the Required Supplementary Information	22
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.....	23
Summary of Auditor’s Results.....	25
Schedule of Audit Findings	26
Governance Communication	29

LAKE REGION LAW ENFORCEMENT CENTER

Law Enforcement Officials and Audit Personnel

December 31, 2018

LAW ENFORCEMENT CENTER OFFICIALS

Ed Brown	Chairman – LEC – Ramsey County Commission Representative
Dale Robbins	Chairman – 911 – City of Devils Lake Representative
Nancy Marquart	Commissioner – Nelson County Commission Representative
Shane Hamre	Commissioner – City of Devils Lake Representative
Dave Gehrtz	Commissioner – Eddy County Commission Representative
Michael Steffan	Commissioner – Benson County Commission Representative
Kenneth Teubner	Commissioner – Towner County Commission Representative
Mark Olson	Commissioner – Ramsey Count Commission Representative
Rob Johnson	Operation Director
Peggy Hoel	Finance Administrator

AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Alex Bakken, CPA	Audit In-Charge

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

INDEPENDENT AUDITOR’S REPORT

Board of Law Enforcement Center Commissioners
Lake Region Law Enforcement Center
Devils Lake, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake Region Law Enforcement Center, Devils Lake, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Lake Region Law Enforcement Center’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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake Region Law Enforcement Center, Devils Lake, North Dakota, as of December 31, 2018, 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 and the notes to the required supplementary information* as listed in the table of contents 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 require 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 reporting 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 September 30, 2019 on our consideration of Lake Region Law Enforcement Center's 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 Lake Region Law Enforcement Center's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
September 30, 2019

LAKE REGION LAW ENFORCEMENT CENTER

Statement of Net Position

December 31, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 390,411	\$ 231,145	\$ 621,556
Investments	50,000	-	50,000
Accounts Receivable	-	141,736	141,736
Other Receivable	21,404	-	21,404
Capital Assets			
Nondepreciable	-	159,703	159,703
Depreciable, Net	114,544	1,907,871	2,022,415
Total Assets	<u>\$ 576,359</u>	<u>\$ 2,440,455</u>	<u>\$ 3,016,814</u>
LIABILITIES			
Accounts Payable	\$ 163,741	\$ -	\$ 163,741
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	-	2,352	2,352
Compensated Absences Payable	1,684	13,740	15,424
Due Outside One Year			
Long-Term Debt	-	1,764	1,764
Compensated Absences Payable	6,736	54,959	61,695
Total Liabilities	<u>\$ 172,161</u>	<u>\$ 72,815</u>	<u>\$ 244,976</u>
NET POSITION			
Net Investment in Capital Assets	\$ 114,544	\$ 2,063,458	\$ 2,178,002
Restricted for			
Public Safety	289,654	-	289,654
Unrestricted	-	304,182	304,182
Total Net Position	<u>\$ 404,198</u>	<u>\$ 2,367,640</u>	<u>\$ 2,771,838</u>

The notes to the financial statements are an integral part of this statement.

LAKE REGION LAW ENFORCEMENT CENTER

Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- Type Activities	
Governmental Activities						
Public Safety	\$ 741,338	\$ 620,049	\$ -	\$ (121,289)	\$ -	\$ (121,289)
Business-Type Activities						
Law Enforcement Center	\$ 3,384,030	\$ 3,100,037	\$ -	\$ -	\$ (283,993)	\$ (283,993)
Total Primary Government	\$ 4,125,368	\$ 3,720,086	\$ -	\$ (121,289)	\$ (283,993)	\$ (405,282)
GENERAL REVENUES						
Interest Income				\$ 1,634	\$ 697	\$ 2,331
Loss on Donation of Asset				-	(15,680)	(15,680)
Miscellaneous Revenue				512	98,409	98,921
Total General Revenues				\$ 2,146	\$ 83,426	\$ 85,572
Change in Net Position				\$ (119,143)	\$ (200,567)	\$ (319,710)
Net Position - January 1				\$ 523,341	\$ 2,568,207	\$ 3,091,548
Net Position - December 31				\$ 404,198	\$ 2,367,640	\$ 2,771,838

The notes to the financial statements are an integral part of this statement.

