

NORTH DAKOTA STATE  
SEED DEPARTMENT

FARGO, NORTH DAKOTA

**Audit Report**

For the Two-year Period Ended  
June 30, 2018

**Joshua C. Gallion**  
State Auditor

Office of the State Auditor  
Division of State Audit



## Why We Conducted this Audit

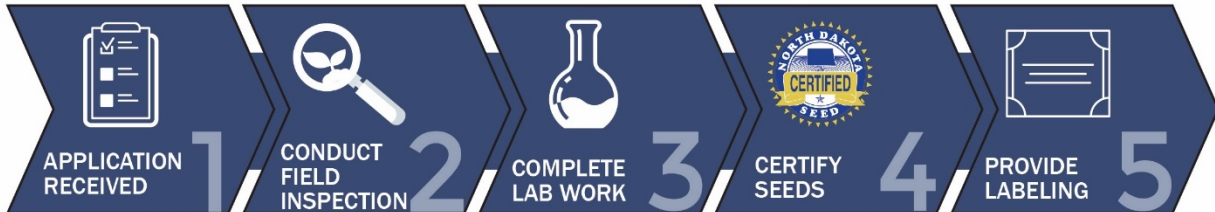
The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

## What We Found

The North Dakota State Seed Department is comprised of four main areas of operations (excluding administration): field seed, potato, laboratory services, and regulatory. The North Dakota State Seed Department operates under North Dakota Century Code (NDCC) Chapters 4.1-52 through 4.1-57, with North Dakota Administrative Code (NDAC) Title 74 functioning as the rules and standards governing the various seed certification programs of the agency.

No exceptions to our statutorily required audit testing were identified.

### FIELD SEED CERTIFICATION PROCESS



During fiscal years 2017 and 2018, the North Dakota State Seed Department issued 2,768 certifications for wheat. Wheat accounted for 55% of the total seed certifications for the North Dakota State Seed Department.

### SEED POTATO FIELD CERTIFICATION PROCESS



\* Conducted three times throughout the preharvest period

The North Dakota State Seed Department issued 1,094 seed potato field certifications during fiscal years 2017 and 2018.

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

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Representative Chet Pollert – Vice Chairman**

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Mary Johnson  
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Mike Nathe  
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Wayne A. Trottier**

**Senators**

**Dwight Cook  
Judy Lee  
Richard Marcellais**

**AUDITOR AND AGENCY PERSONNEL**

**State Auditor Personnel**

**Robyn Hoffmann, CPA, Audit Manager  
Cory Wigdahl, CFE, Lead Auditor  
Grant Hermanson, M. Acc.  
Tyler Liebl  
Jason Schwartz**

**Primary State Agency Contacts**

**Ken Bertsch, Seed Commissioner  
Steve Sebesta, Deputy Commissioner  
Starr Thies, Business Manager**

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**OFFICE OF THE STATE AUDITOR**  
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FARGO, NORTH DAKOTA 58103

## *Transmittal Letter*

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April 2, 2019

Members of the North Dakota Legislative Assembly  
Members of the North Dakota State Seed Commission  
Mr. Ken Bertsch, Commissioner, North Dakota State Seed Department

We are pleased to submit this audit of the North Dakota State Seed Department for the two-year period ended June 30, 2018. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Additionally, whenever possible additional audit objectives are included to increase efficiency and effectiveness of state government.

Robyn Hoffmann, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. We wish to express our appreciation to Ken Bertsch and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/s/

Joshua C. Gallion  
State Auditor

# ***Audit Results***

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## ***Statutory Audit Requirements***

The objective related to our statutory audit requirements is:

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage. Defaults are defined as failures to do something required by duty or law. Bonding coverage provides insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

## ***Conclusion***

No exceptions to our statutorily required audit testing were identified.

## ***Background Information and Results***

Audit procedures included evaluating the adequacy of blanket bond coverage and performing a test of procurement. The audit also determined if the North Dakota State Seed Department was adhering to the field seed and seed potato certification processes and statutory requirements, NDCC Chapters 4.1-53 and 4.1-55, respectively.

The North Dakota State Seed Department was established by the North Dakota Legislature in 1931; as the state's designated authority for all seed certification and regulatory matters. The North Dakota State Seed Department operates under NDCC Chapters 4.1-52 through 4.1-57, with NDAC Title 74 functioning as the rules and standards governing the various seed certification programs of the agency. They are unique by comparison to most state agencies, or seed certification entities, in that it is a self-funded agency of government and is comprised of four main areas of operations (excluding administration): field seed, potato, laboratory services, and regulatory – a short description of each area is provided below:

- 1) Field seed – inspection of seed fields, lab analysis, final certification, and issuing seed quality labels;
- 2) Potato – inspection of seed potato fields, certification of seed potatoes, and overall quality assurance throughout the potato's entire cultivation;
- 3) Laboratory services – includes, but not limited to, identifying seed variety and determining seed purity and germination rate; and
- 4) Regulatory – enforces various state and federal laws through seed fee collections and inspections of seed lots.

