

Department of Agriculture

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2017

Joshua C. Gallion
State Auditor



Office of the State Auditor
Division of State Audit

Office of the State Auditor

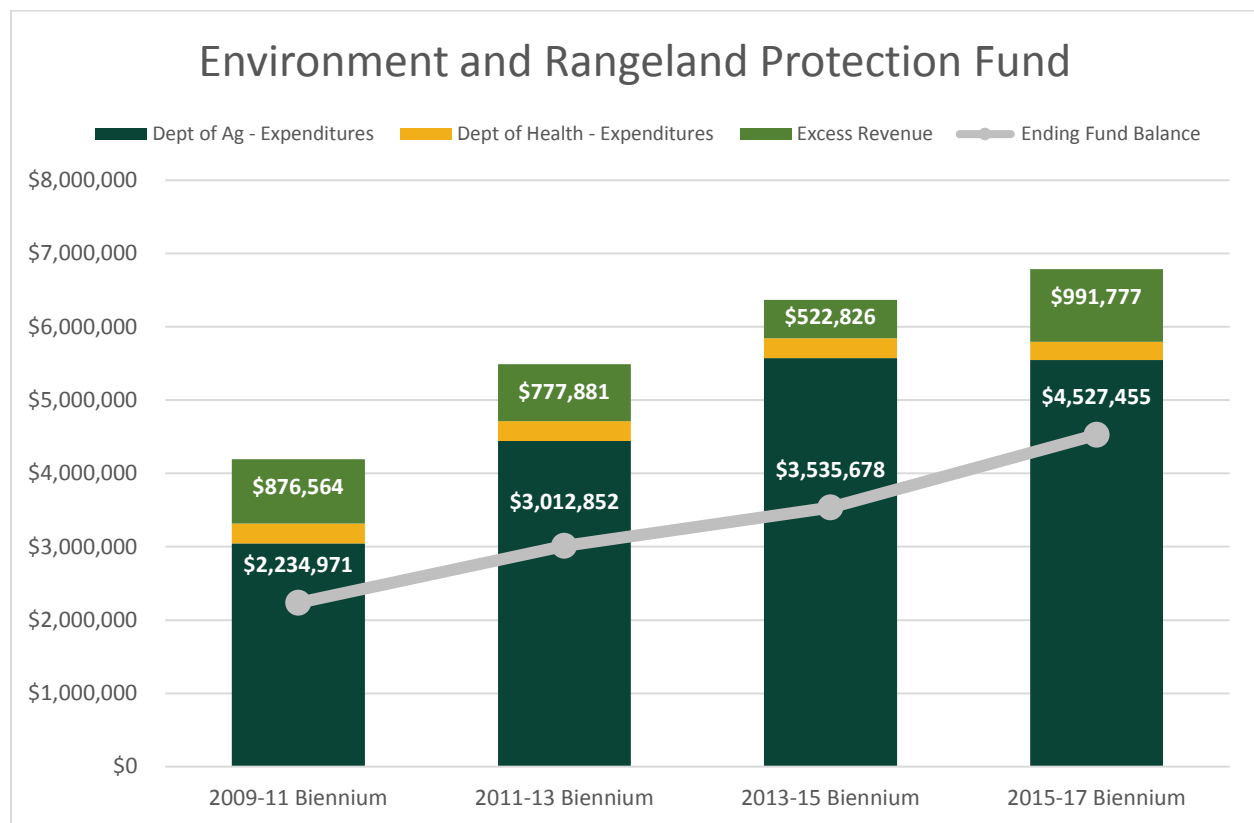
Department of Agriculture Report Highlights

The Department of Agriculture was appropriated a budget of approximately \$32 million for the 2015-17 biennium. The budget consisted of general (33%), federal (37%), and special fund (30%) amounts.

The audit included a review of the Environment and Rangeland Protection Fund and the Board of Animal Health.