LAKE REGION LAW ENFORCEMENT CENTER

Balance Sheet – Governmental Fund
December 31, 2018

	E-911 Fund
ASSETS	
Cash	\$ 390,411
Investments	50,000
Other Receivable	<u>21,404</u>
Total Assets	<u><u>\$ 461,815</u></u>
LIABILITIES	
Accounts Payable	<u>\$ 163,741</u>
FUND BALANCES	
Restricted For Public Safety	<u>\$ 298,074</u>
Total Fund Balances	<u>\$ 298,074</u>
Total Liabilities and Fund Balances	<u><u>\$ 461,815</u></u>

The notes to the financial statements are an integral part of this statement.

LAKE REGION LAW ENFORCEMENT CENTER

Reconciliation of the Balance Sheet – Governmental Fund to the Statement of Net Position
December 31, 2018

Total Fund Balance for Governmental Fund \$ 298,074

Total *net position* reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 114,544

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities- both current and long-term- are reported in the statement of net position.

Compensated Absences (8,420)

Total Net Position of Governmental Activities \$ 404,198

The notes to the financial statements are an integral part of this statement.

LAKE REGION LAW ENFORCEMENT CENTER

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund
For the Year Ended December 31, 2018

	<u>E-911 Fund</u>
REVENUES	
911 Assessments	\$ 620,049
Interest	1,634
Miscellaneous Income	<u>512</u>
 Total Revenues	 <u>\$ 622,195</u>
 EXPENDITURES	
Current	
Public Safety	<u>\$ 733,800</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>\$ (111,605)</u>
 Fund Balance - January 1	 <u>\$ 409,679</u>
 Fund Balance - December 31	 <u><u>\$ 298,074</u></u>

The notes to the financial statements are an integral part of this statement.

LAKE REGION LAW ENFORCEMENT CENTER

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund to the Statement of Activities
For the Year Ended December 31, 2018

Net Change in *Fund Balance* - Total Governmental Fund \$ (111,605)

The change in net position reported for governmental activities in the statement of activities is different because:

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

 Net Increase in Compensated Absences (940)

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

 Depreciation Expense (6,598)

Change in Net Position of Governmental Activities \$ (119,143)

The notes to the financial statements are an integral part of this statement.

LAKE REGION LAW ENFORCEMENT CENTER

Statement of Net Position— Proprietary Fund

December 31, 2018

	<u>Business-Type Activities</u>
	<u>Law Enforcement</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 231,145
Accounts Receivable	<u>141,736</u>
Total Current Assets	<u>\$ 372,881</u>
Noncurrent Assets	
Capital Assets	
Nondepreciable	\$ 159,703
Depreciable, Net	<u>1,907,871</u>
Total Noncurrent Assets	<u>\$ 2,067,574</u>
Total Assets	<u>\$ 2,440,455</u>
LIABILITIES	
Current Liabilities	
Long-Term Debt	\$ 2,352
Compensated Absences Payable	<u>13,740</u>
Total Current Liabilities	<u>\$ 16,092</u>
Noncurrent Liabilities	
Long-Term Debt	\$ 1,764
Compensated Absences Payable	<u>54,959</u>
Total Noncurrent Liabilities	<u>\$ 56,723</u>
Total Liabilities	<u>\$ 72,815</u>
NET POSITION	
Net Investment in Capital Assets	\$ 2,063,458
Unrestricted	<u>304,182</u>
Total Net Position	<u><u>\$ 2,367,640</u></u>

The notes to the financial statements are an integral part of this statement.