A nine-member seed commission acts as a board of directors for the agency. Members are selected to serve by various agriculture industry organizations, including the North Dakota Crop Improvement Association, North Dakota Certified Seed Potato Growers Association, North Dakota Agricultural Association, Northern Plains Potato Growers Association, North Dakota Potato Council, North Dakota Grain Dealers Association, North Dakota Dry Edible Bean Seed

Growers Association, and the Director of the North Dakota State University Agriculture Experiment Station. The Commissioner of Agriculture, or his designee, serves as chairman of the Commission. The Commission appoints a State Seed Commissioner, who serves as chief executive officer of the Department.

### ***Internal Control***

We gained an understanding of internal control 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.

Auditors are required to report deficiencies in internal control that are significant within the context of the objective 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 deficiencies in internal control that were significant within the context of our audit objective and based upon the audit work performed.

### ***Scope***

This audit of the North Dakota State Seed Department is for the two-year period ended June 30, 2018.

The North Dakota State Seed Department has operations in the following locations. Each location was included in the audit scope:

- Central office in Fargo
- Branch office in Grafton

### ***Methodology***

To meet this objective, we:

- 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.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed the North Dakota State Seed Department's processes and procedures.
- Inspected documentary evidence.
- Tested compliance with laws and regulations including the field seed and seed potato certification processes and procurement. Where necessary, internal control was tested which included selecting representative samples and reviewing information system processes to determine if controls were operating effectively and if laws were being followed consistently.
- Queried the State Seed Administration Software (SSAS) system for data for field seed and seed potato certifications.

- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Performed an analysis and selected a sample of high-risk transactions, surrounding procurement, for further testing.

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

### ***Authority and Standards***

This two-year performance audit of the North Dakota State Seed Department has been conducted by the Office of the State Auditor pursuant to authority within NDCC Chapter 54-10.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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).



# Financial Statements

## Statement of Revenues and Expenditures

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b><u>Revenues and Other Sources:</u></b>		
Regulatory and Inspection Fees	\$ 2,901,865	\$ 2,674,593
Transfers In	110,000	9,167
Federal Grants	75,000	82,181
Fees for Services	68,234	208,373
Fines	24,750	1,000
Investment Earnings	9,264	8,532
License, Permits, and Fees	7,006	6,803
Leases, Rents, and Royalties	5,720	5,720
Miscellaneous General Revenue	310	21,084
<b>Total Revenue and Other Sources</b>	<b><u>\$ 3,202,149</u></b>	<b><u>\$ 3,017,453</u></b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$ 2,394,025	\$ 2,246,855
Professional Fees and Services	149,314	115,910
Travel	147,073	147,631
Utilities & Insurance	98,199	93,884
Extra Repairs/Deferred Maintenance	77,406	88,245
Grants, Benefits and Claims	70,000	70,000
Operating Fees and Services	62,698	56,780
Supply/Material - Professional	35,369	50,493
Medical, Dental and Optical	32,762	35,116
Postage	32,526	27,700
Professional Development	29,516	34,316
Equipment & IT Equipment Over \$5,000	27,259	52,454
IT Contractual Services and Repairs	26,911	17,228
Supplies - IT Software	22,610	4,631
Repairs	19,778	56,999
Printing	17,242	11,927
IT Communications & Data Processing	15,075	16,077
Equipment & IT Equipment Under \$5,000	8,538	7,941
Office Supplies	7,886	10,683
Rentals/Leases-Equipment & Other	3,169	3,359
Bldg, Grounds, Vehicle Supply	1,525	3,287
Miscellaneous Supplies	1,480	5,959
<b>Total Expenditures and Other Uses</b>	<b><u>\$ 3,280,361</u></b>	<b><u>\$ 3,157,475</u></b>

Source: ConnectND Financials

# ***LAFRC Responses***

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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?*

This question is not applicable for performance audits. 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?*

The North Dakota State Seed Department has implemented all 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.*

No, a management letter was not issued.

## ***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 North Dakota State Seed Department'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 State Seed Administration Software (SSAS) are high-risk information technology systems critical to the North Dakota State Seed Department.

You may obtain audit reports on the internet at:

[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

or by contacting the  
Division of State Audit

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