Environment and Rangeland Protection Fund

The fund balance of the Environment and Rangeland Protection Fund has grown over \$2.3 million since the 2009-11 biennium. The 2015 Legislative Assembly appropriated \$6.4 million to defray costs of various Department of Agriculture programs for the 2015-17 biennium, of which approximately \$5.5 million was expended (Senate Bill 2009, Section 4). The fund balance at the end of the 2015-17 biennium was approximately \$4.5 million.



Source: ConnectND Financials

Board of Animal Health

The Board of Animal Health is a function of the Department of Agriculture. The Board has identified the State Veterinarian as their authorized agent and the Board operates in an oversight capacity. The State Veterinarian issued waivers and quarantines on behalf of the Board of Animal Health during the 2015-17 biennium. Waivers were properly approved and monitored as defined by State Law. Quarantines were properly approved and monitored until the State Veterinarian was assured that health risks were no longer present.

Internal Control, Legislative Intent, and Financial Transactions

We did not note any instances of internal control weaknesses, noncompliance with legislative intent, or errors in financial transactions required to be brought to the attention of those charged with governance.

**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

Senator Jerry Klein – Chairman
Representative Chet Pollert – Vice Chairman

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Patrick Hatlestad
Mary Johnson
Keith Kempenich
Gary Kreidt
Andrew G. Maragos
Mike Nathe
Marvin E. Nelson
Wayne A. Trottier

Senators

Dwight Cook
Judy Lee
Richard Marcellais

AUDITOR AND AGENCY PERSONNEL

State Auditor Personnel

Allison Bader, MBA, MSM, Audit Manager
Lindsey Ressler, In-Charge Auditor
Megan Reis, Auditor
Elizabeth Rogers, Auditor
Amanda Westlake, Auditor
Alandra Williams, Auditor Intern

Primary State Agency Contacts

Ken Junkert, Director of Admin Services
Lynette Baumiller, CPA, Acct. Budget Specialist
Susan Keller, DVM, State Veterinarian

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE – DEPT 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

May 14, 2018

The Honorable Doug Goehring, Agriculture Commissioner
Members of the North Dakota Legislative Assembly

We are pleased to submit this audit of the Department of Agriculture for the biennium ended June 30, 2017. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally, we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

Allison Bader was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Commissioner Goehring and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

Executive Summary

Background

The North Dakota Department of Agriculture was originally established as the Commissioner of Agriculture and Labor by the North Dakota Constitution in 1889. In 1964, voters approved dividing the office into two separate offices – Commissioner of Labor and Commissioner of Agriculture.

The responsibilities of the Department of Agriculture include: a leadership role in the formulation of policies affecting the state's agriculture industries; the advocacy of the needs and concerns of farmers and ranchers at the state and national level; the administration of fair and timely mediation services to farmers and ranchers; the promotion and marketing of North Dakota products; and the dissemination of information concerning agricultural issues to the Governor, Legislature, and the general public.

Audit Objectives

The objectives of this audit of the Department of Agriculture for the biennium ended June 30, 2017 were to provide reliable, audited financial statements and to answer the following questions:

1. Are there areas of the Department of Agriculture's operations where we can help to improve efficiency or effectiveness?
2. What are the highest risk areas of the Department of Agriculture's operations and is internal control adequate in these areas?
3. What are the significant and high-risk areas of legislative intent applicable to the Department of Agriculture and are they in compliance with these laws?

Audit Scope

This audit of the Department of Agriculture is for the biennium ended June 30, 2017. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department of Agriculture's sole location is its Bismarck office which was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report.

- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Department of Agriculture's processes and procedures.
- Performed a review of the Board of Animal's Health procedures to prevent the spreading of infectious diseases among animals.
- Performed a review of revenues and expenditures recorded in the environment and rangeland protection fund.

In aggregate, there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Operations

The Environment and Rangeland Protection Fund and State Board of Animal Health were identified as areas of the Department of Agriculture’s operations to review for potential improvements.