LAKE REGION LAW ENFORCEMENT CENTER

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Year Ended December 31, 2018

	Business-Type Activities
	<u>Law Enforcement</u>
OPERATING REVENUES	
Charges for Services	\$ 3,100,036
OPERATING EXPENSES	
Group Insurance Benefits	\$ 281,024
Retirement	21,646
Payroll	1,265,528
Utilities	106,203
Medical	9,997
Phone	16,870
Reimbursed Medical	25,235
Kitchen & Laundry	212,092
Supplies	58,110
Professional Fees	12,908
Insurance	31,369
Training	12,712
Other Operating Expenses	16,173
Capital/Maintenance	83,171
Vehicle Expense	6,247
Reimbursable Expenses	603,854
Residential Re Entry Facility	514,695
Depreciation	96,482
Total Operating Expenses	<u>\$ 3,374,316</u>
Operating Loss	<u>\$ (274,280)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	\$ 696
Rent Income	77,828
Miscellaneous Revenue	2,115
SCRAM/Monitoring Revenue (RRC)	18,466
Loss on Donation of Asset	(15,680)
SCRAM/Monitoring Expenses (RRC)	<u>(9,712)</u>
Total Non-Operating Revenues (Expenses)	<u>\$ 73,713</u>
Change in Net Position	<u>\$ (200,567)</u>
Net Position - January 1	<u>\$ 2,568,207</u>
Net Position - December 31	<u><u>\$ 2,367,640</u></u>

The notes to the financial statements are an integral part of this statement.

LAKE REGION LAW ENFORCEMENT CENTER

Statement of Cash Flows— Proprietary Fund

For the Year Ended December 31, 2018

	Business-Type Activities
	<u>Law Enforcement</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	\$ 3,118,517
Payments to Suppliers for Goods and Services	(1,729,687)
Payments to Employees	<u>(1,581,001)</u>
Net Cash Used by Operating Activities	<u>\$ (192,171)</u>
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES	
Other Non-Operating Expenses	\$ (9,712)
Other Non-Operating Proceeds	<u>98,409</u>
Net Cash Provided by Non-capital Financing Activities	<u>\$ 88,697</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Paid on Loan	<u>\$ (2,352)</u>
Net Cash Used by Capital and Related Financing Activities	<u>\$ (2,352)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	<u>\$ 696</u>
Net Decrease in Cash and Cash Equivalents	<u>\$ (105,130)</u>
Cash and Cash Equivalents - January 1	<u>\$ 336,275</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 231,145</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	<u>\$ (274,280)</u>
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Depreciation	\$ 96,482
Change in Assets and Liabilities	
Accounts Receivable	18,481
Accounts Payable	(20,051)
Compensated Absences	<u>(12,803)</u>
Total Adjustments	<u>\$ 82,109</u>
Net Cash Used by Operating Activities	<u><u>\$ (192,171)</u></u>

The notes to the financial statements are an integral part of this statement.

LAKE REGION LAW ENFORCEMENT CENTER

Statement of Fiduciary Assets and Liabilities – Agency Fund

December 31, 2018

	Agency Fund
ASSETS	
Cash and Investments	<u>\$ 48,533</u>
LIABILITIES	
Due to Inmates	<u>\$ 48,533</u>

The notes to the financial statements are an integral part of this statement.

LAKE REGION LAW ENFORCEMENT CENTER

Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lake Region Law Enforcement Center ("LEC"), Devils Lake, North Dakota, have been prepared in conformity with accounting principles generally accepted in the United States of America (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. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the LEC. The LEC has considered all potential component units for which the enforcement center is financially accountable, and other organizations for which the nature and significance of their relationship with the enforcement center are such that exclusion would cause the enforcement center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the LEC 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 LEC

As required by generally accepted accounting principles, the financial statements of the reporting entity include only the LEC (the primary government), as there are no component units. The LEC is a joint venture of Benson, Eddy, Nelson, Ramsey and Towner Counties and the City of Devils Lake formed under the provisions of North Dakota Century Code Chapter 12-44.1.

B. Basis of Presentation

Government-wide statements. The statement of net position and the statement of activities display information about the primary government, the LEC. 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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the LEC's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, interest, and non-restricted grants and contributions, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the LEC's funds, including its fiduciary funds. Separate statements for each fund category, *governmental* and *fiduciary*, are presented. The emphasis of fund financial statements is on major governmental funds and enterprise funds, each displayed in a separate column.

The Law Enforcement Center reports the following major governmental fund:

E-911 Fund. This fund accounts for activity of the Law Enforcement Centers Emergency 911 operations for land lines and cellular phones. Restricted revenue includes billings for E-911 services.

The Law Enforcement Center reports the following major business-type fund:

Combined Law Enforcement Center/Residential Reentry Center Fund. This is the center's primary operating fund. It accounts for all financial resources of the law enforcement enterprise, except those required to be accounted for in another fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Additionally, the Law Enforcement Center reports the following fund type:

Agency Fund. This fund accounts for assets held by the center in a custodial capacity as an agent on behalf of others. The center's agency fund is used to account for activity at the jail commissary.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary Fund & Fiduciary Fund Financial Statements. The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary and agency fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the LEC gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The LEC considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, LEC funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the LEC's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Deposits and Investments

Cash and cash equivalents include amounts in demand deposits and money market accounts. Investments consist of certificates of deposit with original maturities in excess of three months and are stated at cost.

E. Capital Assets

Capital assets, which include property, buildings, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Office Equipment	3 - 5
Equipment	5 - 15
Vehicles	5

F. Compensated Absences

Vacation leave is earned at the rate of one to two days per month depending on years of service. Up to 240 hours of vacation leave may be carried over. Sick leave benefits are earned at the rate of one day per month regardless of the years of service. An unlimited number of sick leave hours may be carried over and employees are paid for 25% of their accumulated sick, to a maximum of 240 hours of leave, at retirement. When intent to terminate employment is submitted, the employee must have 5 continuous years of service to be eligible for monetary compensation. Vested or accumulated vacation and sick leave is reported in government-wide statement of net position.

Vacation leave is earned as follows:

Years of Service	Hours per Month
0 through 48 Months	8
49 through 96 Months	10
97 through 180 Months	12
181 Months and Over	16

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

H. Fund Balances

Fund Balance Spending Policy. It is the policy of the LEC to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

I. Net Position

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

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restrictions in state law as to how E-911 funds are to be used.

Unrestricted net position is primarily unrestricted amounts related to the LEC enterprise fund. The unrestricted net position is available to meet the entity’s ongoing obligations..

J. Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

NOTE 2: DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution’s failure, the LEC would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The LEC does not have a formal policy regarding deposits that limits the amount it may invest in any one issuer.

In accordance with North Dakota Statutes, deposits must either be deposited with the Bank of North Dakota or in other financial institution 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.

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 body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year ended December 31, 2018, the LEC’s carrying amount of deposits totaled \$718,051, and the bank balances totaled \$780,655. Of the bank balances, \$550,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution’s agent in the government’s name.

NOTE 3: CAPITAL ASSETS

Governmental Activities

The following is a summary of changes in capital assets for the year ended December 31, 2018:

Governmental Activities	Balance January 1	Increases	Decreases	Balance December 31
Capital Assets Being Depreciated				
Equipment	\$ 190,254	\$ -	\$ -	\$ 190,254
Less Accumulated Depreciation				
Equipment	\$ 69,112	\$ 6,598	\$ -	\$ 75,710
Governmental Activities Capital Assets, Net	\$ 121,142	\$ (6,598)	\$ -	\$ 114,544

Depreciation expense for governmental activities was charged to the public safety function.