Environment and Rangeland Protection Fund

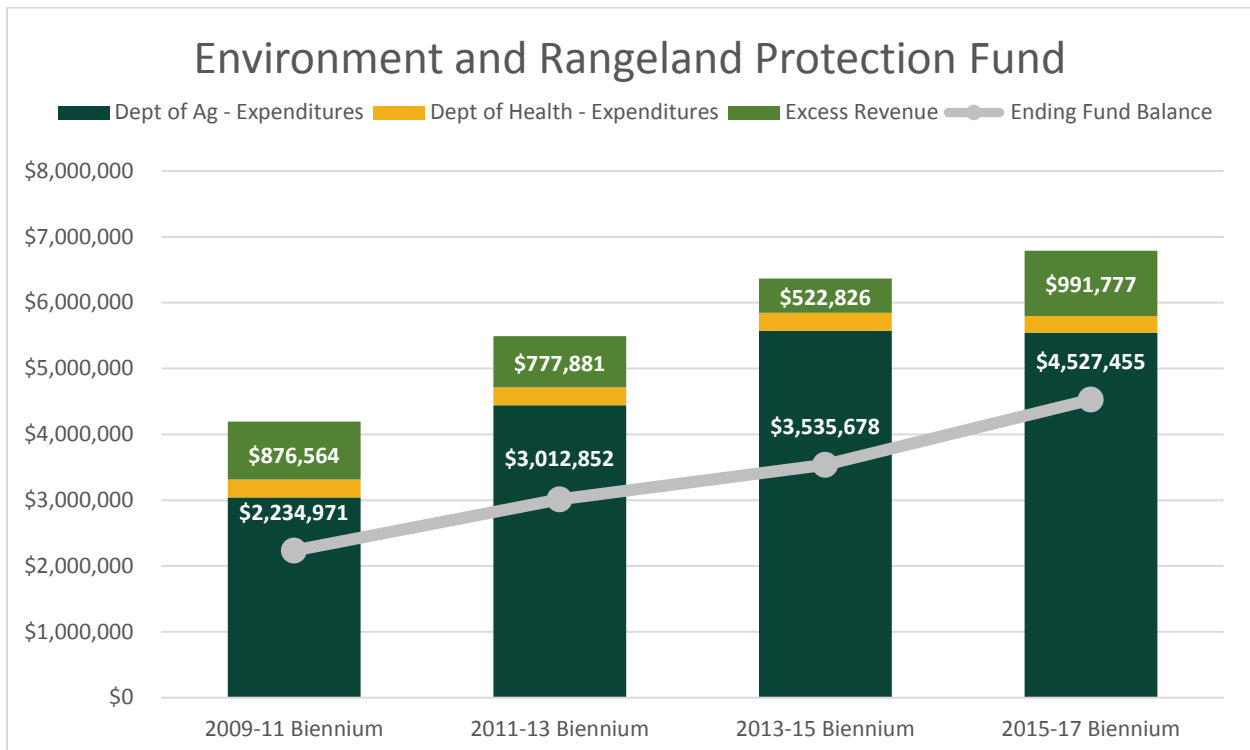
The review of the Environment and Rangeland Protection Fund was designed and conducted to meet the following objective:

- Are revenues of the Environment and Rangeland Protection Fund sufficient to cover related expenditures?

We concluded that revenues exceeded expenditures charged to the fund during the 2015-17 biennium.

Summary

The fund balance of the Environment and Rangeland Protection Fund has grown over \$2.3 million since the 2009-11 biennium. The 2015 Legislative Assembly appropriated \$6.4 million to defray costs of various Department of Agriculture programs for the 2015-17 biennium, of which approximately \$5.5 million was expended (Senate Bill 2009 Section 4). The fund balance at the end of the 2015-17 biennium was approximately \$4.5 million.