Business-Type Activities

The following is a summary of changes in capital assets for the year ended December 31, 2018:

Business-type Activities	Balance January 1	Increases	Decreases	Balance December 31
Capital Assets Not Being Depreciated				
Land	\$ 159,703	\$ -	\$ -	\$ 159,703
Capital Assets Being Depreciated				
Buildings	\$ 3,001,928	\$ -	\$ 28,000	\$ 2,973,928
Building Improvements	306,473	-	-	306,473
Vehicles	33,300	-	-	33,300
Equipment	271,685	-	-	271,685
Office Equipment	10,514	-	-	10,514
Total Capital Assets, Being Depreciated	\$ 3,623,900	\$ -	\$ 28,000	\$ 3,595,900
Less Accumulated Depreciation				
Buildings	\$ 1,296,672	\$ 59,478	\$ 12,320	\$ 1,343,830
Building Improvements	65,478	16,594	-	82,072
Vehicles	30,180	1,560	-	31,740
Equipment	205,228	16,747	-	221,975
Office Equipment	6,309	2,103	-	8,412
Total Accumulated Depreciation	\$ 1,603,867	\$ 96,482	\$ 12,320	\$ 1,688,029
Total Capital Assets Being Depreciated, Net	\$ 2,020,033	\$ (96,482)	\$ 15,680	\$ 1,907,871
Business-type Activities Capital Assets, Net	\$ 2,179,736	\$ (96,482)	\$ 15,680	\$ 2,067,574

Depreciation expense for the business-type activity was charged as an operating expense to the law enforcement center fund and activity.

NOTE 4: LONG-TERM LIABILITIES

Governmental Activities

During the year ended December 31, 2018, the following changes occurred in governmental activities long-term liabilities:

Governmental Activities	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Compensated Absences Payable *	\$ 7,480	\$ 940	\$ -	\$ 8,420	\$ 1,684

* - 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.

Business-Type Activities

During the year ended December 31, 2018, the following changes occurred in business-type activities long-term liabilities:

Business-Type Activities	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Long-Term Debt					
Leases Payable	\$ 6,468	\$ -	\$ 2,352	\$ 4,116	\$ 2,352
Compensated Absences Payable *	\$ 81,501	\$ -	\$ 12,802	\$ 68,699	\$ 13,740
Total Long-Term Liabilities	\$ 87,969	\$ -	\$ 15,154	\$ 72,815	\$ 16,092

* - 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.

Debt service requirements on long-term debt is as follows:

Business-Type Activities		
Year Ending December 31	Capital Lease	
	Principal	Interest
2019	\$ 2,352	\$ -
2020	1,764	-
Total	\$ 4,116	\$ -

NOTE 5: RISK MANAGEMENT

The LEC 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.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The LEC pays an annual premium to NDRF for its general liability. The coverage by NDRF is limited to losses of two million dollars per occurrence for general liability.

The LEC also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The LEC pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings 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 one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the LEC with blanket fidelity bond coverage in the amount of \$1,026,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The Law Enforcement Center has worker's compensation with the Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 6: RETIREMENT PLAN

The LEC participates in a deferred compensation plan from Nationwide Retirement Solutions. Employees are obligated to contribute a minimum of 4% of their gross salary up to IRS allowed maximums, and the LEC will match up to 5%. The LEC's contributions to Nationwide Retirement Solutions for the years ending December 31, 2018, 2017, and 2016 were \$36,957, \$37,395 and \$42,688 respectively, equal to the required contributions for the year.

NOTE 7: CONTINGENT LIABILITIES

The LEC is anticipating a lawsuit to be filed against them incident to their operations. In the opinion of management, such claims against the LEC not covered by insurance would not materially affect the condition of the LEC.

LAKE REGION LAW ENFORCEMENT CENTER

Budgetary Comparison Schedule – E-911 Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
911 Assessments	\$ 531,562	\$ 531,562	\$ 620,049	\$ 88,487
Interest	300	300	1,634	1,334
Miscellaneous Income	200	200	512	312
Total Revenues	<u>\$ 532,062</u>	<u>\$ 532,062</u>	<u>\$ 622,195</u>	<u>\$ 90,133</u>
EXPENDITURES				
Current				
Public Safety	<u>\$ 672,587</u>	<u>\$ 585,191</u>	<u>\$ 733,800</u>	<u>\$ (148,609)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (140,525)</u>	<u>\$ (53,129)</u>	<u>\$ (111,605)</u>	<u>\$ (58,476)</u>
Fund Balance - January 1	<u>\$ 409,679</u>	<u>\$ 409,679</u>	<u>\$ 409,679</u>	<u>\$ -</u>
Fund Balance - December 31	<u><u>\$ 269,154</u></u>	<u><u>\$ 356,550</u></u>	<u><u>\$ 298,074</u></u>	<u><u>\$ (58,476)</u></u>

The accompanying required supplementary information notes are an integral part of this schedule.