Source: ConnectND Financials

The Environment and Rangeland Protection Fund is shared between the Department of Agriculture and the Department of Health. North Dakota Century Code Title 4.1 requires the Department of Agriculture to deposit fees collected for various registrations, inspections, and licenses into the fund. Fee amounts are set in state law.

The fund may be used for rangeland improvement projects and harmonization of crop protection product standards (NDCC 4.1-39-07). The State Legislature may further authorize spending to defray expenditures of various programs of the Department of Agriculture and the Department of Health.

State Board of Animal Health

The review of the State Board of Animal Health was designed and conducted to answer the following questions:

- Were quarantines of animals by the Board of the Animal Health properly approved and monitored until assured that health risks were no longer present?
- Were waivers issued by the Board of Animal Health Properly approved and monitored as defined by North Dakota Century Code?

We concluded the objectives were met.

Summary

North Dakota Century Code Chapter 36-01 authorizes the State Board of Animal Health to take necessary action to control, suppress, and eradicate contagious or infectious diseases of domestic animals or nontraditional livestock within the state. The Board has identified the State Veterinarian as their authorized agent and the Board operates in an oversight capacity.

The State Veterinarian is responsible for prevention and control of animal diseases. This includes reliance on local veterinarians to perform disease testing prior to importation and sale or purchase of animals. The State Veterinarian receives any positive test results for reportable diseases and issues and monitors quarantines for those animals. Quarantines are released after subsequent test results showing good health and approval by the State Veterinarian.

North Dakota Administrative Code 48.1-01-04 allows waivers for testing and vaccination requirements. The State Veterinarian approves waivers unless there is an unusual circumstance. Unusual circumstances are approved directly by the Board of Animal Health. There were no waivers issued for animals that were subsequently quarantined during fiscal years 2016 and 2017.

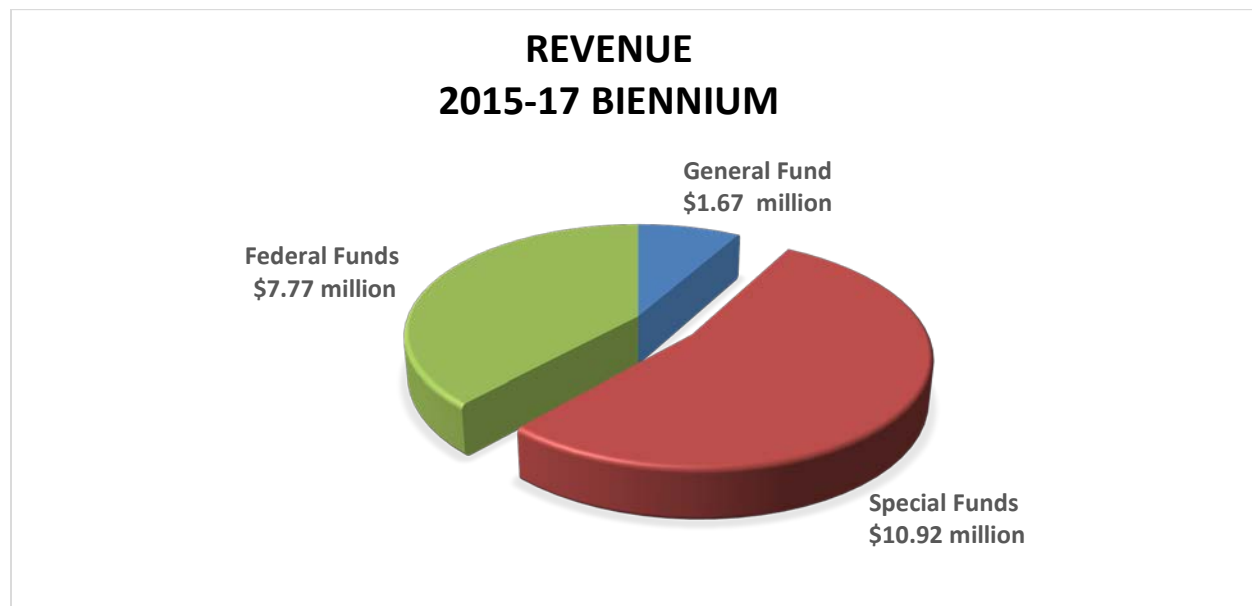
Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Revenues and Other Sources:		
Revenue from Federal Government	\$ 3,823,188	\$ 3,470,503
Licenses, Fees, and Registrations	1,977,201	6,650,292
Donations and Contributions	475,000	8,000
Conference Registration Fees	191,194	191,663
Fines	35,950	73,512
Turkey Assessments	14,441	9,195
Other Revenues	7,752	9,349
Transfers In	541,444	2,560,658
Total Revenues and Other Sources	\$ 7,066,170	\$ 12,973,172
Expenditures and Other Uses:		
Salaries and Benefits	\$ 5,931,428	\$ 5,889,994
Grants	4,403,993	3,517,719
Purchase of Service Agreements	706,081	714,859
Contractual Fees	514,574	395,955
Travel	491,059	603,948
IT-Data Processing/Equipment/Services	468,702	513,612
Professional Fees and Services	313,703	633,771
Livestock Pollution Prevention Payments	264,580	195,162
Rentals/Leases- Building/Land	190,930	196,182
Hazardous Waste Collection	178,908	418,317
Operating Fees	143,841	374,671
Professional Development	83,216	101,805
Printing and Postage	67,190	80,279
Supplies	41,912	102,718
Other Expenditures	61,907	46,922
Transfers Out	17,050	27,200
Total Expenditures and Other Uses	\$ 13,879,074	\$ 13,813,114

Discussion of Fund Activity

The Department of Agriculture receives revenue from a variety of sources which include: federal reimbursements, licenses, registrations, Pride of Dakota memberships, supplies, and enforcement fees. These revenues are deposited into various funds based on requirements set in North Dakota Century Code.

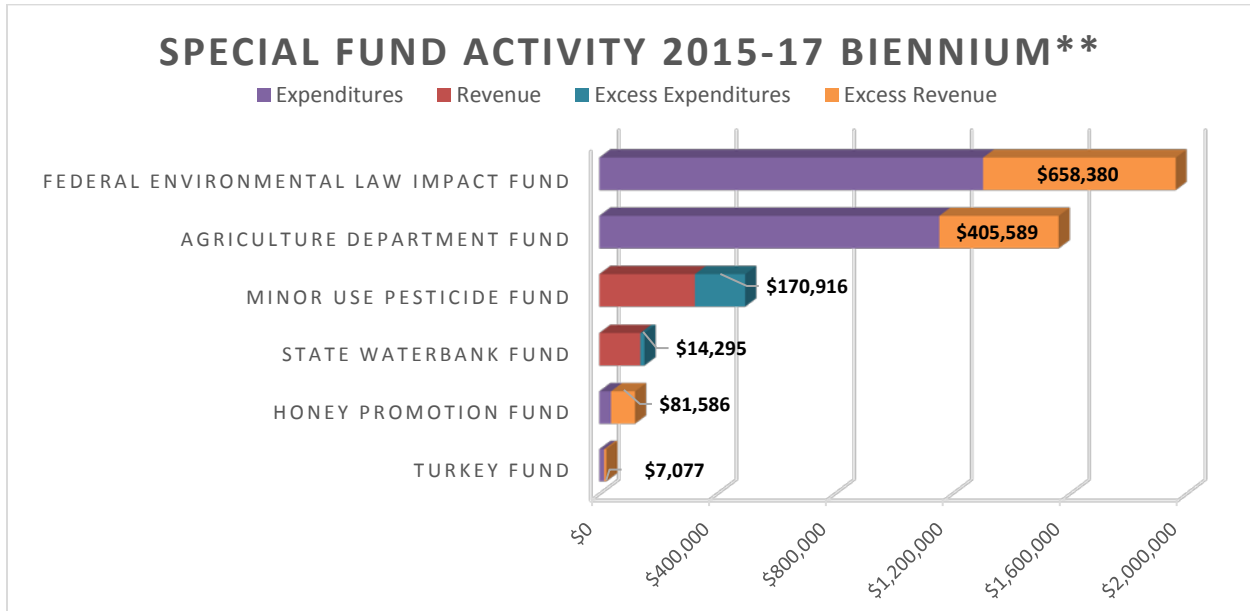


Source: ConnectND Financials

Over 50% of revenue received by the Department of Agriculture is deposited in special funds. The Department utilizes seven different special funds. These include the following: Federal Environmental Law Impact Fund, Minor Use Pesticide Fund, Honey Promotion Fund, State Waterbank Fund, Turkey Fund, Agriculture Department Fund and Environment and Rangeland Protection Fund.

Each special fund either has a continuing appropriation set in North Dakota Century Code or an appropriation set by the Legislative Assembly. The Department can spend all revenue within the authorized spending authority to defray expenditures of the Department.

Activity in the special funds was reviewed to compare revenue collected to expenditures charged to each fund during the 2015-17 biennium. During the biennium, four of the special funds used by the Department had more revenue collections compared to expenditures and two of the funds had more expenditures compared to revenue. Activity in the Environment and Rangeland Protection Fund was reviewed separately in the Operations section (Page 4).



Source: ConnectND Financials

** The Environment and Rangeland Protection fund is shown separately on page 4.

Each of the special funds had a positive fund balance as of June 30, 2017. The funds with less revenue used a portion of fund balance to cover the expenditures of the 2015-17 biennium.