LAKE REGION LAW ENFORCEMENT CENTER

Notes to the Required Supplementary Information
For the Year Ended December 31, 2018

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

- The law enforcement center adopts an “appropriated budget” on a basis consistent with accounting principles generally accepted in the United States (GAAP) for the E-911 fund.
- The budget includes proposed expenditures and means of financing them.
- The budget is controlled by the operations coordinator at the revenue and expenditure function/object level.
- The current budget, except for property taxes, 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.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

Budgetary Amendments

The LEC amended the 2018 budget as follows:

	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
Major Fund E911 Fund	\$ 672,587	\$ (87,396)	\$ 585,191

STATE AUDITOR

JOSHUA C. GALLION
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Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

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OFFICE OF THE STATE AUDITOR
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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***

Independent Auditor's Report

Board of Law Enforcement Center Commissioners
Lake Region Law Enforcement Center
Devils Lake, North Dakota

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake Region Law Enforcement Center as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Lake Region Law Enforcement Center's basic financial statements, and have issued our report thereon dated September 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lake Region Law Enforcement Center's 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 Lake Region Law Enforcement Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Region Law Enforcement Center's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of audit findings* as items 2018-001, 2018-002, 2018-003, and 2018-004 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Region Law Enforcement Center's 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

LAKE REGION LAW ENFORCEMENT CENTER

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* - Continued

Lake Region Law Enforcement Center's Response to Findings

Lake Region Law Enforcement Center's response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. Lake Region Law Enforcement Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
September 30, 2019

LAKE REGION LAW ENFORCEMENT CENTER

Summary of Auditor's Results
For the Year Ended December 31, 2018

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting

Material weaknesses identified?	<u> X </u> Yes	<u> </u> None Noted
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Noted
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> None Noted

LAKE REGION LAW ENFORCEMENT CENTER

Schedule of Audit Findings

For the Year Ended December 31, 2018

Financial Statement Findings

2018-001 – FINANCIAL STATEMENT PREPARATION

Condition

Lake Region Law Enforcement Center does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, as required by Generally Accepted Accounting Principles (GAAP).

Criteria

Management of Lake Region Law Enforcement Center is responsible for establishing proper internal control over the preparation of Lake Region Law Enforcement Center's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with GAAP.

Cause

Management may not be fully aware how to prepare basic financial statements that comply with GAAP and has chosen to have the auditors assist in the preparation of the financial statements and note disclosures.

Effect

There is an increased risk of material misstatement to the Lake Region Law Enforcement Center's financial statements.

Recommendation

We recommend Lake Region Law Enforcement Center design and implement internal controls over financial reporting to ensure financial statements are presented in accordance with GAAP. We further recommend management continue to obtain sufficient knowledge to ensure the financial statements are free from material misstatement.

Lake Region Law Enforcement Center's Response

The Lake Region Law Enforcement Center recognizes areas that can be improved within the internal control process. We are committed to making necessary changes and improvements to those processes.

2018-002 – ADJUSTING JOURNAL ENTRIES

Condition

Material auditor-identified adjusting entries to the financial statements were proposed to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Criteria

Lake Region Law Enforcement Center is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with GAAP.

Cause

Management is not fully knowledgeable of identifying necessary adjustments to present the financial statements in compliance with GAAP.

Effect

Inadequate internal controls over recording of transactions affects Lake Region Law Enforcement Center's ability to detect misstatements in amounts that could be material in relation to the financial statements.

Recommendation

We recommend Lake Region Law Enforcement Center design and implement internal controls to identify the necessary adjustments to present the financial statements in compliance with GAAP.