Special Fund Ending Fund Balance**	
Fund	Fund Balance as of 6/30/2017
Federal Environmental Law Impact Fund	\$658,380
Agriculture Department Fund	\$960,877
Minor Use Pesticide Fund	\$ 15,730
State Waterbank Fund	\$ 83,610
Honey Promotion Fund	\$187,272
Turkey Fund	\$ 11,937

Source: ConnectND Financials

**The Environment and Rangeland Protection fund is shown separately on page 4.

Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 12,534,265	\$ 81,500	\$ 12,615,765	\$ 11,803,520	\$ 812,245
Operating Expenses	6,569,343	148,000	6,717,343	4,428,094	2,289,249
Capital Assets	8,000		8,000	7,660	340
Grants	10,545,912		10,545,912	7,361,942	3,183,970
Board of Animal Health	1,006,773		1,006,773	520,210	486,563
Wildlife Services	1,401,257		1,401,257	1,401,257	0
Pipeline Oversight Program	400,000		400,000	193,268	206,732
Crop Harmonization Board	75,000		75,000	73,793	1,207
Totals	<u>\$ 32,540,550</u>	<u>\$ 229,500</u>	<u>\$ 32,770,050</u>	<u>\$ 25,789,744</u>	<u>\$ 6,980,306</u>
Expenditures by Source:					
General Fund	\$ 10,822,497		\$ 10,822,497	\$ 10,806,320	\$ 16,177
Other Funds	21,718,053	\$ 229,500	21,947,553	14,983,424	6,964,129
Totals	<u>\$ 32,540,550</u>	<u>\$ 229,500</u>	<u>\$ 32,770,050</u>	<u>\$ 25,789,744</u>	<u>\$ 6,980,306</u>

Expenditures without Appropriations of Specific Amounts:

Statewide Conference Fund has a continuing appropriation authorized by Office of Management and Budget Policy 211 (\$835 of expenditures for this biennium).

Turkey Promotion Fund has a continuing appropriation authorized by NDCC section 4-13.1-05 (\$16,563 of expenditures for this biennium).

Honey Promotion Fund has a continuing appropriation authorized by NDCC section 4-12.1-03 (\$39,760 of expenditures for this biennium).

Minor Use Pesticide Fund has a continuing appropriation authorized by NDCC section 4-35-06.3 (\$495,916 of expenditures for this biennium).

Federal Environment Law Impact Review Fund has a continuing appropriation authorized by NDCC 4.1-01-21 (\$1,305,120 of expenditures for this biennium).

Quarterly General Fund transfers to NDSU are authorized by NDCC 4.1-33-25 (\$44,250 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2017, we identified the following areas of the Department of Agriculture's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues including revenues received through Kelly Registration System.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls surrounding the processing of hourly payroll and issuing annual leave payouts.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. 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: misstatements in financial or performance information, violations of laws and regulations, or impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the Department of Agriculture in a management letter dated May 14, 2018.

Compliance with Legislative Intent

In our audit for the biennium ended June 30, 2017, we identified and tested Department of Agriculture's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper transfer of \$325,000 from the Environment and Rangeland Protection Fund to the Minor Use Pesticide Fund (Senate Bill 2009, section 3 of the 2015 Legislative Session).
- Proper authorization of the Department of Agriculture's funds.
- Proper use of the following legally restricted funds:
 - Honey Fund (NDCC 4.1-08-05)
 - Turkey Fund (NDCC 4.1-12-08)
 - Federal Law Impact and Review Fund (NDCC 4.1-01-19)
- Application of proper statutory rates relating to revenue.
 - Fertilizer inspection fees (NDCC 4.1-40-07)
 - Fertilizer registration fees and renewals (NDCC 4.1-40-03)
 - Pesticide registration fees (NDCC 4.1-34-03)
 - Livestock medicine registration fee (NDCC 4.1-43-04)
 - Commercial Feed manufacturers licenses fee (NDCC 4.1-41-02(3))
 - Nursery license fee (NDCC 4.1-22-06)
 - Beekeepers license fee and colony assessment (Senate Bill 2025, section 2 of the 2015 Legislative Session).
 - Honeybee assessments (Senate Bill 2186, section 1 of the 2015 Legislative Session)
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations (Senate Bill 2009, section 1 of the 2015 Legislative Session).
- Compliance with Emergency Commission adjustments to appropriations (NDCC 54-16-03).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with payroll-related laws including statutory salaries for applicable elected positions and certification of payroll.
- Proper utilization of the Bank of North Dakota as the credit card processing depository (NDCC 54-06-08.2).

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

Legislative and Fiscal Review Committee (LAFRC)

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

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

Financial statements were not prepared by the Department of Agriculture in accordance with generally accepted accounting principles, so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

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

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

There were no recommendations included in the prior audit report.

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

Yes, a management letter was issued and is included on page 14 of this report, along with management's response.

LAFRC Audit Communications

7. 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, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

8. *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 Department of Agriculture's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *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.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *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.*

ConnectND Finance, Human Resource Management System (HRMS), and Kelly Registration System are high-risk information technology systems critical to the Department of Agriculture.

Management Letter (Informal Recommendations)

May 14, 2018

The Honorable Doug Goehring
Agriculture Commissioner
Department of Agriculture
600 E Boulevard Avenue
Bismarck, ND 58505

Dear Commissioner Goehring:

We have performed an audit of the Department of Agriculture for the biennium ended June 30, 2017, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Agriculture's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider its status.

The following present our informal recommendation.

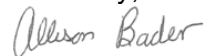
REVENUE

Informal Recommendation 17-1: We recommend the Department of Agriculture implement tracking procedures for the accountability of credit card refund transactions.

Management of the Department of Agriculture agreed with the recommendation.

I encourage you to call me at 328-2241, if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Allison Bader
Audit Manager

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www.nd.gov/auditor

or by contacting the Office of the State Auditor at:

Email: ndsao@nd.gov

Phone: (701) 328-2241

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