Lake Region Law Enforcement Center's Response

As indicated in response to 2018-001, we recognize areas that can be improved and that there is a need for a revision of existing policies and practices to insure proper internal control. Additionally, we will be seeking continuing education opportunities for key staff specific to financial responsibilities.

2018-003 – Overspent Budget

Condition

A review of client documentation indicated that the Lake Region Law Enforcement Center had overspent funds by \$148,609 for 2018 in the E-911 fund.

Criteria

According to the COSO Internal Control Framework, control activities need to be established in order for an organization to proactively address and mitigate the significant risks. This includes the risks surrounding the expenditure and budgeting processes. Having an effective budgeting process is a key component for an organization to reach their objectives.

Cause

The Lake Region Law Enforcement Center budgets on a cash basis and did a negative budget amendment in January of 2019. However, in January of 2019, a \$151,535 payable was found causing the Law Enforcement Center to be overspent.

Effect

Continuing to go over budget puts the Lake Region Law Enforcement Center at risk of not being able to operate financially due to the lack of funds.

Recommendation

We identify that there was an isolated incident where an account payable was not reported properly in our financial reports. We have assessed the situation and will make necessary adjustments to prevent similar incidents in the future.

Lake Region Law Enforcement Center's Response

Agree. We will make sure we include all payable amounts before we amend the budget.

2018-004 – LACK OF SEGREGATION OF DUTIES

Condition

The Lake Region Law Enforcement Center has limited staff responsible for the primary accounting functions. A lack of segregation of duties exists as limited staff are responsible to collect monies, deposit monies, issue checks, send checks

to vendors, record receipts and disbursements in the check register, maintain the general ledger, and perform bank reconciliations.

Criteria

Proper internal control surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates there should be sufficient accounting personnel so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the Lake Region Law Enforcement Center.

Cause

Management has chosen to allocate its economic resources to other functions of the Lake Region Law Enforcement Center.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the Lake Region Law Enforcement Center's financial condition, whether due to error or fraud.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we recommend the following:

- Financial statements, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

Lake Region Law Enforcement Center's Response

There have been significant barriers leading to the ability to segregate duties within our agency. We began instituting practices to segregate these duties in 2018 and will continue to identify additional practices that need to be adjusted to allow for proper financial accountability within the agency based off of, but not limited to the above mentioned recommendations.



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GOVERNANCE COMMUNICATION

Board of Law Enforcement Center Commissioners
Lake Region Law Enforcement Center
Devils Lake, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake Region Law Enforcement Center, North Dakota, for the year ended December 31, 2018 which collectively comprise Lake Region Law Enforcement Center's basic financial statements, and have issued our report thereon dated September 30, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated August 2, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered Lake Region Law Enforcement Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether Lake Region Law Enforcement Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lake Region Law Enforcement Center are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules below list all misstatements detected as a result of audit procedures that were corrected by management.

<u>Governmental Activities</u>			
Audit Adjustments			
Accounts Receivable	\$	21,404	
Revenue			\$ 21,404
Expenditures		163,741	
Accounts Payable			163,741
<u>Business-Type Activities</u>			
Client Provided Adjustments			
Accounts Receivable	\$	32,873	
Revenue			\$ 32,873
Audit Adjustments			
Accounts Receivable	\$	108,863	
Revenue			\$ 108,863

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Lake Region Law Enforcement Center's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. The following presents our informal recommendation:

FRAUD RISK ASSESSMENT

The Lake Region Law Enforcement Center does not currently prepare a fraud risk assessment of the entire entity. If the Lake Region Law Enforcement Center does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the Lake Region Law Enforcement Center's goals in reporting, reliance, and accountability.

We recommend Lake Region Law Enforcement Center prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

This information is intended solely for the use of the Board of Law Enforcement Center Commissioners and management of Lake Region Law Enforcement Center, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of Lake Region Law Enforcement Center for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve Lake Region Law Enforcement Center.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
September 30, 2019

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